



WHAT WOULD WE CHANGE IN EUROPE?

ESSAYS OF THE EFC ACADEMY MEMBERS



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What would we change in Europe?
Essays of the EFC Academy Members

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Introduction

The publication you are holding in your hands is a set of essays by young residents of Europe. What has brought them together is the EFC Academy – an initiative of the European Financial Congress addressed to outstanding students and young graduates of European universities.

The EFC Academy members come from the European Union member states as well as non-EU countries. They study and work in Germany, Italy, Poland, Spain, Ukraine and the United Kingdom. The European Financial Congress has decided to include them in the debate which is the essence of the EFC Project – the debate on the future of the European integration, on good solutions for effective and responsible building of this integration based on stability, as well as financial, economic and energy security. Asking questions about prospects and problems faced by young people on the threshold of their professional development paths, the debate is especially important for young people.

In 2014, while opening the 4th European Financial Congress, Jan Krzysztof Bielecki, the Chairman of the EFC Programme Board, addressed its participants, including over one hundred members of the first edition of the EFC Academy, in the following way: “There is nothing finer than sharing experience with the younger, allowing them to meet public figures and authorities as well as business heavyweights. That is why we have come up with the idea to invite young people, students who study in Poland and abroad.”

The EFC Academy is a project created with the future in mind. The future of young people, and the future of Europe. It helps young people directly take advantage of knowledge and experience which are invaluable and often very difficult to gain at school. The aim of the EFC Academy is also to integrate young people who stand out in terms of their skills, knowledge, creativity and willingness to take action – those who, in a few years, will take key decisions regarding Europe's future. In order to meet expectations of young and gifted people who are at the beginning of their professional careers, the EFC wants to offer them the most valuable thing it has – the possibility to participate in pragmatic specialist debates among eminent domestic and European experts.

The ability to listen to the young is also of great significance. Thus, it is students who have been given voice in this publication. All EFC Academy members have been confronted with a seemingly simple question: "What would I change in Europe?", and a more detailed one: "What would I change in my country?". In fact, both the questions can be summarised as an invitation to reflect on the issue "What would I like to change in the community I'm part of?".

Although, at first glance, the questions formulated in such a way may appear too general, simple or even trivial, they have perfectly played their role. Our aim was to ensure as much freedom of expression to the authors as possible. We did not want to impose narrow guidelines on them, although one assumption was beyond discussion. Namely, that changes in Europe as well as in individual European countries are necessary.

The general questions have helped us get a number of creative and inspiring answers, which are not just a voice of criticism, but provide interesting solutions. The essays submitted by the EFC Academy members fall into two categories. The first one includes proposals concerning changes in Europe, which according to the authors, requires further integration in a brand new form. The other one includes proposals for changes in individual countries, which let us learn more about problems of some European countries as seen through young people's eyes. The young authors usually perceive the opportunities and threats for their countries in a broad European context, so it is natural for them to treat the European countries as constituents of a wider community. The idea of integration does no longer need to be instilled in

them, since the majority of them have been brought up in a world in which Europe is one organism, based on cooperation and free from sharp divisions.

The voice of young people should be clearly heard at the European Financial Congress. The conclusions of the EFC specialist debates and recommendations are developed with a long-term perspective in mind. That is why we are obliged to ask the young generation about what it expects and proposes, especially regarding ideas how to resolve problems they are likely to face upon graduation and starting their professional careers. The future we create today will belong to the young.

Marta Broniewska
Joanna Czerwińska
EFC Academy Coordinators

**What would we
change in Europe?**



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Europe has the impression of having been and not being anymore

The impression of having been the epicentre of civilization and now having the tragedy of perceiving that this impression is slipping away.

The European Union

European Union (EU) is the largest economy in the world according to International Monetary Fund data for 2014. As we know, the EU is immersed in a severe financial crisis, where some of its members were bailed out and now they are more or less stabilised, yet it is still in trouble. Nevertheless, Greece is the weak link in the EU due to its debt, political instability, runs of capital, deficit due to its expensive public sector, its political costs and many others reasons.

Despite the individual country-specific problems the EU is experiencing currently, I can see that Europe has some structural problems like production overcapacity, low competitiveness and significant intervention in the European economy. Moreover, one of the biggest problems is the refusal to reduce the enormous public institutions and their structures, which incur high costs. Private debt in the Eurozone has dropped since the crisis started, but governments are still accumulating deficits to maintain the hypertrophied structures provoking restrictions in economic activity.

In addition, I would like to mention a structural problem about the creation of the big state like the EU. I will not comment on the “too big to fail” issue because it is just another story. Although, I would like to talk about those countries which when they joined the European Union ceded their power

to European institutions. Especially countries that joined the European Monetary Union. They ceded their monetary and economic policy. This specific transfer of economic power resulted in those countries losing their economic autonomy. What is more, I believe the European Union imposed a harmful fiscal policy on the European countries on the periphery, i.e. Portugal, Greece, Ireland and Spain that lead them to lose any economic autonomy that they could still have and enjoy.

One of the biggest dilemmas that the EU faces is that it has been implementing the same policies for the last 10–15 years and has not considered them yet as ineffective. We can assume that the governors have not learned the lesson. I think that intervention in economies, demand and market supply do not work. Intervention, as European governments always say, is to protect the poor, or the least competitive, or to help certain industries in order to make people wealthier. Notwithstanding the previous point, the results are completely different, increasing the distance between rich and poor, or even increasing the number of poor people. The social packages included in the intervention have only one beneficiary – rich people. Among other problems, Europe has an old generation of expenses to maintain. Overpriced social security creates enormous deficits in countries' budgets. Despite that, in my opinion, the most expensive are the political costs in the EU – an excessive number of institutions, too many politicians and gigantic salaries.

The implementation of poor policies by the EU can be observed by looking at the effort to improve the employment rate by active employment policies. This means government expenditure, which results in an increase in taxes, and the worst thing is that these policies do not solve anything and the situation is getting even worse. There is some research that shows that the EU is spending annually around 0.8% of GDP on active employment policies, also called unuseful accounts. The result of the active employment policies is the destruction of jobs in the EU since the financial crisis started.

What is more, they have had the opposite effect. I would like to present here some numbers that do not match. The numbers are as follow. The EU represents 5% of the world's population; it represents 8% of the world's GDP and spends 20% of the total worldwide expenditure. As we can see just at looking at those numbers, we can state that the way EU is being run is not sustainable. The policies of spending and intervening in the market are made

generally in two ways – national governments are increasing their debt by having deficits in their annual budgets and the second one results from the suicidal monetary policy implemented by the European Central Bank (ECB).

European Central Bank – the race to see who loses first

Monetary policy basically works in the following manner. The ECB prints money to buy up countries' debts in order to finance them at a low rate. This policy is basically a manipulation of the premium risk of each country. The ECB also reduced the interest rate to nearly 0, making the cost of debt cheaper. The ECB since the crisis started in 2008 has increased its size three times reaching over 3 trillion euros. So, we may ask, where are the 2 trillion euros? They could have been invested in social policies, but they are converted into debt that will need to be repaid by taxpayers.

Europe with its big ego of being the largest and the strongest economy is following the same strategy as Japan and the EEUU. Those two economies are based on increasing monetary supply and generating a feeling of wealth. Sadly, the truth is that increasing the money supply does not generate any growth. Let's take for example Japan. It increased the monetary supply by 40% to achieve growth of 2%, which in my opinion is not really a growth. The EU has a problem of overcapacity and excess debt and does not have a problem of credit. The ECB estimates that there is a liquidity excess of 180,000 million euros.

How to pay off the debt?

After introducing some weakness in the EU in the beginning, now let's talk about the debt. Positive thinking. How we can pay it off, or in other words, what we do we need to do to make the debt disappear? Firstly, I should reveal the 'magic' tricks that politicians always try.

The first one is to not pay back the debt. The greatest example is Greece. Greece had 75% of its debt cut and in a period of 12 months it was again at the same level as before the cut off.

The second 'magic' solution is to create inflation. In the case of inflation, the principal of the debt will be worth less, so we just repay it with more

inflation. Brilliant. There is a fear of deflation, but deflation only scares the governors that want to continue increasing the debt. A good example of this technique is the United Kingdom. The UK in 2010 had inflation of 3.5% and this year they had a 9% deficit.

The third option is printing money so the debt is worth less and it is easy to repay. Governors might think, while repaying the debt, they will solve the structural problems of the economy.

The last but not least solution is to reduce the interest rate, so the cost of the debt is less. Joseph Stiglitz, an American economist and a professor at Columbia University, once said that it does not matter what the level of debt is, what matters is the cost and while the cost is low, there is no problem in taking on more debt. Let's look at Japan, the interest of its debt is 0.8% and it has a level of debt around 220% of GDP and its debt is 24 times the net income of the country. What is really happening? The reverse effect. They are lowering the cost of the debt – an incentive for other countries to take on more debt, because the debt is cheap. An example is the US; they raised the debt ceiling and immediately the level of debt increased. However, the debt is now growing faster to the next debt ceiling.

These actions do not reduce debt. If printing money, lowering interests, increasing inflation and not repaying debt would be the solution, countries like Argentina should be the first economy in the world because those are the typical policies implemented in Argentina. So please, let's remember that Argentina is not an example to follow.

We can see that these magic tricks are not solving the problems. The only solution is the one that governors do not want to implement, because it is not well accepted by society and politicians want to be re-elected. Common sense measures are clearly less spending and reducing the structural problem in economies. The structural problem is not the fact that country x has a deficit of y. The structural problem of Europe's economies is that they spend between 20–25% more than their income. That's what is important.

The governors are telling society that there is a margin to take on more debt, that debt is the only solution to growth. They are not leading us into a race to see who is going to win, they are leading us into a race to see who loses first. The best examples of countries that attract capital are the US, the UK and Japan. They they always remain low risk and they always win be-

cause of other countries' failures. The solution is not about the debt, as we can see the solution needs to come from attracting capital. If we are not able to attract capital, we should create and secure growth as we did in the past, by saving and consumption – not spending and incurring debt.

Where is the disposable income?

We have to mention the repressive fiscal policies that most EU countries have. Once, I was talking about the economy with one wise agricultural man from Spain. He asked me why we pay taxes? He said it seems like the governors never have enough, they always spend more than they receive. He concluded saying that his economy is going well because he never spends more than he earns. Is it really that difficult to understand – he asked me – why governors and politicians do not do the same?

What our governors do with their magic measures and policies is they lower the interest rates, then the salaries decrease, then they increase the taxes, and then they increase the money supply damaging the real economy. However, the worst thing is that they burn the disposable income of society provoking a negative effect on consumption.

During recent years, the EU has imposed a fiscal policy on some countries, forcing them into more trouble. In some cases, due to an increase in taxes their income lowered because there were fewer tax payers. After the EU imposed its fiscal policy on some peripheral countries, they lost economic autonomy. They imposed the same policies on completely different economies and instead of helping them, they pushed them into bankruptcy and into a deeper crisis. It is not possible to implement the same monetary and economic policy for every single EU country; each economy has a completely different rhythm of growth, a different unemployment rate and a different structure of sectors like agriculture, industry and services.

Solution without a reset

It is understandable after my previous reflections that it is impossible to look for a unique solution to solve all the EU's economic problems. Nonetheless, I am convinced that things cannot be done as they have been done up to now.

If we continue on the same path, as Margaret Thatcher said more than 20 years ago, the EU is destined to fail. The only way to avoid failure is for European governors to consider the specific economic and social characteristics of each country. Also, intervention in economies is not the solution. I will briefly propose my own measures that as I believe might change the European economy for the better.

As I already mentioned, intervention in the economy does not result in anything good. I would like to increase the freedom of the economy, making it more efficient by controlling expenses according to income, and promoting saving. The EBC needs to stop printing or increasing the size by two trillions of euros every 8 years. If we want to improve unemployment, Europe needs to create a structure or a mechanism to attract capital. To incentivise capital, the EU should lower taxes and improve the bureaucracy of countries to provide an impulse for movements of capital.

I propose simple, common sense solutions – public expenses and deficits should be under control; governments should be responsible for controlling their expenses according to their income so that incurring a deficit would be an extraordinary thing, not a normal thing as it is currently. Governments need to know that the income level of the bubble will not return, so they need to cut expenses. If they expect the income level of the bubble by increasing taxes, they will incur a deficit quickly.

It seems like we should pay more attention to data. Countries with higher economic freedom are more likely to develop higher wealth in lower classes. For example Estonia, one of the best examples to show that freedom actually works.

Spain – where money was for free

The Spanish society from 2004 until 2008 had the perception that money was for free, which resulted in the Spanish economy being now one of the most damaged during the crisis. Again, the governors did not implement the correct policies. First of all, they made a mistake when they recognised that Spain was in crisis. After recognising the crisis, they implemented a stimulus plan in order to get out of the crisis. They spent €50 billion in 2009. This stimulus provoked a deficit of 11% in 2009. After having a deficit since 2008 it seems that

Spain has the right to have a deficit every year. The problem arises when we analyse the deficit. We can see that the problem does not result from income, but it comes from the expenditure side. Of course, the government wants to go back to the fiscal income it had before the bubble, but the taxes are not going to come so there is no other solution rather than cutting expenditure.

Liberté, égalité, fraternité. France – freedom?

First of all, Spain the same as France, has an enormous state compared to its economy. Spain wants to copy the model of France but France is not an example to follow. You only need to look at the numbers. Both economies, Spanish and French have enormous and costly public structures. The EU was created in a similar idea as France, where the basis was interventionist socialism. Without freedom, because they left the Liberté in their slogan.

As I mentioned before, the example of Estonia shows that freedom works. On the other hand, we have Spain and France, both countries which have a high level of intervention in their economies. Contrary to Estonia, Spain does not attract any foreign capital, and this is a problem. When there is no internal investment, countries that attract capital have no problem to grow, while countries like Spain experience problems in their economy.

Spain cannot have the luxury of losing ten positions on the index of economic freedom. Spain needs to start to attract capital and help foreign investors to set up their business and their branches in Spain. That would help to reduce the unemployment rate, which is one of the highest in the European Union.

(Non) Solutions for Spain

Every day we hear and read about politicians who have some interesting solutions. One is that Spain does not need to repay the debt and should go back to its old currency the peseta, then devalue in order to be competitive. Another interesting one is that Spain should create 10% inflation and in 10 years the debt would be paid. The last one, and personally my favourite, is that Spain should take more debt in order to spend it to stimulate the economy because now debt is quite cheap.

Well, the solution to not repay the debt is not really something we should consider, as it will cause consequences like Argentina had in the past when they defaulted, and it still has a lot of problems with its economy. Bringing back the peseta is not great. Spain's old currency would not have the same high value as in the European Monetary Union; the currency would be worth much less. Our cost of debt would be higher as our debt is in euros and the peseta will be worth less so the debt will increase automatically. The solution to increase inflation to 10% is simply not possible, as this would lower salaries and increase taxes. The solution to take on more debt is actually what drove us into the crisis in the first place, so in conclusion, some people do not learn from past mistakes. Considering that we have been taking on debt for the last 15 years in order to grow and our debt is growing faster than we are, it is clearly obvious that this is not the solution. For those people who defend this fourth solution, I quote Albert Einstein: "Insanity is doing the same thing over and over again and expecting different results".

Conclusion

Europe needs a change of direction. Maintaining this level of intervention will cause the whole EU to collapse. The ECB needs to stop printing money and maintaining low interest rates. Also, the ECB should decrease its size. In general, the whole EU should consider lowering taxes and raising disposable income. Moreover, as mentioned at the beginning, it is clear that the European Monetary Union is not able to create an individual monetary policy. When it comes to fiscal policy, each country should have its own that suits the individual economy the best. In the article, I focused mostly on financial problems but the EU has a lot of issues when it comes to unemployment, especially youth unemployment. Additionally, there should be a change with regard to pensions, as European society is generally quite old and if young people do not work, then the funds for paying pensions might be not sufficient. Finally, I would like to point to a positive element: the austerity measures implemented in Spain that are starting to show results. We can see that there is a clear recovery. The best way would be to maintain this rhythm and for the government to implement some other measures like decreasing taxes for companies to provide an incentive for them to invest and employ people.

A good way would be to decrease taxes for families in order to increase their disposable income to boost consumption. The government should promote self-employment and SMEs by reducing bureaucracy and streamlining the process of setting up a company. There are so many good things to do that it only needs logical thinking and a quickness of mind.

With your permission, I will stop here.



Wojciech Kaczmarczyk

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In 2012, he started a PhD in economics and capital markets (mainly stock and bonds market) at the Department of Banking and Financial Markets at the University of Economics in Katowice. He is involved in university life, especially in academic, educational and social activities.

He works at a law firm as a trainee lawyer, where he is involved in issues relating to criminal, civil and administrative law.

He is a lover of literature (especially science fiction), alpine skiing and mountain biking.

Democracy in Europe – regional or transnational level?

The European Union undeniably has a major impact on the law of individual member states due to its structure and competences. The competences of the European Union with respect to member states have been amply covered by the Treaty on the Functioning of the European Union. Certain areas fall within the exclusive competence of the authorities of the European Union, whereas many other areas fall within the shared competence between the European Union and member states.

As a result, the law of individual member states is undergoing a constant intra-EU convergence process. Diverging provisions are replaced by uniform ones, which undoubtedly greatly facilitates trade between member states in the broad sense. EU bodies operate by adopting regulations, directives, decisions, recommendations and opinions.

Pursuant to art. 288 of the Treaty, regulations have a general application. They are binding in their entirety and are directly applicable in all member states (except for those members states, which, at the time of their accession to the European Union, negotiated that they shall have exclusive competence in particular areas). While directives and decisions, too, are binding, recommendations and opinions have no binding force. Importantly, according to the established case-law of the Court of Justice of the European Union, nationals of member states may also rely directly on EU directives if they have not been implemented within the prescribed period.

The above considerations must lead to the conclusion that the European Union has considerably more powers in many areas than individual member states. At the same time, one of the core values of the European Union is de-

mocracy (following directly from art. 2 of the Treaty on the European Union), and EU bodies are elected directly or indirectly by the citizens of all member states. It is worth mentioning the European Parliament, which has 751 members representing all member states.

The activities of EU authorities should, therefore, be of interest to all nationals of members states, as the decisions and legislation they adopt affect significantly the everyday life of all EU citizens. However, in practice, hardly anyone pays due attention to intra-EU policies. Voters focus on the domestic political scene, and EU events constitute at most a background to domestic election campaigns. While members of the general public have some knowledge of the internal organisation of their country, few people have knowledge of the political scene of the European Union.

Not many people are able to list the authorities of the European Union, and even fewer people know what competences they have. The awareness of the nature of particular EU legal acts is low. Elections to the European Parliament, too, do not arouse appropriate interest, as attested by the fact that the electoral turnout in the EU averaged just over 43% (in Poland it was less than 25%). Most politicians are more interested in the domestic political scene.

This phenomenon applies not only to new member states, such as Poland. While awareness of EU policies in the founding member states is not dramatically low, even in those countries events relating to domestic policy dominate the headlines. In members states events relating to EU policies usually do not make the first pages of newspapers and are usually discussed in relation to the internal policy of a given country.

The low awareness and lack of interest in the political scene of the European Union is exactly what I would like to change in Europe. It is especially important in the context of the turbulence that Europe (in particular the European Union) will have to face in the future. No member states was forced to join the EU – each time, the decision to join was made by democratically elected representatives. Due to the fact that some sovereignty was handed over to the EU, these issues should receive at least the same attention as domestic ones.

As a result of the lack of interest in EU policies, voters often treat EU legislation as something imposed from outside. Thus, with such a perception, we cannot expect unity among member states. Without this, the foreign policy of the European Union will not be effective.

At the same time, I am fully aware that the problem outlined above is extremely difficult to solve, as it is impossible to change the mentality of people overnight. There are even more doubts as to what measures should be taken in this regard, given that the ones used in old member states must be different to those applied in post-socialist countries. Methods that turned out to be effective in the founding member states may be counterproductive in the countries that have joined the European Union in recent years.

EU citizens must be aware that EU policies have a direct impact on their everyday life and that they can influence the shape of EU policies through democratic elections. It seems that the preferred option would be to carry out an educational and awareness campaign tailored to the needs of each member state. However, it should not be too costly if it is to be perceived positively by the general public.

There should be an emphasis on education especially in new (post-socialist) member states, in which the awareness of the rules and the functioning of the European Union is low and the programme of many political parties is often based on fighting the mythical monster, namely EU bureaucracy. Instead of fighting, we should build and co-create a common Europe.

Equally important are information measures to increase the interest of EU citizens in common policy. The lack of information in the media does not result from the fact that it is deliberately omitted, but rather from the lack of demand for such information. Under free market conditions, the media publish information that is of interest to the public. Of course, one may wonder why such information is omitted by state broadcasters, which in principle are often not strictly by commercial considerations.

In my opinion, it is necessary to lay a solid foundation, namely a Europe of responsibility and solidarity, to face upcoming challenges. It seems incoherent to expect changes in the foreign, defence or economic policy of the European Union when it is divided and unable to effectively deal even with internal problems. Without adequate trust and awareness of all European voters, it will not be possible.



Anna Maria di Giorgio

is a 22 year-old Italian student. She graduated last July from the Guido Carli Free University for Social Studies in Rome, obtaining a bachelor's degree in economics, with a strong focus on accounting and finance. She was awarded the maximum grade for her final dissertation: *The adoption of international accounting standards in the European Union*. Since September, she has been enrolled at the University of Neuchatel in Switzerland, attending a 2-year master's program in finance. Currently, Anna Maria is a summer intern in the department of Global Security Services at UniCredit Bank Austria in Vienna.

European Union – what could improve and strengthen our community?

The European Union, since its origins, has pursued an intricate path aimed at building a unique and strong community. I believe this path has been successful so far: I personally feel part of this community and a European citizen as much as I feel Italian. However, besides the undeniable successes achieved, additional effort is needed for the community to grow and to further improve its organisation and promote its development.

The first thing I believe should be revisited is the foreign policy of the EU.

It's surprising that for international issues concerning Europe directly or indirectly, the EU does not seem to act with one voice that emanates from its internal organisation. Although Europe has its own foreign affairs department, with a High Representative of the Union for Foreign Affairs and Security Policy, both Angela Merkel and François Hollande did not hesitate last February to travel to Moscow and talk with Putin about the conflict in Ukraine, basically driven by national interests, but also speaking on behalf of Europe. The same Europe that had imposed sanctions on Moscow for violating the territorial borders of Ukraine was not present as an institution, nor were Merkel and Hollande granted a special mandate for representing the EU.

This is probably the most recent and clearest example of the weakness of the EU's foreign policy, explainable by the strong national interests of the member states that poorly tolerate "supranational" authority in this area, perhaps believing that this could weaken their identity in the world.

Europe will be perceived by the rest of the world as a single entity only when it speaks with one voice through a duly designated representative; this

will only happen when the EU formally inhibits individual member states from pursuing a foreign policy that pertains supranational interests.

In addition to strengthening foreign policy, I believe the EU should reorganise and rationalise its activities, in order to achieve higher efficiency.

The EU spreads its administrative, executive and legislative activities over three different locations: Brussels, Luxembourg and Strasbourg. Given that the number of employees in those offices exceeds 40,000 people and the EU allocates 6% of its annual budget for the costs of personnel, administration and maintenance of the buildings, it would appear legitimate and more rational to concentrate all its activities in one place.

My aim is not to propose which would be the most suitable office, although I would suggest Brussels since most of the activities already take place there. However, what I would really like to convey is that a process of rationalisation is required not only for mere pragmatism, but especially for a prudent spending review, as such costs are a burden for European taxpayers.

Lastly, I would call attention to an ethical issue.

This concerns the pensions that European parliamentarians receive for life. Serving in the European Parliament creates a right to an annuity *usque ad mortem*. Beyond any comment on the lucky recipient, it must be said that this enormously generous benefit can be cumulated with other pensions. In other words, a former parliamentarian of a member state may aggregate a national pension with the European one.

It is true that a parliamentarian's role is of extreme responsibility. On the other hand, fulfilling this role should itself be a reward for the pride of representing the community. It seems this pride is not recognised as it should be if a pension for life is offered for this function. Considering this and also pointing out the economic burden that these annuities represent, I believe they are unnecessary for the EU and therefore I would propose their abolition.

**Simone Corsale**

I am an Italian student currently enrolled in a double-degree graduate program at the University of Turin (International Affairs) and Sciences Po Bordeaux (Geo-Economics).

I have also spent some time studying in London (London School of Economics), Rome (LUISS) and Krakow (Jagiellonian University). My main interests range from international economics to international relations and political science.

My native language is Italian and I am fluent in English, French and Spanish. I have a basic command of Polish and Chinese (Mandarin).

Europe – do less, do better, do clearer

The relatively stable and calm situation in which Europe is nowadays makes us often forget that for centuries Europe was not much more than a geographic expression. Apart from a few enlightened intellectuals such as Grotius and Kant who had a political vision for Europe as a community of people culturally close one to each other, Europe was seen much more as a theatre of wars between different political entities than an idea evoking a common continental identity among its populations. We needed the ravages of two World Wars and the threat of losing political autonomy after having been at the top of the international hierarchy for more than a century in order to fully understand the benefits of focusing efforts and building a common set of institutions to assure Europeans development and prosperity for decades to come. Nowadays the importance of having chosen such a path is being increasingly questioned in many European countries, and more frighteningly so in some of those countries which had shown a genuine willingness for integration. The victory of the United Kingdom Independence Party (UKIP) in the UK during the 2014 European elections, together with that of the far-right National Front in France, as well as the strong emergence of anti-EU parties in Austria, Denmark, Greece, Hungary, and the Netherlands and the growth of anti-euro parties in traditionally pro-EU Italy such as the Five Stars Movement or the Northern League, is proof that euroscepticism is a continent-wide malaise.

A LESS FAVORABLE HISTORICAL CONTEXT

Indeed, as the vivid memory of the war was fading and the bipolar international system was not a reality anymore, the urgency for a unified Europe seemed to be less compelling than before. Still, it would be an illusion to think that everything that has been done is not useful anymore and that we could easily and better take a step back. So why are we losing interest in the European dream? Are people like Jean Monnet, Altiero Spinelli or Konrad Adenauer so far away from us? Can we realistically cope with contemporary challenges by being attached to our narrow-minded and old-fashioned ideology of the nation-state? Of course not, and the recent major economic crisis has shown how much Europe still matters, despite of all its malfunctions and imperfections. After all, this is not the first time there has been an identity crisis in European integration history. In the 1980s we experienced something very similar to what is happening today, and the solution was “more Europe” and a step forward in the integration process. Since then, the answer has been one size fits all. However, Europe has not stopped being an elitist project and as the elites were losing their vision, Europe itself was losing sense in the eyes of Europeans.

The functionalist model of integration, inspired by David Mitrany and first implemented by Robert Schuman in the 9th May 1950 Declaration, is no longer sufficient, and Europe seemed to dive into hyper-activism in producing new norms that often seemed like nonsense to most Europeans. Ordinary Europeans cannot easily understand why should they vote for deputies discussing milk quotas or standards for packaging while hundreds of thousands of firms are closing down and terrorism is closer and closer to European borders. What is more, European bureaucrats seem to be completely detached from the European population. Their salaries and benefits are not easily justifiable to a public composed of millions of unemployed Europeans, most of them citizens of countries where recession has become the normal condition.

We have let Europe become an easy target for populist parties and this is mostly due to the lack of stress we place on the benefits of European integration. One possible solution could be reorienting European action towards something more concrete, effective and closer to Europeans’ basic needs and interests. In order to do so it could be suggested that it do less, but do it better and clearer.

DO LESS

Functionalism was a genial idea and it has basically been the approach which has made European integration possible. Starting from cooperation in coal and iron production we managed to implement cooperation in several strategic economic sectors which eventually spread to other sectors by the spill-over effect. However, what Europe is today may well look like a parody of this approach. The picture we often have is that of a group of overpaid soulless bureaucrats passing their time discussing trivial topics. One should notably not forget one of the pillars of European institutions: the subsidiarity principle. By that we mean that Europe should be deliberate only about those aspects for which a supra-national decision would fit better than a national or regional one. States should be obliged to yield the smallest part of sovereignty possible so that accountability, and consequently legitimacy, could be better enforced. Legislation overstretch leading to needless regulation is a scourge which should be avoided by European institutions so that they are exposed to much less criticism.

DO BETTER

Doing less does not necessarily mean “less Europe”. On the contrary, what we need nowadays in many sectors is more Europe. In the wake of the same subsidiarity principle we mentioned above, more Europe is needed when more effective decisions for a given problem could be made at the European rather than national or regional level. Concrete examples of such sectors could be fiscal and investment policy, energy policy and diplomacy.

Concerning the first issue, it is worth underlining how senseless it is to yield monetary policy to a European institution without simultaneously doing the same for the effects of fiscal and investment policy. For those countries that have joined the Euro, this has actually meant building a boat and letting it set off while leaving the oars onshore. Last week, Junker’s investment program promoted by the European Commission provided evidence of such an ambiguity: seven years after 2008 they solemnly declared that Europe — and especially Southern Europe — needs public and private investments in order to get out of recession, but out of the €315 billion announced just €30 billion

is actually going to come from the Commission, the rest is an optimistic estimate of what other economic actors will probably do consequently. The ECB made a massive and effective contribution to avoid the worst from occurring, yet, it is not possible nor fair to give it more power and responsibility. A European budget, and, consequently, a European bond market is crucial in order to make economic and monetary union credible.

With regards to energy policy, as suggested by Donald Tusk, the current president of the European Council, Europe would be much better off if all member states agreed on a common European energy policy instead of setting 28 different ones. The explanation is straightforward and is essentially based on economic considerations. First, it would implicate a stronger negotiating position vis-à-vis energy producers, such as Russia. This would mean basically a lower cost of energy, which for an energy-dependent economy such as the European economy could lead to a sensible reduction in wasted money. Secondly, it could have the effect of enhancing the energy supply by multilateralising all current bilateral ties negotiated by single European States, meaning a better infrastructural policy and a wider diversification of energy provisions. However, that is difficult to implement because of inter-state cleavages and differences in diplomatic relations with major energy suppliers. This actually drives us to the last point concerning diplomacy.

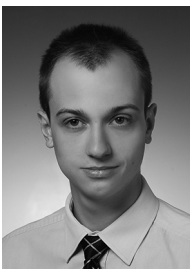
Diplomatic cooperation and ultimately the fusion of the foreign policy of all EU member states would be a coherent evolution of the federalisation of commercial policy – the EU is a customs union and a single member at the WTO – and the current situation is not a definitive solution for European states, which would have a much greater influence in most top-strategic international topics if they spoke with the same voice rather than separately.

DO CLEARER

Last but not least, the institutional issue is a key element for relaunching the European project and making Europeans more likely to support it. Kissinger used to say with irony that when he had to speak with Europe he did not know which telephone number to call. The caricatural Nobel Peace Prize given to the EU's three major institutions – the European Commission, the European Council, and the European Parliament – showed once again the lack of

institutional clarity. Several reforms have been proposed so far, and we quote the one from the Berggruen Institute on Governance's Council for the Future of Europe.¹ More importantly, Europe should take its democratic deficit seriously. Disquieting abstention rates at European elections reveal a lack of confidence and knowledge of Europeans about European affairs and institutions. This should be changed, and the best way to do so is by making Europe closer to citizens and make them understand what has been hidden for too long: that Europe matters and its future is our future.

¹ This group was composed by Marek Belka, Tony Blair, Juan Luis Cebrián, Jacques Delors, Mohamed El-Erian, Niall Ferguson, Anthony Giddens, Felipe González, Otmar Issing, Jakob Kellenberger, Alain Minc, Mario Monti, Robert Mundell, Jean Pisani-Ferry, Romano Prodi, Nouriel Roubini, Gerhard Schroeder, Michael Spence, Joseph Stiglitz, Peter Sutherland, Matti Vanhanen, Guy Verhofstadt, Franz Vranitzky, and Axel Weber.



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is studying for a master's degree in finance at the Wroclaw University of Economics. He is an employee of the JP Weber advisory company and an Ambassador of the CIMA Institute. He has developed his passion for finance through participation in national and international competitions, gaining 3rd place in the CIMA Global Business Challenge competition in Mumbai and 3rd place in the EY Financial Challenger X in Warsaw. In his free time, he travels and plays team sports. He is deeply interested in new technologies and music. In the future, he would like to run his own business or investment fund as well as advise companies on investments, acquisitions and restructuring processes.

European pursuit of solidarity and strength

Europe is no longer merely the name of a continent. In recent years, Europe has become a kind of country that brings together different cultures, views and beliefs. The European Union has proven that it is possible for economic powers and developing economies to cooperate and engage in a dialogue. Given the conflicts resulting from differing views, opinions and cultures in different parts of the world, it is especially important to ensure that Europe continues to be an example of cooperation and mutual support. Therefore, I believe that it is worthwhile discussing change that would help Europe continue to develop and maintain its unity. I think that change in Europe should concern in particular solidarity, finance and culture as well as mutual tolerance.

Given the recent intensified conflict in eastern Ukraine, Europe's solidarity is now more important than ever. History has shown how dramatically the failure to express unanimous and strong opposition may affect all of humanity. In my opinion, Europe still lacks the ability to make joint and unanimous decisions. When there is a conflict, it is not enough just to discuss and criticise. Instead, strong opposition must be expressed through action. One of the means to this end is the common acquisition of products or raw materials. Just as companies often strengthen their negotiating power through mergers, Europe has an opportunity to strengthen its negotiating power through the joint negotiation of prices. Of course, this would affect different European countries in different ways. However, the bottom line is that it would have a positive economic impact for Europe as a single entity. Moreover, it would be proof of real unity and solidarity of Europe.

Just as in a family, Europe must not be indifferent to threats to any of its member states. It should first of all act boldly and not be afraid to defend

itself against a threat. I believe that this is definitely the key to stopping acts of aggression. In view of the loss of human life, Europe should be more bold in helping its member states, especially when they are calling on them to act. Hesitation and a lack of decisiveness are an expression of fear, which is exactly what encourages an enemy to go one step further. I think that all European countries should realise that it takes courage to make good decisions.

One element of Europe that gives rise to much controversy and undeniably needs reform is the financial system. The introduction of the single currency was to be a symbol of solidarity. However, the single financial system has as many advocates as critics. In my opinion, there is room for improvement in this area. First of all, economic differences between European countries should be taken into account more often. Different countries are at different levels of economic development and have different capital markets and banking sectors. Therefore, the equal treatment of all European countries and the introduction of uniform regulations may have a completely different impact on different economies. I believe that Europe, and especially the European Union, should scrutinise more carefully the specific characteristics of member states and adapt regulations, especially those relating to the financial sector, taking into account the uniqueness of their financial systems.

Another financial issue that merits discussion is the prevalence of European tax havens. Each year countries are facing more problems relating to off-shoring. In Europe, there are a particularly large number of countries allowing the creation of advantageous tax mechanisms. Unfortunately, it is citizens that suffer most as a result of this situation. I believe that regulations should be introduced that would oblige tax havens to gradually make their activities more transparent. An over-concentration of financial assets may cause huge economic problems, as was the case in Cyprus a while ago. I think that transparency is the only way to avoid similar situations and prevent further financial crises.

Today's Europe is far too dominated by large financial institutions. There are an increasing number of cases in which courts are finding banks guilty of colluding, participating in cartels or engaging in other illegal activities. It is worrying that we only hear about cases in which illegal activity was uncovered. I think that financial institutions should not continue to grow stronger and that their ability to dictate terms on the financial market will lead to further problems and crises. Surveillance of the activities of banks, especially

the largest ones, should be increased. Moreover, institutions should not be allowed to avoid the consequences of risk. The bail-out of banks when they are on the point of bankruptcy due to the great risk they knowingly exposed themselves to shows that institutions may see themselves as beyond punishment and that their bad decisions never have negative consequences. Europe should not exempt institutions from liability. Moreover, capital market rules which provide for a relationship between greater returns and higher risk must apply to all.

Effective cooperation and solidarity require tolerance and mutual respect. I believe that stereotypes are still too widespread in Europe and that they often determine our perception of people or even our decisions. We must bear in mind that what makes us who we are is not our nationality, religion or political views, but rather our personality, education and experiences. I wish that stereotypes will never again have an impact on our safety, prospects for employment or relations between people, especially in Europe. I think that this is the key to strengthening relations between European countries and, in particular, to maintaining peace.

More attention should also be paid to the importance and value of European culture. The endemic and historic diversity of Europe offers us a major opportunity to expand horizons. I believe that the sharing of cultural heritage between countries allows us to better understand one another and the environment we live in. I believe that young people especially should be more often encouraged to travel with people of other nationalities, which would enable them to get to know other cultures. Initiatives like this are already being taken. One example is joint trips to workshops and conferences for young people financed by the European Union. However, I believe that too few programmes like this are promoted and that too few people know about them.

I consider myself a citizen of Poland and I love my country. However, this does not prevent me from saying that to a similar extent I consider myself a citizen of Europe. Given the history of our continent, marked by conflicts, death and hatred, it is crucial that we uphold the idea of unity and solidarity. In my opinion, Europe should focus on cooperation. Change should lead in particular to integration and dialogue. We should not ignore calls for help and we should promote peace, so that no one has to ask for help ever again.



Matheus Picanço Lima

was born in Brazil in 1991 and after concluding his studies in economics in Rio de Janeiro he moved to Germany to pursue a master's degree. Alongside his educational background, he has experience working in both the financial sector and the consumer goods industry.

Flexibility driving Europe forward

Every time you look at most European metropolitan areas it is still easy to see the effects of recent economic setbacks: either closed stores or real estate for sale. It is easy to see that Europe is not recovering as fast as governments and businesses expected. The European Central Bank has already implemented a strong monetary policy but given the weakness in transferring that to the real economy people are still struggling to feel in their daily lives the strength the continent used to have.

Considering China's deceleration and Japan's weakness, we can expect Europe's situation to be in the same pace as other major world economies. Nevertheless, there are signs that both the American and British economies are already showing a more positive recovery when compared to the European Union. Even with the major debt crisis occurred in the EU area, those two countries were hit harder by the 2008 crisis. Therefore, the discussion is not who suffered most but why after strong incentives provided by Central Banks are economies recovering at such a different speed.

The main constraint in the EU's economical recovery is its strict labour and welfare policies. The whole structure varies across member countries but especially in comparison to the United States it is clear that the costs for hiring and firing workers is higher in the EU. And costs do not only mean direct labour costs but all the indirect costs of contracts with employers. European companies have to follow a series of rules that are extremely positive for the maintenance of the welfare state so appreciated by its population. Nevertheless, this costs a lot of money for companies but above all, takes away their flexibility to adapt to business cycles and this is the main factor in Europe's slow recovery.

Compared to the US economy, the flexibility in the European business environment is extremely low. This provides a huge support for workers in times of low economic activity but is also the big anchor that prevents activity returning to stronger levels. Such a liberal economy as the US is not the answer but taking measures to increase Europe's ability to adapt to the more dynamic demand of the market is essential to improve its competitiveness against the US and newcomers from Asia.

China with its centralised government can quickly adapt its supply to face shifts in the demand in both its local market and the global market. This presents a great advantage in terms of profitability in times like the one we face now, namely deceleration. In order to maintain its profitability and competitiveness, the US and China can adjust its work force by firing people at a much lower cost when compared to Europe due to social security and health insurance issues. European companies are much more cautious in taking such measures because not only are the costs of firing employees high but also in an eventual and expected turnaround they face high levels of bureaucracy to hire employees again.

It is clear that from the point of view of workers this can this would seem to place their social security in jeopardy but what about not having a job at all given the change in the economic axis increasingly towards Asia. If European companies cannot recover their strength and have to leave the recovery in demand in the hands of China or USA they will face no choice but to fire workers anyway. The current economic status of the world does not permit such a high level of the welfare state anymore and businessmen have already realised by moving their production to other places. Of course, the clear objective of such moves is to achieve lower production costs but what about the high-end production that still remains in Europe and is an important part of economic strength. These production sites cannot adapt as fast as their competitors.

This type of production focuses mainly on export goods but it also applies to local markets. The service sector in the European Union is strongly impacted by the lack of flexibility in labour laws. This inflexibility is at different levels in different countries but it always has a great impact. When internal demand drops off it is impossible to keep a business going and therefore local and small business especially do not have the financial strength to get through difficult times. They see their revenues going down but it is not easy when it comes to reducing costs.

Alongside the lack of flexibility is a cultural issue that should change not in the European Union but in the minds of the population that lives in it. This goes by the name of consumption. In the US economy in particular people tend to spend more money than Europeans. At a time when central banks are injecting billions into their economies it is important that people who receive this money spend it. Either by starting new businesses, consuming or buying houses. It is less important how they spend it, but it is vital that they spend it to make the real economy wheel spin once again. If this huge amount of money doesn't change hands constantly and quickly there is no impact on output. Milton Friedman's theory has already showed us how essential this factor is in the growth of an economy.

Given this, the first step of the European Central Bank has already been made in terms of providing the liquidity needed for recovery. Now comes the work of governments to restore confidence in the population. By creating incentives for consumption they will bring back local demand, which will boost local supply and create a small virtuous cycle of confidence, especially in weaker markets. After such a huge crisis as the one seen in recent years it is natural for people to react by being cautious.

Nevertheless, how can confidence be instilled in the population at the same time that laws are written for more flexibility for business and less security. This is why the flexibility measures should not be taken now given that it is already late in this cycle of recovery. Europe is recovering, but slowly, due to this factor. The first change is to improve confidence in the markets. Once the economy is strong again and is in a positive cycle, the moments will come for reform in flexibility. It is a fact that our global economy faces cycles and Europe has to be ready for the next slowdown. And to be ready for a quick recovery like the one we see now in other economies, such measures have to be taken. Otherwise in 20 or 30 years when we see another crisis the slow recovery will be the same.

Concluding, Europe has to consume once again. People need to go out and buy products. From basic products to high-end technology. If the population remain cautious of their future and keeps most of their money in savings accounts, the wheel will remain jammed as it is today. Most importantly in markets where recovery is more modest this plays a key role for the whole economic recovery.

**Szymon Figlon**

is a student of finance and accounting at the University of Gdansk, specialising in banking and financial consulting. He is vice-chairman of the Finance and Banking Society, a member of the Econometrics Society, a member of the European Financial Congress Academy since 2014 and a participant of various seminars and conferences in the area of banking and financial markets. He was a semi-finalist in 11th EY Financial Challenger. He is a member of the Young Democrats association and is currently an intern at ING Bank Slaski and formerly at the Institute for Market Economics in Gdansk in the area of banking and financial market research. He also has experience in banking sector analysis and business valuation.

Big Data – a huge challenge for the world of finance

Data has been collected continuously since the moment the Internet appeared; however, up to now there have been no tools that allow have allowed it to be analysed thoroughly. Together with the development of effective methods of analysing data about the user, ideas how to use is appeared, termed *Big Data*. Undoubtedly, this phenomenon is extremely exciting for business innovators because it opens up a full range of possibilities to create new products and services that may yield satisfactory benefits. On the other hand though, this subsequent success of humanity opens a new path for abuse which runs through the very sensitive sphere of privacy. In a sector of the economy where it is possible to function mainly due to trust, it is important to show concern for ethical standards at a pace which is currently dictated by the development of technology.

The opportunities that ensue from the use of the *Big Data* analytics are already of interest to almost all sectors of the economy, which are currently focusing their attention on developing effective models depicting the customer's profile. The position of the banking sector is particular in terms of the nature, quantity and detail of the data being collected. Thanks to information being input into databases, banks are able to create a precise picture of customer behaviour. An analysis of transactions performed using various cards used by the customer alone provides information about the customer's lifestyle, buying preferences, eating habits and places visited (at what time of the day, how often and with whom). This would not pose a concern if its aim were only marketing activities focused on better tailoring their offer to the individual customer and on deriving extra benefits from them. However, the situation is

developing rapidly. Detailed data acquired by credit card issuers is becoming ever more frequently sold because specialised departments are analysing this data on a global scale. Data obtained as part of that process is sold further on to enterprises which use them to develop strategic plans or to conduct marketing activities. European banks have also been trading data with their counterparties since 2013, while promising to observe privacy policies. The procedure raises doubts but not all financial institutions which undertake these activities go beyond the law. The regulations concerning data protection are 20 years old when the majority of the European society did not know what the internet was. In connection with this, they do not regulate issues associated with privacy in the virtual world. The technological progress that we are currently observing is becoming ever more difficult to control by the authorities. This situation is also becoming an incentive for financial institutions to take advantage of those imperfections. Do such activities comply with a code of ethics? Do they expose institutions to too high a risk, knowing that these activities depend on a society's trust which has not been re-built after the events of 2008?

However, nothing points to the financial sector intending to withdraw from the ever broader use of *Big Data*. Such conclusions can be drawn even from the fact that recently banks have clearly been changing their strategies, embarking on development based on *Big Data*. Activities based on the analysis of customer data can be observed worldwide, while in Poland the scale of that phenomenon is still relatively small in comparison to pioneering countries, which does not mean that the opinion of customers and the state of their awareness of the collection and processing of data should not be taken into account. In my opinion not many people understand what this process is all about and are aware of its scale, and the institutions themselves do not run any campaigns informing customers about the use of the data. It is not surprising that customers interested in the issue hold controversial opinions which arise mainly from their concerns. This issue as well as several other ones which I mentioned before must be changed immediately in order for fully justified public concerns to stop accumulating. This has already been noticed before and work is constantly under way. Completion of this work is being hindered by the continuous and rapidly accelerating development of technologies, and, in connection with it, new threats. Thus, due to the dynamically changing situation, it is not

possible to fully regulate this matter, for that reason we should focus on the ethical behaviour of business and on reducing gaps in current laws.

The phenomenon that we are dealing with today began more than 40 years ago when data was collected for the first time. Together with the appearance of the internet, the phenomenon started gaining momentum, gradually changing its form. Today it is becoming a challenge, especially for the financial sector because tools for analysing data have appeared and are continuously being improved. The method of analysing the data itself does not pose a challenge but it is the way the processed data is being used, frequently breaching privacy. Society is not ready for this yet, and activities to make society aware of it are also hard to find. *Big Data* has huge potential; it opens up new opportunities for people and has a chance to become a positive part of daily life. In order for this to be possible it is necessary to observe ethics, which are the foundations for building trust and the most effective tool of overcoming aversion. People must be aware not only of the processes taking place but also have the ability to supervise them. The benefits of using *Big Data* should also be felt by the society. The current situation only escalates concerns because the process of obtaining information has affected not only our privacy but also our intimacy.

If the potential possessed by *Big Data* is to be fully utilised without social resistance, it is necessary to implement new laws which will regulate the issues of analysing and processing data to such extent that the user will be aware of the processes and will be able to make good decisions. Until then, in order to avoid tension and abuse, it is necessary for financial institutions to take reasonable measures while observing the highest ethical standards to maintain a level of trust necessary for them to exist.

**Eugeniu Brunescu**

was born in Chisinau, Moldavia. At the age of 15 he moved to Valencia. In 2006, he began studying economics at the University of Valencia. During his studies, he travelled abroad several times: in 2009 to Linköping, Sweden, for ten months as an exchange student; in 2012 to Utrecht, the Netherlands, as a business analyst at Santander Consumer Finance Benelux. Afterwards, he had the chance to work at the department of administration and accounting at the Institute of Consultancy and Audit in Valencia, Spain. In February 2013, he joined the board of the Erasmus Student Network of the University of Valencia and became its treasurer. Currently, he is about to finish his master's degree in banking and quantitative finance.

For a new Europe

We reject austerity policies and want another process of integration in Europe. This European Union is not ours.

Europe has become a problem; better to say, the European Union has become a headache for Europeans. Where before this word meant hope, now it produces confusion and indignation. Far from appearing as part of the solution the current process of European integration is part of the problem that is overwhelming and depleting our societies.

Millions of people relied on the EU when the crisis began. They imagined that European institutions would come up with proposals and resources to stop the meltdown caused by the financial sector and strengthen the social state, the truly genuine and typical European model, which is recognisable in the world and which was the aspiration of millions of people in any part of the planet.

What we discovered was the complicity of the elites of governments, the European Commission and the two majority groups of the European Parliament with the logic of adjustments, sales rights and destruction of the welfare state in our country. The data is undeniable and shows a dramatic drop of citizen support in this integration process. European citizens are stunned about the substantial decision-making that affects their lives without being informed or consulted. And these decisions are taken by institutions whose democratic credentials are more than doubtful.

According to the Eurobarometer published in December 2012, confidence in the EU has dropped since the beginning of the economic crisis by 24 points, from 57% to 33%. It is a spectacular fall that strongly expresses the disappoint-

ment and animosity of citizens regarding the management of the crisis. Up to the beginning of the crisis, the logic of the integration process had some credit among European citizens. This has faded with the same speed with which serious and terrible decisions have been taken that have affected the lives of millions of people. For 62 percent of those surveyed the worst is to come. In Greece, Portugal, Ireland and Cyprus, incompetence, abuse of power and contempt for citizens have marked for a long time the image of the EU in these societies. It seems that this EU is a network at the service of the interests of an economic and political elite and eventually, in some countries, to the detriment of the vast majority.

What should we do?

Recover sovereignty, dignity and democratic legitimacy. Without European citizenship, the integration project doesn't make sense. With policies that are against the majority of the population the idea of integration weakens and becomes unwanted and incomprehensible to the population.

It is necessary to give Europe a political u-turn in order to stop increasing social chaos.

The current economic and political system is in decline. It is necessary to recover common human values that put people ahead of purely economic and speculative interests.

Corruption is a serious problem. Representative democracy in its current form is clearly insufficient. Environmental degradation is unsustainable. Cuts, austerity, and attacking rights and public services has led to social suicide. In summary, the existing economic and political performance is unfair, corrupt, inefficient, undemocratic, ecologically unsustainable and with a lack of human positive values, such as social justice and solidarity.

Proposals for change

Another economic system is possible. The alternatives in the field of production, distribution and consumption have filled the books of critical economists and documents on social networks. It is not true that nothing else can be done. It is possible and necessary to produce, distribute and consume from param-

eters that are absolutely different to those currently imposed by “experts” in the service of speculative financial capital. Formulas based on human and ecological values should be placed in front of and above the macroeconomic game serving only figures and private profits, regardless of the human cost.

A different democracy is possible: also on this point theoretical formulations and practical tests are multiple. Binding and advisory participation from different instruments, repeal of mandates, incompatibilities, control and transparency, primary and open-lists and a long list of proposals have been reasoned and exhibited in various forums, from the squares and streets in 15M or at the World Social Forum, as well as at universities, parties and organisations of different types.

The unity and the joint action of all those who are critical of the system, as well as neoliberal thinking and political people is required. This is one of the main demands expressed in any act of protest, debate and citizenship meeting. We have to pass from the indignation and the fragmentation of struggles to rebellion and organised collective action.

**Philipp Höfer**

I completed my undergraduate studies at Frankfurt School of Finance & Management in cooperation with Deutsche Postbank AG, which allowed me to gain hands-on banking experience in its locations in Frankfurt, Bonn, New York and Luxembourg as well as during secondments to Credit Agricole Corp. & Inv. Bank ZAO (Moscow) and Bocconi University (Milan) at an early stage. I have been cooperating with Deutsche Bank AG's Treasury since March 2014, and I am currently graduating from FSFM's Master of Finance programme, which included an exchange programme at HEC Paris at the beginning of this year. From August 2015, I will continue at Deutsche as Executive Assistant of the Global Head of Asset & Liability Management PBC.

Deeper fiscal integration within the EMU

The establishment of a joint currency zone in Europe, the European Monetary Union (EMU), encompassing almost three-quarters of the European Union's (EU) economies measured by GDP¹, was a major contribution on our continent's way to further welfare and stability. For the first time, centuries of military conflicts and instability are followed by decades of continuous peace, economic growth and improvement of the social environment. The role of the economic integration of all member states is thereby as crucial as their political alliances. Both push cultural exchange, generate empathy for neighbours' situations and establish economic interdependencies. In the first years of the Euro, good economic and financial conditions gave the currency zone a comfortable starting environment in which it did not face any economic stress scenarios. Not only lower transaction costs but also an irrational equalisation of sovereign debt rates at a low level led to balancing effects between the economies. Supported by this development and the currency zone's political value, deficiencies, such as the heterogeneity of the economies and the potential need for a united funding mechanism and budget supervision when sharing a currency, were ignored and no ear was lent to critics. Additionally, the circumnavigation of the entry criteria in combination with poor monitoring supported the inclusion of participants that increased the non-optimal starting conditions of the currency zone. However, an economic shock, the financial crisis of 2007, which finally led to the sovereign debt crisis, revealed structural problems.

1 International Monetary Fund (IMF) 2014, World Economic Outlook Database (WEO), Accessible from: <http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx>

Diverging, asymmetric economic cycles in combination with this general economic heterogeneity across member states and the reactive monetary policy of the European Central Bank (ECB) is never suitable for any individual national needs. On the one hand, it is too restrictive for countries in need of expansive money supply and low interest rates and, on the other, it is too expansionary for currency zone members in good economic condition targeting moderate and stable inflation rates. Given that fact, the only remaining tool to individually react on these economic cycles, possibly reaching severe levels up to idiosyncratic shocks, is fiscal policy at a national level. However, as monetary and fiscal measures should be aligned in order to properly fight economic downturns, the outcome is usually inappropriate. This affects not only countries themselves but also the reaction efficiency in the zone as a whole. Progress in the establishment of a banking union was a first and crucial step, which led to the concentration of supervisory powers under a joint monetary ruler, the ECB. Additional homogenisation of economic powers, fiscal integration nationally representing collective interests as well as the redistribution of financial resources would enable all stakeholders in the currency zone to improve their economic policy. It is obvious that these potential corrections in the EMU's make-up mean a fundamental departure from current legislation, but essential for its livelihood and from a long-term perspective beneficial for all the parties involved. Surely, the first steps towards such a fiscal integration have already been taken through the establishment of the Stability and Growth Pact and the regulations within the "six-pack". A redistribution of financial resources and actively initiated economic balancing are nevertheless seen as critical in well-performing countries, at whose cost this approach will be. However, the currency zone model is worth protecting from all sides due to its integral part in European coherence and solidarity as well as its significant importance for the global influence and economic power of member states consolidated as one single monetary force. Therefore, the above-mentioned corrections could be executed by the following:

The creation of a supranational institution with intervention rights into national budget decisions as well as authority over a common fund. This should serve as a short-term financial resource to balance asymmetric national or regional shocks, similar to the practices in homogenous federal systems. The supervisory function would thereby allow fiscal discipline from a neutral per-

spective and the consideration of the interests of all other member states. The previous handling was based on confidence in governmental commitment and the avoidance of moral hazard effects; however, it proved itself to be too optimistic. The experience with the Maastricht treaty and the later-introduced Stability and Growth Pact has shown that credibility suffers because member states refuse to surrender sovereignty over major elements. It is utopian to believe that comprehensive fiscal changes would function flawlessly from the outset and all governments would interact in the interest of all other member states. As the proposed shift means the active involvement of European institutions in the individual budget decisions of all member states, the idea of the redistribution of financial resources is easier to justify towards well-performing countries, as they are the main contributors to a common fund. The function of the authority over this budget is the second pillar of the newly founded institution. Taking into consideration the current economic condition of member states, the calculation method of the respective contribution to the fund should consider not only its economic strength, measured by GDP, but also its historical economic performance over a certain mid-term period, possibly measured by GDP growth. If a particular country or region undergoes an economic shock, this budget would balance its social impact, stimulate an economic recovery and avoid harmful budget cutbacks, such as in education, infrastructural projects, research or development. In return, the collective supervisor with potential intervention rights would simultaneously ensure the proper and purpose-related use of the financial support. It is obvious that this approach of deeper fiscal integration may lead to moral hazard effects. National governments would not need to bear the negative consequences of their negative political decisions. As mentioned before, the prevention of this effect was one argument for the decision of staying with national fiscal independency. The situation in which this budget is exploited as a subsidy for national governments making improper fiscal decisions with lower self-responsibility and accountability has to be avoided. On the one hand, they could avoid own unpopular countercyclical measures to receive back-up support from a supranational level and on the other, they may be tempted to lower their surplus through social reliefs and thereby benefit in terms of internal politics. The first pillar, the supervisory function of the institution, is therefore critical, also in view of getting net contributors on board. Voting power in the institution

would then be derived from the respective contribution to the budget, which has nevertheless to be financially large enough to effectively rescue even the core countries. Otherwise, not only its credibility but also its potential as a real and sufficient resource for every country in the EMU is questionable.

The citizens of Europe need to understand that these corrections of the EMU's make-up are not a magic tool to solve the current crisis, but rather the only way to overcome the structural, non-optimal starting conditions in our currency zone at an infancy stage. It is obvious that the advantages of such a concept are not easily graspable for net contributing nations from a short-term perspective, but their commitment is literally a decision for or against monetary union. It has to be underlined that the fund is not meant to be a long-term aid for economies with structural deficiencies. This concept will certainly provoke opposition, whose arguments can be faced with strong governance policies and effective legislation ensuring direct participation. Further coherence and commitment will ensure not only the general health of the Euro, but furthermore the long-term success of the currency zone and its competitiveness against external powers. Furthermore, it provides a potential back-up for every country in the future – even ones that are currently in good situations: history has shown that all countries undergo economic cycles.

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Financialisation as the reason for income inequality – a need for changes in Europe

The issue of income inequality in Europe is a very complex subject that is hard to define. However, this issue is very interesting and makes it possible to analyse disproportions in income. The experience of various countries shows that excessive disproportions in income result in social conflicts and are the cause of political and economic turmoil. The modern market economy awards assets and distributes income in an uneven, socially contradictory and functionally harmful way. A decrease in disproportions between the rich and the poor requires an effective income adjustment mechanism. It is not the aim of this article to argue that there must be equilibrium in the disproportions in income since this is not compliant with human nature and the motivation of the modern economic system. However, the aim of this article is to point out the problem of financialisation in the European economies and that it should be reduced.

According to a report published by OECD, the disproportions in the level of income of Europeans are at the highest in the last 30 years. There is a steadily increasing trend in disproportions in income between the poor and the rich. The phenomenon of the continuous stratification which we are observing in Europe is a result of ineffective fiscal policy and financialisation of economies. On one hand, the financialisation of an economy may be something benign and positive for economic development, while, on the other hand, it may lead to an increase in the imbalance of foreign trade in current accounts. The fast growth of financialisation is associated with the dynamic development of the derivative instruments market; in the last 30 years trade in these instruments increased by 700%.

According to the traditional definition, financialisation means growth of the financial sphere that translates into an increase in the share of the financial sector in GDP; it also means exerting excessive pressure on short-term, securitised, complex financial products that are not based on any specific aspects of increasing wealth, resulting in the creation of large international groups that have a greater influence than countries and which are not controllable. In business terms, financialisation is a process of changing relations into a transaction: a change of the relationship between the creator and recipient into a transaction between a supplier and a buyer. Inspiration ceases and the transaction becomes the sense of creativity. The financialisation of business is very dangerous since it changes the way the market is perceived. It makes it possible to define new streams of maximising profits. Financialisation causes a risk that the maximization of profits will not come from material goods and their distribution but from providing financial services. Financialisation is reflected in the creation of esoteric financial instruments and taking financial capital out of the real economic sphere for the purpose of investing it in risky financial instruments. There is no single and most important cause of financialisation. A number of processes which have enabled and speeded up financialisation can be pointed out. These include technological changes that make it possible to invest money quickly and the liberalisation of economies – in particular capital flows – thanks to which money can be invested anywhere in the world. The consequences of financialisation are serious and affect poor as well as rich countries. Actually, financialisation affects everyone, regardless of whether he or she is a worker or person that saves money. Financialisation leads to a growth in income disproportion among various social groups. Assets are accumulated in the hands of a few rich and influential people in the world. This distribution of wealth leads to a reduction in the sources of creation of demand. It should be pointed out that very often this group of rich people invest their money in a speculative manner. This also affects the expansion of the financial sector.

Financialisation causes changes in the management and ownership structure of enterprises. Changes in ownership structure are bringing about an increased role of institutional owners representing the financial sphere, who represent so-called 'impatient' capital, who want to achieve super-normal profits as quickly as possible and thus speculate. The financial sector treats

the real economy only as an alternative for investing capital and not as a real, long-term involvement in building and developing an enterprise. Growing financialisation has led to a change in the idea of an enterprise by shifting the focus from stakeholders to partners and shareholders. The change in the idea, accompanied by growing pressure to make quick investment decisions, has led to too much focus on short-term financial profit, and not enough on the long-term development and stability of an enterprise. It should also be pointed out that financialisation influences the real economy. Financialisation may affect the exchange rate, which in turn influences the prices of raw materials, and, in consequence, may reduce an enterprise's profit even by half when an enterprise has not even extracted the raw material. The same change in the exchange rate may be the cause of an exporter's bankruptcy. The growing financialisation process results in the distortion of the basic principle of economics, which is increasing a society's wealth through work and the production of goods. To a large extent, financialisation is contrary to the achievement of balanced development in EU member states aimed at improving conditions that foster the development of entrepreneurship, especially as regards the SME sector, as well as building a competitive economy. Financialisation poses a threat to the achievement of an economy based on knowledge and innovation and hinders the achievement of important goals underlying European integration such as prosperity, peace, democracy and human rights.

Undoubtedly, the most important conclusion from the consequences of financialisation is the need to generate an effective mechanism to adjust the disproportions in income in Europe, which would make it possible to reduce the level of financialisation. Reduction of disproportions between wealth and poverty is of key importance and is necessary as it will allow Europe to follow the path of rapid economic development.

**Selcuk Kes**

Born and raised in Wuppertal, Germany, Selcuk Kes first became involved in finance when he started his apprenticeship at WestLB AG in Düsseldorf. After graduating from Cooperative State University in Mannheim (BA in Business Administration), Selcuk was eager to pursue his career in finance by developing a strong background in capital markets at DZ BANK's structured products department in Frankfurt. In addition to his position at DZ BANK, he is currently finishing his studies at Frankfurt School of Finance & Management with an MSc in Finance.

Renewable energy grid – European energy infrastructure reform

Global warming is considered to be a serious threat to the stability of the world's climate and to economic prosperity in some regions. Since most emissions stem from the use of energy, the greenhouse issue has made energy policy an important policy domain. Energy policy is an element of infrastructure policy and thus it is important for competitiveness and growth, at the same time it is a crucial element of environmental policy since the generation and use of fossil and nuclear fuels goes along with negative national and international external effects. The EU needs a centralised policy in which the issue of generating, transporting and saving energy from renewable sources is implemented and monitored. The potential energy generating source of each member (e.g. Portugal and Spain for solar power, the UK and Nordic countries for wind energy etc.) should be used by having a centrally coordinated and developed infrastructure e.g. a renewable energy grid.

Following the EU electricity liberalisation initiative, Germany has not chosen to implement the minimum gradual liberalisation required by the EU, rather it fully liberalised the electricity market in April 1998 which lead to falling electricity prices and industry restructuring in a more competitive European market. Since natural gas is an important input – with a competitive edge over alternative inputs – in electricity generation the liberalisation of the gas market in the EU initiated by the European Commission reinforced the liberalisation of the energy market. Energy generation and use are in turn key elements for several emissions, most notably CO₂ and SO₂.

There will be effects on international capital markets to the extent that there will be a relocation of energy intensive industries or intensified merger

and acquisition activities in the energy sector or in energy-intensive industries facing sharper price and cost competition.

In the future, the use of renewable energy sources could offer the opportunity to replace the energy sources used so far. For power generation, hydropower, windpower, direct use of solar radiation by photovoltaic or other solar power plants as well as biomass can be used, and it can be stated that in the future additional financing for renewable energy will definitely be necessary. For wind, the demand for financing depends on the quality of the location. The more wind that can be "harvested" at one location, the better the economic balance of generation is at this particular location. When "harvesting" wind, even small differences between locations have a great importance.

The special problem with wind energy, and actually every renewable energy source, is that due to the erratic supply the contribution of wind power cannot be planned reliably, so in addition to every wind power station, further power plant capacity has to be available to replace the capacity of the wind power station if wind is not available.

Looking at the total energy consumption in Germany from the extraction of primary energy sources through to the energy services (collectible energy) finally desired, it becomes obvious that only one third of the total primary energy can be used as collectible energy. Two thirds are lost either in the transformation stages e.g. at electricity production or in the transformation of devices of the user, i.e. it can not be used for the desired purpose.

The improvement of technological energy efficiency takes as long as the complete replacement of the stock of appliances will take. On the other hand, there are many political ways to influence the efficiency standards for technologies of new appliances and to reduce the consumption level in the long term.

Therefore it could be advantageous to liberate the market for a renewable energy grid and let the free market play out its strength just as the invisible hand in Adam Smith's *Wealth of Nations*.

One striking thing to discuss is the lack of monitoring capacities in the EU in monitoring and controlling the implementation of environmental policy and law. Because of its restricted competence to implement and enforce legislation, the European Commission is forced to look for effective methods that are not based on punitive measures. Effective implementation of environmental law is thus more often based on partnership principles and non-

hierarchical forms of cooperation because the European Commission does not have the means to operate through authoritative commands. The only authoritative instrument available (the so-called infringement procedure) is very time-consuming and bureaucratic.

The European Commission publishes annual implementation reports on the basis of information received from the member states. According to the commission's annual survey issued in 2002 on the control of the application of Community environmental law, the environmental sector is the policy field with the highest number of infringements.

Reporting requirements concerning the effect of existing legislation focus on information about legal transposition, practical compliance, environmental data, and descriptions of policy measures. The problem, however, is that member states report very differently (if at all) on the implementation of measures. Moreover, a report by the European Environment Agency in 2001 revealed that there is still too little information about the effectiveness of EU measures. In only 12 percent of all EU environmental legislation are member states required to provide any evaluative information on the effects of measures. The report comes to the conclusion that more information and discussion would be needed to assess the effects and effectiveness of EU measures. In the future, the evaluation of the effects of legislation should become an important requirement in EU environmental legislation. The twin challenge will be to revise the reporting system to enable us to know more about the effects of EU legislation while at the same time decreasing the burden of reporting on the member states.

In summary I would like to have a centrally coordinated policy on how to make advances in renewable energy production and especially the transportation and storage of this energy throughout Europe and not only at a national level.

**Justyna Ziobrowska**

was born in 1990 in Opole and graduated in economics from the University of Wrocław with a specialisation in managerial economics. She graduated with grade A and her master's dissertation earned her an award in a faculty competition for the best master's dissertations. Justyna holds a scholarship and is currently a student in the first year of PhD studies in economics at the Law, Administration and Economy Department of the University of Wrocław. She is a member of the Student Academic Association of Economists. Her research interests cover the ownership structure of the Polish economy, as well as the socio-economic analysis of India. She is an enthusiast of travelling, jazz, theatre and tennis and is the author of a book of poems.

The path to change through cooperation

In the current geopolitical situation, in which Asia is becoming an increasingly important power and a redefinition of Europe's borders looks likely, Europe needs many economic, political and social changes. All European countries should unite in action. Power must not be concentrated in the hands of the most affluent countries. All countries should have equal rights in terms of deciding about what happens in Europe. Votes should be distributed evenly. Instead of saying: a Pole, a German, a Frenchman, we should say a European, because now all of us together are creating European culture and society. Striving for the common good must be a priority. Only by acting together can we effectively secure the democratic free market system and ensure that it is free from corruption scandals. As Jacek Kuroń, the Polish politician and historian, said: "For me, a united Europe is a short stop on the way to a united world".

European countries should, in cooperation with the United States, develop an adequate strategic plan addressing the issue of Russia's actions in Ukraine. Economic sanctions are not enough. EU member states and other European countries should continue to provide Ukraine with humanitarian aid, including medical equipment, bulletproof vests as well as cleaning products and means of communication, without getting directly involved in military activities. Problems should be solved peacefully and not through violence.

Negotiations for the conclusion of the Transatlantic Trade and Investment Partnership need to be successful. The partnership requires the harmonisation of technical standards and the elimination of trade barriers. The Transatlantic Free Trade Area will offer us an opportunity to become a regulatory power. In

my opinion, the partnership is not a conspiracy against democracy. It is necessary to develop cooperation between Europe and the United States through direct investment and elimination of unnecessary bureaucratic obstacles to access markets, to the benefit of companies operating in those two areas. Of course, it should take place on equal terms for the two parties. An adequate strategic plan for innovation and the exchange of technology between Europe and the United States should be adopted. Due to the demographic decline, we should allow Asian powers to become part of our institutions by enabling them to acquire adequate ownership interest in the institutions. If we do not do that, they will establish their own institutions. Europe must focus on the fight against demographic decline. Lower fertility rates result mainly from the fact that people are deciding not to have more children, postponing decisions to have a child and are also due to the fall in the number of marriages as well as the outflow of migrants. Europe should focus on family policies and combat unemployment effectively. There is a negative correlation between the unemployment rate and the number of marriages.

We should change the attitude of Europeans towards immigrants, especially those that represent different cultures. Prejudices still exist in schools, universities, workplaces and in personal contacts. People that fall victim to prejudice feel rejected and easily fall prey to religious extremists. One way to prevent this is to establish a well-organised group of people who would help immigrants settle in a new country. They would promote the values of Western civilisation and conduct classes on inter-cultural communication at schools. The objective is to prevent the ideological indoctrination of children by their parents. Such measures could to an extent prevent the spread of aggression by Islamic State extremists. All attempts at change should take place in such a way that the traditions and culture of immigrants are respected. I would like to see a Europe that fully respects human rights and is tolerant of national minorities, homosexuals and people of other religions.

Higher education should be modernised throughout the whole of Europe. Higher education diplomas are not automatically recognised in the European Union. It is the governments of particular countries that are responsible for their education system and they are free to introduce new rules (rules for the recognition or non-recognition of professional qualifications obtained in other countries). In my opinion, provisions on the mutual recognition of diplomas

should be harmonised in all European countries. Cooperation between all European countries in mutual employment and the recognition of qualifications should be further improved. The competitiveness of maritime transport in Europe should also improve.

I would like Europe to be a continent in which there is a civil society that is active and capable of organising itself without the impetus of public authorities. All Europeans should be aware of and understand the needs of the Community and strive to meet them. What matters most is interest in matters relating to European society and a sense of responsibility for its well-being.

**Eugenio Alessi**

My name is Eugenio Alessi and I am a second-year master's student in management, major in corporate finance, at LUISS Guido Carli University in Rome. I spent the last semester in Paris as an exchange student at the ESCP Europe Business School. I obtained a bachelor's degree in economics and management at LUISS Guido Carli University in Rome with a final grade of 110 cum laude/110. During my bachelor studies I had the opportunity to study for a semester at the Vienna University of Economics and Business and I was awarded by the German Academic Exchange Service (DAAD) with a scholarship for a summer school in Germany. My native language is Italian and I speak fluently English and German. I am interested in finance, banking and European policy topics.

The urgent need to create a new European Union: The United States of Europe

Today, the European Union is facing many problems and Europe is no longer synonymous with growing prosperity and more jobs. The European Union is dealing with increasingly difficulties that range from economic growth to social issues. In recent years the gap between rich and poor has been widening and the distribution of income and wealth among members has become less equal. Being able to plan for the future has become very difficult for many young Europeans and the future is very uncertain.

In order to understand and analyse the actual situation, we need to summarise the main crisis and the relative challenges that the European Union is currently facing. The complexity and difficulties of the actual situation arise from the fact that the financial and economic crisis is combined with a dramatic political crisis and a serious cultural crisis. On all three fronts, member states must urgently find answers in order to take the necessary action. The European Union cannot make small adjustments within the Community framework in place to deal with all these critical issues; what we need is a strong political program that will provide a new solid basis for further unification.

A further integration process seems to be the only way forward for Europe and the only solution to the main crisis mentioned before. It is undeniable that integration was a big success up to the end of the 20th century. Europe rebuilt itself within 50 years of being devastated and divided.

Today, selfishness, populism, extremism and mounting concern compete with one another as the process of integration is questioned and even challenged. The integration process from a political point of view expanded too

fast, according to incomplete criteria, which, despite what is written in the treaties, were in alignment neither the political purpose of the EU nor the foreign and defence policies that are vital to ensuring influence in the world.

The EU launched the single currency, the Euro, but it has not established balanced budgetary and federal powers that would allow it to function and express itself with a single voice. European integration seems to be the only way by which the global economic and political collapse of Europe can be avoided. All member states must further transfer sovereignty and be willing to cooperate with their European partners in order to rise to the challenges they face.

An ambitious idea of integration is for Europe to become a federation similar to the federation model of the United States of America. In order to achieve such an integration level, a further integration process is required, although negative press and the reluctance of national governments to let their power go has seriously damaged the positive view of a possible federal Europe. We are living in an age of globalisation and the EU needs to be competitive on an international scale and to compete with large trading partners. In addition, no EU member state can take on large global problems on its own. The main feeling is that only by changing the current arrangements and by increasing cooperation can Europe reinforce itself. Many European citizens are positive about further European integration but there is also a large number of European citizens that are Eurosceptic. Another difficulty are the differences between member states, which makes implementing a single policy for all nations a problematic task.

In my opinion, the only solution to the current situation is to change the European Union and create a new European Union based on a federation model. I believe that working together towards this purpose will generate benefits for each member state because of the simple fact that by cooperation we will be able to achieve more. Thanks to this achievement, environmental and economic problems would be dealt with more effectively and the EU will have a stronger voice in worldwide discussions.

Europe also needs a banking union because it is an essential element able to reverse the process of financial fragmentation in Europe and, thus, preserve the integrity of the single market in the EU for financial services. The banking union will reinforce financial stability by ensuring more uniform and high-quality arrangements for the supervision and resolution of banks.

The decision making process through treaties takes a long time and is not as effective as a centralised government able to respond quickly to problems and difficulties. In addition, a federal Europe will be much more efficient in terms of costs and inefficiencies. However, I recognise that further integration will be difficult because of the consensus required to move in this direction and for the many cultural differences that exist. I hope that in the future there will be a strong unified Europe in which all European citizens feel united and have a national and European identity, existing alongside each other.



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What would I like to change on the European capital market?

Introduction

There is currently a dangerous trend for countries to become excessively indebted. This poses a threat to the security and stability of the entire financial system. One of the reasons for this is the policy being pursued by many EU member states where attempts are being made to satisfy all the needs of their inhabitants, and in developing countries the desire to catch up to other countries, even at the expense of public debt. One possible solution in this situation is easing budgetary expenses by cancelling infrastructural investments, which may be partially covered in the form of public and private partnership. Another issue which may have a negative impact on the security of the EU's financial sector is the excessive expansion of financial conglomerates, leading to a significant increase in systemic risk. The disadvantages and advantages of each of the solutions is presented in this paper.

Financial conglomerates

Before starting to discuss the disadvantages, advantages and proposed changes in the functioning of financial conglomerates, this term should be defined precisely. A financial conglomerate is an enterprise which conducts its business in the financial sector, i.e. the banking, securities and the insurance market. According to the EU's guidelines, the name applies to companies which conduct their business on at least two of the three aforementioned markets. Conglomerates usually emerge from mergers, takeovers or from the

establishment of strategic alliances, but it is also possible to create conglomerates from scratch, i.e. for one enterprise to establish new companies. Their role and number is constantly growing. This is happening because of two phenomena; the first one are financial reforms in various countries abolishing the segmentation of the financial market and the isolation of its various elements from one another; the other one is the desire to reduce business costs and the possibility of generating new, potentially high profits thanks to joint know-how and databases. The basic advantages of financial conglomerates include:

- Improvement in the effectiveness of the effect of scale,
- Access to new, previously inaccessible markets or groups of customers,
- Risk diversification,
- Joint creation and use of know-how and databases.

However, there are certain risks and problems associated with the existence of financial conglomerates. The most frequent ones are:

- Higher systemic risk,
- Only superficial diversification of risk due to linkage of financial products and countries,
- Growing monopolistic position of conglomerates.

Currently, there are no effective regulations which could improve the security of functioning of financial conglomerates. The EU regulations that exist seem to be insufficient when one compares them to the scale of business being conducted by these companies. On many occasions, the value of the assets of financial conglomerates exceeds twice the value of the GDP of a given country. The first of the threats mentioned, an increase in the systemic risk, appears here. Considering the large size of such a company, its financial problems will have an immediate impact on the entire financial market and possibly on the entire economy. If problems occur, it is not possible to support such a company. Subsidies and loans are practically unavailable because the state would have to become highly indebted, which is often forbidden by laws concerning the funding of private companies and public debt thresholds. It should be considered whether a decision to consolidate many financial markets is just. Maybe the only option is division of the existing conglomerates into smaller enterprises pursuing a similar line of business. The other solution is establishing special supervision of such companies. Singular recommendations or the establishment of new ones or a change in current prudence thresholds may be insufficient.

A frequent phenomenon is the transition of risk from companies that exceed the given ratios to those that have a large safety margin. This distorts the image of the financial condition of the entire conglomerate as well as of each individual company comprising it. Thus, the proposal is to establish special supervision that would cover not only general control but also all connections, transfers of risk and capital and the entire business of all companies comprising a conglomerate and the conglomerate as the whole.

Another issue is the growing monopolistic position of financial conglomerates. This applies, in particular, to young, emerging markets; however, the problem is also present in developed countries. It often occurs when a large conglomerate starts operating in a new, not yet developed market and becomes a monopolist. After the takeover and merger of many companies, there are huge financial connections between the majority of financial institutions. This poses a real threat to competitiveness in the market. For this reason, the monopolist may charge higher margins and prices, due to which the market will not develop in accordance with its potential. A significant role in solving this problem is played by competition and consumer protection authorities, whose objective is to counteract monopolistic activities that spoil the market. Particular focus should be made on mergers and takeovers between financial institutions because the risk does not apply only to financial markets but to the entire economy.

Public and private partnership

The public and private partnership (PPP) is a form of long-term cooperation between the private and public sector in the joint performance of services to the mutual benefit of both parties. A characteristic property is the fulfilment of commercial as well as public needs. The subject of PPP projects are mainly areas associated with infrastructure, including power engineering, road engineering, and the defence sector. The basic advantages of PPP include:

- Higher effectiveness of undertaking project,
- Better quality services,
- Funds for investments carried out in the form of a PPP do not come from public funds, thus they do not increase the public debt,
- Risk diversification,
- Growth in the investment capabilities of the public sector thanks to the contribution of private capital,

- Acceleration of investments,
- PPP makes savings possible because investments carried out this way are less expensive (including thanks to better management) in comparison to traditional financing methods.

PPP's disadvantages include:

- Risk of corruption and various kinds of abuse,
- Very complicated procedures which influence the amount of time required to prepare the necessary analyses or documents,
- Lack of standardisation of public services and PPP agreements as well as procedures for choosing a private partner,
- Legal barriers in using PPP,
- Bad distribution of the risk between the partners.

The pioneer of the public and private partnership formula in public investments is the United Kingdom, in which approx. 25% of all contracts are PPP contracts. Unfortunately, other EU member states do not have such a well developed form of financing investments. For instance, in Poland only 2% of contracts are concluded within a public and private partnership. It seems that after eliminating the aforementioned disadvantages, an expansion of financing public investments through PPP should occur. Two advantages of this formula are particularly important, namely the fact that the financing of investments does not affect public debt and that a clear improvement in the development of infrastructure can be observed in the countries where it is used. The first advantage applies mainly to highly developed countries that have a problem with excessive public debt (for instance, Spain, Italy) because thanks to public and private partnerships they can maintain the current infrastructure and develop new infrastructure, thus satisfying public needs without further indebting the country. The other advantage, making rapid development possible, is particularly important to developing countries, mainly new members of the European Union who joined after 2004. In comparison to other EU member states, they are significantly less developed in terms of infrastructure and have fewer funds to expand it. Thanks to PPP, they can speed up their development in order to reach the level of the Old Union as fast as possible. Hence, there is a need to eliminate the current barriers (by standardising contracts in order to ensure a just distribution of risk) and to simplify procedures. Another important measure is appropriate control in order to eliminate cases of corruption, although in such a manner so that it

does not have a negative effect on the investment process itself. In near future, PPP should become one of the priorities of EU policy in order to ensure the continuity of investments after the subsidy period is over, in countries such as Poland, which are the main beneficiaries of EU funds. This is also important to countries that have a highly developed infrastructure in order to stop the trend of excessive indebtedness, which may destabilise financial markets.

Summary

In order to increase the stability and security of the European financial market, steps should be taken to reduce the risk associated with the functioning of financial conglomerates, including by appropriately controlling their operations. The other proposal is to stop the tendency of excessive indebtedness, which can be achieved thanks to an increase in the importance of public investments financed as part of PPP. This will make it possible to ease pressure on state budgets while maintaining the current state and development of infrastructure.



Martina Filippetto

24 years old, is studying for a master's degree in international accounting in Italy. She has always been interested in international environments and has gained much study, work, and travel experience in Europe and around the world. This has taught her the importance of being open-minded towards other cultures and the added value of cooperating with people from other countries. With the idea expressed in her essay, she would hope to pass on her eagerness for internationality and cross-cultural integration to other young people. Her ambition is to promote international integration also in her future career and to expand her knowledge of foreign cultures, people and languages.

Towards the EU mentality – a project starting from young citizens

The last few years have probably been the most difficult for the European Union since its formation with the signing of the Maastricht Treaty in 1992. Because of the tough times for the economy, financial markets and businesses, the EU has received so much criticism that some have doubted its stability and its ability to remain the institution we know today. People have been arguing that the financial and monetary policies adopted at the European level are wrong, while some others disagree with the restrictions and austerity measures imposed or with other economic or political decisions. Some people support the EU; the rest oppose it and would rather see their country leave it. We are all aware of the problems encountered by some southern European countries and the possible threat of them leaving the eurozone; we are conscious that the stronger economies would like to see their ideas and suggestions prevail at the supranational level, and we Italians, in particular, know what it means to experience political parties being completely divided between factions backing or opposing European Union policy or anything related to it. The European Union is facing many issues at various levels mostly driven by or related to the 2008 financial crisis that is still having repercussions on today's real economies. There are financial and monetary decisions to be taken, political directives to be implemented and the stability of the EU to be safeguarded, only to mention a few general topics. Nevertheless, I think that there is a common underlying issue to all these problems which I would like to express by quoting a 150-year-old sentence by Massimo D'Azeglio "We have made Italy, now we have to make the Italians" and readapt it at the European level.

From my point of view, what is still lacking among EU citizens is a form of integration and cohesion. Mainly, I believe we still need to develop a European mentality and a feeling of belonging to the European Union and not only to our own country. The idea would be that of being more open to the people and cultures of all the other member states, deeply feeling part of the political, economic and, most importantly, social union in which every individual is equal but yet particular because of the diverse native cultures. By achieving these objectives, I believe that people and governments would be more inclined towards helping each other, collaborating and integrating even more. Moreover, I think member states will then be keener on working together also at a political and economic level to recover from the current situation and reach a common level of well-being and stability.

Of course, a general shift in mentality throughout the whole of Europe is not something that can happen overnight. It is, on the contrary, a lengthy and arduous project to be fostered which will encounter many difficulties in its implementation. Nevertheless, I see this objective as essential for the future development of the European Union and, as all things, the sooner it is commenced, the faster we will achieve the goal. How many times, when speaking about the long-term horizon, have we said or heard that young people are the future? In order to develop a European mentality, we should also focus on young people. This is not because I think that older generations cannot change their ideas, but only because young people, who do not yet have fixed and deep-rooted ideas, are more accommodating and open to change. Moreover, it is much easier for us, young Europeans, and those were born and grew up with this different perspective, to accept, develop and make our own this new mentality and point of view, rather than inherit it from our parents, somehow forced to accept being part of a greater union rather than being merely Italian, Polish, French or any of the 28 different nationalities that compose the European Union.

The idea is theoretically a good one, but it can be very difficult to put it into practice or to do it in an efficient manner. While thinking of this, I imagined a project which may very well be utopian and unfeasible but that might perhaps ignite the spark for a better idea. My idea is to create an EU project to improve integration and cohesion among citizens of the member states, focusing only on the social sphere and leaving the political and economic sectors completely untouched. As of today, there are different European and private-

funded projects with these aims, in which people have a free choice to participate but about which, unfortunately, many times they are not informed. As all economists know, to get people to do something you have to offer them the right incentives.

The core idea of this draft is to incentivise young students to open their minds towards Europe and increase their feeling of belonging to the EU. This might be achieved by making it compulsory to gain experience abroad in other member states even from an early age. For middle-school children throughout Europe it can be made compulsory, once before being able to obtain their middle-school certificate, to spend at least 2–3 weeks during the summer vacation in another country possibly learning the local language and maybe interacting with other peers from different countries who will be there for the same purpose. At the high-school level it could be mandatory for students to have at least two experiences abroad, also during the summer vacation, before being allowed to sit their diploma exams. Students may be allowed to choose the kind of experiences they want to have according to their preferences and aspirations. The range of possibilities can vary from a minimum of a one-month language course, internship, civil service or voluntary work, to a whole school term in a foreign institute living with a local family. It would be similar to military service, but rather it would be a mandatory language and cultural service. Thinking about university, it might be more simple to make it compulsory to participate either in the Erasmus Program or in the Erasmus Traineeship, whereas it can be helpful to incentivise those who decide not to study at university to gain brief working experience abroad before settling for a job they prefer. In order not to have overcrowded destinations, a limit could be set in each country for incoming pupils participating in this project, while to enable the comprehensive integration of all countries, the four experiences each student has to make should be in at least two different countries. To make it more appealing, the EU could award something like an integrated nationality status of a member state if the student has spent at least one year of social service or work experience in that country and has gained a C1–C2 level of proficiency in the national language. This should then be evaluated highly in the future career prospects of young people.

The major difficulty of this project is the financing. It would be unfair to place the burden on families, so I think there should be a pooling of resources

to create a fund for this project in which various entities and bodies would participate. Through an appropriate reallocation of resources it might not be hard to gather the relevant amount, even though I am aware of the fact that funding this project for about 200 million European citizens currently under 29 years of age is very challenging or almost impossible. Investors in the project should be, other than the EU itself and the member states, also companies, foundations and associations. Contributions may be in the form of money for the fund, but also discounts, for example plane or train tickets used by participants, or by guaranteeing places in schools and jobs. The European Union could contribute a set amount of money each year to the project fund and reallocate the resources currently used for other integration projects to this new one. Member states, on their part, could be asked to minimally sustain the fund but without placing too much of the burden on their shoulders. All companies with headquarters, branches or subsidiaries within the EU could be asked to participate in the project based on their annual revenue, while at the same time they could offer summer internships of one-two months plus rent to students who have to fulfill the requirements of this project. To incentivise them to collaborate, companies might also be granted tax exemptions or advantages for students employed under the project or for activities related to the development of this European project. Foundations and other associations could instead offer voluntary and community work or organise summer camps and programs for middle-school children. Moreover, in order not to squander money, funds can be distributed to students according to their family's income so as to subsidise those more in need, whereas people from wealthier families may be asked to pay for themselves for part of the experience.

This is a massive, expensive and demanding project which would require a large number of parties working together to implement it. But would it not be worth investing in the future of the European Union by investing now in the formation and integration of the young European population? One day they will grow up to be politicians, economists, bankers, business people, doctors, philosophers or any other profession, and they will operate either in their own country or at a European level. Despite this, they will all have had an experience of mutual exchange, cooperation and collaboration for the development of a sounder, stronger and more united Europe.

**Maciej Reich**

originally from Warsaw, Poland, now lives in Oxford in the UK and works in the investment management industry.

He went to the Staszic High School in Warsaw, followed by a Paweł Czarzoryski scholarship to Dulwich College in London. Afterwards, Maciej studied mathematics at the University of Cambridge (Girton College), completing with distinction a BA/Masters degree in probability and financial mathematics. Maciej now works in an Oxford-based quantitative hedge fund as a financial analyst.

In his spare time, Maciej enjoys cycling, skiing, scuba diving and ju-jitsu, as well as reading, cooking and exploring Scotch whisky.

Europe needs deeper, targeted centralisation

Over the turbulent first half of the 20th century, Europe has become a continent of ex-superpowers. Countries that once governed a good part of the globe were no longer strong enough to maintain the status of global leaders, but retained their cultural and scientific potential – and, crucially, their ambitions on the world scene. The European Union has become a great project for channelling the resources and aspirations, for diverse objectives such as common economic market, a joint diplomatic force, or even space exploration.

The EU has grown organically, with powers transferred to it from the member states on an ad hoc basis. The current character of the group emphasises that it is a union of sovereign states, cooperating together towards common goals, as and when these are identified. This is in stark contrast to how governments, in general, are typically organised (within the EU member states, among others, or federations such as Germany or USA) where power is inherently centralised and sanctioned by general elections, but then redistributed to lower levels, in a manner at least trying to create a coherent system.

In the recent challenges to the economy and international relations, the weaknesses and lack of real authority in this system of government have made themselves apparent. Among examples are the Greek debt impasse, the disappointing results of European diplomacy in the Ukrainian crisis, or the British debate on curbing immigration from within the Union. To have any chance of real economic and political success on the global scene, the 28 member countries need to create a strong, central government, with clearly defined competences and limitations, and agree to transfer real authority in the key areas.

The European Union, clearly, does have central institutions, most importantly the European Parliament and the European Commission. But the powers they hold are a strange bag of compromises. Typically, politicians first push for grand centralised visions, but a varying degree of real power is left after the many rounds of debate and compromise. As a result, the Union has great influence over farming subsidies or freedom of movement, but could do little to enforce the rules of the single currency among its members. There are clear economic, diplomatic and even security challenges that Europe must face in the coming future, and it is unlikely to achieve its goals in these issues without a coherent approach.

One apparently promising model for such structure is the USA. Born as a federation of selfgoverning states, it vests central powers in areas such as defence, education and diplomacy in the hands of the Federal Government, while distributing most other responsibilities to the underlying states. Indeed, the ability to channel the resources of all 50 states into key national goals has let America conquer the Moon and maintain its status of an unquestionable superpower. Lech Wałęsa, an icon of European integration, in fact often calls for creating the United States of Europe. However, there is no immediate way that European states could create such an entity. Giving up sovereignty to a central body is unpopular in most of the EU's member states. The countries that make up the Union are also very different from each other, not only culturally, but also when it comes to legal frameworks or economic structure. Not only would bunching the states together be unlikely to succeed in the first place, it would probably collapse trying to centrally manage so diverse a mix.

The EU must therefore identify the key areas, in which it wants to be a truly global player, and create a centralised entity wielding real executive powers – likely within the existing framework of the European Parliament and Commission – even at the cost of limiting the sovereignty of the member states. To avoid over-centralisation on the one hand, and deal-breakers on the other, there needs to be a clear division of power, like in the American model, that unambiguously isolates the powers of the central body from the competences of member state governments. Outside these recognised areas, in which Europe endeavours to act as a global player, the member states should have clear sovereignty, preserving the current self-governing model that Europeans find so appealing. Finally, to give these institutions a real mandate,

they must be based on general, pan- European elections, in the same fashion as the European Parliament – but as opposed to the European Commission.

These objectives are certainly not easy to attain. Currently, in all probability, there is not even a clear vision of what the goals are for Europe, past general and unspecific concepts such as economic prosperity or common energy policies. Europeans also lack an idea of what they are willing to sacrifice to achieve these goals. Moreover, what vague answers to these questions there may be, these likely differ drastically across the constituent nations. Therefore, the first key step is a serious public debate on the direction in which the EU wants to go and a consensus of what price is acceptable for these goals. Only after this difficult step has been cleared, the tools for the centralised European power can be put together – the legal framework for the new government, transparent watchdog institutions and pan-European elections. This is not an easy route to follow – but none of the other paths lead to the goals that the Europeans state as their own.



Anastasiya Orlova

is studying for a master's degree in corporate finance from Kozminski University. During her bachelor's studies and her internship in Absolute Finance Group, she gained substantial knowledge in corporate and international finance, carried out research projects on risk evaluations and performed financial analyses and valuations of different companies. One of the group's assignments about the expansion of Polish domestic companies abroad was sent to Harvard Business Review. During her research, she has conducted workshops and projects in the USA, Ukraine and Poland. She is currently writing her thesis about mergers and acquisitions. She is finding the subject matter fascinating and would like to build a career in this field. She is a highly motivated student with strong analytical and organisational skills. She learns fast, likes to overcome challenges and working in groups.

Benefits of reducing regulatory barriers in EU – U.S. trade

The global financial crisis has affected many countries worldwide. One of the biggest market players in the world, the European Union, is not an exception. Growing deficit in the national budget, the banking crisis, increasing unemployment rates and legislators who do not support spending on development all create an enormous need for major change. This change is possible with the creation of a free trade zone, which will make it easier to buy and sell goods and services on the both sides of the Atlantic. Through the Transatlantic Trade and Investment Partnership agreement we will get a chance to boost economic growth and encourage job creation. It will open up new opportunities and create a wide range of benefits in many sectors of EU economy.

The Transatlantic Trade and Investment Partnership (TTIP) is currently being negotiated between the US and the EU. The main negotiators are the EU Trade Commissioner and the US Trade Representative. They take into account all concerns, suggestions and remarks from government officials, the business community, consumer groups, industry associations and non-governmental organisations. In fact, the discussion is open to everyone who wants to share his/her own opinion.¹ Due to the transparency in both societies it is easy to analyse the agreement.

The TTIP is not only about removing tariffs, which are pretty low, averaging less than 3 per cent due to the World Trade Organization agreements. It is more about the elimination of bureaucratic procedures, contradictory standards and unnecessary regulations. Every product that is going to be sold in

¹ "European Commission Directorate-General for Trade", Questions and Answers (TTIP), October 8, 2013, <http://ec.europa.eu/trade/policy/in-focus/ttip/questions-and-answers>

both the EU and the US markets needs to pass two testing procedures, one from each side. This process costs a lot of time and money for companies, while goods get stuck at borders. For example, Daimler, the German car and truck producer, faces the problem of obtaining multiple certifications every time it launches a newer-engine version of Mercedes on the market.² The pharmaceutical industry is also eager to avoid having to test new treatments on the both continents. Therefore, corporations and business groups on the both sides of the Atlantic are pushing hard for a pact.

To make it clearer, TTIP is not going to lower standards at any given point, but rather it will make one standard suitable for both parties. This will result in an increase of the overall trade volume, since a broader range of products and services can be exchanged at lower transaction costs. Moreover, it will facilitate market access for new companies and attract investors and entrepreneurs to set up enterprises and create new jobs. Hence, an increase in the volume of trade will result in major economic benefits.

Poland is one of the most attractive locations in Europe for foreign investment. Poland's economic and political stability, qualified human resources and 38-million strong consumer domestic market makes it a favourable location for capital. Furthermore, a World Bank report called *Doing Business 2013* named Poland the global top improver in business climate.³ According to the National Bank of Poland's statistical data for 2013, the total value of American investment in Poland amounted to USD 10.7 million. This makes the United States one of the biggest investors in Poland.⁴ The TTIP agreement will provide an additional stimulus for increasing trade between both countries. The overall benefits from the TTIP partnership are indisputable. Intensified relations will result in huge capital flows towards many areas and create development opportunities for the Polish economy. Services such as research and development, commerce, marketing, transport and logistics are looking for capital. Moreover, the services listed above are the glue of the value chain, which has started influencing Poland.

2 D. Shepardson, *Detroit News Washington Bureau*, September 5, 2014, <http://www.detroitnews.com/story/business/autos/foreign/2014/09/05/daimler-chief-urges-us-eu-to-finalize-free-trade-deal/15137469/>

3 Polish Information and Foreign Investment Agency, *Why Poland*, http://www.paiz.gov.pl/why_poland

4 Ministry of Foreign Affairs Republic of Poland, MFA Press Office, February 7, 2014, http://www.msz.gov.pl/en/news/deputy_minister_kacperczyk_talks_about_advantages_to_be_brought_by_ttipp_agreement_to_polish_business;jsessionid=3D410415C9AF689FE93BD2CE32E2C253.cmsap2p

In comparison to other EU member states, we have an underdeveloped digital market. This field is not integrated enough and it needs the adaptation of new technologies, know-how and an improvement in infrastructure. The US has the leading position in e-commerce. The main differences are in terms of government policies, protectionism and competitiveness. Paul Krugman's book "Peddling Prosperity" shows a close relationship between politics and economies. What we need to do in Poland in order to be efficient is to follow the US model of settling economic disputes. Mitchell Orenstein, a professor and Chair of the Department of Political Science at Northeastern University in Boston and an associate of both the Center for European Studies and the Davis Center for Russian and Eurasian Studies at Harvard University, correctly recognises the centrality of foreign investment in Poland and the country's close cooperation with Germany and the US. Poland's bureaucratic repression of domestic businesses keeps wages down and makes it difficult for innovative and high-tech companies to develop.⁵

If Poland's bureaucracy is reformed, both foreign and Polish businesses will benefit. Employment will pick up, and wages may rise. Still, Poland cannot compete on labour costs alone. It will thus have to rely on its other advantages as well, including its access to the EU, the high quality of its labour force, and its large domestic market.

The TTIP gives us an opportunity to bring those economic organisms closer together and exchange knowledge. In addition to the potential benefits from investment, Polish firms will be given new growth opportunities. Our domestic enterprises will get preferential access to the American market. It is a very important aspect, because many Polish companies have decided not to expand across the ocean because of too many barriers.

In conclusion, we can see that the overall outcome of the agreement is positive. In fact the TTIP is likely to be the biggest trade deal in history and a bridge to a new era in the transatlantic economy. It is in compliance with global trade standards and in addition the agreement will not cost taxpayers any money. And at the end the day, all of us will feel the consequences. Goods will be more affordable and companies will be able to invest their capital more efficiently. It will spur innovation in Poland and strengthen Poland's position in the transatlantic community. The Transatlantic Trade and Investment Partnership is bound to improve EU and Polish economic welfare.

⁵ Mitchell Orenstein, *The Polish answer*, January/February 2014, <http://www.foreignaffairs.com/articles/141224/lucja-swiatkowski-cannon/the-polish-answer>

**What would we
change in our
countires?**

**Damian Polok**

Born in Poland and raised in Berlin, Damian is fascinated by cross-cultural relations and international business. This fascination has been reinforced by working across six different countries. He studied in Cambridge, Berlin, Warsaw and has just finished his MSc in Hong Kong. In his current research, he examines China's stock exchange liberalisation initiatives and analyses their transferability to Warsaw Stock Exchange and CEE. Damian loves sports, especially football and rugby, has a genuine passion for making others smile and is a dedicated passport stamp collector.

Educational reform in Poland as the driving force of innovation

Last year, Poland celebrated its 25th anniversary of freedom and is justly proud of its achievements in the last 'golden quarter of the century'. However, there have also been negative opinions and critical discussions concerning further development and whether the subsequent decades will be equally successful. In connection with that, a lot of attention has been given to avoiding the trap of a medium income and, associated with this, the innovative economy. One of the main aspects of development of an innovative economy must be the development of higher and vocational education.

Poland can be proud of a high percentage of the population with secondary education. 91% of people aged between 25 and 34 have secondary education, in comparison to the average of 78.6%, which, according to the OECD, puts Poland in third position in Europe (2012). According to the Programme for International Student Assessment (PISA), which assesses the skills of 15-year-old students in reading, science and mathematics, Polish students are above average in comparison to the OECD as well as to Central and Eastern Europe (OECD, 2012). In science, Polish students occupy a high ninth position in the world. Also, participation in higher education in Poland is one of the highest in Europe. The net scholarisation index in higher education was over 40% in 2011 (Ministry of Science and Higher Education, 2013). However, these impressive statistics do not affect the quality of education. Unfortunately, the fast development of participation in higher education has led to an inflation and decrease in the quality of education. Because of this, many graduates are unable to find jobs in their area of specialisation. 76% of employers say that they cannot find employees with skills that correspond to their needs (Youth or experience?

Study of human capital, Polish Agency for Enterprise Development and the Jagiellonian University, Warsaw, 2013).

Where do these discrepancies come from?

The problem is multi-level; however, there is insufficiently developed cooperation with business or simply a lack of it (Youth or experience? Study of human capital). It also turns out that employers are dissatisfied with the poorly developed soft skills of students. Out of eight competencies most desired by employers, six soft skills displayed the largest difference between the actual level and the level sought by employers (Competencies and skills of graduates entering the job market sought by employers, SGH, EY, AmCham, Warsaw 2012). The question appears then of how can higher education in Poland answer employers' expectations and develop education focused on the market?

As a model we can use a country which, in Poland, is often perceived as the ultimate economic model: our main trading partner – Germany. A dual education system has been functioning in Germany for many years, the aim of which is to provide students with a theoretical education at school and a practical education with an employer. This system was traditionally used in industrial sectors of the economy where a supervisor guided a student through the cycle of learning of a given profession. Only with time did the state start to have an impact on education in the form of vocational schools. Later on, the system was also carried over to other sectors of the economy such as banking. Education in this system lasts from two to three years and has various education cycles – from four days of work and one at school (steel industry), up to two weeks interchangeably (banking). It should also be added that due to the fact that Germany is a federal state, in every Bundesland (equivalent to a province) the education plan may be different; nevertheless, it is always developed in cooperation with business.

Education plans are developed jointly by both partners, thanks to which students are able, step by step, to transfer theoretical knowledge to real business. Moreover, enterprises have a direct impact on the content of the education, thereby obtaining employees with the required skills. Schools also acquire appropriate graduates because recruitment is conducted by the em-

ployer, offering schools co-financing and students precious professional development. Additionally, thanks to the fact that a class is made up of people from various enterprises, students are also able to learn, derive experience, examples and good practice from other enterprises and sectors of the economy.

Employers' requirements have increased due to the development and commercialisation of the economy, which has led to the development of the education system to the level of "vocational academies" or higher vocational schools. In this sense, students, instead of vocational schools, attend higher schools, and obtain an academic degree. The benefits are bi-lateral – enterprises obtain skilled employees and continuous access to the latest knowledge thanks to cooperation in the project, whose effects may be directly carried over to business. Very close cooperation with enterprises in vocational education is beneficial to every participant – a win-win-win-win situation, i.e. school-business-student-economy. Enterprises acquire and shape desired employees, allow them to get acquainted with various functions and departments in an enterprise. The parent company has time not only to shape and implement the student but checks, on an on-going basis, whether he or she is fit to become a fully fledged employee in the future. Meanwhile, schools receive support from business and develop ideas yielding real solutions for the economy and for business. Students, on the other hand, are able to make the best use of two sources – theoretical knowledge and business practitioners. They may try things out without any stress in business, develop goal-oriented thinking, train themselves in problem solving or team work. They can enjoy less responsibility and get to know an enterprise from the inside because they go through all levels and departments. In the end, the economy and the state make use of effective cooperation, for instance, through the development of competitiveness, the inter-generational flow of skills and money for the state budget.

Another country whose economy has largely gained from a change in the education system is South Korea. In the early 1970s, Korea was a poor country with its economy based mainly on agriculture and light industry such as textilea. The country's president at that time, Park Chung-Hee, announced the *Saemau Undong* (New Community Movement) campaign, whose main objective was to bring the nation out of poverty. At the beginning, the model was focused on the development of rural areas and then on the development

of technology and innovation. Korea implemented special development programmes for the steel, automotive, ship building and electronic industries, which allowed it become a global leader in many technologically advanced sectors of the economy. Korea, with its ambitious plans, faced a huge challenge to provide financing for new undertakings, guaranteeing educated staff and access to R&D. In order to resolve the last two aspects, the Korean Advanced Institute of Science and Technology (KAIST) was established.

The aim of the institute was the development of new technologies, ideas and skills which to support the development of the economy. Thanks to this, the Institute and its 50,000 graduates played an important role in the country's transformation and its graduates are now leaders in the economy, in the state sector, at R&D centres and at universities, which, it is worth noting, have changed their operating model to that of KAIST, embarking on R&D as a guarantee of progress. Examples speak for themselves – more than 20% of engineers at managerial level at Samsung Electronics are graduates of KAIST, while KAIST graduates have established more than 590 successful global start-ups employing more than 16,000 people (Academic Executive Brief, 2014).

Today, Korea is a highly developed country. Many branches of the economy already have significant shares in the global economy, which means that they will have a hard time significantly increasing their contribution towards achieving the national goal of doubling GDP per capita. In the search for the new driving force for the next decades, President Pak-Guen-Hye announced in 2013 the goal of developing a “creative economy” based on entrepreneurship derived from advanced technological knowledge. For that purpose, KAIST is developing new programmes for the education of future entrepreneurs, supporting them with appropriate infrastructure and maintaining a high level of creativity and innovation by placing great emphasis on R&D. “Startup KAIST” intends to develop an ecosystem for technological start-ups by developing an entrepreneurial culture based on risk and new horizons, while comprehensively supporting entrepreneurs from the initial idea and financing, through to product development, sales and global strategies, and all the way to the exit strategy. As part of the ecosystem, KAIST is cooperating comprehensively with private and government institutions, funds, entrepreneurs and other agencies in order to provide the

largest possible support to Korean startups on their way to global success. Korean leaders hope that KAIST will also be able to play an important role in the development of the “K-Valley” in the special R&D Daedeok Innopolis zone, the same role as Stanford University plays in the Silicon Valley. This zone has developed around KAIST and is a conglomerate of five universities, 30 state-owned R&D centres and more than 1,000 private laboratories. For that purpose, just as 40 years ago, KAIST is building the base for the future development of the Korean economy.

There are many examples where universities have an impact on the development of enterprises and economies, and all of them show that effective use of universities’ potential is possible only when the public sector, the economy and universities cooperate actively. Research shows that Polish students perform positively in international comparisons, while higher education institutions in Poland statistically neither develop graduates that meet employers’ expectations nor support them in R&D. Through pro-economy and pro-business reforms of the education system, actively supporting students and enterprise, Poland could support the development of enterprises at various levels and definitely improve the innovativeness of the Polish economy. There are plenty of inspirational examples – it is time to actively stimulate cooperation and prepare the ground for the development of talent.



Alexander Zatytkov

I am currently a second year master's student at Frankfurt School of Finance & Management with a strong background in computer science. The experience that I gained while working in IT developed my interest in finance and economics. I moved into it in order to understand how the global financial industry works and what the constraints are that prevent emerging countries from developing their economies. Life experience in Russia, the USA and Germany accompanied by my level of education provide an opportunity to compare and contrast various systemic factors and fundamentals that influence and reflect the state of the economy. Thus, the paper covers some analysis of these fundamentals with a focus on my home country of Russia.

The vulnerabilities of the Russian economy

Introduction

The three rounds of sanctions imposed on Russia by the United States, the European Union, Canada, Japan, Australia and others in response to the Crimean crisis and further military tensions in the eastern part of Ukraine are having a severe impact on the Russian economy today and have revealed its weaknesses. Sanctions have mainly been targeted at Russia's state finances, energy and arms sectors: state banks are no longer able to raise long-term loans in the EU, countries that have joined the sanctions have banned the export of energy-related equipment and technology to Russian oil firms as well as the import or export of arms and military related material to and from Russia. Overall, sanctions are implemented in order not to cut but at least considerably limit the Russian economy's income stream.

In addition to sanctions, Russia is facing a sharp decrease in oil prices, which as a consequence triggered a decline in other commodity prices and has dampened Russia's economic outlook. The question about whether the oil price decline was triggered by political forces or not will not be discussed in this paper, but the coincidence of this fact should make one wonder.

After more than one year, the negative effect of economic sanctions and low oil prices on the Russian economy can be seen. Here are some facts that reveal the *economic vulnerability* and structural problems of the country:

- Collapse in the currency value by 75% in 2014
- High interest rates that prevent business development, an inflation forecast of more than 10% by the end of 2015, thereby decreasing consumer spending.

- Russian foreign reserves have evaporated by almost \$140 billion
- Russia's foreign-currency credit rating was cut to junk by the ratings agency S&P, thereby harming the investment climate in the country
- Dramatic shrinking of Russian economy and increasing unemployment

The objective of this paper is to suggest some structural changes that should be introduced by the Russian authorities and institutions to minimise the impact of external factors on the Russian economy in the future and increase its sustainability. The current economic environment and its consequences constitute a good lesson for Russian policymakers that should be learned in order to develop the country's economic and financial sustainability.

Investment climate

Foreign direct investment is a powerful instrument that is able to boost growth and development, but unfortunately Russia does not have an attractive investment climate to exercise this opportunity. Poor political, legislative and administrative transparency, a lack of supportive measures from public authorities, a weak entrepreneurial culture and non-diversified sources of gross domestic product are all factors that prevent the Russian economy from being competitive in the global market.

After severe financial crises hit investors all over the world, they have become more risk averse and today are only willing to invest in assets that provide stable returns. I consider that stability today is one of the main factors that determining investment attractiveness. The Russian government is trying to integrate its economy into the global economy, but first of all it should solve its internal structural problems. Based on surveys conducted among foreign companies and investors, I have worked out important steps that need to be carried out to improve the investment climate in Russia. The elimination of corruption, reduction of bureaucracy, increasing the efficiency of the judicial system and improving business regulations are all measures that are essential to building sustainable trust for foreign investors and making them believe that their invested capital is safe.

Some investment advisors suggest investing in Russia because it is a relatively cheap market. This kind of advice only applies to speculators who are seeking higher returns but never invest capital in infrastructure development, business development or innovative projects. They will not accept the risk as-

sociated with long-term investments because there is basically no confidence in the future. Speculators are quick to liquidate their capital and leave the market. The Russian authorities should guarantee a stable and safe environment for foreign capital, provide comprehensive assistance for international investors and establish a broad network of institutions to simplify investment procedures.

The current period of low interest rates is a good opportunity for Russia to attract institutional investors like pension funds, insurance companies and sovereign wealth funds; players who are looking for medium returns and ready to make long-term investments in exchange for stable cash flow. Due to the current political situation, it is not easy for the Russian authorities to cooperate with Western colleges, especially when sanctions are taken into account. Thus, unique conditions should be created to attract Asian and Middle Eastern investors, potential capital sources that are always looking to diversify their portfolios and might be interested in investing in the energy, automotive, IT, telecommunication and agricultural sectors. These sectors of the economy have a lot of potential for development and are attractive for foreign capital.

Speculative model of investment

Following the collapse of the Soviet Union, Russia went through a radical transformation, from a centrally planned economy to a globally integrated market economy. The economic shock therapy introduced by President Yeltsin with its price liberalisation and privatisation programs turned out to be a disaster with GDP falling more than 40% by 1999 and massive capital outflows of around \$140 billion during the period 1996–1999.

Between 2000 and 2008, the Russian economy received a major boost from rising commodity prices. The flourishing domestic economy fueled by energy revenues made Russia very attractive to foreign investors. In 2004, the finance ministry introduced the total liberalisation of capital flows. As a result, Russia became integrated into the globalised world economy. It was the second time since 1998 that the Russian financial market was rebuilt in the form of a speculative model resulting in total outflows of \$550 billion during August and September of 2008.

Questions should be asked about the total liberalisation of capital flows in Russia to ensure that the benefits outweigh the costs in the light of past experience. There is a clear understanding that without integration into the global market, the country's growth prospects can be harmed, but liberalisation needs to be well planned in advance and introduced in several stages in order to avoid significant risks that could affect the economic performance of the country or harm domestic households. Russian policymakers should carefully manage the macroeconomic and financial stability risks associated with disruptive outflows. There is a need to establish cross-border financial regulations in order to mitigate financial fragility and to ensure the stability of financial markets. China is a good example of proper capital liberalisation, which was started in 1994 and has not yet finished. The Chinese government pays significant attention to infrastructure, industrialisation and logistics, prioritising important reforms and designing a strong but flexible set of cross-border financial regulations. This approach has helped to buffer the country from the global financial crisis and market panics.

Small and medium sized business

Only 15–20% of jobs in Russia are created by small and medium sized businesses. According to statistics, in the United States this number is close to 60%. The question is why is small business still in the shadows in the Russian economy? There are several urgent problems that prevent businesses in Russia from stable and constant development. The reasons are mainly the same: corruption, bureaucracy, lack of professionalism, inaccessible financing and high taxes.

In order to eliminate corruption and bureaucracy or at least decrease them to a certain level where small and medium sized businesses will be able to prosper, the government should establish authorities and institutions at a local level that will defend and support business. Today, all measures against corruption are introduced from the top and move further down to the bottom (local) level of the political hierarchy. Unfortunately, these measures almost never reach the bottom because they create unfavorable conditions for local policymakers. Thus, new legislative reforms are also needed to help control the established order. There is a German proverb: "*Ordnung muss sein*" which

translates as “there must be order”. This proverb describes German culture and reflects its high financial and economic performance.

Another urgent problem is the education system in Russia, which is basically out of date and does not meet European standards. The system should be built in a way so that strong collaboration between employers and institutions is established. This will allow the needs of the market to be understood and prepare students for potential employers. Internships are essential for young professionals to gain experience and help them make the right choice. At the same time, universities should not forget about entrepreneurial activities that aim to educate young people to start and develop a business effectively. Today, graduates do not have a clear understanding or a fundamental knowledge about how to operate a new business. As a result, many of them fail after one year and their ideas are lost forever.

Until small and medium sized businesses contribute 50% of GDP, the Russian economy will still be dependent on the export of natural resources and oil and gas prices. Overall, it will remain vulnerable without will not be able to mitigate the risks associated with financial instability. Today, there is a need to review legislative, organisational and practical elements related to business development. Small and medium sized businesses will only develop efficiently and deliver the benefits for the country under favourable conditions.



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Polish cities – where is the plan?

The housing market in Poland and its role in urban areas, based on Warsaw as a case study.

In 2014, the British economist Kate Barker, known for her advisory role at the Bank of England, published an extended essay entitled “Housing: where’s the plan?” Barker referred to the generally acknowledged “housing crisis” in the UK. She puts forward a number of policy recommendations that are sensible, albeit modest, and could be easily applied in other countries. This is the reason why many Polish politicians, mayors, developers, and environmentalists should read Baker’s publication. However, the majority won’t. The most important reason *why* is the general lack of recognition of housing as an influential factor in the range of social and urban phenomena. But it is high time to realise that housing and where we locate it in our cities really does matter.

For decades, Poland has been struggling with a housing deficit, which currently oscillates around 1.75 million dwellings, and has not been reduced despite increasing supply. The predominant reason for this is related to the inappropriate structure of supply, which does not match demand. Therefore, government responses to the problem have been mostly based on social policies in the form of purchase-support schemes. However, these have ignored the fact that the development market has a tremendous effect not only in the social, but even more obviously in the spatial context. Housing and infrastructure policies play a crucial *creationary* role in cities. Thus, any policy aiming to facilitate the supply of housing needs to incorporate the appropriate measures encouraging development of the desired character. From the eco-

nomic, social and environmental point of view, the majority of new housing should be concentrated within the existing borders of the city. Therefore, the responsible response in terms of supply to the housing deficit needs to facilitate urban regeneration in contrast to urban sprawl. The capital city of Warsaw provides a range of examples in support of this claim.

Today, Poland has the second lowest housing stock (number of dwellings per 1000 inhabitants) in the European Union (only after Slovakia). This situation has been determined historically – the command economy could not keep up with housing provision after the Second World War, constrained by relatively low GDP per capita and the small proportion of total consumer expenditure allocated to housing. Since, after the transformation, municipalities were made responsible for fulfilling housing needs, the deficit has been recognised solely in the social context. Certainly, the problem is to a large extent related to the insufficient availability of social housing, and the poor financial situation of many Polish households. Therefore, the government purchase-support schemes under the name *Rodzina na swoim* (Family in its own home), and *Mieszkanie dla Młodych* (“Homes for the Young”) could be considered as an indirect attempt to combat the deficit. The former scheme, which ended in 2012, supported mortgage lending with interest partly covered by the state. The latter provides contributions to first-time buyers.

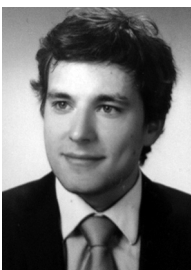
Despite the positive impact of the schemes on the lives of thousands of Polish families over the years who otherwise would not have been able to afford to own a property, both share one, crucial disadvantage – too low (and in big cities practically impossible to meet) price limits. For example, the limit for Warsaw is currently 5800 PLN per square meter, while the average market price oscillates around 8800 PLN. What is more, the second scheme is restricted only to the primary market, ruling out properties in better locations, but potentially in worse condition or with less space available. As a result, through the schemes, the state has supported the purchase (and development) of properties in the suburbs, usually poorly linked with the city centre. Therefore, it has contributed to the urban sprawl associated with long daily commutes and substantial levels of greenhouse gas emissions. Crucially, the potential impact of the schemes on the uncontrolled spatial growth of the biggest Polish cities seemed to have been ignored, while the cities themselves have not done a lot to prevent it.

Even in Warsaw, where the housing stock is the biggest out of all the Polish cities, housing needs have not been met for years. This is the result of the considerable level of immigration (from smaller Polish cities, rural-urban areas and from abroad), the increasing number of affluent residents who prefer single-person housing, and finally poorer residents who struggle with the increasing rents and property prices. Of course, it is also related to the characteristics of the property market in which excess demand cannot so easily be corrected due to the considerable time lags in the development process. However, the supply response has been apparent over the years, and to some extent encouraged by the government schemes. The rapid development of districts such as Białołęka has proven that housing is the primary factor leading the creation, as well as the development of the city – and in particular the spatial growth responsible for the urban sprawl. It has also revealed the negative consequences of the phenomenon for both residents and the city's environment. Poor transport infrastructure, especially before the Marie Skłodowska-Curie Bridge was opened, led to high costs of commuting both in terms of energy, time, and pollution.

In the field of urban studies, there is substantial theoretical and empirical evidence favouring brownfield developments (i.e. on sites that have been built on before within a city's borders) over greenfields (i.e. on sites that have not been built on before, often rural and countryside suburban areas). However, in the past, the development of greenfield sites in Warsaw was further encouraged by the lack of a long-term environmental protection strategy for the city. The original 1992 plan incorporated a number of green areas, but over the years the majority of them have been built on by new housing developments, usually without the appropriate impact assessment. The lack of control of developers by the city authorities and cooperation between the parties led to a range of dubious results. For example, the famous Miasteczko Wilanów is still struggling to provide basic facilities such as energy, drainage, schools and public transport. Therefore, the future success of the city is dependent not only on the provision of housing within the existing borders of the city, but on cooperation with the local authority as well. A lot has already changed in this area. In June 2014, the Polish Association of Business Developers (PZFD) signed a perpetual agreement with Warsaw City Council aimed at achieving sustainable spatial planning and implementing infra-

structural projects accompanying new housing developments. Finally, the agreement supports the implementation of a zonong plan for the city that favours the development of brownfield sites. The project has already started, for example, EC Powiśle, on the area of the old CHP, will be transformed into a modern centre for services and housing, preserving historical elements and construction. Therefore, if the trend continues, not only will the city environment benefit a lot thanks to the reduced commuting and traffic, but it will also become more aesthetically appealing. The environmental impact of developing the majority of new housing within the existent city borders has yet another dimension. Regeneration projects are very often characterised by having the highest sustainable building standards. Thanks to these solutions, they have a much lower influence on the environment and lower exploitation costs. Recently, these kinds of environmental-friendly investments have been recognised by the environment minister Maciej Grabowski, who in cooperation with EY, organised a competition *Projekt: Przestrzeń* (Project: Space). The winner will be announced during the European Financial Congress.

When looking for the answer to the question about the plan for housing in the UK, Kate Barker paid a lot of attention to the need for specific solutions. However, they can be implemented only if the housing crisis is actually recognised as an issue. In Poland, the problem of the housing deficit requires more attention and research, because only then can the optimal response, considering the multidimensional influence of the solutions, be developed. On the other hand, as the examples have already shown, any policy aimed at easing the burden of the deficit should consider not only how to encourage new development, but also what can be the result of a such policy on potentially affected urban areas. Housing determines the way our cities live and grow, and we cannot afford to have no plan for it. Restricting spatial development and encouraging urban regeneration as well as further cooperation between developers and local governments seem to be the way to go. However, there is still a lot to be done to make Polish cities successful in responding to the housing needs.



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Poland – small steps, big changes

Poland is the only EU Member State where real GDP increased by 19% between 2008 and 2014, which puts it in the first place among all EU Member States. The European Commission stresses in its “Country Report – Poland 2015” that Poland not only recorded an impressive economic growth, but also weathered the post-2008 crisis, which shook up other European economies, very well. It is difficult to identify the exact reasons for such satisfactory performance, although the authors of the Report stress that Poland’s success may be due to competitive labor costs. Unfortunately, there are significantly more factors which negatively affect Poland’s economy and which we will have to deal with in Poland in the coming years than those that we can be fairly satisfied with. Low public spending on research and innovation (0.4 per cent of GDP, with an EU average of 1.3 per cent of GDP), university graduates that do not meet the basic expectations of employers or the lowest household savings compared to other countries of the European Union are only some aspects that need substantial changes. Changes that must take place in our economy require joint cooperation between all its sectors.

In order to see a better Poland, it is not enough to build on what has been done well. It is also important to focus on those areas that need to be improved. One of such areas is public-sector investment in research on development and innovation. While research spending by entrepreneurs has risen significantly since 2007, it is still low compared to research spending in other EU Member States. In 2013 the private sector spent 0.4 per cent of GDP on research, where the EU average was 1.3 per cent of GDP. EU 2014–2020 funds, of which EUR 9 billion is targeted towards innovation, offer an unparalleled

opportunity. The prospect of receiving EU grants should encourage entrepreneurs to invest more boldly in research and development. However, with such a large amount of EU funding, it should be kept in mind that innovative solutions carry a high risk of failure and often fail. There is nothing wrong with that, provided we are aware of the likelihood of such a scenario at the time of the investment. Managers should not be afraid to abandon a project that turned out to be misguided, regardless of the stage of its implementation. It is more sensible to terminate an investment at an earlier stage and accept the loss of the capital invested than to finance activities that will not bring any benefit until the very end.

In addition to a well-thought-out strategy for investment in research and innovation, entrepreneurs should also remember about cooperation with the academic world. Poland is one of the leading European countries in terms of the number of people with higher education aged 30 to 34. Unfortunately, most Polish higher education institutions are not successful in preparing students for future work. Too much time is spent on preparing students for tests and too little time is spent on exercises relating to analytical and critical thinking, teamwork or development of creativity. Polish companies should send a clear signal to academic centers about what types of skills and competences they require from students entering the labor market. Moreover, entrepreneurs should, in cooperation with universities, invest in development and research on new technologies. Given the aforementioned EU grants, funding for such investments will be more available than ever before. It is sometimes the case that while publications are a priority for universities, for entrepreneurs it is important to keep the results of their research or activities secret from their competitors. However, even then it is possible to establish a mutually satisfactory mode of cooperation.

Educated university graduates who do not have the skills required by employers start their careers from less demanding jobs, receiving a proportionally lower salary. People who acquired such skills outside universities may expect more interesting and ambitious jobs. In any case, it is not difficult to find a job in larger Polish cities, which seems to be confirmed by the very high level of consumerism in society. Unfortunately, most of the money earned by Poles is spent in the same month in which it is earned. Poles should stop buying unnecessary products and start saving. Such financial education should

become a compulsory part of the curriculum at lower secondary schools. Each student should acquire basic economic knowledge, including, for instance, knowledge relating to the management of a household budget. When I was a high-school student in the United States, I attended classes on such economic topics. In my opinion, a basic knowledge of the national economy, private and public sectors as well as an understanding of the reasons why people in highly developed countries save money by investing in the stock market will certainly be useful when making financial decisions in the future.

It is important to realize that without work at grass-roots level and an adequate educational strategy targeted at young people and children, we will not be able to introduce any long-term changes. Changes will not be possible if the older generation does not start to introduce them. Poland's economy weathered the global crisis very well. However, it is difficult to identify clearly the reasons for this. Therefore, in order to identify such reasons fairly accurately in the future, a number of important changes should be introduced. EU grants for research and innovation in 2015–2020 amounting to EUR 9 billion must be used, as it is rather unlikely that such an opportunity will arise again in the future. Entrepreneurs should strengthen cooperation with the academic world and establish a model of cooperation that will be satisfactory for both sides. Moreover, the private sector should send clear signals to universities about what skills it expects from graduates entering the labor market. The next step that, in my opinion, should be taken is to introduce courses at lower secondary schools in the basics of economy, including the management of a household budget, characteristics of the public and private sectors as well as information on how a stock market works and why it is an alternative form of saving. My proposals for changes cover only a small part of what needs to be improved. However, if we start by introducing such changes, it will be much easier to implement further actions, including the large-scale ones.



Martina Filippetto

24 years old, is studying for a master's degree in international accounting in Italy. She has always been interested in international environments and has gained much study, work, and travel experience in Europe and around the world. This has taught her the importance of being open-minded towards other cultures and the added value of cooperating with people from other countries. With the idea expressed in her essay, she would hope to pass on her eagerness for internationality and cross-cultural integration to other young people. Her ambition is to promote international integration also in her future career and to expand her knowledge of foreign cultures, people and languages.

Italy's recovery therapy – self-confidence

Italy is a wonderful country with joyful people. We have millennia of history, amazing architecture, unforgettable cities and breathtaking landscapes. We are loud and noisy, but just because we are welcoming and cheerful. We make other countries around the world jealous of our exquisite food, elegant fashion design, and luxurious cars. We are definitely not an unknown and unnoticed country. Unfortunately, when you go abroad and talk to people, you realise that there is much more to this than expected. Italians are seen as chaotic, disrespectful of rules, and unreliable. Italy is a place of garbage, corruption, extremely complex bureaucracy, unstable and incompetent government, and never-ending judiciary processes. Now, when we go abroad and say we are Italians, these latter things, rather than the positive ones, are the first that come to people's minds. These are the classic modern stereotypes, which may be partially right but also partially unfounded or based only on what has been heard or read on the news instead of because there is a true understanding of the population, situation, and Italian mentality.

I do not deny that there are numerous matters in my country that should be changed and improved. I acknowledge that there are many problems that ought to be solved quickly. I even agree with some of the critiques we receive from foreign people. Nevertheless, it is somewhat annoying to be abroad and always listen to this negativity, so that one has to spend the majority of the time trying to make people really understand why it is like that, rather than having time to exalt the beauties of Italy. But what is even more disappointing is that even Italians living in Italy can't see anymore what their own country has to offer. There is a general sense of discontent and resignation that leaves

little hope for regaining confidence quickly throughout the entire population.

We cannot be arrogant and pretend to change the way the world sees us, but we can absolutely try to influence and change the way Italians see themselves and their homeland. Through “recovery therapy” in which enthusiasm is injected in people, we should try to aim at a higher level of self-confidence, self-image, self-belief and self-esteem which would increase the morale of the population and its willingness to recover. An opportune method for achieving this result is to make Italians really conscious of all the good, beautiful and unique things that we have and that only we are able to make in the entire world. I think that, by making people believe more in themselves and in their country, many would find the strength and be incentivised to give their best in everything they do. Moreover, I think that this could be one of the ingredients or a basis for the other necessary tools we are looking for in order to make the gears of our economy start turning again. Not only would this be a breath of fresh air for the economy and business within the country, but also, based on psychological theory, if we look more confident from the outside it will be easier to attract foreign business, foreign investors, and tourists to Italy and encourage foreign customers to buy and rely more on our products.

Let us take as an example a big company which operates in the bio-medical sector, producing (in Italy) high-tech, highly specialised products for hospitals, and one of the very few in the world doing so. Not many people in Italy know this, and the majority of those who do have learned about it only because of the 2012 earthquake in Emilia-Romagna, the region where the company is situated, destructed its facilities. Beside this, there are so many companies in Italy that are major world players in their respective branches about which the average Italian does not know anything about. How many of us know that Italy has experienced the largest increase in pharmaceutical and biomedical exports in the world, and that it produces more than one third of the world’s contrast agents? Who knows that Italy manufactures leading aerospace technologies and that, for example, the chief of operations for last-year’s first comet landing was an Italian? Does anybody know that Italy’s export of goods in the food and drink industry and its related technologies is as much as 40 billion euro? Were you aware that Italy produces 40% of the world’s super yachts? These are only a few examples, but surely there are many more that could be mentioned. I believe that, if more people were aware

of all the extraordinary things that are done exclusively in Italy, then they would be more proud of being Italian. Thinking more along the lines “We are unique. We have a lot of potential” could increase the willingness of each citizen to show to the rest of the world what we are capable of.

Let us now focus on tourism. I guess every single person on this planet, if asked, would say they would love to visit Italy one day. And yet, according to the World Tourism Organization, in 2014 Italy ranked fifth among the most visited countries with 47.7 million tourists. How many of those visitors, and us Italians, know that, despite this, Italy is the country in the world with the greatest number of UNESCO World Heritage Sites? This fact should be absorbed internally and spread externally. We are not just talking about the Colosseum in Rome, the gondolas in Venice and Juliet in Verona. We have thousands of other smaller but characteristic cities that are worth visiting, countless museums and historical sites, breathtaking mountains, warm beaches, beautiful lakes and surprisingly calm flatlands. The problem is that many times Italy is not able to promote and sponsor efficiently its assets, nor is not able to provide the right incentives for foreigners to come. Some sites for instance are not well maintained, entry tickets are too expensive, facilities don’t meet the needs of visitors, and last but not least, Italians are not particularly well-known for their ability to speak foreign languages according to the mantra “we are in Italy and I speak Italian”.

Tourism, aerospace engineering, bio-medicine and food are only some examples to try to explain my point. What I suggest Italy should change is the idea of being Italian, enhancing the pride and esteem in our country. I believe this could have positive repercussions on the morale of the Italians, impacting their enthusiasm and their way of working, and ultimately giving a kick, albeit small, to the economy and business of the country.

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How to prepare for a scenario in which funds would stop flowing to Poland from the European Union?

How has Poland used the funds awarded to it?

As part of the National Cohesion Strategy, from the EU funds available for the years 2004–2006, more than 88 thousand projects received subsidies from the EU worth over PLN 57 billion. Going further, for the years 2007–2013 as much as PLN 285.6 billion has already been distributed and 104,837 contracts have been concluded¹. European Funds that are well invested have a beneficial effect on GDP growth, increase the competitiveness of our economy, support the development of entrepreneurship and help create new jobs. In 2007–2011, the Polish economy recorded a high pace of growth, generating the highest average annual pace of growth in the entire European Union (4.3% in relation to 0.5% in EU-27). It should be emphasised that Poland remained on the economic growth curve even in 2009, which was a year of crisis for many countries. We owe the successful avoidance of deceleration at that time to EU funds. According to the estimates of the Ministry of Infrastructure and Development approx. 1 percentage point of the annual pace of growth in the period under analysis was a result of investments co-financed by the EU. The distance separating Poland from the EU-27's average, measured by the GDP per capita, decreased during the period 2007–2011 by approx. 13 percentage points. In connection with this fact, Poland is in first place as regards the speed of the equalisation process with the EU's average level of economic growth.

¹ Status as at December 2014, Report of the Ministry of Infrastructure and Development

Third wave of innovativeness extremely important to Poland's economic condition.

One other unique opportunity to diminish the distance between Poland and other EU member states is still ahead of us. In the years 2014–2020, Poland will invest EUR 82.5 billion from the EU cohesion policy. On 23 May 2014, the European Commission adopted the Partnership Agreement, the most important document laying out the strategy for investing European Funds in the new perspective. Nominally most of the funds will still be invested in transport infrastructure (roads and railways) but the highest growth in spending will pertain to innovation and support of entrepreneurs. This will be the last huge pool of money of this kind for our country. That is why we are facing a difficult task because the government and the country as a whole is still not ready for when the funds from the EU stop flowing in. If this process is to take place without a crisis or tensions in the country, then I think that now is the last moment to take rational steps to maintain economic growth in Poland. In this case, a countermeasure for this upcoming problem may include education – education about responsible savings. This problem was pointed out by PwC in its report *World in 2050*. Poles displayed a very low tendency of saving money. A significant portion of investment in Poland in recent years was financed by the inflow of foreign capital, whereas the average deficit of current turnover in the Polish economy since 2004 amounted to 4.5% of the GDP. Currently, the situation is changing quickly and ever more funds are being made available, which means that it is becoming possible to implement a savings system whose benefits will be multi-level because they will be derived by the savers themselves, the state, enterprises and the financial system. We should save in order to satisfy our social and economic needs but which will also be economically beneficial; an example of this is an old age pension or health protection. A way must be found to encourage society to do that. In the current situation where interest rates are low this task is not easy. Savings can be encouraged, above all, by a mild fiscal policy, which is a key factor in stimulating the economic situation. A parallel measure should be the creation of an effective guarantee system as well as the initiation of internal programmes supporting domestic entrepreneurs to use their potential abroad. Export is a strong driver that stimulates not only

a business but also the economy. The weight of the previously mentioned final pool of money from the EU budget should be pointed out here. It is extremely important to the future development of our country that the funds that we receive in the next five years be used as effectively as possible. The beneficiaries of those funds, mainly enterprises and local government, should carry out as many projects as possible that will generate revenues in the long run. The fulfilment of such a scenario will surely be fostered by the simultaneous implementation of instruments which will make it possible to better mobilise domestic and foreign capital for development purposes. This issue is raised quite frequently during conferences devoted to the bond market in Poland, during which the need for change in this regard is emphasised. The most important thing will be to give more freedom to enterprises and banks to issue bonds. Other measures should include, for instance, freeing up the system of issuing mortgage bonds making it possible to free up funds associated with housing loans granted by banks. The situation in risk management also needs to be regulated.

In the few years, the Polish economy has been very successful but in the coming years it will be threatened because the funds flowing in from the European Union were one of the key factors behind its success. I am convinced that we should take steps as fast as possible to successfully protect ourselves against recession. We should embark on education, show people that it makes sense to save money, keep track of barriers which will appear and launch stable and strong programmes that foster the development of our economy in the future.



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What would I like to change on the Polish capital market?

Introduction

The rapid development of the Polish capital market in the last twenty years may decelerate or the stock exchange may even shrink due to changes which have occurred or will occur in the macroeconomic environment. Many factors influence this situation, the most important ones including: the continuous outflow of individual investors, limitation of the role of open pension funds, low growth on domestic savings as well as the fact that the most spectacular stock exchange failures in recent years were mainly associated with the privatisation of state-owned enterprises with a large capitalisation and strong market position, the number and offer of which has significantly decreased. The instability of the economic situation in Poland and political turmoil in neighbouring countries is also of key importance. Due to this, steps should be taken to maintain the pace of growth of the capital market in Poland. This article presents proposals for action which does not require high outlays but makes it possible to achieve great benefits. They include: limitation of the deregulation of professions, increasing the reliability of recommendations, mobilisation of savings and financial education.

Deregulation of professions

In line with the latest trend concerning access to professions, the barriers for receiving the title of an investment or tax advisor, securities broker, legal counsel, attorney or notary public are to be greatly reduced. This is sup-

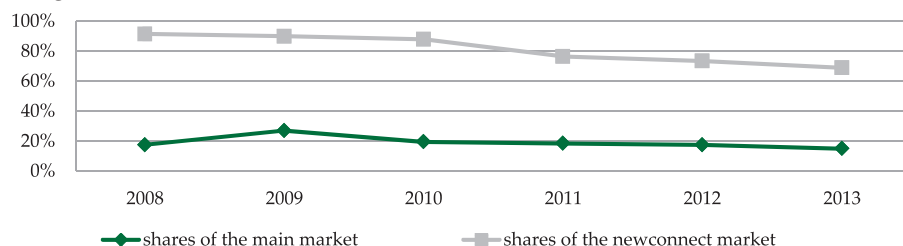
posed to contribute to greater competition in the market, and, in consequence, a drop in the prices of services, a decrease in the unemployment rate and also encourage, mainly young people, to choose professions which were previously inaccessible to them. However, a more liberal access to such crucial professions as investment or tax advisor poses a serious threat to the trust associated with these professions. The largest threat is being posed by a situation where people with only basic knowledge about legal or investment issues will frequently manage the entire assets of families. Lack of appropriate qualifications and, in consequence, erroneous decisions may contribute to a loss of the trust placed in advisors as well as the financial sector. The worst that can happen is that people turn away from the capital market and, in effect, an outflow of capital. This poses a real threat to the stability and security of the entire financial market. In this case, it is necessary to reverse certain deregulations and to stop other ones since, as has been pointed out, the liberation of such specialised professions requiring public trust may do more harm than good.

Recommendations of banks and brokerage houses

Another important aspect which may disturb the proper development of the Polish capital market is the reliability and responsibility of the banks and brokerage houses for recommendations concerning forecasts of the market prices of companies listed on the stock exchange as well as currencies and raw materials. They are frequently prepared unreliably, in extreme cases it seems that they were prepared to maintain good relations between the bank or brokerage house and the company being evaluated. There are no grounds for negating the good intentions of financial institutions; however, the fact that recommendations are prepared in a rush, not always by competent people, results in gross errors in the valuation of enterprises as well as in forecasts concerning their market price in the future. For instance, some of valuations are based only on indicators of the net profit instead of on free cash flows, which would be a much better and more effective indicator. However, such change requires more effort and takes more time to prepare. Experienced investors will easily find gaps in these types of reports; however, people starting to invest or not having theoretical knowledge about such valuations may make incorrect investment decisions. There is a risk that after incurring substantial losses they

will become prejudiced against financial markets and will not be willing to come back, which will result in an outflow of capital. This tendency is noticeable in the share of individuals investing in the Polish stock exchange, which is decreasing from year to year as can be seen in diagram 1.

Diagram 1. Share of individual investors



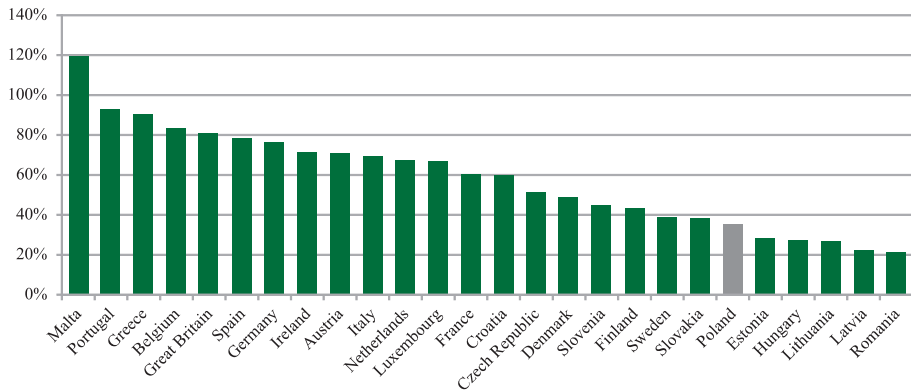
Source: www.gpw.pl

A simple but seemingly effective solution would be to create generally available, objective rankings of the effectiveness of recommendations of various banks or brokerage houses, published, for instance, by the stock exchange. Another step might be the creation of a team which would deal with providing opinions on the valuations of companies in terms of compliance with the art of valuating. This would mean that individual investors who do not have access to professional investment advisors would feel that someone is taking care of them. Moreover, the quality of the recommendations would probably increase due to the fact that they would be controlled and publicly evaluated. This would contribute to more well-aimed investment decisions, which, in turn, would attract individual investors to the stock exchange.

Mobilisation of savings

Domestic savings constitute the basis for conducting lending campaigns and investments on the capital market directly by individuals as well as through investment funds. They also constitute old-age security for maintaining the current standard of living after retiring. Unfortunately, savings in Poland are at a very low level in comparison to other European countries (diagram 2).

Diagram 2. Bank deposits in relation to GDP in 2013



Source: www.ecb.europa.eu

This results in a low deposit base and a small proportion of individuals in the stock market. This is a problem which does not have one single, easy solution. However, it deserves being looked into because savings are one of the basic motors driving the development of financial institutions such as banks, funds and the stock exchange but also the development of the entire economy by increasing access to capital. However, the problem of how to mobilise people to save remains. There are many ways and one of the most frequently proposed are tax allowances. This applies in particular to individual retirement security accounts which are currently not popular. Another issue is the reduction or liquidation of tax on capital gains, which has proven successful in countries in which the number of people saving money and people investing is high and where these people have relatively large amounts at their disposal. In Poland, for many people who planned to start investing the necessity to deduct tax on profits from capital constitutes a significant barrier and effectively discourages them from doing so. The final measures, which, among others, the Polish Financial Supervision Authority took advantage of recently, is the obligation to save. After amending Recommendation S, at the start of 2014, the minimum own contribution when taking out a mortgage loan is 5%. The value of the required contribution will grow every year by 5 percentage points to 20% in 2017. This procedure is supposed to reduce the risk being incurred by banks and people taking out mortgage loans, while, on the other hand, it is supposed to mobilise people to save systematically.

Financial education

Another important measure aimed at increasing the quality of the Polish capital market is financial education. In Poland, this is supposed to be carried out mainly by non-government and local organisations; however, there are no such measures being taken at state and public level. A noticeable drawback is the short-term nature of the measures instead of systematic and long-term educational projects addressed to the general public. Despite the fact that schools are well prepared to conduct classes such as fundamentals of entrepreneurship or practical economics, not many hours are devoted to these classes and there is often lack of appropriate involvement from the teachers' side caused by the poor popularity of the subjects. A very important issue is also parents' reluctance to talk about finances in the presence of children, which means that children do not have a chance to learn about the rules governing the financial market. An illustration of this situation is lack of a habit to save regularly, the very low share of individual investors in the stock exchange, the low level of interest in new banking products and problems with reading and understanding contracts. For this reason, there is a need for long-term education, starting from the people already present in the labour market, to financial education at school. This task may be performed by holding more classes related to finance, increasing the popularity of these subjects by implementing them into the list of subjects from which the final high school exam must be passed or by increasing teachers' involvement. It is also necessary for the government as well as commercial banks to get involved.

Summary

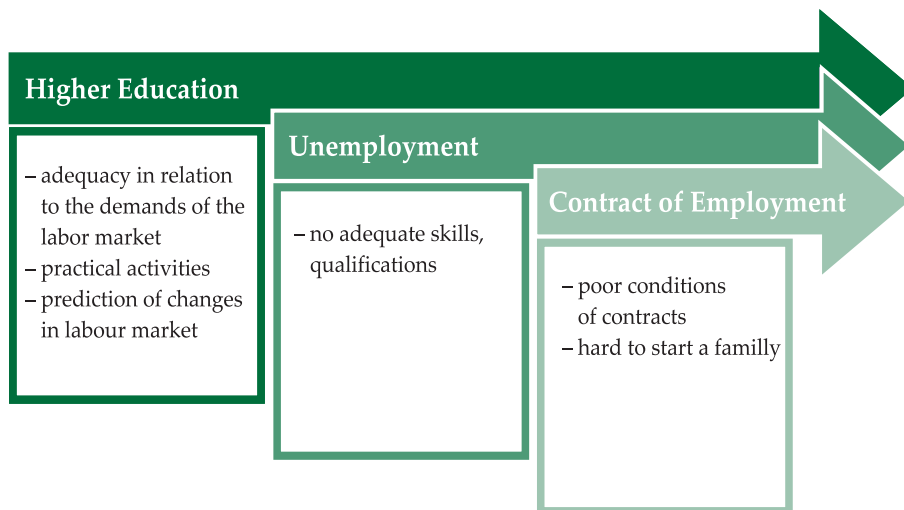
The Polish capital market has developed very quickly in the last two decades; however, due to changes in the macro environment this trend may stop. In order to ensure further growth, appropriate measures should be taken by halting the deregulation of certain professions, increasing the reliability of recommendations of banks and brokerage houses and increasing domestic savings. An important aspect is also the financial education of the public.



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Changes in Poland? Start with higher education system



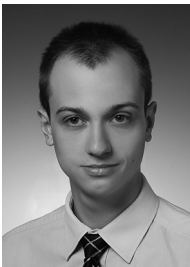
My observations have led me to conclude that changes in Poland should be introduced, including changes in higher education. Education plays a key role in the development of a country. Therefore, universities should not be treated as establishments that produce students, but rather as places that prepares people for full participation in public life, namely graduates who exert a positive influence on the economic development of Poland. In my opinion, in order to make full use of the potential of people that are willing to develop and obtain a higher education degree, courses and the number

of places available at higher education institutions should be adequately adjusted to the changing conditions and needs of the economy. Graduates complain about the lack jobs (the unemployment rate in Poland currently stands at 12%). Hence, when they finally find a job, they are grateful and agree to work on temporary contracts, which which do not guarantee the same benefits as full employment contracts and, consequently, make it harder for people to start a family in the long term. I believe that current unemployment can be described as a mismatch between the qualifications of the unemployed and the available jobs. Moreover, there are university graduates in Poland. As a result, there are enough people with higher education on the labour market, people who expect that they will find a job in keeping with their education. In turn, there is a shortage of qualified lower-level production or administration staff.

Changes in the educational offer of higher education institutions were proposed by the Ministry of Education two years ago. The changes envisage that in the future there will be two types of higher education institutions, namely those offering practical education and preparing students for the labour market (vocational higher education institutions) as well as university-type higher education institutions. I think that a perfect solution would also be to introduce at least partial tuition fees (varying depending on the higher education institution and the area of study) and a comprehensive system of scholarships. Tuition fees would prompt future students to reflect more carefully on their choice of course, including with respect to employment prospects after they graduate and to respect both their own time as well as the time of lecturers because they would be paying for it. There would be no perpetual first-year students that only care about student discounts rather than knowledge.

I have heard the opinion that higher education institutions open faculties that are in demand because they receive funding for each student. Therefore, they focus on meeting the demands of their “clients” and not the needs of the economy. The fact that only a small number of people find a job in keeping with their profession after they graduate does not result from the limitation in the number of places at higher education institutions in some subject areas. This argument supports the thesis that, similarly to most developed economies (United States, United Kingdom, most German Länder),

at least partial tuition fees should be introduced. Tuition fees would also have a very positive impact on the quality of tuition. The number of students would probably decrease, which would increase the quality of education and the number of qualified production staff. I believe that following the introduction of tuition fees, higher education institutions would become more flexible and better adapted to the changing economy. They would focus on practice. A higher education diploma, in turn, would no longer be a meaningless piece of paper.



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is studying for a master's degree in finance at the Wroclaw University of Economics. He is an employee of the JP Weber advisory company and an Ambassador of the CIMA Institute. He has developed his passion for finance through participation in national and international competitions, gaining 3rd place in the CIMA Global Business Challenge competition in Mumbai and 3rd place in the EY Financial Challenger X in Warsaw. In his free time, he travels and plays team sports. He is deeply interested in new technologies and music. In the future, he would like to run his own business or investment fund as well as advise companies on investments, acquisitions and restructuring processes.

Education and business thinking as a key to Poland's successful economic growth

Change in Poland is necessary and inevitable. It is the younger generation that can have an influence on what Poland will look like in the future. Therefore, it is crucial that we are not afraid to talk about material changes. We must have the courage to raise difficult topics and, first of all, make our ideas and proposals a reality. I hope that initiatives will go beyond being merely ideas and that each of us will feel responsible for ensuring that at least a couple of them one day become reality. My proposals will focus on several key areas: education, work and companies, infrastructure and the environment as well as tolerance.

The first area that needs rapid reform is education. Since I myself am still a student, it is much easier for me to identify what needs to be improved. Polish universities must first of all realise that they exist for students and not the reverse. Unfortunately, during my time at university, I have discovered that the reality is very different. Universities do not monitor the satisfaction and progress of students. Nobody asks whether they learned anything during a course, whether the lecturer was prepared or what should be changed. In my opinion, a questionnaire completed by students after the completion of each course should be standard, as it would make it possible to very easily specify relevant elements in curricula and identify lecturers that fail to meet their responsibilities. Unfortunately, these surveys are simply not carried out or are carried out rarely, which is often due to objections from lecturers, who are afraid that they will hear negative things about themselves.

Each step and each initiative that a student wants to take is a winding and rocky road. Students that want to put their ideas into practice face major

administrative challenges. In the case of each request, even a small one, they often have to submit several applications in different places and deal with negative attitudes. Each initiative is perceived as something that requires additional administration work rather than as an opportunity to introduce positive changes and improve students' lives. In such a situation, it is easy to become discouraged, which often leads to an idea being abandoned altogether. This kills creativity. More student initiatives should be recognised and promoted, e.g. by assigning mentors who would support students' activities. We should take advantage of the fact that young people in Poland are talented, ambitious and eager to implement change.

One of the aims of education is to prepare young people for professional life. Cooperation between universities and companies should be strengthened. Who better to share knowledge with students than real practitioners? Universities should use the Western educational model, in which very often lecturers are also employers. This makes it easier to ensure the adequate practical preparation of students and makes it possible to better prepare graduates for the professional tasks they will have to deal with immediately after they graduate. Moreover, more attention should be paid to what courses students choose and they should be helped to choose a field of study in which they feel best.

Another area that requires change are professional aspects relating to both entrepreneurs and employees. In my opinion, the issue of excessively long working hours is still a taboo subject in Poland and we all too often pretend that the problem does not exist. A situation in which a superior or employer requires that an employee sacrifice his or her personal life for the benefit of their professional life, thus violating labour law, which provides for the right to rest periods, is common, especially in the financial sector. This situation is rarely challenged by employees because they feel that it is normal. Following the example of some Western or Scandinavian countries, we should pay more respect to our family and private life. Time is passing very quickly and it is the time that we spend with our family and friends that we should value most highly.

It is also very important to ensure that entrepreneurs receive better support. Currently, many of them face problems resulting from excessive bureaucracy and formalities instead of thinking about the development of their business. In order to obtain state or EU subsidies, they have to not only devote

a great deal of time but often also incur additional expenditure relating to hiring external consultants. However, this does not guarantee a success, as it might turn out that in order to obtain funding it is necessary to have the right connections or secure a positive opinion from one official. Even if an idea is attractive and beneficial for society and even if an entrepreneur is smart and ambitious, one subjective opinion from a person responsible for the allocation of subsidies may result in the failure of the entrepreneur. In my opinion, decisions relating to the allocation of funds should be made by groups of business specialists, including university professors. This would make it possible to reduce the amount of funds that are wasted and the number of non-profitable investments and enable better development of promising and well thought-out ideas.

One other issue that is noteworthy and requires discussion is infrastructure and the environment. Do Poles really need new shopping centers located in such close proximity to one another? Would it not be sensible to replace at least one new centre with a park in which we could spend pleasant moments with our family or friends? In my opinion, decisions on investments in cities are all too often made taking into account only potential profits. While investments must generally be profitable, authorities responsible for public finance should also take into account other aspects, including the satisfaction of citizens. I am convinced that striking a balance that would make it possible to generate an adequate income and create something for citizens is possible and necessary.

This issue also relates to areas of everyday life such as public transport and cycle lanes. While in larger cities public transport does not present major problems and allows people to commute between districts that are distant from one another relatively easily, smaller cities have difficulties in creating infrastructure that would ensure an adequate level of public transport. While there are excellent ideas regarding transport, such as bike-sharing, their usefulness is very limited. It is mainly due to the fact that there are few roads suitable for cycling, as a result of which riding a bike is often simply dangerous. I believe that urban infrastructure should be designed to make it easier for citizens to use bikes or other means of public transport rather than to expand car traffic, as is the case today. This would have a positive impact on the environment and help people live healthily, which is very important.

I would like Poland to be a safe country both for its citizens and people from other countries. In my opinion, discrimination on grounds of race, religion or nationality is all too prevalent in Poland. A change in this area requires in particular the involvement of the authorities, the police and ordinary people. Racist behavior cannot be ignored. Mutual respect and tolerance are the key to effective cooperation and the promotion of peace internationally. This is particularly important in view of the current political tensions.

I hope that the proposals for change put forward by young people will go beyond being a simple article on things that should be done so that we can live better. I am sure that with a little effort, each of us is able to exert an influence on real change. We should bear in mind that through our own decisions we shape our future and the future of our children and fellow citizens. Understanding this responsibility will surely give us a broad view of the challenges we face each day.

**Falco Hartenfelser**

The 29-year-old author is currently enrolled in the international MBA program at Frankfurt School of Finance & Management. To qualify for this program, Falco gained many years of professional experience in the financial services industry working for a German investment bank providing consulting to sales partners concerning retail investment funds and certificates. Besides studying, the author currently works in the custody segment for a global universal bank serving institutional investors. Post-MBA, Falco hopes to be able to use his knowledge of financial services to work in a consultancy, broaden his own horizons and change the point of view from which he observes the financial services industry.

When regulatory policy not only provides more security but hinders return and growth

– a meta-description from the perspective of German small investors and institutional custodians

The financial crisis at the sharp end, but also the following national budget deficit issues, have proven to be followed by many long-lasting effects for international capital markets such as increased volatility and the low-interest environment. German and European committees have undertaken many counteractive measures to secure private and institutional investors and to maintain financial stability. While the environmental effects are simply present as exogenous factors and every participant in financial markets is exposed to them, the regulatory rules introduced by the committees to increase security can be both a blessing and a curse.

Thinking of the latest developments on stock markets, which reflect the actual values of companies' goods and services, provided and sold, the charts of the last months had only one direction: a moderate to steep upward-sloping curve in the short-term. Put aside two facts that usually need to be considered as well – that probably the current share prices are by the majority decoupled from real values as well as the suffering bond markets due to low key interest rates – it must be considered a pity that probably a significant overall welfare loss might show up in the long-term as many parties will not profit from this recent positive trend.

The irony within this development is that legal regulations also play their part in this, although they should solely serve the security of investors. The following thoughts are based on observations made in the German small in-

vestor (end-customer) retail markets¹ as well as in the custody markets for institutional investors.

High hurdles for end-customers to be connected to the capital markets

While the current short-term development of most international stock indices can be viewed at least skeptically and it is maybe not that negative at all if private small investors miss out on small opportunities for capital gains for the sake of avoiding the high volatility that comes with it, the long-term outcome must be judged the other way around. This can be explained properly by viewing the system of retirement provisions in Germany as an example:

The retirement arrangements in Germany are built on three pillars: legal pensions paid out by the state at the end of a working life and financed via contributions of the working population, company pension schemes and private arrangements made voluntarily by the individual. While the first suffers under demographic development and company pension schemes are just beginning to come more into focus, private arrangements were heavily incentivised and communicated in the past. The problem with that is that in the low-interest environment only long-term fund-based savings plans can help the investor earn a positive return after fees and inflation when it comes to later disbursement. Yet, the majority of German savings plans are not capital-market based.

What is left are company pension schemes. However, politicians have not aligned the underlying structures within this system: When it comes to disbursement, capital gains are often diminished by high contributions to be paid for health and medical care insurance. While incentives are given for private arrangements, a suitable incentive to follow the company pension scheme approach would be improved tax deductibility and lower overall contributions. Yet in its current state, German retirement arrangements will hardly be sufficient taking inflation and social welfare systems in connection with demographics into account.

In order to have a push- instead of a pull-approach in the market, financial consultants could also contact their prospects increasingly by themselves. Nevertheless, the data issue that this raises cannot be neglected and leaves a high hurdle to get customers connected to capital markets.

¹ This includes the classic mass segments for basic money investments mostly served by universal and direct banks for the sake of capital formation, retirement provisions and asset management.

Fee structures and pricing as a main differentiator for custodians – a dangerous development

As the stickiness of the related businesses² of custodians can be considered rather long-term with an average of 5–15 years, one issue may only face the light of day gradually. Due to many regulatory renewals, the potential for differentiation for custodians lies basically in only one direction: competing on price for their services. This is because the creation of new innovative products is cost-intensive on an infrastructural basis and the market is perfectly comparable for institutional customers, leaving them leverage to bargain. While regulatory issues in Europe promote investment in innovative solutions, the customer is rarely willing to pay a price premium for that. The consequence is the pre-stage of a price war, which can be at least considered as a downward spiral regarding prices. Growth in the market segment seems unrealistic in these conditions – cutthroat competition for the biggest piece of the cake is likely to continue.

Regulatory frameworks as the trailblazers of the capital markets

The European controlling institutions³ have placed the emphasis of new regulations on financial stability, security for investors, supervisory convergence, a single rulebook and direct supervision. The first two are the most well known outcomes that were put into place as a reaction following the financial crises. Without concluding that regulative measures are solely to blame, the framework for the financial services industry has been corseted quite narrowly during recent years. This, in turn, further intensifies the situation outlined in the preceding two passages:

The “MIFID II” regulatory framework clusters funds into different categories of complexity⁴, leading to a situation in which funds considered to be complex may not be suitable for a public financial consultant anymore. However, it must be stated that the exogenous factors outlined before demand more complex investment solutions to overcompensate potential losses due to inflationary outcomes. The MIFID II regulatory package also actually for-

² The following claims refer mainly towards custody and fund services.

³ Mainly ESMA, as well as EBA, EIOPA, ESRB.

⁴ The two main categories are OGAW and AIF funds.

bids the usage of provisions, which again depresses the connection between financial consultants and end-customers.

On the institutional side, the German “AnlageV-E” limits the possibilities of smaller capital investment companies in terms of investment methods due to fixed quotas. A potential future regulatory change, named UCITS V requires further alignments with the AIFMD framework, which will cause further administrative efforts and costs for custodians.

These few examples outline that the regulatory framework currently acts more as a trailblazer for a whole industry instead of providing common sense on how to operate ethically, economically and innovatively. Moreover, so the argument goes, these trends have not caught up with the problems of low interest rates in the markets and low growth rates, but may lead to an overall societal welfare loss.

When flattening returns and low growth paths lead to a welfare loss

In a nutshell, it can be stated that end-customers often cannot or simply do not want to participate in capital markets with suitable products for several reasons. However, even in the latter case: the hurdles to join capital markets are set very high for end-customers and result in massive discredit in the perception of the German public. On the other side of the market, custodians have to cope with diminishing margins. Both can be related to many reasons, but one facet of the argumentative reasoning remains central: regulatory policies did their part in securing investors and regaining public trust. But it must be urgently questioned whether the regulatory screws are not already overstretched and that primarily good intentions are turning out to be rather a long-term curse than a blessing.

This curse is hard to calculate and nail down in the form of cumulated facts and figures, (as the arguments refer to various segments and industries), but an undefined welfare loss can be the qualitative descriptive long-term outcome of the current trends: As a majority of German end-customers misses out on returns that are still possible in capital markets, custodians are facing a situation in which they are stuck in the middle between needed investment for innovative product solutions and a downward sloping pricing spiral. While one may finally argue that the loss of a custodian is the gain of an insti-

tutional customer in terms of savings on fees paid, this only holds partly true: Without innovative products and infrastructure that covers the latest regulatory requirements, institutional customers miss out on returns as well.

The “solution” cannot be identified by only covering one or two perspectives and possible actions behind them. Rather, a revision of certain regulatory measures can lead to quick-wins and the long-term homogenisation of the markets and industries described in this article.



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The change starts from you

In August 1991, Ukraine declared independence. Everyone believed our country could become a worthy member of the international community, provide welfare and secure the foundation of life for its citizens. It cannot. Ukraine – one of the few countries that had and has its own air and space industry, modern nuclear power and many other unique types of production. This is a special country, with its history and unique culture. But now we have to admit that Ukraine has failed to become a modern technological society. We are rapidly losing our ability and potential. In 1991, 6.5% of the world science and 2% of world GDP was concentrated in Ukrain. Today only a tenth remains. The country is frozen in uncertainty. Why?

Over the years, a series of reforms was begun. However, most of them have not been brought to their logical conclusion. And most importantly, the reforms were largely borrowed or imposed, so they did not meet proper Ukrainian interests. Because of the chronic crisis in the policies or their personal corporate purposes and their inability to unite around a strategic goal, citizens still do not have answers about the direction of the country even in the medium term.

Today, Ukraine is at a crossroads and it has no leader and no outsider. If Ukrainian does not act to change something soon, it risks becoming stuck in the so-called “gray zone” of civilization. This may not suit Ukraine! In my opinion Ukraine has two scenarios: either become dissolved in the EEA, subordinating national interests to more powerful countries and international organisations, or pave its own way in future, reaching maximum self-sufficiency. If Ukraine moves in a fair way, foreign interests will eventually surrender their own.

Shota Rustaveli wrote: "A person who is not looking for friends, is the enemy of himself." These words of the poet sound like a modern philosophy of Ukraine's European integration policy, where everyone has to realize their European identity, thus making such a difficult first step towards each other.

Every nation has its own traditions. Their history goes back to ancient times, and combines the idea of a world religion and signs of life. In recent years, we often turn to tradition, because it identifies people as part of a great nation with a rich cultural heritage. Those who do not know their culture and their language cannot be treated with respect. Ukrainians are people who deeply respect their roots, culture and traditions, and therefore they treat the cultural heritage of other nations with respect and understanding.

I realise that I live in Ukraine; a European country. Ukrainian society is very close to Europe, although there are some differences. Merely copying the European Constitution is not enough to bring Ukraine closer to Europe. Only cooperation, communication, curiosity, willingness to help change this convergence will do this. In July, the first Lithuanian Month took place in Ukraine. This was a new step forward to make new friends, a new "window" to Europe. European volunteers in partnership with the Embassy of Lithuania in Ukraine held a Day of Lithuania in the heart of Ukraine's capital. Pro-European organisations and social movements and there were also a number of cultural, sporting and entertainment events, competitions and festivals.

For a long time, Europe was divided. Today we all overcome these obstacles. This year a new visa regime came into force in the EU, and I hope that this last wall between Ukraine and the EU will come down and that every Ukrainian can travel to the beautiful places of Europe, make new friends, communicate and see the world in new ways.

A famous proverb says: "It is good everywhere, but it is best at home." Most of us are aware of the importance of our own homes, full of memories, music and images of the past that arise in our minds when we think of our home. "We miss you" – this is what we hear when we are back home, no matter how long we have been away. However, few of us understand that there are countries where people are forced to leave their homes because of persecution and violence, for political reasons, where returning home – the cherished desire of many refugees – is not possible. I am a Ukrainian and I love my country. So I want to do everything I can to improve it. There are many things

that need to change in my country. But I think the main thing that I would change is a sense of civic responsibility. This applies to our political situation, the way we treat other people, the environment, and other aspects of life.

I come from a beautiful city in Ukraine. Since Ukraine gained its independence, more and more people know about it, but many foreigners still do not know very much. Unfortunately, for most people, Ukraine remains *terra incognita*. This is partly due to the fact that the average person in any country is mainly interested in their own life, family, environment, etc. In addition, Ukraine was formerly part of different states and empires and didn't exist as a separate country until the end of the last century. Modern Ukraine is associated with celebrities like Andriy Shevchenko (an outstanding Ukrainian footballer) and Vitali and Wladimir Klitschko. We have a lot to tell the world about our country. However, many things in this country should be changed; first of all, the political situation. Every day, the human rights and dignity of many people in my country are violated. I think a political solution must be found, and tolerance must be restored so that people are not afraid to return home from other countries.

Another aspect relates to civil responsibility and our relationship to the environment. Every day I see someone throwing trash on the streets. Moreover, it is very dangerous for pedestrians to walk on the pavement because there are some crazy drivers who always want to show off their driving skills. Many foreigners who come to Ukraine are concerned about these and the many other problems that arise daily. If I could do anything I would try to change people's attitudes to others and to the environment. Also, I would introduce strict laws for road users and their irresponsible actions in an attempt to ensure the safety of pedestrians and other road users. I would also invited foreign teachers to develop educational programs that demonstrate ways to make our country better.

In conclusion, I think that my country will develop faster if everyone would take responsibility for ensuring that it is even more beautiful, clean and safe.

Changes always start from ourselves. When former president Yanukovych did not sign the agreement on European integration, the first brightest negative reaction was among young people, who are the future of the state. I was outraged that the authorities did not want to see my country develop and it has always been dependent on a Russia usurper who just wanted to take

control of territory and wipe out my homeland. This leads to the fact that my country is in decline. Statistics says that 85% of Ukrainians now consider themselves poor. The gap between the rich and the poor is 40:1 – perhaps the largest in Europe. When a person feels poor, it is difficult to think about the distant future, because it is necessary to get through each day. In a state where there is no stability, people are forced to live each day at a time. Then there is the parasite of growing populism. Politicians promise “the moon”. All these promises have to be carried out by citizens themselves. Populism is a crime. We have to think about what life will be for future generations, what country will we leave for our children and grandchildren. Otherwise their future can be much worse than our present.

That’s why I am sure that in a few years, Ukraine will be firmly established as a true democracy. When the authorities will finally be made up of people who do not seek personal enrichment and will think about the development of our country. There must be consistent economic reforms to stabilise the domestic financial system, simplify the tax system for small and medium sized businesses and eliminate the impact on the economy of bureaucracy, corruption and shady relations between enterprises to accelerate the economic processes. There will be a reform of the judicial and law enforcement systems to implement real justice, protection of citizens, their rights and freedoms.

There will be a reform of the healthcare industry so that medical care will be truly high quality and accessible to the poor.

Also, there must be changes in education that will increase the overall quality of education. All schools will provide a solid foundation so that children do not need to hire tutors in almost all subjects before the entrance exams to university (unfortunately, this sometimes occurs). Effective cultural and moral and civic education will be implemented.

And, most importantly, there will be an increase in the overall standard of living, an increase in the size of the middle class, a reduction in the gap between rich and poor. There will be an improvement in the state of our society: people become more conscious and tolerant; they will not lack basic cultural behavior. And finally, Ukraine will become a truly European country. Sounds like a fairy tale? Maybe. Mahatma Gandhi said: “You must be the change you wish to see in the world”. Well, we can put it into practice. Remember, we are the only ones who can build our own future.



Michał Czyżewski

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How to encourage development of knowledge-based economy in Poland?

Stimulation of innovation

Introduction

The shift from an economy focused on cheap labour to a model based on knowledge is a challenge for Poland. The achievement of that goal requires innovation to be stimulated. The ability to create companies based on new technologies requires the following measures be taken: simplification of the law and making access to finance easier for newly established enterprises.

Simplification of the law

Diagnosis

In 2014, so many legal acts were implemented that an entrepreneur had to spend 3.5 hours a day on studying the changes in the law in order to be up to date with them¹.

At the same time, the Ministry of Finance introduced changes meaning that Fiscal Control Offices will start remunerating their employees for results in the form of discovering abuse. A probable consequence will be an increase in the nuisance of inspections, which will last until an irregularity is identified. At the same time, there is the issue of debt breeding debt by the tax offices where debtors are called on to pay off debts as late as 5 years after they occurred in order to maximise the amount of interest charged.

¹ *Barometer of stability of the legal environment in Poland* – survey conducted by Grant Thornton.

Contradicting interpretations of tax regulations by individual tax authorities is another phenomenon discouraging people from conducting business in Poland.

There are² companies that specialise in transferring Polish businesses to the United Kingdom despite tax rates being higher. The profitability of such seemingly irrational behaviour is caused by the fact that in the United Kingdom the tax administration is favourably inclined towards entrepreneurs.

This bizarre outpouring of legal acts is one of the reasons why innovativeness in Poland is at quite a low level³, and startups from Poland prefer running their businesses in Germany or Holland.

General recommendation

Stop being prejudiced against small and medium enterprises. It is not right to build Poland as a “predatory state” which set the strong against the weak and the weak against the strong. Small and medium enterprises are tired of inspections, which have a negative impact on their business. At the same time, the Ministry of Finance is unable to effectively solve the problem of tax avoidance by foreign entities. This results in a situation where “outside” enterprises taking out profits and transferring them to tax havens are treated better than domestic companies.

Detailed recommendation

A solution to the problem is the simplification and unification of tax law. It is necessary to eliminate discrepancies in the interpretations of individual tax authorities and to implement a single interpretation for the entire country. Any doubts should be settled in favour of the taxpayer. Any losses resulting from the easing of the law will be set off by tax proceeds coming from the increase in the number of enterprises operating in the market. Another step should be taxation of foreign companies (including hypermarkets and banks) with sales tax for the purpose of leveling the opportunities for enterprises paying tax in Poland and those transferring profits abroad. An idea

2 Kamil Cebulski, the youngest Polish millionaire, helps Polish entrepreneurs to transfer their businesses to the United Kingdom.

3 According to the Global Innovation Index 2014, in terms of innovativeness Poland occupies 45th place in the world.

worth considering is to make Poland a tax haven in order to entice investors and enterprises to bring their businesses to Poland.

Crowdfunding

Diagnosis

In developed countries, innovative ventures are financed by the following:

- business angels
- private equity and venture capital funds
- government/regional/EU programmes
- bank loans
- exchanges
- crowdfunding

The last method is the most convenient method for the entrepreneur. Crowdfunding is when an entrepreneur posts an idea for a business on a special internet platform and people can decide to invest in it, in return for which they usually receive benefits from the enterprise in various forms.

A significant advantage of this form of acquiring funds is that the process of seeking investors constitutes a marketing campaign for the venture.

Unfortunately, neither the Ministry of Administration and Digitalisation nor the Ministry of Finance have made an effort to prepare a simple and standardised legal path for this method of financing. Luckily for entrepreneurs, online fundraising has not been incorporated into fundraising regulated by the Public Fundraising Act. There is a need to create a simple financing path so that tax regulations do not complicate the process of raising capital.

The Warsaw Start-up Space^{4,5} and the Start-up Nation⁶ initiative commenced by Adam Maciejewski and the City of Warsaw do not seem to work (There is no information about these initiatives on the Warsaw Stock Exchange's website. The Warsaw Start-up Space website offers a subscription for a mailing list but does not send out emails).

At the same time, the Academic Incubators of Entrepreneurship system is doing extremely well, allowing entrepreneurs to safely start their business

4 <http://pierwszymilion.forbes.pl/warsaw-startup-space-miasto-i-gpw-beda-wspierac-w-start-upy,artykuly,176845,1,1.html>

5 <http://www.warsawstartupspace.pl/> - there is no information on the website

6 http://www.gpw.pl/wydarzenia/?ph_tresc_glowna_start=show&ph_tresc_glowna_cm_n_id=52658

journey. For a small fee, AIE provides access to legal, accounting and patent services and a place to work. Thanks to working in the AIE ecosystem it is also possible to avoid paying contributions to the Social Insurance Institution, which significantly reduces the costs of doing business at the initial stage of business development.

General recommendations

The Ministry of Finance and the Ministry of Administration and Digitalisation should develop legal solutions regulating financing through crowdfunding. These solutions should be simple and safe for entrepreneurs.

An idea worth considering is setting up a crowdfunding platform under the patronage of the Warsaw Stock Exchange. There are several platforms in Poland (e.g. www.polakpotrafi.pl); however, they are relatively small and do not provide the same fundraising capabilities as foreign ones – Kickstarter or Indiegogo. Unfortunately, foreign platforms charge relatively high fees – first by the platform, then by intermediaries such as PayPal. There is also a currency risk.

Detailed recommendations

Creation of a crowdfunding platform by the Warsaw Stock Exchange. This platform would be used to finance projects in Poland and then would become the main platform financing innovative enterprises in Central and Eastern Europe.

Due to the existence of moral hazard, projects would be initially verified by a team of analysts appointed for that purpose. The funds collected would be frozen in the platform's account. Funds should be distributed in such a way so that the flow of funding depends on the completion of each particular stage of a project. Another step is the creation of a Special Innovative Economic Zone in Poland. Entrepreneurs using the Warsaw Stock Exchange's crowdfunding platform from Poland, Ukraine, Belarus, Russia and other post-communist countries would be guaranteed a place of work there and a place where they can develop their business. A strategic objective of that initiative is to create an innovation centre – a “Polish silicon valley”. The expansion of the platform's reach to cover Eastern countries brings a higher risk but offers an opportunity to achieve a “brain drain” – bringing in the most talented people from other countries and integrating them into Poland.



Anna Maria di Giorgio

is a 22 year-old Italian student. She graduated last July from the Guido Carli Free University for Social Studies in Rome, obtaining a bachelor's degree in economics, with a strong focus on accounting and finance. She was awarded the maximum grade for her final dissertation: *The adoption of international accounting standards in the European Union*. Since September, she has been enrolled at the University of Neuchatel in Switzerland, attending a 2-year master's program in finance. Currently, Anna Maria is a summer intern in the department of Global Security Services at UniCredit Bank Austria in Vienna.

What hinders the Italian development and what could be done for my country to progress?

Italy, my country, is definitely not in good shape. Many problems are currently threatening economic prosperity and the quality of life. I would like to point out some issues that I think are the most harmful for the development of Italy as well as proposing a solution.

The Italian Corte Dei Conti, the supreme audit institution for the country, has estimated the cost of corruption in Italy at 60 billion euros, a number equal to 7% of the national GDP and 50% of all the corruption present in Europe. This terrifying figure must be fought against for the survival of a civil state.

A serious expression of corruption is “false accounting” which means the alteration, concealment or destruction of accounting records. This phenomenon harms everyone in various ways, first of all depriving the community of large amounts of evaded taxes, but also creating resources intended for harmful activity.

In this context, worthy of mention is the estimate of tax evasion made once again by the Italian Corte Dei Conti that amounts to about 120 billion of euros.

The above shows the severity of what my country is enduring and it is hard to imagine how different life would be if these problems were solved.

Our Parliament is currently discussing a draft law called *Anticorruzione* (Anti-corruption) that proposes punishing false accounting as a crime which was previously decriminalised. Public opinion is split regarding the adoption of this measure due to questions about its possible efficacy.

My argument is that corruption, false accounting and tax evasion cannot be eradicated with legislative instruments alone, but our society must start to think about these crimes as such, rather than perceiving them as venial sins or, worse, as clever tricks.

This is therefore a problem of civil education. Hence, the role that schools can play is of paramount importance: only the civil development of new generations can eradicate these phenomena. There is need to introduce or revisit Civic Education, with the primary aim of conveying a sense of legality, together with providing information about the institutions and the rights and duties of public administration. Besides this, the media and social networks could be powerful tools to conduct an awareness-raising campaign with the aim of illustrating how collectively we can benefit from the correct application of the law and the principles of civil society.

In addition to the plague of corruption, my country is witnessing with increasing frequency a “brain drain”, the emigration of well-educated individuals to a different country for better opportunities and conditions. Many young people, although talented, are being overtaken by others less professionally prepared and they are moving abroad, hoping for fairer recognition of their merits and their preparation. This phenomenon, because of its size, represents a significant handicap for my country, as it produces a shortage of young talent that could make a significant and lasting contribution to quality in research and innovation.

Actually, this is just the tip of the iceberg of a widespread phenomenon, especially in the public sector, namely the lack of meritocracy. Every day we see results of rigged public competitions and career advancement, and, generally speaking, we are assisting this lack of assessments based on merit. The damage to the community comes not only from the widespread feeling of mistrust in the system, but also through the work of people that are actually unqualified for the function to which they were appointed.

In my view, like private companies, public authorities should adopt a Code of Ethics, issued by a third body that would certify compliance with ethical principles in the conduct of the business. In addition, it would be useful to promote the activity of “whistleblowers”, i.e. anonymous callers who, aware of irregularities and misconduct, report them to a special committee, which accordingly decides whether to proceed with an investigation.

**Maciej Reich**

originally from Warsaw, Poland, now lives in Oxford in the UK and works in the investment management industry.

He went to the Staszic High School in Warsaw, followed by a Paweł Czarzoryski scholarship to Dulwich College in London. Afterwards, Maciej studied mathematics at the University of Cambridge (Girton College), completing with distinction a BA/Masters degree in probability and financial mathematics. Maciej now works in an Oxford-based quantitative hedge fund as a financial analyst.

In his spare time, Maciej enjoys cycling, skiing, scuba diving and ju-jitsu, as well as reading, cooking and exploring Scotch whisky.

Can the Polish educational system be improved?

The education system is the foundation of every modern country. It is pre-schools and schools that mould children into citizens, scientist, teachers, politicians, workers and so on. This is especially true in this day and age, where innovation is the key driver of growth – societies need entrepreneurs, who in turn need qualified employees, all of whom rely on policies set forth by politicians.

I believe that the assumptions on which the entire Polish education system is built are fundamentally flawed. In their educational mission, schools often see their job simply to transfer facts to their students and enforce discipline. But perhaps the most important elements of an education – skills and attitudes – are completely missing, if not in fact suppressed. Polish schools actively discourage their students from critical thinking, analysing and comparing facts or seeking a deeper understanding of the encyclopaedic knowledge they are taught. Attitudes such as proactiveness, leadership or ambition are not only unwelcome, but in fact often seen as students' resistance to the teaching process. I believe that the educational system in its current shape could be a major obstacle to development in Poland and urgently needs an overhaul – not only to the curriculum, but crucially the entire approach to education.

Having attended schools in both Poland and abroad, I have some personal examples of these phenomena. In Polish literature classes in a leading Warsaw school, I would meticulously write down the analysis of a book, dictated by my teacher, with my final grade depending on how closely I can reproduce it under test conditions. In history lessons, students are only expected to memorise a sequence of events with corresponding dates. By contrast, learning clas-

sical history in England, lessons were dedicated to an analysis and comparison of sources. The stress was placed far more on the student's ability to think critically for themselves than on fact-crunching. In physics, students would conduct experiments themselves, so they could observe first-hand how the universe works, albeit on a small scale. In Poland, meanwhile, it would appear that the world is defined by the theoretical laws of physics, which just need to be memorised and appropriately applied. As a result, Polish students leave school unaccustomed to solving real-life problems, and therefore unprepared for analysing new situations, understanding unfamiliar realities or forming an opinion from biased sources of information.

Schools in Poland often do not see it as their job to inspire students. Dedicated teachers are often willing to organise extra-curricular lessons for interested pupils, but effort rarely goes into making uninterested students more involved, inhibiting their learning process from the outset. In the UK, schools make an effort to invite outside speakers – local celebrities of various calibres, sportspeople, scientists, interesting alumni etc. – to show education in a broader context, as a path leading to fascinating opportunities. In Poland, strangers are rarely allowed inside school buildings. Even the readily available examples – pupils who succeed in sports or arts – are rarely publicly praised. In Britain, successes small and large are often celebrated in the open, setting an example for others, but also showing vividly that actually the school cares about success. When success receives no open praise, it is easy for an unmotivated student to feel that, in fact, nobody cares.

On a similar note, Polish schools do not expect their students to show initiative. In the UK, the drive to achieve a goal is seen as a key attitude children need to draw from school. In Poland, meanwhile, teachers often discourage this, preferring to focus on uniformity and discipline instead (which of course is also important in a school environment). But without initiative, there can be no leadership. New inventions, businesses and political agreements can never be born out of idleness and mediocrity. By suppressing initiative, Polish schools set the country of a course of following, not leading.

Symptoms of these problems can be seen at a higher level, outside of the educational context, where their damage becomes more apparent. Public debate often steers clear of the real substance of the issues under discussion, instead focusing on trivialities, such as appearance or social gossip – therefore

depriving the society of a key element of the democratic process. Contrarian but valid opinions are often treated as an assault on common sense, and sometimes even as treason. But this has catastrophic outcomes: such suppression of debate desperately erodes any decision-making process. If argument-based discussion is not admitted as a valid approach, in which all reasonable views are respected, the result of any decision-making process becomes random, opaque and sentiment-based – all of which are destructive. In terms of business, it is surprising that in this age of international technology start-ups, the Polish presence on this stage is so limited – despite the unquestionably world-class technological education available to Polish students. Although many other factors are also to blame, there is no culture of aiming high or celebrating success.

This diagnosis, like any generalisation, cannot be accurate about all schools. There are educational establishments in Poland that cut through the above description, providing an example for others to follow – and indeed many schools produce highly successful graduates. Unfortunately, for the education system as a whole, examples are not enough – it needs active management for improvement.

Ideally, one would swap the curriculum for a better one, replace bad teachers with good ones and change the whole atmosphere surrounding education – but clearly this is not a quick or simple task. Fixing the entire educational system is an enormous project, requiring coordinated action over years, or likely decades. But a number of changes, small and big, can easily be applied sooner.

Of the immediately available improvements, changes to the curriculum come to mind as being most obvious. Polish schools could easily incorporate a subject such as theory of knowledge, as taught within the International Baccalaureate, which focuses on interpretation and discovery. Subjects such as history should include more analysis-based requirements, forcing students to compare contradictory sources – not only equipping them with a skill, but also making them accustomed to different points of view, interpretations or just human biases. Natural sciences should put more focused on being an empirical description of the world, rather than fundamental rules that nature must follow – and in fact students should have a chance to see the experimental process in practice.

There are also much smaller and simpler changes, which unlike the suggestions above, depend much less on teacher preparation or even funding. Starting even from pre-school, children should be accustomed to forming, justifying and discussing opinions. Older children should be made to engage in more formal debating – where actual beliefs are abstracted, and the central focus lies in the process of exchanging and evaluating arguments. Initiative and ambition should receive praise and encouragement – perhaps even backing by the school in areas such as charitable work, sports or helping others in their studies. The central educational authorities should actively encourage students to take part in international competitions and events, to inspire all students (not just the most gifted) to aim high and achieve their maximum potential. Schools should publicly celebrate their pupils' successes in all fields, to motivate all students to be more ambitious. These proposals require minimal real input from the central authorities; rather they just loosen the current cap on creativity and free thinking, allowing natural human curiosity to develop into real skills and positive attitudes, making space for future changes at the same time.

Polish education has certainly come a long way over the 25 years of democratic rule, under successive evolutionary changes. But to really unleash the full potential of Polish society, more is needed. In statements, Poland certainly claims to aspire to leadership in foreign relations, sciences and arts. It is therefore time to put words into action, by creating a learning environment that can raise a new generation of leaders who can make it happen.

**Miłosz Rutkowski**

is a student of finance and accounting in the Faculty of Economics and Management at the University of Szczecin, where he is the chairman of the Macroeconomics Society. He has been awarded a scholarship from the Ministry of Science and Higher Education and is a member of the European Financial Congress Academy. He has been involved in international research projects in collaboration with the University of St. Gallen (Switzerland), the University of Duisburg-Essen (Germany) and the Autonomous University of Barcelona (Spain). He is the author and co-operator of numerous publications on economics and finance. He has participated in numerous workshops and conferences. His research interests include: scientific experiments connected with business processes using neuroscience.

Financing of higher education in Poland – various aspects

Knowledge and the level of education is an extremely important aspect of the development of the economy of every country, which is reflected in the EU's Europe 2020 Strategy. Its goals include reducing the number of students prematurely finishing education to under 10% and reaching a situation where at least 40% of people aged between 30 and 34 years old will have higher education. In this regard, Poland has achieved better results than the EU average as in 2013 it had 40.5% of people with higher education in a given age range in comparison to the EU's average of 36.9%. The Europe 2020 Strategy assumes that we should allocate 3% of GDP towards investments in research and development. In Poland the vast majority of money for higher education institutions comes from the State Treasury. Is the amount of money allocated towards higher education in Poland sufficient? Is the money being spent properly? What would I change in my country?

Many changes must take place in our country in order to improve the education of young people. The government should increase funding for higher education institutions, while simultaneously implementing an appropriate system making institutions accountable for the money they spend. It is extremely important to survey the job market in order to know the current and future demands for various professions. This would make it possible to match the number of vacancies in every field of study. We would avoid senseless waste of money in educating future unemployed graduates for which there will be no vacancies in the job market. The number of highly qualified workers performing work requiring average or low skills is increasing. According to Eurostat data, the number of people performing work below the level of

their skills increased from 11% to 19% in the years 2002–2012 – this was the highest jump in the entire European Union. This proves that demand has not been adjusted to supply in the labour market. More rigorous requirements for starting to study in a given area should be introduced so that not just passing the high school final exam but passing it with a good grade would guarantee a place at a university or college. The government should also increase funds for scholarships, with a particular focus on social scholarships. Many young students are in a difficult financial situation and they are forced to take jobs as they are not able to count on their parents to support them. This often has an effect on their education – the superficial assimilation of knowledge only to an extent allowing them to pass an exam, or missing lectures because they collide with working hours. On the other hand, scholarships constitute a motivation for young people to do better at school. Instead of paid work they would choose school in order to obtain a scholarship which would be sufficient to cover their costs.

It should be extremely important for the state to contribute to the financing of scientific research, with particular emphasis being placed on technology and medicine, including research into new drugs. This is a very important aspect of today's world. Without investing in the search for new solutions or treatment methods we will not achieve profits.

Universities can also change a lot to improve the situation in our country. Above all, the education method should be modified. More practical classes and projects, instead of focusing on very detailed theoretical knowledge, which is sometimes completely useless. The number of people in groups should be reduced, which would help contact between the lecturer and the individual student, more thorough checks of knowledge, and in the case of practical classes, it would make it possible to acquire and solidify practical skills more efficiently.

A good solution would be to create a system of cooperation with the area around a university, with a particular focus on the economic sector. It would make it possible to increase the level of education, acquire more practical skills, and for talented students to get jobs right after graduation. This is also important from the point of view of continuous improvement of skills and the acquisition of knowledge by academic staff, which should be widened on an on-going basis and evaluated by appropriate university boards. Meanwhile,

cooperation between employers and regional universities would be an excellent opportunity to acquire talented, young, enthusiastic employees even while students are still studying, making it possible to invite the most talented students in a given sector to start internships and then to work for them.

It would be a good idea to offer lectures in English in many areas of study. For universities, this would be an excellent opportunity not only to increase their prestige but also increase the revenues they would receive from countries sending their students to Poland, or from individual foreign students for whom studying at home is too expensive. Attracting foreign students to study in Poland would have a positive impact on the country's economy because young people spending money in our country would drive the economy. Attracting foreign students to study in Poland would bring not only financial benefits for universities but also an opportunity for Polish-speaking students to communicate in foreign languages, thereby improving their language skills, which is so important today.

The form of current internships should also be changed to allow students to take them abroad. This would make it possible to widen perspectives, to observe the working conditions in a given profession in other countries and to increase the future competitiveness of Polish enterprises on global markets. While at university, every student should have at least one opportunity to go abroad, which would be fully financed by the university.

I would like to point out another important problem, i.e. the low ratio of textbooks in university libraries to the number of students. This creates a situation where not all students have access to highly specialised textbooks. It is hard to demand that students buy textbooks for every subject in which they enroll, the more so that frequently the price of the textbook is too high for the budget of an average student. In this respect, what seems important is to subsidise libraries so that they are able to buy a larger number of textbooks and buy access to paid portals, which would allow students, at least within the library's environment, to gain access to the latest publications and results of scientific research.

Another issue is the underfunding of student academic clubs. Students are forced to organise societies, pay membership fees and pay for the organisation of academic conferences run by students. Shouldn't all this be funded from the university's budget? Shouldn't the university financially support

its most talented students who want to expand their interests and skills in a given field?

The poor quality of the Polish higher education system is reflected by the low position of the leading Polish universities in global rankings. This can also be observed in the poor results of research work being conducted by universities in the form of the small number of patents, implementations and citation indices. We should seriously think about improving the situation of higher education in our country. I hope that the problems mentioned by me in this article will contribute to the implementation of new solutions in the Polish education system and to the improvement of its effectiveness, which will contribute to the improvement of the ratio of supply to demand in the labour market, thus significantly reducing the unemployment rate, especially among young, eager and highly qualified graduates of Polish universities. I believe that my suggestions of solutions can increase the level of internationalisation of the Polish higher education system and improve the competitiveness of Polish enterprises in global markets, which will indirectly contribute to the growth of GDP.



Oleksandra Novosad

I am 22 and from Ukraine. Currently I am studying a master's degree in finance at the Wroclaw University of Economics and working in Hewlett-Packard Financial Services. I participated in the US Exchange program FLEX 2009–2010. I am a fluent speaker of Russian, English and Polish and I am currently studying Spanish.

In my spare time, I have been an active volunteer for different cultural events such as Euro 2012 and Wroclaw Global Forum. I love to travel and cook. Financial guru – Nassim Nicholas Taleb.

Monetary policy in Ukraine in the scope of political crisis

Introduction

Ukraine is a young developing country in Eastern Europe that has recently earned popularity due to the political crisis and revolution. Under these conditions it is interesting to analyse its monetary policy. In Ukraine, the legislative body that performs monetary policy tasks is the National Bank of Ukraine.

Economic prosperity and political stability are two sides of the same coin. And it is hard to say which of these factors has a more crucial effect, especially in the case of Ukraine today. Monetary policy is one of the cornerstones that can provide a stable base for economic growth; however, it strongly depends on political trends, because money is the main instrument of politics.

According to Ukrainian law, the main aim of the National Bank of Ukraine is to ensure the stability of the national currency (hryvnia or UAH) and promote the goals of the Cabinet of the Ministers if they do not interfere with the stability of prices and the banking system. In Ukraine these two are highly correlated and when the government pursues populist ideas, the central bank does not always remain an anchor of pragmatism. Also, the actions that the NBU takes do not always have an immediate outcome and to understand why the country is in such a deep recession we need to analyse what happened previously.

Actions of the NBU in 2012 under Sergiy Arbuzov

In this section will be described in details the actions that were taken by the NBU in 2012 because they are the main cause of the current stagnation.

Interest rate

Table 1.1

	Public			Enterprises		
	All	Short-term	Long-term	All	Short-term	Long-term
06-12 2010	22.4	21.1	23.8	12.8	11.8	17.0
2011	24.1	24.4	24.4	14.4	14.2	15.8
2012	27.6	26.8	28.6	16.8	16.8	17.6

Source: Ekonomichna Pravda

Since 2010 NBU was raising long-term interest rates, shrinking the economy, because the cheap debt was not available for the business, which is not good for such developing economy as Ukraine. The table above presents the interest rates for physical figures and juridical ones, but the statistics are biased with extremely cheap credit to government enterprises (read: money laundering), which means that in reality debt was even more expensive. At the same time as the amount of money injected into the economy was decreasing, social payments were increasing, producing an increase in prices since citizens were spending more.

GDP

Table 1.2

	Nominal GDP in millions of Hryvnias	Real GDP growth
III Q 2010	301 251	103.3
IV Q 2010	307 278	103.7
I Q 2011	261 878	105.4
II Q 2011	314 620	103.9
III Q 2011	376 019	106.5
IV Q 2011	364 083	104.7
I Q 2012	296 970	102.0
II Q 2012	351 777	103.0
III Q 2012	n/a	98.7

Source: Ekonomichna Pravda

Gross domestic product is a measure of how much the economy has produced. In 2011 there was a short period of GDP growth – due to the high prices for steel products around the world, and thanks to Euro 2012. However, once the world prices for steel and iron ore plummeted and the multibillion infusion from Euro 2012 ceased, GDP started to deteriorate rapidly. This shows that Ukraine does not have internal sources of growth and strongly depends only on the main trends of steel prices. Of course to some extent this is the fault of governments, which have not done anything to eliminate the problem. But why did no one ask whether the responsibility for such a nightmare belonged to the National Bank? After all, if there is not a large amount of cheap money how can the economy develop? And at what rate?

Inflation

Table 1.3

2011	101.0	100.9	101.4	101.3	100.8	100.4	98.7	99.6	100.1	100.0	100.1	100.2	104.6
2012	100.2	100.2	100.3	100.0	99.7	99.7	99.8	99.7	100.1	100.0	99.9	100.2	99.8
2013	100.2	99.9	100.0	100.0	100.1	100.0	99.9	99.3	100.0	100.4	100.2	100.5	100.5
	01	02	03	04	05	06	07	08	09	10	11	12	Total

Source: <http://index.minfin.com.ua/index/gdp/>

As was mentioned before, one of the main goals of the NBU is to maintain price stability, which usually by default means keeping inflation stable. According to the main statistical office, in 2012 inflation was extremely low, despite the fact that actual prices were going up (the reason was mentioned above). But what does this data actually mean?

On the one hand, low inflation is not bad. This is something to brag to the IMF about – we are almost Europe. Moreover, any complaints to the National Bank are unfounded. The constitutional duty has been performed. But on the other hand, it is a complete nightmare. Because stable prices along with falling GDP and industrial production are symptoms of economic stagnation. Low inflation is something impossible for such a developing country as Ukraine.

Why?

Table 1.4

Official international reserves of Ukraine in 2012 (in millions of dollars)

01.01.2012	31794.6		
01.02.2012	31364.1	-430.5	1.4%
01.03.2012	31048.6	-315.5	-1.0%
01.04.2012	31128.0	+79.3	+0.3%
01.05.2012	31660.6	+532.6	+1.7%
01.06.2012	30758.9	-901.7	-2.8%
01.07.2012	29318.0	-1440.9	-4.7%
01.08.2012	30081.4	+763.4	+2.6%
01.09.2012	30000.8	-80.6	-0.3%
01.10.2012	29254.9	-745.9	-2.5%
01.11.2012	26816.9	-2437.9	-8.3%
01.12.2012	25376.9	-1440.0	-5.4%
01.01.2013	24546.2	-830.7	-3.3%

Source: IMF

The only reason why the NBU decreasing the amount of hryvnias in the economy is to demotivate the public from buying foreign currency, due to the lack of internal reserves.

The NBU simply keeps the exchange rate fixed, but it is hard to say whether the NBU has succeeded in pursuing its goals, because what we had overall was an inability to stimulate the economy with cheap debt, a low amount of money in the economy, which however did not reduce the prices and a stable exchange rate, but at the price of diminishing national reserves. It can be called “artificial exchange stability”, because it was not backed by macro-economic indicators.

Actions of the NBU in 2013 under Igor Sorkin

On 11 January, the head of the NBU become Igor Sorkin and he implemented a much more adequate monetary policy, which unfortunately couldn't undo in one year all the harm done in the previous years.

For 10 months (from January to November, before the start of demonstrations), the total amount of loans to business and the public according to banks' balance sheets grew by 56 billion, or 7.2%. And most of the loans went to the real economy – 76% of lending operations. During that period, banks provided the necessary level of resources for productive lending. The support for NBU liquidity was higher by one third than the previous year. This allowed banks to plan their active operations. On the other hand, in 2013 interest rates remained low in the interbank market – 3–4 % compared to 10–11% in the corresponding period of 2012.

At the same time, Sorkin expressed satisfaction that the Ukrainians took out loans only in the national currency. The stability of the hryvnia contributed to its dominance as a store of value. In his view, this significantly reduced the risk faced by long-term depositors. The total volume of long-term debt has increased by 5.6 percentage points – nearly 42% in the period from January to October 2013.

At the same time, despite low inflation, an accumulation of external and internal imbalances in the economy took place. So in 2013, the deficit of the net balance reached 9.0% of GDP, which is not fully covered by the assistance of debt funds in the international markets. This affected the dynamics of international reserves, which in 2013 decreased by \$ 4.1 billion.

Consequences of the policy

What Ukraine had as consequence of such a policy was that in June 2013, Ukrainian reserves fell to more than a six-year minimum – \$23.14 billion, and \$ 6.4 billion of that had to be returned to the IMF. Ukraine's own funds only amount to \$16.7 billion. Despite this, the government debt is 40.5% of GDP. It should be taken into account that in 2014 Ukraine needs to payout a lot of foreign debt; in June – \$1 billion in euro bonds, approximately \$1.2 billion to IMF, and in the second half of the year \$1.6 billion for gas (the total amount exceeds \$5 billion), and do not forget that Ukraine usually has problems with repaying its debt for gas.

Table 1.5

Official international reserves of Ukraine from 2012 to 2014 (in millions of dollars)

01.01.2012	31794.6	-2781.4	-8.044%
01.01.2013	24546.2	-7248.4	-22.798%
01.01.2014	20415.7	-4130.5	-16.827%

Source: <http://index.minfin.com.ua/index/assets/>

With this information, it is clear that Ukraine is very close to a default. By knowing this we can see how monetary policy influences politics, because the whole fuss about signing the treaty with the European Union or the Custom Union could be simplified to the question who is willing to give more. Whether the EU can afford to buy a second Greece or how much Russia is willing to pay to keep its political influence?

The political crisis and its influence on monetary policy

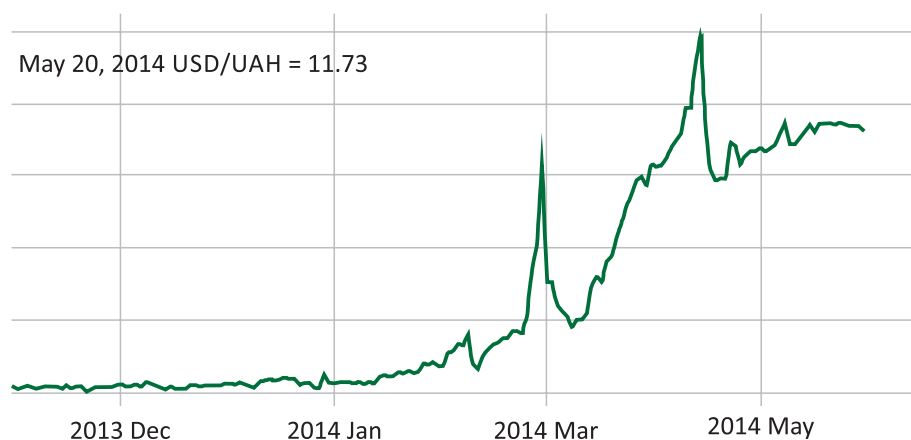
In this section, the actions taken by the NBU in the light of political instability will be discussed.

First of all, the political crisis with a poor background of reserves made society very anxious about credibility of Ukrainian bonds in February 2014 (at the peak of the political crisis). Standard&Poor's lowered the rating from "CCC+" to "CCC", Moody's from "Caa1" to "Caa2" and Fitch from "B-" to "CCC". Reports of the death of more than a hundred Ukrainians during the power clashes on the streets across the country triggered a new surge of massive sell-offs of sovereign Ukrainian eurobonds on world markets. Their yield jumped to historic record levels. For securities maturing in 2014, the rate soared to almost 35% and for 2015–2016 bienniums the rate went up to 14–16%. To make the situation even "better" in the same month the head of the NBU changed from Sorkin Igor to Kubiv Stepan. The changes were needed but as the famous quote of Abraham Lincoln goes: "You don't change horses in the middle of the river", yet under the supervision of the previous head Sorkin the NBU changed its policy from a fixed to floating exchange, which overall was a good decision but poorly performed, due to the lack of normal communication between the government, the NBU and the citizens of

Ukraine. No one gave a press conference to the public about the fact that the hryvnia had moved toward its true value by devaluating by approximately 30% (from around 8 UAH/USD to approximately 12 UAH/USD). Not only because of political instability, but also because of the panic among the public, because no one understood what has been going on the hryvnia started devaluating sharply. According to the finance ministry, in the period from January to April the outflow of deposits reached more the 75 billion hryvnias, which additionally caused a lack of resources for financing. In the given period it was barely possible for citizens to buy foreign currency even on the black market because demand was so high. Even if somebody did place deposits in a bank, the most favorable currency was the US dollar, which up to the end of May made up more than 43% of deposits.

Table 1.6

Exchange rate USD/UAH from November to May



Source: YahooFinance

One rule can be made from this situation: *The longer a country with unnatural inflation maintains the stability of its currency, the higher the probability of the next monetary crisis and the more destructive it will be.*

The victory of the opposition opened up more of international funds for Ukraine. In fact, Russia has promised Ukraine financial help too but

with sanctions from the UN resulting from the annexation of Crimea it has become impossible. The IMF granted \$17 billion to Ukraine on 1 May, and the first tranche amounting to \$3 billion was paid a few days after. Of course this two-year “stand by” credit was given on the condition of a total restructuring of the banking, economic, juridical and other sectors. This credit has saved the Ukrainian hryvnia from dropping to 23–25 UAH/USD.

It is expected that this IMF credit will open other assistance from international financial institutions and increase its total amount to approximately \$27 billion.

Secondly, the government and the World Bank signed loan agreements on the financing of three new projects in Ukraine with a total value of \$1.48 billion. The first contract provides \$750 million for development policy, the second contract for \$382 million is to increase energy efficiency in heating services, and a third for \$350 million will develop infrastructure in Ukraine. Also, the government is planning to sign a treaty by the end of July with the World Bank for another loan of \$500 million to stabilise the banking sector.

Basically, Ukraine has taken debt to repay previous debts, which were not restructured, and additionally have funds to stimulate the economy.

Another good example how politics can completely illogically influence the price of national securities is the fact that a few days after the election of the new president, even when not all votes had been counted, Ukrainian eurobonds jumped in price to a level higher than when Viktor Yanukovich became president (four years ago, so a stable economy is more risky than a country with civil war). Bonds from early May increased by 7.9% and thus Ukraine showed the best result among 56 developing countries. The index of Ukrainian shares in late May increased by 4.6% and reached a two-year minimum. Thus, its growth this year was 33%.

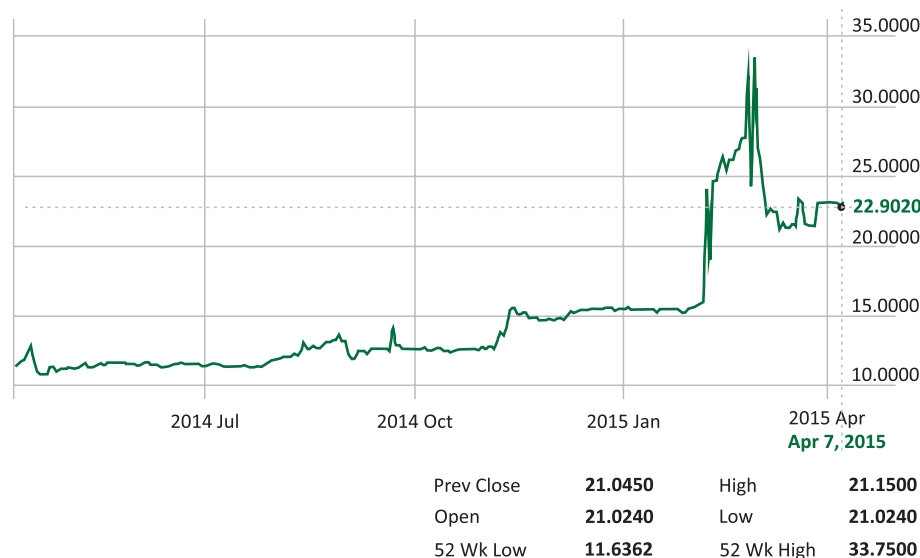
Actions of NBU in 2014–2015 under the Stepan Kubiv & Valery Hontareva

Before going into depth, a brief look of current actions are as such: first of all, resigning from a fixed exchange rate basically means that the NBU moved toward inflation targeting because a floating exchange rate provokes inflation expectations, stimulating multiplier effects in this area, so significantly increasing the relevance of the system of balanced anti-

inflationary policy. Also, the national bank lowered the cost of stabilisation loans to a discount rate of 1.5% from 2%, and loans to maintain the liquidity of banks to 2% from 3% from the end of May. Also, the NBU started to investigate banks to detect imprudent actions and operations.

Of course, 2014 will be not the most prosperous year for Ukraine but it may help the economy to recover in 2015. The actions taken by the NBU must be tough to provide a solid base for economic growth in the future. Since June 2014, Valeriya Hontaryeva has been in charge of the NBU; another change and placement of a presidential protégé. And for people with even slight financial knowledge it was clear that it will be a total fiasco when in August 2014 the NBU declared a prohibition on withdrawing foreign currency by any citizen due to anti-money laundering procedures. What can be said about the chief of the NBU who treats her employers (the people of Ukraine) like people who can be easily deceived? The criticism is not the decision itself but the lie behind it. Yes, Ukraine has a lack of currency and needs to protect its reserves, but instead of explaining the circumstances she increases the fuss on the black market and public distrust toward government.

Table 1.7 Exchange rate USD/UAH 2014–2015



Source: YahooFinance

Starting from 4 to 6 February, the interbank exchange rate began to grow rapidly. The USD has risen from 17 to 25 USD/UAH and on 19 February once again the dollar rose rapidly from 27 to 32 USD/UAH. (February 24).

On 25 February, the prime minister of Ukraine went to the president demanding that Valeriya Hontaryeva intervene in the situation. Hontareva then banned trade in dollars on the interbank market and the dollar fell to 27 USD.

During the period when Valeriya Hontaryeva was the head of the National Bank, from 19 June 2014 to 12 March 2015, the official hryvnia exchange rate fell from 11.84 to 21.55 USD/UAH.

The NBU Council decision No. 30 of 17 December 2014 "On the status of the basic principles of monetary policy for 2014 and its impact on the socio-economic development of Ukraine" decided that:

Situational decision-making in monetary policy was one of the factors creating excess demand for foreign currency in the interbank market, which largely led to a sharp depreciation of the hryvnia (the UAH decrease in the average rate on the interbank market during 11 months was 83.7%) and stimulated inflation which appeared in increasing consumer prices.

Untimely actions of the National Bank of Ukraine in the foreign exchange market on the one hand, made it impossible to significantly limit the rate of devaluation, while on the other this has led to a reduction in international reserves since the beginning of the year to 51.2% or 10.4 billion US dollars, and as of 1 December 2014 they accounted for 10.0 billion of US dollars.

Conclusion

It is sad to admit but despite the change of government and the cruel sacrifice of young people who gave their lives, the NBU is today repeating the same mistakes or on purpose helping to destroy the economy of the Ukraine and sell everything abroad at a favorable price.

Only one conclusion is inevitable and just a matter of time due to the war, the instable currency and the lack of internal and external investments. Despite all the help from the IMF, Ukraine will suffer from a recession for the next 3–5 years at least. Of course to rebuild the economy, complex actions in various institutions are required. In my opinion, the NBU can make the following important if not crucial contributions:

- Restore the public trust. Yes, the situation is harsh, but by deceiving the public only panic can be created. People must trust financial institutions to lend money to banks and not to hide them under the pillow.
- There is a need to cut the demand for foreign currency, but the best way is to explain why it has to be done.
- Inflation targeting, but adequate and real – not at the cost of national reserves.
- Available cheap credit for a business to create new jobs and drive GDP. This is impossible without the trust of lenders and external funds.



Wojciech K. Kaczmarczyk

(born in Raciborz in 1993) studied at the August Witkowski School in Krakow before studying Land Economy at the University of Cambridge. His interests include regional economic development and the property market. He is a committee member of Cambridge University Environmental Consulting Society and Cambridge University Polish Society. He is currently working on an assessment of the influence of planning restrictions on commercial rents in the United Kingdom for the Adam Smith Institute in London. In his free time he is a passionate traveller.

Poland in the European Union – how to maximise benefits?

In today's geopolitical context, Poland is seemingly an integral part of the Western European system. Both the European Union and NATO seem to be strong guarantors of the stability of this situation. Despite rising concerns about the future (which are not necessarily justified), it is currently hard to point to serious threats to the position of Poland. Participation in the European project is undeniably of benefit to the development of Poland. The rapid economic growth in the last quarter of a century seems to confirm that the course embarked upon is reasonable. Even though the economic change seems to be a success, the current position of Poland leaves a lot to be desired. There are still areas that need significant improvement in order for Poland to maximise its Poland.

The European single market is a huge change in terms of the economic opportunities of Poland. The elimination of restrictions on trade in such a large area resulted in the creation of a large market, which offers opportunities and, at the same time, represents a big challenge. The period following 1989 is a good example of the risks that come from exposure to free market forces. Companies, the majority of which were state-owned and which before 1989 did not have to compete with other companies and had a market for their products, were not able to handle the competition from their better foreign competitors. Significant changes had to take place in management and technology in order for the companies to continue to operate. While this period in the history of Poland has long passed, competitiveness is still crucial to economic success. In an integrated Europe, in which more and more areas of law are unified, the ability of companies to respond quickly to market change

is becoming increasingly important. Many private companies in Poland have a strong position and may boast international successes. However, some economic sectors have still not adapted to the free market model and the costs relating to their operation are borne by all Polish taxpayers. The most blatant example of this is mining, which no government has been able to reform. State-owned transport, railway and aviation companies face a similar problem of incompatibility with the needs of the market. Their organisational structures are particularly resistant to change aimed at adequately addressing the needs of clients. To optimise the economic capacity of Poland, these sectors of the economy should adapt to actual social needs. It does not mean that they should be totally based on profitability, as this would not be possible in, for example, the rail industry. The availability of efficient public transport is an important element in building the attractiveness of a region. Therefore, public transport should be developed in such a way that it is attractive to passengers and remains in competition with other means of transport. The situation is similar in the case of mining. It should respond to the real needs of the Polish energy sector and should not be an end in itself, as with such an approach it generates unnecessary costs, slowing down the transformation process of post-industrial regions. Therefore, I believe that the adaptation of all sectors of the economy to development needs would be an important contribution to the development of Poland.

Environmental policy is an important area of the activity of the European Union. Poland, as a member state, is also subject to environmental legislation. Standards established within the Community are often quite stringent, which may pose a significant problem especially for less affluent countries. However, it is unlikely that the legislation will be relaxed, as it would be detrimental to the spirit of the principles of Community law. Therefore, it is important to be able to find the advantages of this situation. While more stringent standards constitute a financial burden, they may also provide an incentive for technological development, which may pay off in the long term. It is important for Poland to strengthen its position in the field of environmental technologies, as in the future they may be an important element of the economy. Not only EU Member States but also other countries suffering as a result of the deterioration of the environment may seek advanced solutions for the limitation of emissions, recycling, renewable sources of energy, etc. Since Poland is obliged

to comply with environmental standards, it should not lag behind the rest of Europe, as is now happening, for example, in the area of air quality. While it is debatable what the point would be of introducing even more stringent standards, finding a way to actively participate in today's market for environmental technologies would put Poland in a good position both in the European Union and in the world.

In the case of both environmental and economic issues, the competitiveness of the Polish economy is of crucial importance. The term "competitiveness" is not very clear and may be understood in different ways. A given area may be competitive in terms of production costs. It is currently one of the considerable assets of Poland in the single European market. However, it is hard to consider it an economic success – low production costs mean low wages and a poorly educated workforce. This, in turn, raises concerns about the quality of life. One of the significant aspects of integration is the improvement of living conditions and the ambition to bring Polish living standards up to those in Western Europe. However, it seems that it is not possible to achieve such a level of development without your own technology for improving productivity. This, in turn, requires high-level universities and other centers for technological knowledge and research as well as their effective cooperation with enterprises. In the current EU financial framework, substantial financial resources have been allocated for the development of Polish competitiveness. This issue is important considering the low ranking of Poland in many rankings of competitiveness in the area of innovation. The effective use of the current flow of funds requires effective cooperation between public administration and the private sector. This is an opportunity to try to enhance the quality of relations in this area. Close and flexible cooperation between public authorities and private organisations can considerably improve the position of Poland. Better understanding between the two types of entities could also help eliminate administrative barriers to the development of the economy. All such changes, relating to both administration and development studies, would strengthen the role of Poland in Europe and show that it is capable of being an important player in the long term.

In the light of the new, relatively different international situation, policy should change significantly. The long-term strategy aimed at ensuring economic development and stable market outlets and good economic relations

should be the focus of attention for governments. Measures to deter attempts to gradually limit the scope of the functioning of the European Union should be an element of policy, but we should not forget about the critical evaluation of Community decisions with respect to their profitability for Poland. Since the current structure of the European Union is based on a compromise, knowledge of the most crucial interests from the economic and political point of view is essential. Current measures, which are ideologically based (especially in the area of eastern policy), should be analysed in respect of their impact on the position of Polish entrepreneurs. Effective policy should be based on an understanding of the fact that the economic well-being of people is a priority and that economic relations with other countries make it possible to improve this significantly.

The last issue I would like to raise are disparities between EU member states. Taking into account the single market and the monetary union, they pose an important problem for the Community. Migration, which is problematic both for the areas from which people leave and the areas they migrate to, illustrates well the essence of the problem. Some countries in the European Union seem to be so peripheral that their opportunities to compete economically with central areas may be perceived as scarce. The aim of EU structural funds is to eliminate these differences. However, the recent example of Mediterranean countries shows that current solutions are not always effective. It is very difficult to suggest a solution that would be acceptable to everyone, considering the vested national interests, the large number of conflicting views within the Community, cultural differences and long-standing prejudices. However, in order for a united Europe to function efficiently and for the current European project to be continued, measures aimed at fiscal unification should be taken. The acceptance of such a solution is possible only if we ensure that the interests of all countries, including poorer and outlying countries, are respected. I believe that the European Union should undertake efforts to harmonise the living conditions within the Community.

The current position of Poland offers huge opportunities. Therefore, it is crucial that Poland fully exploits them. Although the Polish economy has come a long way since 1989, further efforts are needed. In the long term, the adaptation of particular sectors to competitive conditions seems to be a *sine qua non*, considering the increasing social expenditure relating to the ageing

of society. Other changes that should be introduced to ensure Poland's long-term success include a focus on an innovative and knowledge-based economy and smart acceptance of the EU's environmental policy. We should also not forget about the role of informed foreign policy, which may be a foundation for export success. One significant change that should take place in Europe is the mitigation of differences between EU member states, as it alone may provide a long-term incentive for further integration.

**Simone Corsale**

I am an Italian student currently enrolled in a double-degree graduate program at the University of Turin (International Affairs) and Sciences Po Bordeaux (Geo-Economics).

I have also spent some time studying in London (London School of Economics), Rome (LUISS) and Krakow (Jagiellonian University). My main interests range from international economics to international relations and political science.

My native language is Italian and I am fluent in English, French and Spanish. I have a basic command of Polish and Chinese (Mandarin).

The sizeable cost of the vacuum

Italy is a mystery for most international analysts who try to explain its economy, its political system and its society by looking at them from the outside. The task is no easier for foreign analysts living in Italy as well. The result of this is a miscomprehension of Italian affairs most of which are therefore often defined as “anomalies”. By doing so we commit a double mistake: on the one hand we simplify and make light of events transforming them in scandals, more a subject of cheap journalism than of social science analysts, on the other hand, and linked to the first point, there is a risk that they become isolated from the broader context therefore preventing a deeper and more global comprehension of the reasons. The economic crisis, public debt, corruption, criminal organisations, all of them are certainly Italian “anomalies”, resulting from complex factors which certainly deserve greater discussion. Nevertheless all of them have something in common and this could well be a lack of power. I will try to make myself clearer by providing some concrete examples.

CORRUPTION

Corruption is one of the infamous scourges of the Italian economy. According to OECD data, Italy has the largest perceived corruption figure in Europe, as 90% of Italians think that corruption affects institutions, both national and regional. An economic analysis carried out by the Court of Accounting in Italy pointed out that corruption costs the Italian economy some €60 billion per year, which if confirmed would represent 50% of the corruption cost for the whole EU, estimated by the European Commission at €120 billion, 1% of the

EU GDP. Recent scandals concerning major infrastructure and government contracts for public investments have contributed to a worsening of the situation and have created disillusion and, more dangerous, resignation among Italians, a godsend for populist parties claiming everything is wrong. Journalists and public opinion too often focused their attention on insufficient penal measures against corruption, a debate which quite regularly comes up in the political arena and which is sometimes acted on, as in 2011 with the adoption of the Severino Law reinforcing measures against corruption. However, such an analysis risks shifting attention away from what is probably the main reason of corruption in Italy: the inefficiency and the lack of transparency of bureaucracy with regards to government contracts. As evoked by the chief of the anti-corruption authority, the PM Raffaele Cantone, the first and most effective tool against corruption would be to intervene at the source by improving regulation concerning public investments rather than increase penalties against those who are found guilty of corruption. Looked at under this light, corruption would stop being an “Italian malaise” written in the DNA and would be explained by the inappropriate set of rules implemented by the legislator so far.

CRIMINAL ORGANISATIONS

Frightening and powerful, the influence of some of Italy’s major criminal organisations is a veritable cancer in society, especially in particular regions of the country, where it affects simultaneously the economy, politics, education and the social environment. Roberto Saviano’s bestseller *Gomorra* made that particularly clear and contributed to a deeper knowledge of the phenomenon all around the world. The lack of state power has created a suitable environment for those organisations to grow and become influential. Other than coercive power, meaning the constant threats against people and local firms, and economic power, by their involvement in internationally wide-spread trade, their very strength stands on the socio-cultural model they propose, which promises young and often unemployed people the chance to be successful in an upside-down world where illegality is perceived as the normal condition and the state is a bothersome obstacle. A more powerful state would need to intervene economically in the south of Italy, which suffers from under-devel-

opment compared to the North despite having natural, capital and social resources which would clearly enable it to do better. Secondly, the state would need to prove that legality is a more profitable choice than illegality for the large number of young people who feel abandoned and disregarded. Education is a key tool in order to fight against organised crime, as it broadens the perspectives of those who otherwise would consider it natural to follow the socio-cultural model they have direct contact with.

INSTITUTIONAL REFORM

Italy desperately needs a clearer institutional asset. After the experience of fascism, people were particularly worried about limiting executive power by strengthening all sorts of institutions which could balance it. This, combined with the historical corporatism and scattering of political power in Italy, was even more dramatic after the introduction of regions and it is now difficult to say who has the power to do what, thereby making it difficult to define responsibilities. Therefore, the problem is not just about governance, but also about democratic accountability as appointed governors are not actually able to do what they promise, even if they want to. On the other hand, citizens are becoming sceptical of the capability of politicians to represent their interests which undermines the legitimacy of the whole political system. Reforms that would give more power to the government would also make it more responsible and democratically accountable.



Rafał Rydzewski

is a private investor and PhD student at the University of Economics in Katowice in Poland. He specialises in investment portfolio management and behavioural finance methods. His academic research includes financial investment with a particular interest in the computer games and energy industry sectors. He is one of the founders and a board member of the students financial investment society. In his free time, he is an enthusiast of mountain trekking and calisthenics.

What would I change in Poland?

I would like to start by recommending that each reader of this essay answers the question of what they would change in Poland. Why? Because the question invites us to think about so many issues that irritate us in everyday life. It gives us the opportunity to choose and point out everything that is bad. It could be anything, depending on your social or financial situation or your interests. Nevertheless, when answering this question, everyone comes up with a certain list of things that should be changed. To make this intellectual game more interesting, it is worth turning this question into a “classic” situation in which a golden fish agrees to fulfill one of our wishes, i.e. our answer to this question. It complicates decision-making and necessitates a prioritisation of the problems to be solved.

I believe that most Poles would place issues related to politics, the church and the number of holes on the roads on their list of things that should be changed. I must admit that I have been wondering for a long time why it is those issues that Poles think should be addressed, but I still don't have the answer to that question. I don't know if it is because we do not like to identify ourselves as a person who is not interested in politics, i.e. someone who is not knowledgeable (Gr. *idiōtēs*) about something that is often shown on television. If something is shown on television, it must be important and worth talking about. Information about mistakes made by the president, about the stupid things that the members of the opposition parties said when demonstrating that the ruling coalition is talking rubbish becomes the most important news. On the other hand, there are issues that always evoke emotions, such as euthanasia, abortion and cohabitation. It is difficult to disagree that

discussing these issues makes sense. However, the discussion lacks something, something that concerns everyone, namely action. Action in every area of our everyday life. Nothing comes happens if all we do is discuss problems. In my opinion, there are two reasons for this situation.

The first one is laziness, as a result of which we do not actually take any steps to solve problems. Therefore, they are systematically raised by journalists at every opportunity. This concerns not only issues relating to the public sphere, but also our everyday lives. This approach means that we only discuss problems and show only bad things. Surely each of us notices such things in our environment when we go through subsequent stages of education or professional life or in our own homes. Unsolved problems are often referred to as problems that are swept under the carpet. It seems that sweeping under the carpet is easy and simple and does not require any effort. It is a different situation when so many things are swept under the carpet that we do not even have to look under it to see that issues are neglected. Undertaking to solve any problem involves a risk and uncertainty as to the result. Risk is still considered to be a threat rather than an opportunity to achieve a different result than expected, i.e. an opportunity to achieve a better result. In such a situation, we come up with excuses, such as: my hands are tied, I cannot do anything, it is not my area of expertise, I am not suited to that, what will people say. The list of excuses is much longer and they are often hypocritical. I have long learned that a hairdresser who charges less than PLN 30 for a haircut and says "you will not look good in this haircut" is in fact saying "I cannot do this". The impact that this thinking and mentality of most Poles has on the economy is immediately evident. Low innovativeness, lack of restructuring, stagnation, structural unemployment, poor qualifications – these are only a few notions that, in my opinion, directly relate to this.

The second reason for this situation is the lack of glorification of our successes and the long way we have come. It is easy to show a ribbon cutting ceremony on a newly built section of a motorway, underground station or stadium. It is even easier to make use of what others prepare for us. It is much more difficult to appreciate something that is not tangible or is not so capital intensive. Perversely, that is where the greatest strength lies. Each success in sport brings Poles together and is celebrated by them under the white and red flag. Athletes, including especially football players, are told that "it is al-

right” even when they lose. No metro line, even the most modern one, will evoke such emotions. Unlike in the case of sport, only the negative aspects of social activities are shown. Good news about the achievements of a politician is always perceived as being related to an election campaign, which had to be paid for. Besides, politicians can read or hear only about the things that they failed to do and what a lame duck they are, unless they interfere. As a result of the perpetuation of failures, bad things and weaknesses, as well as the fact that we do not talk about achievements, the scale of inactivity is increasing. While we are quick to congratulate children on their successes, it is more difficult for us to show our appreciation for the achievements of adults in such a direct manner. In short, when somebody fails, everyone will know about it. In turn, when we are successful, we have to find ways to tell others about it ourselves. The demand for public relations services and the success of social networking sites, on which we can place only the best and adequately retouched pictures, show how important it is for us to present ourselves in the best light possible. I do not want to say that we should not keep a careful eye on or point out mistakes. Of course we should do that. What I mean is that we should strike the right balance when presenting information. Today, each news programme seems to be an entertainment programme, in which bad news is presented in such a way that each viewer can continue to complain.

When I was preparing a list of things that I would like to change in Poland, I only came up with one answer. What I would like to change is the laziness, procrastination and fear of taking action in at least every fifth Pole. I believe that it would solve all problems more effectively than any law. Active citizens mean a strong and innovative economy. By active citizens I mean people who are not afraid of changing their environment starting from their backyard and ending with international relations and who search for a solution instead of complaining. It is a very simple solution, but it is not easy. It would seem that only a golden fish is able to make it happen. However, it all boils down to preparing a list of things that need to be changed and gradually crossing off things that we have managed to improve. Nevertheless, as Father Piotr Pawlukiewicz said recently *“It is not possible to rule the world while lying on a couch. We need to get up first”*. This is my wish, for you and for me.



Marta Ferents

I was born on 10 February 1995 in Lviv, Ukraine. I finished school in Lviv in 2012 and now I am studying at the Lviv National Academy Of Arts (Arts Textile and Design). I am interested in art, painting, photo art, film art, modern artistic weaving, fabric painting, Adobe Photoshop, Adobe Illustrator, travelling, foreign languages, literature and history. Ukrainian is my native language. I speak fluent Polish, English and Russian, a little German, and I have started to study French.

Future for artists in Ukraine

Ukraine is a country in East Europe which over 20 years has tried to build its economy with modern and foreign investment. Ukraine has hardworking people, a large area (the second largest country in Europe) and a lot of natural resources. Millions of Ukrainians have a great desire to build a democratic society and a modern competitive economy. It is very hard to do it now – when there is a war in eastern Ukraine. However, I am a young person, a student of Lviv National Academy of Arts, and I believe that it is possible.

It is hard for me to say something about economics, finance or international relations in the modern world and Ukraine, because I am an artist and a student of art, and economics is not my future profession.

I study textile art at the Lviv National Academy of Arts. I would like to tell you something about the textile industry in Ukraine and my proposal how to change this in a better way. When I finish studying I can work in many area of art connected with textiles. One of these the textile industry where textile art graduates can work and develop themselves.

The textile industry consists of producing fibres, making cloth and then designing clothes. There is a great future for textile artists and a great future for the Ukrainian economy. The textile industry – one of the oldest branches of light industry, involves processing plants (cotton, flax, hemp, jute, kenaf, ramie) and animals (wool, natural silk), raw chemicals and synthetic fibers into fabrics, nonwovens, bags and rope products and so on. The textile industry includes: cotton, wool, hemp, jute, textile haberdashery, knitting, silk and others. It includes also the primary processing industry of flax and other crops, the production of fishing nets, filter materials and others products.

Fabric has been produced on Ukrainian territory from the Neolithic period. At the time of Kievan Rus it separated into a separate craft and gained some differentiation. A major centre for fabric weaving and trading was Kyiv, which brought Irano- Byzantine silk and gold and woolen products from Western Europe.

After the invasion and the decline of the textile production in Kyiv, the centre of production became Galicia and Volhynia, principally Lviv. The Hetman government supported the development of the textile industry (among other things for military purposes – cloth and sails) and protected its customs policy. Since the end of the XVII century, the dominant form of textile production in Ukraine has been the factory.

This appeared in two forms: landlords, who used the free labor of serfs, and merchants (capitalist) with hired workers. The owners of textile factories were Cossack officers, Russian and Polish landowners and merchants (mainly Russian), and the state. A textile mill (in Ukraine almost exclusively cloth) amounted to 15 (for craft handicraft tools) to 1,000 workers. In large factories, the labour process was quite differentiated.

In 1850–60, far-reaching changes took place in the textile industry in Ukraine, because with the abolition of serfdom landlord lost their labour and soon they almost ceased to exist; together with the Industrial Revolution and the slow but constant introduction of machine technology manufacturing production turned into factories.

Other sectors of the textile industry (linen , silk) were contracting in value in Ukraine. Cotton material, which was ranked in first place in Russia, does not exist in Ukraine.

In the second half of the 19th century and at the beginning of the 20th century the textile industry underwent further decline, although Ukraine had all the resources for its development: a lot of raw materials (wool, flax, hemp), a profitable geographical position to import other materials (cotton, jute), a lot of labour and a market. The reason for this was the colonial policy of Russia.

During the Second World War, most textile enterprises were destroyed and were only restored in 1950–55.

Today, the cotton industry has been rebuilt: cotton Kherson head. (65% of Ukraine's production), with smaller – Works Ternopil, Chernivtsi, cotton spinning mills in Lviv, Kyiv , Novovolynsk etc., a wool and cloth factory in Striy, a worsted-spinning mill in Donetsk, Chernihiv Works cloth etc., silk

factories in Kiev, Odessa, Darnytsya (Kyiv). Much has changed in the raw material base with synthetic and chemical fibers in Chernihiv, Cherkasy, Kyiv, which provide approx. 50% of the yarn. This is a short story about textile in Ukraine. (<http://uk.wikipedia.org/wiki>).

However, there are too few factories that can produce yarn to satisfy people in Ukraine and provide yarn for textile production like weaving or sewing clothes.

One of the important segments of the textile industry is weaving.

Weaving has been practiced in Ukraine for many centuries. Using flax, hemp, or woolen thread, weavers have produced various articles of folk dress, towels, kilims, blankets, tablecloths, sheets and covers. The colours, ornamentation and even the techniques of weaving vary from region to region.

I believe that the textile industry can be a great idea about how to develop the economy and how to reduce unemployment in Ukrainian society. Using the knowledge and experience of weaving from our ancestors, we will be able to build a modern textile industry in a European way in Ukraine.

The most important is that Ukraine has its own natural resources and a suitable climate to cultivate many yarns, like linen or wool (Carpathians mountains).

Secondly, there is a lot of space to build new factories and import other fibers for weaving.

Thirdly, it is great idea for foreign investors and big international textile firms to be involved in weaving and fashion.

Finally, there are millions of people who can and want to work in the textile industry. For example, chemists, engineers and farmers. The textile industry is also more environmentally friendly than heavy industry, which is in first place in the Ukrainian economy.

Building these factories will give a push to developing the weaving and sewing industries. People will be always need clothes and material. Many world-famous firms and designers will be able to use these products.

It can also be the beginning of the development of a national fabric weaving and fashion industry. It is important that Ukraine has many women working in this industry.

For these reasons, weaving fabric is the future work for textile artists and designers. They can design incredible material for clothes, home textiles and other needs. As a result it is a successful way to be a part of the European textile industry, economy and fashion sector.



Przemysław Kondraciuk

At present, I am in the second year of undergraduate bachelor`s studies at Warsaw School of Economics and currently majoring in finance and accounting with an emphasis in banking. However, I am interested not only in banking issues but also in the energy sector. Therefore, I am a member of Energy Industry Society at my University. Moreover, I have been involved in the liberty movement in Poland for over one year, during which I have been working in one of the most influential pro-liberty organisation in Poland, the FOR Foundation (*Forum Obywatelskiego Rozwoju* – Civil Development Forum), a non-profit organisation founded by Professor Leszek Balcerowicz, where I am still in charge of volunteer staff and the recruitment process.

The main problems of Polish higher education system

Introduction

What would I change in my country? – this question leaves a lot of room for the authors of essays on this subject. One could present an analysis on all reforms, dysfunctions of today's state as an institution or even power in a broader sense. When I was deciding what I should write about, my only concern was insufficient knowledge in the field that I chose. Therefore, I asked myself the key question, namely what am I most familiar with and what can I express my objective opinion on. The answer came very quickly and I decided that, being a student, I will write about the higher education system in Poland.

Due to the growing problems in the area of higher education, this subject is raised repeatedly in the public debate. Undoubtedly, the system of higher education needs an immediate change, which should not only include reforms but also a change in the particular way of thinking of the entire society, which I will try to prove in my analysis.

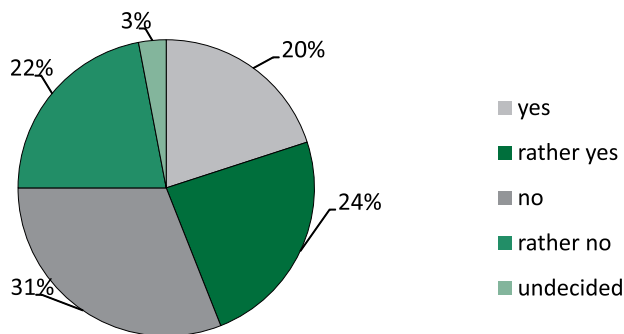
Significant mismatch between the education of students and market needs

The main problem is that the offer of universities is inadequate and that future students choose courses that are inadequate from the point of view of the future situation on the labour market. Studies show that more than half of graduates from universities admit that they do not have a job that matches

their education, whereas in highly developed countries the results of similar studies are entirely different¹.

Results of a survey conducted in the Polish labour market answering a question about the match between education and work performed.

Does your current job corresponds with your educational backgrou



Source: The "Active+. Young Poles in the labour market" report commissioned by Gumtree [Gazeta Prawna, April 24th 2014, no. 79(3720)].

The approach of universities and state authorities is of key importance, as they exert, to a large degree, influence on the educational offer. According to Elżbieta Kryńska, based on current studies *"it is possible to foresee a change in the labour market only in the short term"*. She also stresses the consequences of this situation: *"Due to the lack of a coherent and well-functioning system for the early identification of demand for education, the government does not have sufficient information to take measures to improve the match between the demand and supply of education in the Polish labour market."*²

However, one of the methods currently employed in Poland is a programme of requested courses implemented by the Ministry of Science and Higher Education, under which each year a list of courses that are of key

1 According to a study by R. Rukwid, in Germany there is only a 19% mismatch between higher education and the professional activities performed [Grenzen der Bildungsexpansion? Ausbildungs- und Hochschulabsolventen in Deutschland].

2 Elżbieta Kryńska, (2008), Improving the ability to anticipate EU-wide labour market and skills requirements. Poland

importance to the labour market is prepared and these courses are then subsidised. The objective of the programme is to encourage the best students to choose important areas of study by providing subsidies for scholarships for the majority of the students that decide to choose them. While the programme has both strengths and weaknesses, it seems to be the right initiative.

Another suggestion could be a similar programme initiated by private entities, which would inform individual universities about what their needs and they would support the education of a group of students. As a result, students would be willing to choose certain courses as this would offer them the prospect of a job at a particular enterprise. Moreover, they would obtain qualifications necessary to be employed in certain positions, which means that their skills and capabilities would be adapted to the needs of enterprises. Moreover, from the point of view of enterprises, it would be an incredibly valuable alternative to the complex recruitment process and staff training.

Another problem is that students do not feel responsible for their own fate. Today, as many as 81% of all graduates from upper secondary schools in Poland go into higher education, compared to 64% in the United Kingdom, 72% in the USA and 55% in Germany³. One notable idea is to encourage young people to choose other educational pathways (for instance vocational) so that demand for higher education does not resemble an artificially inflated bubble or herd-like behaviour. One result of this situation is the “educated unemployed”, which is often raised, and the fact that academic degrees do not count for much in the labour market.

Lack of competition between the private and public sector

Another problem of the Polish higher education system is the limited access of private higher education institutions to state resources. According to the Higher Education Act, public higher education institutions receive subsidies in accordance with a funding formula⁴, whereas private ones can receive budgetary funds only by way of a regulation of a competent minister. The problem is that such a regulation exists only in theory. In December last year,

³ Data published by EUROSTAT and Statistisches Bundesamt for 2012 (2011 for the USA)

⁴ The funding formula for public higher education institutions is regarded negatively, especially due to the disproportions in the weight of its particular coefficients.

the Constitutional Tribunal found that⁵ the provision of this act that provides for the regulation on the financing of private schools by way of a regulation is unconstitutional.

One solution to this problem, employed successfully in other countries, would be to enable both public and private higher education institutions to claim budgetary funds for higher education in a competition carried out under the same conditions. However, the proposed method would require a modification of the complex funding formula for higher education institutions. Of course, increased competition in the market is a healthy mechanism, which may help increase the quality of higher education and offer students greater choice (and, at the same time, a higher quality of education).

Lack of uniform supervision of the spending of public funds by public higher education institutions

One example of this is the allocation of public funds (provided as subsidies for full-time students) for the financing of part-time studies, as a result of which public higher education institutions can afford to charge lower fees, thus discriminating against private institutions. Moreover, according to calculations by Professor T. Pomianek and Dr. A. Rozmus, the costs of the education of a student at a public higher education institution are almost two thirds higher compared to higher education institutions run by private entities⁶. This is an example of extreme mismanagement by public higher education institutions, which is something that should not be happening. One other aspect of the waste of money by Polish higher education institutions is the issue of their overstaffing⁷, which generates very high, often unnecessary costs.

This problem could be tackled by introducing uniform rules for the supervision and control of financing public higher education institutions, which in

5 Judgment of the Constitutional Tribunal of December 10th 2013; case no. K 16/13.

6 Tadeusz Pomianek, Andrzej Rozmus *"Modernizacja finansowania szkolnictwa wyższego i nauki w Polsce"* [Eng. "Modernisation of the financing of higher education and science in Poland"], p. 28.

7 One of the institutes of the University of Warsaw has 76 academics, while two leading departments in the same field of study at prestigious American universities employ, respectively, 20 and 38 academics [Łukasz Abramowicz, Piotr Labenz, Michał Miąskiewicz *"Czesne, reforma i liberalizacja rynku szkolnictwa wyższego"* (Eng. "Tuition fees, reform and liberalisation of the higher education market")].

turn entails a limitation to their autonomy. One other positive solution would be, following the example of foreign universities, to allow experienced managers, not only those related to academic life, access to managerial posts (at least those relating to management and finance)⁸.

Demographic decline⁹

Demographic decline is being increasingly discussed in the literature as a serious problem at all higher education institutions. As a result of the decline, students are becoming a scarce commodity. While private higher education institutions are better adapted to make their activities more flexible (thanks to lower costs and appropriate forms of the employment of academic staff), the number of students at public higher education institutions is one of the most important factors taken into account when allocating funding from the budget. For many years, large numbers of students have graduated from higher education institutions, thus increasing the number of Poles with higher education, which has not necessarily meant improvements in the labour market or higher quality education.

The only solution would be to introduce changes in the structure of public higher education institutions so that they are able to better adapt to demand (e.g. as is a successful practice in the case of private higher education institutions). However, we should not expect changes in demography, as this is independent of individual regulations.

Conclusion

The current system of higher education in Poland needs changes that cover a wide range of activities carried out by both the government, responsible for higher education, and academic authorities. Undoubtedly, the ground for action by higher education institutions is becoming more and more difficult.

⁸ In the United Kingdom, many universities create strong managerial structures, which replace "collective management", whereas in Germany, most Länder have set up a management institution (Hochschulrat) [*Management of higher education in Europe; strategies, structures, financing and academic staff*, Eurydice].

⁹ One example of a university that is declining due to the demographic decline is the John Paul II Catholic University of Lublin. The main fields of study offered by the university, which include only humanities, have become considerably less popular.

Therefore, this subject is currently being discussed by the public. There is no doubt that higher education needs to change. The analysis presented above covers only certain aspects relating to higher education as well as possible changes. However, a change in how the entire society perceives the “obligation” of public higher education is also essential.

**Justyna Ziobrowska**

was born in 1990 in Opole and graduated in economics from the University of Wrocław with a specialisation in managerial economics. She graduated with grade A and her master's dissertation earned her an award in a faculty competition for the best master's dissertations. Justyna holds a scholarship and is currently a student in the first year of PhD studies in economics at the Law, Administration and Economy Department of the University of Wrocław. She is a member of the Student Academic Association of Economists. Her research interests cover the ownership structure of the Polish economy, as well as the socio-economic analysis of India. She is an enthusiast of travelling, jazz, theatre and tennis and is the author of a book of poems.

My ideas for multifaceted changes in Poland

“What would I change in my country?” – this is a question that all Poles ask themselves, especially before presidential, parliamentary or local elections. The question is asked by presidential candidates, members of the Sejm, senators, mayors, local council heads and especially voters. There are many ideas for change. However, it should be borne in mind that the introduction of any changes must have a specific legal basis. It is also necessary to tailor methods of action to the economic and cultural situation. This requires in particular adequate knowledge of the real possibilities for change. According to Michael Foucault, a French philosopher, sociologist and historian: “It is not possible for power to be exercised without knowledge, it is impossible for knowledge not to engender power”. Therefore, we should elect representatives who have great expertise and who will be able to exercise power on our behalf in an exemplary manner.

I will try to answer the question of what I would like to change in my country from the point of view of an MA graduate, PhD student, citizen of Wrocław and, in the future, probably a wife and a mother. I would start by trying to change the mentality of Poles, which is influenced by a number of social, cultural and biological factors. Measures should be taken to give people the feeling that things can get better in Poland, as each of us can exert a real influence on the situation in our country. It is us who decide what country we live in and under what conditions. While we all want change, the electoral turnout in Poland is still too low (2010 presidential elections – 54.94%, 2011 parliamentary elections – 48.92%, 2014 European elections – 23.83%). We should bear in mind that it is our civic duty and that each vote cast provides

a basis for change. We should encourage people to participate in elections. We should make use of the system of governance in which the will of the majority of citizens is the source of power. As W. Churchill said: "Democracy is the worst form of government except all those other forms that have been tried from time to time". As far as the Polish political order is concerned, I would only change the form of voting. I am in favour of introducing single-mandate constituencies. This form of voting follows directly from the definition of democracy, which states that it is a system in which lawmaking is based on the will of the majority of citizens. Thanks to single-mandate constituencies, candidates are personally liable for their actions and the parliament can function effectively. Moreover, the introduction of single-mandate constituencies would reduce the tendency to concentrate power.

Changes should also be implemented in education. We should teach Poles entrepreneurship. Emphasis should be placed on financial education at school, so that everyone, from an early age, knows not only what inflation, deflation and unemployment are and what the real possibilities for addressing these problems are, but also what to pay attention to when opening an account in a bank, what to do when our ATM card is stolen and when the market is bullish and when it is bearish. We should teach independent thinking and how to search for necessary information. Moreover, we should properly identify the legal nature of universities, which currently is very complex and ambiguous. State universities were improperly identified as belonging to the public finance sector. While they perform public tasks (administrative decisions), the manner in which they operate is similar to the operation of private sector entities (they actively compete on the education market and raise funds for research and development). A third sector should be identified for institutions such as universities to avoid conflict of laws and ensure that they operate effectively.

Poland is still one of the main European sources of migration. Since the accession of Poland to the European Union on May 1st 2004, migration has ceased to be occasional in nature. Adequate incentives should be introduced for the young and educated people who plan to migrate as soon as they graduate. A number of people even do not try to deal with the Polish reality after they are awarded a diploma. They make a decision to migrate on impulse, following a fashion and seeking a different life. Poles can see that emigrants are

doing very well abroad and it motivates them to migrate too. Such migration of Poles is now long-term in nature. The volume of private current transfers to Poland is decreasing. Money is spent abroad. Moreover, the major share of the money earned by our emigrants is spent on consumption rather than on investment. We should provide incentives for both our citizens and foreign investors to invest in Poland. Schools and universities should actively cooperate with enterprises to receive additional funds for development.

It is necessary to reform the tax system. It is too complex and complicated. According to the studies by Deloitte, an international company, the Polish tax system is the least stable tax system in Europe (European Tax Survey. The benefits of stability, 2013). Tax law should be clear and transparent, the system should be stable, the area of black economy should be small and the level of fiscalism should be low. We should reduce bureaucracy and labour costs as well as completely redefine the system of public revenue. The free unemployment benefit should be abolished. Instead, a benefit in return for work for the common good should be introduced. Access to nurseries for the children of female students and single mothers should be unlimited and free.

In the current international situation, compulsory military service should be restored and at least basic military trainings should be conducted. We have too many high-ranking officers and too few privates. As the issue of the defense and safety of Poland is what matters most, such changes are a priority.

As regards healthcare, a stronger emphasis should be placed on tests rather than on treatment. It is a much cheaper solution. Today, the increasing pace of life, unhealthy diet and the lack of check-ups have a negative impact on our health. Most Poles visit a doctor only when they experience symptoms of a disease. The obligatory medical examinations required for work should be performed more frequently than is the case today to reduce the risk of late diagnosis.

There are many aspects, including political, economic, social and cultural ones, which should be changed in Poland. I only outlined possible changes in certain areas relating to the functioning of our country. They should be carefully analyzed and specified in detail. Undoubtedly, we need experienced people with a vast knowledge of economy and the society, who will not be afraid to implement such changes. However, the introduction of changes should begin with changing people's mentality and restoring to them the feeling that things can really get better in our country.

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