*Alojzy Z. Nowak**

End of the Eurozone? An Economist's Perspective

Abstract: *The current fiscal problems confronting the European Union have created a precarious situation, affecting not only the Europeans but all the key players in the global economy. Everyone – from scholars and leading figures in the business circles to people in the street – is asking the same question: are the politicians who are making the decisions about the future of European integration going to cope successfully with challenges facing the Eurozone, and by extension the European Union and wider? If so, when and how?*

The continuing financial and fiscal crisis, in particular coupled with the economic and social crisis which is becoming more and more manifest worldwide, including in some of the EU Member States, makes these questions ever more urgent and raises several new doubts. This article sketches the present concerns, examines the instability in the Eurozone, and analyses possible scenarios for the future.

The current fiscal problems confronting the European Union have created a precarious situation. Questions are increasingly being asked about the future of the Eurozone.[1] Everyone – from scholars and key players in the business circles to people in the street – is asking the same question: are the politicians who are making the decisions about the future of European integration going to cope successfully with challenges facing the Eurozone, and by extension the European Union and wider? If so, when and how?[2]

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* Prof. **Alojzy Z. Nowak,** Ph.D. – Professor of Economics, Dean of Warsaw University Faculty of Management, Visiting Professor at Cambridge, Grenoble, UNF, UIUC and several Asian and Russian universities. Member of the Scientific Committee of the National Bank of Poland

[1] See generally: P. De Grauwe, *Economics of Monetary Union*, Oxford 2007.

[2] Cf. also the recent initiative for signing a new EU fiscal Treaty, see e.g. *Doubts increase over usefulness of new fiscal treaty*, EU Observer, 20.12.2011.

1. The crisis in the Eurozone – Polish concerns and beyond

It turned out to be during the Polish presidency of the EU Council that the most serious accumulation of the fiscal crisis in the Eurozone took place. While Poland perhaps does not play the most prominent role in the EU, it should nonetheless be noted that during the period of the Polish presidency the representatives of financial institutions and Polish business circles alike truly endeavored to actively participate in the preparation of proposals on how to improve the current economic trends in the EU, and to suggest sound solutions to prevent similar situations from happening in the future.[3] The task, however, is not an easy one. First and foremost, the European Union is not a uniform entity. Its Member States feature diverse stages of economic, financial, social and political development, which is accordingly reflected in their pursuits of differing economic, social and political objectives. They have different visions about the directions the European Union should follow in its future development. Some of them emphasise the need for more independence for the individual Member States, while others are more keen on a vision of an EU integrated even further.

1.1. Poland – in or out?

Poland has made it clear it perceives the current state of turbulence from a point of view which takes into account more than just its own particular interests. Instead, it has readily acknowledged the need to search and find new solutions from the perspective of the entire EU. It seems too that Poland's assessment of the contributions to date of the EU's largest Member States toward solving the present problems is quite realistic. Indeed, it should be admitted with all due objectivity that the likely path of EU development has already shifted from two to at least three different speeds. The first is that witnessed in Eurozone. One may assume that if Poland adopted the euro, then it would probably also adjust its economy to the prevailing speed in the Eurozone, probably improving thereby the way it is perceived by other countries, both EU Member States as well as non-EU countries, and perhaps even more importantly, by investors, both global and regional. On the other hand, however, the question arises whether it would be easier for Poland as a Eurozone member or as a non-member to protect its economy from the financial and economic crisis.[4] In fact, there is no agreement concerning this issue among

[3] See: *Strefa euro – wyzwanie dla Polski*, ed. A.Z. Nowak, A. Stępniak, Warszawa 2004.

[4] K. Ryć, *Jak szybko do euro?* (*How Fast Towards the Euro?*) in: *Zrównoważony wzrost gospodarczy. Rola polityki finansowej. Polska droga do Euro* (*Balanced Economic Growth. The Role of Financial Policy. The Polish Way Towards the Euro*), ed. A. Sopoćko, Warszawa 2006.

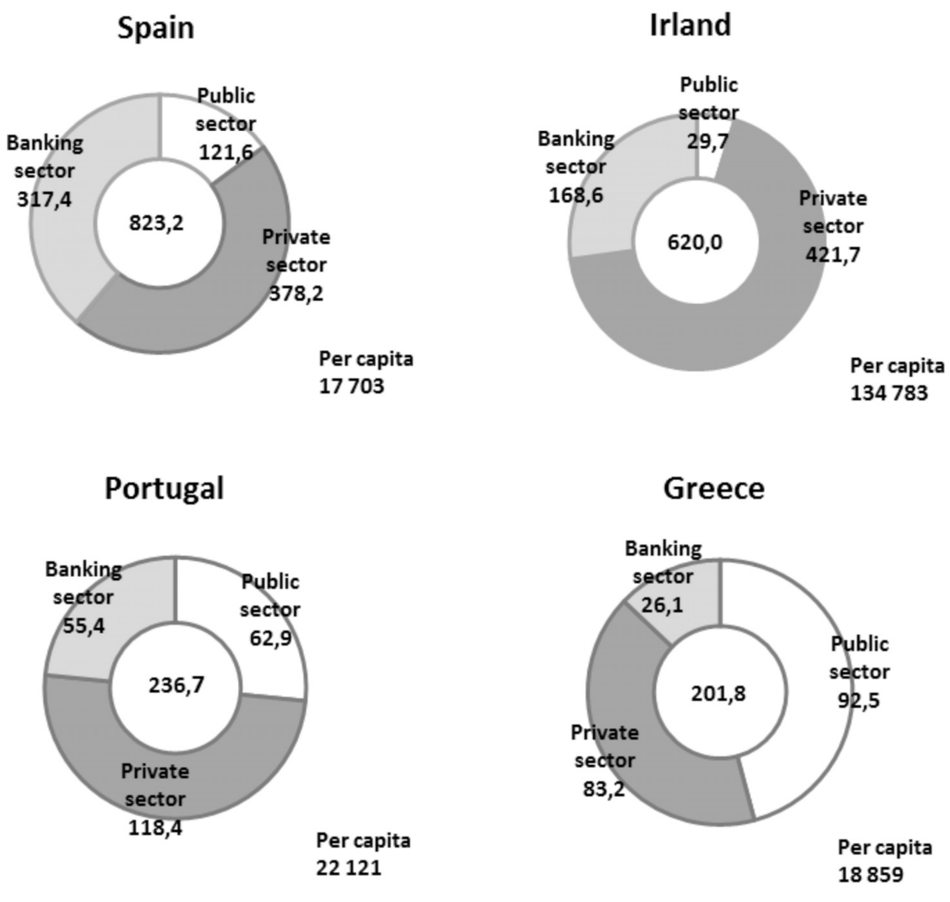
Polish economists. On the contrary it has become quite a disputed issue, increasingly moving toward the view that while economic sovereignty is certainly costly, in this particular case it probably has paid off to remain outside Eurozone for the moment. Notably, the country has retained the right to apply the fundamental tools and instruments of monetary policy (money supply, interest rates, cash reserves, exchange rate) to use with relative freedom over the period of the global financial crisis. While this is the case, one also has to admit that membership in the Eurozone increases a country's reliability for investors, thereby usually enhancing such country's investment grade and improving its opportunities for foreign capital inflow, which in turn enables real convergence to be achieved sooner. It thus seems quite obvious that it takes some very reliable and extensive economic and financial data and analysis to properly evaluate the pros and cons of Poland's standing outside Eurozone for the time being. It should be noted that there is universal agreement within Poland about the fact that Poland should become member of Eurozone, the only question being when. Membership in that group of countries which use a common and strong European currency is still considered as the best anchor for the Polish national economy.

1.2. The problem of indebtedness

As of the moment, ten out of the twenty-seven European Union Member States remain outside the Eurozone. Among the seventeen 'euroland' countries however there are some, known as 'core countries', that on the one hand are mostly net payers and on the other hand are also the locomotives proposing and preparing changes in the principles regulating the way the Eurozone operates – and to a certain extent, the European Union too. It is largely these core countries that have developed and are implementing the rescue packages for the member states which are urgently indebted, in the first instance Greece. In this context, Germany and France are widely acknowledged to be the key locomotives. While there are other countries included in the 'core country' group as well, whether they are seen as solid members depends on the extent of their seriousness on particular issues and on the nature of the problems that need solving. At the other end of the spectrum are those Eurozone members which have become 'peripheral countries', sometimes referred to as 'PIGS' – an acronym for Portugal, Ireland, Greece and Spain, (with Italy sometimes added as well). Their present problem is that they are all very seriously in debt. Their indebtedness concerns governments as well as banks and the private sector (including households and businesses), as is illustrated in Figure 1 below.

The data in Figure 1 makes it very clear that the question of debt is indeed a serious cause for concern in the Eurozone. Hence the question arises: how has such a vast indebtedness arisen in countries which were obliged, on their accession to the Eurozone, to satisfy the Maastricht criteria, also known as the 'convergence criteria'. In particular the convergence criteria specified an adequate, i.e. low, inflation rate, appropriately low interest rate, stable exchange rate, and meeting a set of fiscal criteria based upon relatively low levels of national budget deficits and public debt.

Fig. 1. Indebtedness of selected Eurozone countries (in US$ bn)



Source: P. Krugmann, "New York Times".[5]

[5] P. Krugmann, "New York Times"/2010, available at: http://krugman.blogs.nytimes.com/ (last visited 20.12.2011).

1.3. PIGS on the 'Euro-banquet' and the paradox of the boom

In fact, the above-mentioned convergence criteria were met – even if with much effort – by most countries before their accession to the Eurozone. For some of them this was really quite a challenge, considering their roots in a tradition where high levels of inflation, high interest rates, and relatively-high levels of budget deficit and public debt were considered the norm rather than something unusual. Accordingly, it was quite a feat for such countries to manage to reduce those values to the level required by the Maastricht agreement. However, according to some economists, certain balance sheet and budget-related items were 'fine-tuned' somewhat during the period of adaptation, for example by recording current expenditures as future ones and income the other way round. As a result, the convergence criteria were satisfied – but in a way which today has turned quite troublesome – so that everybody could make the final step and become a member of the Eurozone.

The accession was followed by what is best described as a sort of 'euro-banquet'. Generally speaking, initially there was a period of an evident increase in consumption and investment. This was followed by a period of adaptation, which required much sacrifice in terms of consumption and investment, with the countries which today have gained the label 'peripheral' believing they were entitled to some relief in order to raise both consumption and investment. Indeed for a time they enjoyed just such opportunities, in the form of relatively low interest rates within the Eurozone. Their opinion of their situations was largely shared by banks which, on the one hand, were granting easy credit to consumers in the private sector and, on the other hand, were acquiring securities issued by the governments of Greece, Ireland, Portugal or Spain (among others). In both cases everybody seemed quite satisfied and was sure they were engaging in a good business, considering that the countries obtaining such easy money had successfully undergone procedures related to their accession to Eurozone, thus giving a kind of certification of their reliability and healthy financial condition. This particular view of the situation related not only to governments, but infiltrated and was extended into such countries' public bodies and private entities as well. Banks themselves – institutions whose fundamental objectives consist of maximizing profit and minimizing risk (relating to granting credit, maintaining liquidity, and interest and exchange rates) – were also quite interested in granting easy credits and in acquiring ever more profitable (i.e. bearing higher interest rates) governmental securities from the peripheral countries. This enabled them to, on paper, increase their future receipts, which was to be reflected in increased income and profits. In effect, a simultaneous credit and investment boom could be observed for a couple of years in the Eurozone, and indeed throughout the entire European Union. It is sufficient to indicate that the level of credit in the PIGS countries increased, over the years 2003–2009, to between the 170% in Portugal and the 350% in Ireland.[6] As a direct consequence of the boom in the real economy, a rapid growth of GDP followed, in some cases even exceeding the so-called 'potential growth' resulting from the level of productive factors. This was accompanied by a growth in the inflation rate and an appreciation of the euro exchange rate. In the financial sphere a sharp increase in the prices of financial assets, land, housing, and so on could be observed. This resulted in the creation of payment gridlocks, whereby many businesses lost their financial liquidity and problems arose relating to the insolvency of business entities and even of central governments.

2. The current instability in the Eurozone

It should be observed, however, that neither the EU Member States nor even the group of peripheral countries should be blamed for all the problems that have been created and experienced since the onset of the crisis. It must be kept in mind that the financial crisis had its principal source in the United States. It stemmed from the so-called 'financialisation' of the economy and the creation of toxic financial assets which, on the one hand, lost much of their value and, on the other hand, brought about a lack of trust in investments in the financial markets. Many of such toxic assets were held by European commercial banks which, based on their trust in the American financial institutions and markets, had invested in the financial instruments created in the US.

2.1. Rescue or disintegration of the Eurozone?

Therefore, some problems experienced by the EU countries, including difficulties with repayment of their liabilities, are strictly related with the infection from across the ocean. That was also where the initial proposals for solutions came from, put forth by mainstream economists, who argued that if European banks or businesses were unable to pay back their debts, then they should be left alone to fail. It should be remembered, however, that the American point of view regarding the crisis in the Eurozone is very peculiar: it is biased by a well-rooted opinion that the monetary union in Europe had a poor chance of successful implementation in the first place. Even as eminent and open-minded an economist as Joseph Stiglitz, the Nobel Prize winner in economics, has observed with a great deal of sarcasm that 'it is going to be ex-

[6] See e.g., the OECD and Eurostat data bases: http://www.sourceoecd.org, http://ec.europa.eu/eurostat. Unless otherwise indicated the percentage data cited herein refer to the above-mentioned databases.

tremely difficult now to return from scrambled eggs back to intact ones'. According to him, the Eurozone is never going to come back to the state of unity it once had. He even asks what will be less costly – rescuing the Eurozone or calling it a day.[7]

However, it seems reasonable and possible to maintain a more reserved attitude towards the potential disintegration of the Eurozone than that expressed by Mr. Stiglitz. Actually, on more than one occasion the European Union has managed to overcome crises and often even to emerge there from stronger.[8] It may well be the same way this time around. Nevertheless, admittedly a number of question marks still remain. We know very well that the creditors of the indebted companies and countries are mainly banks and financial institutions based in France, Germany, the Netherlands and other countries (see Table 1).

Table 1. Exposure to financial assets from PIGS countries on the balance sheets of banks from selected countries (US$ billions)

Entities	US$ billions
German banks	512.7
French banks	410.2
Spanish banks	117.3
Italian banks	73.3
Total Eurozone	1397.6

Note: The above data does not produce a sum total because they concern four Member States only while there is a total of 17 Member States in the Eurozone.

Source: BIS, 2010.[9]

Considering that the collapse of many entities from the group of PIGS countries would bring about the bankruptcy of a large number of financial institutions and, indeed, a substantial part of the economy in Germany, France, Netherlands, Austria and the Benelux countries, a common interest emerges –

[7] J.E. Stiglitz, *Can the Euro be Saved?*, Project Syndicate, 05.05.2010, available at: http://www.project-syndicate.org/commentary/can-the-euro-be-saved- (last visited 20.12.2011).

[8] A.Z. Nowak, *European Economic Integration: chances and challenges*, Warszawa 2007.

[9] See: BIS Statistics, 2010, Statistics of Bank for International Settlements (BIS), Basel, available at http://www.bis.org/statistics/bankstats.htm (last visited 20.12.2011).

a sense that it is better to reach a deal on some kind of rescue or emergency solution. Put simply, some money has to be found to bail the PIGS countries out. The task is difficult and in most core countries also quite controversial. Statistics suggest that such aid/intervention will probably amount to at least one trillion euro. This is an enormous sum, understandably very difficult for the budget of the entire European Union to bear. The burden of the operation has mainly been borne by France, Germany, and Benelux countries so far, while those standing in line to benefit from financial support also include Spain and then, more probably than not, Italy. The key factor is the limit to taxpayers' tolerance in the net payer countries. It is perfectly justified for the Germans or the French to ask why those who didn't/don't work tenaciously, steadily, and efficiently enough should enjoy better, easier lives than they do.

The data presented in Table 1, or more precisely the amounts of money involved, indicate that it is appropriate for the societies of those countries which are expected to cope with bailing out the indebtedness of the peripheral countries to demand that the balance of that debt be totaled up, together with an explanation of the reasons why it emerged. Not only is this expectation very understandable, such a complete and comprehensive explanation is also critical and necessary, as it will considerably influence the way solidarity within the EU will evolve in the future.

The expectations or demands in question seem all the more justified in that the governments of the core countries are also to blame, at least partially. After all, once the Eurozone was established and the demand for credits and investment capital grew enormously on the part of PIGS countries, the core countries failed to pay sufficient attention to supervision or coordination of the economic policies of the PIGS countries. In fact, the former seemed to forget that the latter were countries of high economic and financial risk. Worse still, Berlin, Paris and Brussels turned a blind eye to the fact that the authorities of Greece, Ireland or Portugal were 'fine-tuning' their respective balances and official statistics already as early as at the stage of their accession to the Eurozone, when it was rather easy to attract capital and to enjoy low interest rates. And it is critical to keep in mind at all times that the project to set up the Eurozone was mainly a political one. Had it been a strictly economic plan, Greece – and not only Greece – would have had to wait in line quite a long time to join the common European currency.

2.2. Two policy-making methods: saving or investing?

Today it has also become clear that the Eurozone, rather than consisting of a club of gentlemen only, also includes parties that resemble small- or big-time chiselers. This should not really come as any surprise considering that in a diversified Europe, different traditions have grown up. While there are some who say: 'first we work, then we save, and then we invest'; there are others who prefer quite an opposite attitude, riposting: 'first we consume, then we'll invest what's left, if any, and in case something still remains we'll save it'.

This in effect means that we have two different worlds existing alongside each other within a single common group. The financial crisis has only reminded us of this objective phenomenon.

The consequences of aggressive investments made by some investors from PIGS countries in real estate are not experienced in the Eurozone alone – they are also felt in Poland, especially in Warsaw. Some of them purchased land, factories or buildings, assuming that prices would rise as Poland, along with other Central and Eastern European countries, became ever more integrated into the European Union. They sensed an opportunity resulting from the economic assumption that prices for those types of assets would increase based on the principle of price equalisation – perhaps by 10 or 15, or perhaps even as much as 20 per cent. The idea was to take out credit in Eurozone-based banks, bearing low interest rates, and invest in assets whose rates of return seemed assured to be healthily above the level of interest assessed. In theory, this attitude made perfect economic sense. However, the actual course of events substantially deviated from what was envisioned. From the USA came the financial crisis, the effects of which, especially in real estate markets, stretched to those countries which became EU Member States in 2004 and later. This caused the prices on real estate markets to fall, thus severely limiting the chances of achieving the expected rates of return on investments. As a consequence, a large number of businesses in PIGS countries experienced problems with their liquidity and solvency.

What then, is the remedy to this situation? What are the Eurozone's chances of survival and further growth? What are the chances that the euro will continue to play the role of an international currency?

3. The end of the beginning, or the beginning of the end?

These are not questions that can be answered easily.[10] There is no general consensus, neither among economists and politicians, nor among the general public. On the contrary, while answers abound, they are mostly divergent and sometimes even contradictory. This probably results from the fact that Euro-

[10] Cf. P. De Grauwe, F. Mongelli, *Endogeneities of Optimum Currency Areas. What Brings Countries Sharing a Single Currency Closer Together?*, ECB Working Paper Series, No. 2005/468; R. Mundell, *A Theory of Optimum Currency Areas*, "American Economic Review" Vol. 5(4)/1961.

zone was established in the first place for quite ambiguous reasons, at least not just for economic or financial ones. While this has already been mentioned, it is worth stressing again that the Eurozone was set up not only for economic reasons, but also due to political ones. These included, among other things, the will to deepen the processes of political integration in the European Union. It was widely believed that this was only possible by having a single common currency. Secondly, the intent was to stabilise the global financial system, hitherto based upon just one pillar, i.e. the US Dollar. The Asian crisis of the late 1990s revealed a number of weaknesses of that system. Should it collapse, it would entail a great deal of serious global problems and bankruptcies around the world. In order to prevent this from happening, it seemed appropriate to propose a financial system based upon at least two pillars – the US Dollar, along with another international currency having a similar nature and, possibly, also similar strength and importance. Finally, there was a third reason, not widely spoken of at the time but increasingly heard of these days: an attempt to weaken the West German currency, i.e. the Deutsche Mark, and to rein in the strong, united German state. Interestingly, that very reason may just as well be interpreted in an opposite way. Germany itself was a strong proponent of the common currency in the expectation that, in the early stages at least, it would be weaker than the Deutsche Mark. That would help the German economy improve its competitiveness following the costly process of unification and, in effect, would enable Germany, partially at least, to alleviate the enormous burden associated with that process, especially considering that the costs borne were aggravated by West Germany's possession of a strong national currency. Without becoming involving in a profound analysis or assessment of the reasons why the Eurozone was established and the common currency adopted, it should be emphasised that it has in fact played a positive role in deepening the processes of integration in the European Union and in stabilizing the global financial system. For the first dozen years of its existence, the euro was a solid and stable currency. Prices in the Eurozone were more stable than ever before in the fifty years of the Community's existence prior to the introduction of the euro. The average inflation in euroland amounted, over the last 12 years, to 1.97%, and the average level of inflation in Germany to 1.5%. The budgetary deficit (on average) at the end of 2011 was at around 4.5%, while in both the USA and in Japan it exceeded 10%. It is certainly true, as has been mentioned above, that not all Eurozone countries were faring at the same level, but on the other hand it cannot be said that the Eurozone as a whole was doing poorly. It may also be concluded from the data presented that the Eurozone – like the European Union as a whole – is not monolithic insofar as its financial condition or policies are concerned, including, in particular, fiscal policy. This diversification however now gives rise to various problems which are implicated in any proposals for how to solve and find the way out of the present situation, as well as how to avoid similar troubles in the future.

3.1. Possible scenarios for the future

According to P. Krugman, there are four scenarios for overcoming the present state of affairs in Eurozone.[11] It may be pointed out that while each is a possibility, they would be rather difficult to implement in a pure form.

A) The first scenario is based on the idea of applying a very restrictive financial policy, especially fiscal policy, throughout the Eurozone. In general, this would consist in strict control of budgetary expenditures and, for the time being, in particular in cuts in budgetary outlays and, where practicable, in increasing income to the budget.

Considering that what we are experiencing in Europe is not a currency or monetary crisis (the euro exchange rate has actually risen against the US Dollar since about the third quarter of 2001, and more and more businesses are keeping ever more foreign currency reserves in euros – at present close to 30%), but a crisis of economic policy and the results of the global financial crisis, such ideas are hardly surprising. Budgetary restrictions and/or discipline in the field of public debt seem like obvious remedies. However, stern fiscal policy means that something has to be taken from somebody. From who, then, and where? Budgetary cuts would mainly regard three areas: education, health care, and pension funds. In addition, it would be necessary to increase taxes and cut wages in the public sector. The example of Greece is demonstrating just how difficult this is in practice. The riots there have only been slightly short of letting the monuments of Athens go up in flames.

On the other hand it should be underlined that, looking from historical perspective, positive instances of implementation of restrictive fiscal policies can be found. Among others, several years ago it was applied in the Baltic countries, with considerable success. Budgetary debt was reduced as was public debt, exchange rates of local currencies were stabilised, and inflation was decreased. The economies of the region were stabilised enough to enable one of Baltic countries, Estonia, to meet the Maastricht criteria and gain access to the Eurozone. A restrictive fiscal policy, then, can be implemented successfully, and this means that a policy of compulsory savings need not be necessarily doomed to failure. The example of the Baltic people gives some reason for optimism in this respect.

B) Scenario two is based on an assumption that the debt may be restructured. The idea of debt restructuring would effectively mean that the debt of

[11] P. Krugman, op.cit.

all the PIGS countries as well as their indebted entities would be reduced. With regard to Greece we are talking about a scenario which is already underway. Underway with much difficulty, no doubt about that, but also with a chance for success, albeit a limited one, realistically speaking. The program of restructuring is implemented based on an assumption that the debt, to some extent, weighs down upon both debtors and creditors, since both entered into the transactions based on false optimism, the debtor while borrowing money, and the creditor while lending. In particular the creditors failed to maintain the requirement of due diligence and were too greedy in pursuing the aim – myth as it turned out – of achieving exorbitant profits. This way of perceiving the roots of present situation is right to a considerable degree. The problem, however, is that this prompts other countries and other businesses to demand that their debts be restructured as well. While, formally, they may not belong to the Eurozone, their foreign trade exchange with Eurozone countries accounts for such a significant share that in fact they might be regarded as part of it in the economic sense. It goes without saying that it is next to impossible to imagine that the problem might be solved by satisfying the demands of all interested parties. One may assume, then, that also this scenario also has little chance of success realistically, although, just as the first one, it may not be ruled out entirely.

C) Scenario three: the ‘Argentinization of Europe’. This is based on the similarity to what happened in Argentina just over a dozen years ago. The Argentinian peso was devalued with respect to the US Dollar in order to improve the competitiveness of Argentina’s economy, thus stimulating business activity and increasing income to the state budget. Is this scenario practicable in the European Union? In my opinion it is not. It should be remembered that the Eurozone was created, among other things, for political reasons, and one of the arguments used at that time was to build a second financial pillar, comparable to the US Dollar and capable of contributing to the stabilisation of the global economy, including the European economy. This was to be possible thanks to the opportunity to invest financial assets either in the US Dollar or in the euro. Therefore, devaluating euro would not only mean the destabilisation of the Eurozone, but also the destabilisation of global finance and bring with it, further on, political destabilisation as well. Also, devaluation of the euro would be all the more incomprehensible because – as mentioned before – we don’t really have a currency crisis in the Eurozone. Instead, we are dealing mainly with a fiscal crisis. Additionally, some Eurozone countries are in excellent shape despite the currency being relatively strong. The German economy is the best example, although even it seems not entirely secure these days. The news that Germany failed to sell out its ten-year bonds (just over 40 per cent of the issue was sold) has to be construed as a serious warning signal. Thus the economy of Germany is not totally immune to the phenomena of unstable financial markets either, and the same holds true for the economies of the Benelux countries and France. Nonetheless, the risk inherent in the devaluation scenario seems excessive and in addition such a remedy is simply not justified from the point of view of certain countries.

D) Finally we have scenario four, called alternatively 'Europe's Resurrection' or 'Europe's Rebirth'. It is based on the assumption that Europe has to return to its community-wide manner of thinking, *i.e.* to think and show solidarity. It has to keep its future in mind and strive to solve its present problems in the common interest. It must not give in to the temptation of either an individualistic or nationalist way of thinking. Sooner or later Europe is going to have to answer some vital questions anyway, and the most vital will be how it is going to evolve: along the lines of a confederation or as a federation? It has already become evident that this will require profound political changes. Adequate institutions will have to be built to take responsibility for a certain degree of supervision and coordination of economic policy of the European Union Member States. Today such measures are already called for as regards the budgets of individual states. It is quite unlikely that all countries will behave with equal decency and truly care for stabilisation of the European Union as a whole through responsible economic and social policy. Therefore, perhaps it would be advisable to consider a sort of a common governance institution, such as a Ministry of Pan-European Finance or a European Fiscal Agency – now is not the time to quibble over the name. What matters is how such an agency or ministry would operate. Shall an agreement be reached between all interested countries as regards the coordination of budgetary policy at the level of national parliaments? Or can such an agreement be achieved by new regulatory institutions at the level of the European Union? The dilemmas over the restriction of the individual sovereignties of the member states, which are already visible today, are going to become more intense and more commonplace. This confronts us with the pivotal problem: what kind of Europe do we want? Do we want to have a single strong European government or retain sovereign national governments? The essence of the problem is reflected in the implementation of the German-French concept concerning fiscal union. Such a fiscal union would effectively mean that a certain part of budgetary policy would be transferred from the national to the community level. Put another way, this would entail giving up narrowly perceived national interests. It seems worthwhile to look at the example of America in this context. The way the United States is engineered, should Alabama, California, or Mississippi face serious hardship while Oregon, New Jersey, Texas or other states prosper, then the latter contribute money to the HQ (Washington D.C.), from where it is sent to those states in dire need. From this point of view the America reveals more solidarity than most Europeans might ever dream of. However, in Europe there is no consensus about the need to build a Union based upon solidarity transfers. On the contrary, net payers consider this proposal out of the question. Neither is it clear how such a hypothetical Fiscal Agency would operate. So far it is national parliaments that are responsible for state budgets. Would such an Agency, then, be meant to approve budgets adopted by national parliaments, potentially making some corrections thereto? Would not this largely render national parliaments redundant, at least in terms of fiscal policy? Should the Fiscal Agency, on the other hand, be involved in the preparation of individual Member States' budgets in collaboration with them in order for such drafts to be approved thereafter by their national parliaments? If so, what is the role of the Fiscal Agency in this process? There are the sort of doubts and dilemmas that are going to be extremely difficult to resolve unless a concept for an appropriate legal and administrative formula is adopted, concerning not only the existence of the Eurozone, but indeed the entire European Union in the future.

E) Finally there is a fifth scenario, which is perhaps the most illusory but should nonetheless be taken into account. It originates from countries which have substantial reserves in foreign currencies nowadays, that is from China and some Islamic countries. If nothing else, Chinese proposals are always worth mentioning at least, considering this is a country with prospects which may quite well be still underestimated. Leaving aside the political ramifications associated with this scenario and focusing only on economic proposals, the Chinese seem to be saying quite frankly: 'No problem really, just open up your borders so we can buy out your debts and help you manage them'. Here the question arises whether such offers are attractive enough? Should the United States and the countries associated in the European Union, that is countries having greater democratic traditions and established, well-proven market economies, take advantage of the quick solution proposed in the face of the current crisis? Is a weakened West going to agree to the prospect of changes resulting from the new economic order that would accompany a deal with China, India, and perhaps also Brazil and South Africa? These are huge and real challenges that Europe may well have to cope with in light of the current crisis facing the European Union.

Conclusions

In summary, it seems advisable to come back to considerations relating strictly to the Eurozone, which is, after all, is the subject of this analysis. If we are to ask ourselves, in light of our inquiry, whether it is worthwhile to herald the sunset of euro, then the answer is certainly no. First of all, in spite of the present problems in euroland the condition of the euro is actually quite good. The euro is going to survive even if Greece or Portugal should choose to leave the Eurozone, a prospect which, by the way, seems highly unlikely. In fact it seems well nigh impossible, for the simple reason that, while we know how to step in, there is nobody wise enough to know how to step out. The Eurozone is not a place where one may just say 'Goodbye, I'm leaving'.

The Eurozone will continue to exist so long as there are core countries interested in strengthening, consolidating and developing it. This is what we are witnessing now, and for the following reasons:

- as a result of the existence of the Eurozone the countries involved enjoy access to large and prosperous sales markets;
- The Eurozone still ensures economic, financial and political stabilisation, both within Europe and worldwide;
- When all is said and done, being a member of the Eurozone still brings with it an indisputable prestige;
- quitting the Eurozone, even if by just one country, would cause a great deal of economic, financial, and social turbulence both in the departing country and throughout the entire Eurozone. For example, if Greece leaves its new currency would be devaluated badly and immediately. This would, on one hand, lead to even further deteriorating living standards in Greece itself and, on the other hand, decrease imports of goods and services from other Eurozone countries, thus also worsening the economic condition of exporting countries. Put simply, one may say that no party to the game is really interested in the disintegration of the Eurozone.

Apart from the members of the Eurozone themselves, there are also other bodies vitally interested in its survival, including the European Commission and the European Parliament. The establishment and operation of the Eurozone – in a similar way as the enlargement of the European Union – have strengthened these institutions and given an additional legitimacy to their roles and development in the global sense.

Finally, the United States is also interested in maintenance of Eurozone. Why? Because on the one hand the euro has indeed become a second pillar, stabilizing the finances of the contemporary world and, on the other hand, the euro is a valuable reflection of the Fed's monetary policy and of the fiscal policy of the Department of the Treasury. This role played by the euro should not be underestimated, as it enables the coexistence between the Eurozone and US Dollar zone, and also facilitates the stabilisation of the modern world economy, opening prospects for future economic growth.

Of course, it is at this point that one is tempted to ask whether having these two pillars of the global economy, one based on the US Dollar and the other on the euro, is sufficient for the expanding global economy. Perhaps a third one is going to appear, perhaps Asian? This remains to be seen, probably in about ten or fifteen years. In any case it remains unthinkable to nearly all Europeans that, as a result of a crisis in the Eurozone, a new economic architecture would emerge in the history of the global economy, bringing an end to the predominance of Western civilisation in favor of Asian civilisation. Especially if the place in academic textbooks occupied by Adam Smith, father of the free market economy, was deleted and replaced by a communist party secretary.