International Economic Policy for the Polycrisis

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Introduction

The stable development of a country's economy results from economic freedom, entrepreneurship, and good interaction between all its parts. This guiding principle is based on the assumption that the objective of economic policy is to create favourable conditions for the development of economic actors at many levels and in various cross sections of the economy, starting with the smallest enterprises, their relations with the environment, an efficient market, and a favourable technical and regulatory infrastructure. In this respect, it is worth looking at mismatched mechanisms and the lack of synchronisation of economic sectors, which may translate into problems of sustainable development in the long term, especially in the era of intensified challenges and tensions of a socio-economic and ideological nature, including the occurrence of polycrises.

Analysing the conditions necessary for economic development, it can be seen, even from a distance, that the financial system and the real economy sphere indicate separate mechanisms and deep divisions. It becomes evident that both spheres develop independently of each other, pursue separate goals, and thus generate inequalities breaking economic homogeneity. The relationship between these elements is profoundly incoherent; it reflects a structural crisis that hinders economic policy and reliable prediction of development in the long term.[1] The strategy of sustainable development pursued by the *state*, based on the search for internal equilibrium and long-term rationality, faces worrying difficulties. This chapter aims to demonstrate the most important problems of a structural nature indicating the need to search for a new model of the financial system ensuring security and economic and social stability.

Relationship between the financial sphere and the real economy

The systemic approach to the economy recognises the most important components of the system, which are the real economy, the financial sector, and the regulatory system. In a stable economy, the separateness of the financial sphere and the real economy sphere is generally overlooked, assuming that they form a unity and that real processes can be accurately described in a comprehensible monetary language

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that allows appropriate measurement of value, aggregation of flows, analysis of structural changes, etc. Since the financial system is an accurate reflection of the real economy sphere, the simplification that the scope of influence of the financial system coincides with this sphere and that financial instruments make it possible to steer the economy is readily accepted.[2] Consequently, the complex processes of production, exchange, and consumption in the in-kind sphere are reduced to the financial dimension.

Since the beginning of monetarism, thinking about economy, and subsequently about the regulatory system, has been completely subordinated to financial mechanisms.[3] The managerial approach to macroeconomic processes clearly shows that the real economy sphere, that is, the production and exchange of physical goods, including the productive infrastructure and owned natural and human resources, is fundamentally different from the financial system that supports it. Furthermore, the financial institutions associated with the functioning of money are subject to different mechanisms and performance than the real economy sphere.

Identifying the real sphere with the financial sphere creates numerous conflicts of interest, which are immediately interpreted, even by specialists, as a consequence of insufficient financing. The aggregation of phenomena in the monetary dimension blurs anomalies in the real economy sphere, which concern the decline in long-term competitiveness, quality improvement, balancing of risks and reserves, access to resources, etc. Simultaneously, negative phenomena arise, such as public debt and rising liabilities, deterioration of the return on capital, and tax being evaded. This in turn translates into product market distortions, reduced investment, falling consumption and savings, etc. The effects of these distortions lead to the destabilisation of financial institutions, increased public debt, and inflation.

The relationship between key sectors of the economy affects the country's potential, which is why the pursuit of security and sustainable economic equilibrium in an environment of instability has become a major challenge for state economic policy. A lasting improvement in the real economy sphere is not brought about by quantitative easing to stimulate money creation and the fight against inflation through interest rate increases and fiscal policy.[4] High interest rates and additional capital flow lead to the accumulation of excess liquidity and monetary depreciation. Factors hindering the construction of equilibrium in the real sphere include poorly understood consequences of globalisation in production, polarisation of wealth and indebtedness, technological dependence, long and complex supply chains, struggle for the survival of small businesses, disappearance of crafts, concentration of miscellaneous services, crisis of individual farms, and pathological phenomena.

The need for a separate approach to real phenomena is underpinned by technical and balancing considerations requiring an account in kind, ranging from the provision of food, medicine, an adequate number of school supplies, hospital beds, housing space, means of transport, energy sources, road networks, etc. The lack of coordination of these aggregates leads to resource deficits on an international scale. The imbalance in the in-kind dimension is a cost-driving and inflationary factor, involving fluctuations in economic value, instability of demand, financial market disruptions, etc. Management of the in-kind sphere complements the constraints of the financial system and highlights the relationships that condition benefits in terms of cooperation, complementarity, and economic security, including social expectations. Without this dimension, it is impossible to solve the issues regarding ecology, culture, quality of life, and other factors of the social sphere.

In the traditional approach to economy, the elements of the financial system play a subservient role to the actors of the real economy, satisfying the demand for money and financial services. It can be assumed that sustainable development of the entire economy is due to the coordination of the financial system with the development of real economy covering the sphere of production, services, and consumption. Furthermore, slowdowns in development and periods of recession and crisis – and in particular polycrisis – indicate disturbances and lack of coordination between the in-kind sphere and the financial system of the economy.[5] An important element of this system is stable money, which is the subject of inflation-targeting policies.

In an open economy, the situation is quite different.[6] The liberalisation of economic relations has brought the economy, and especially its components, into confrontation with the foreign environment. Under the influence of benefit expectations, the flow of money and goods is revived stimulating foreign investment, relocation of production, and migration of the population, thus leading to shifts in the structure of the internal economy in relation to national borders. Under the threats of an open economy, ensuring economic security and external stability appears to be a priority for the inflation target.[7]

The opening up of economies has initiated a phase of globalisation characterised by an intensification of international exchange, overseas expansion, and a general acceleration of economic development.[8] Favourable conditions for the development of commodity turnover, transport, communication, tourism abroad, and the flow of financial resources have been created. Globalisation with wider opportunities for management across borders interferes with individual attitudes and social relations. Opening up should enrich the actors, highlight weaknesses and strengths, activate positive motivations, nurture one's values, improve the way things are done, and develop relationships. The problem is that every actor must be, to some extent, a beneficiary of globalisation in economic, humanitarian, and civilisational terms. The environment must be accepted and treated equally. This results from the right to respect identity and distinctiveness and to take into account the interests of weaker actors as well. Therefore, monetary policy should be an important policy tool for security and economic stability.

Liberalisation has weakened the state control and regulatory mechanisms and loosened the bonds of the domestic economy. Globalisation has accelerated the development of branches of the real economy. In open competition, the influence of individual branches shifts in different directions, often shrinking or passing to foreign players. The potential of the domestic financial sector is tested in confrontation with foreign banks and international financial market institutions. Those most expansive expand their original territory of operation, often going beyond their own national borders. Domestic actors crossing national borders express their own strategy adapted to the new environment, revealing distinct objectives determined by the level of specialisation, the dynamics of expansion, and the strength of external competitiveness.

Banks and international financial institutions take measures to take advantage of excess capital in certain regions and commit it in others. Foreign banks, by introducing global strategies involving their local branches, have learned to attract local capital, take advantage of tax havens, etc. The sphere of influence of the strongest national currencies is expanding, while the circulation of weaker currencies is shrinking. In the real economy sphere, more attractive, more strongly promoted, or cheaper goods are displacing less competitive products, reducing the activity and specialisation of individual countries.

In the current phase of globalisation, there exists a disparity in the domestic economy regarding the degree of reliance on foreign countries, leading to a mismatch between the financial system and the requirements of the domestic economy. The polarisation and then concentration of flows in specific directions and domination of countries with the greatest economic potential can be observed.[9] The impact of growing external pressure in numerous domains has resulted in a build-up of an increase in internal imbalances and economic dependence in most countries.[10] In this respect, the literature increasingly raises the notion of deglobalisation and concentration of countries' activities around the two poles in the global economy – China and the United States.[11]

The mismatch is caused by elements of the financial system which, influenced by the power of external capital, seek ways to extend their domains of control and develop on their own. As a result, the sphere of the real economy, and sometimes its branches and the financial sphere, function as independent systems. They pursue separate goals and sometimes opposing strategies, dividing interest groups and public opinion. This kind of stratification occurring at many levels may mean that domestic actors are more inclined to cooperate with external actors and, at the same time, are averse to developing cooperation with internal actors. An example could be the foreign banking sector promoting consumer credits in Poland and, simultaneously, being reluctant to finance large exporters. Local companies are aware of the reluctance of foreign banks to finance production for export. Another example is the speculative practices of retail chains favouring foreign producers. The above processes lead to disintegration and weaken the internal economy. Finally, the coincidence of targets implemented by banks and supported by non-government organisations, lobbyists, politicians, and media has become a major source of economic instability. This phenomenon, indicating the unification of all external powers, may point to the need for all actors and stakeholders, including state authorities and monetary authorities, to work together in building a consolidated economy resilient to external shocks and risks.

Lack of state control over the real economy is becoming the bane of economic policy in many countries. A spectacular example of this phenomenon, which can serve as a warning to others, is Greece. This country, after joining the EU in 1981 and the Eurozone in 2001, for many years willingly used external financing to develop public infrastructure. The country's private sector was widely opened up to foreign direct investment. When the loan repayment phase arrived, it became apparent that the multiplier effect of the investments contributed negligibly to the increase in budget revenues. Private entities and foreign companies using the infrastructure and public services of the modern state moved their headquarters to tax havens to avoid paying taxes. Low budget revenues, high costs of operating a modern state, and the debt service burden quickly led Greece to accumulate debt. Greece's declaration of insolvency in 2009 led the country to disadvantageously dispose of public assets and caused a deep crisis for many years. Currently, Greece, looking for opportunities to improve its situation, is selling its ports to Chinese investors.

Under conditions of global imbalance, the development of individual countries loses its internal symmetry and complementarity required by the regulatory system, which undermines the dogma of internal equilibrium and complicates the state economic policy.[12] Disintegration tendencies caused by different dynamics of internal branches of the economy fuelled by the high level of dependence of the domestic economy on foreign countries have proved to be a permanent tendency. In the globalised economy, a strong polarisation of the stream of goods and capital flows resulting in a growing concentration of dependence on foreign countries is the reality of smaller countries. Western Europe's attachment to imports of energy raw materials from Russia and industrial products from China has proved to be an example of the risks associated with this polarisation.

The analysis of the market for basic and advanced industrial products, clothing, home furnishings, tools, electronic components and subassemblies, automotive parts, and many other assortments confirms the concentration of production in the

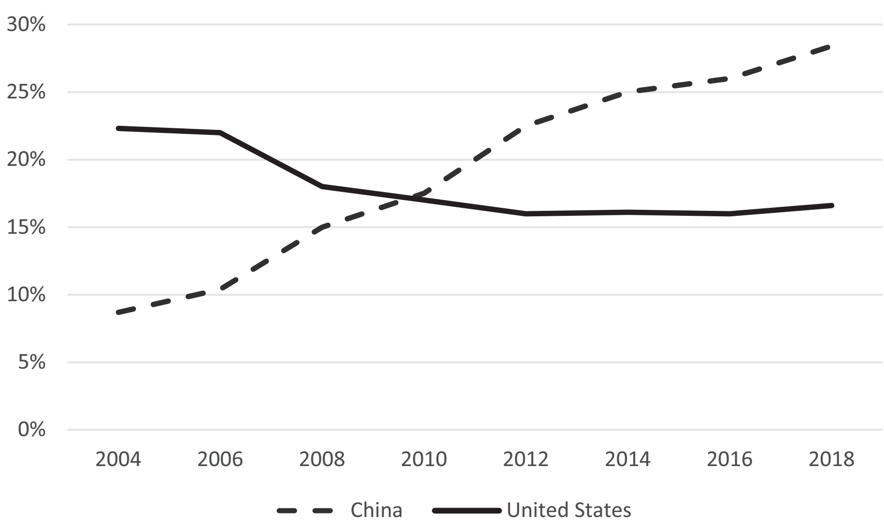

Figure 6.1 The share of China and the United States in global industrial production (measured on the basis of value added in current US dollars).

Source: United Nations Statistic Division, https://www.statista.com/chart/20859/chinese-and-us-share-of-global-manufacturing-output/.

Far East and the very high degree of dependence of Western countries on imports. The persistence of this dependence has led to the disappearance of industrial production in most countries.[13] The limitation of delivery substitution, the low elasticity of supply, and the dependence on monopolists lead to a rapid increase in prices and imply a loss of economic security.

Countries that take care of their economic security aptly choose their areas of specialisation, seek to diversify their development, make their export offer more attractive, and achieve faster growth, consolidating their advantage in the pursuit of a dominant position on the global market. The external expansion has become a factor determining internal development. Passivity in this respect weakens the economy's ability to grow, which means succumbing to external influences. The dogma of economic development, indicating a high value placed on external expansion, requires that security and internal stability be ensured in the economy.

The doctrine of monetarism introduced by President Ronald Reagan in the United States at the beginning of the 1980s, and subsequently popularised in most highly developed countries, turned out to be an important factor in the changes in the world economy determining the position of the real and financial spheres. Under the influence of this doctrine, the financial sector developed rapidly. The sphere of commercialisation of life expanded, new financial instruments and markets were created, and the capitalisation of stock exchanges and the assets of banks and investment funds grew. The scale of operations in the financial sector many times exceeded those in the real economy sphere. Most countries abandoned the management of the real sphere of the economy, assuming that the market and financial policy provided sufficient instruments for economic policy. Economic development was considered to be driven by the dynamics of growth in the capital value of financial assets. Since then, the financial sphere has been dominant in

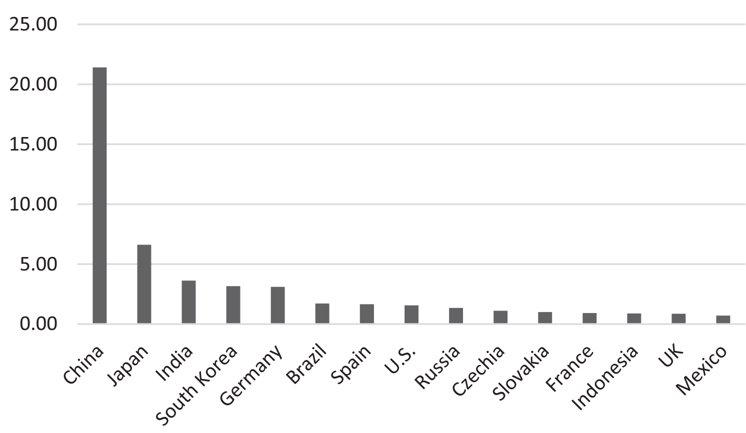

Figure 6.2 Estimated passenger car production in selected countries in 2021 (in millions of units).

Source: Authors' own elaboration based on the statista.com data the economies of Western countries, while the real economy sector, as declining and generating low profit, can be outsourced, that is, redeployed to countries with lower production costs. So far, attempts to reverse this trend have been weak or ineffective.

The paradigm of security and stability of the economic and financial systems

The financial sector is indisputably the largest and most important part of the modern economy. In the group of economically highly developed countries, the capitalisation of the financial sector many times exceeds the value of the non-financial branches defined as the real economy sphere. Therefore, it is not surprising that overall economic development is largely determined by the stability and security of the development of the financial sector.[14]

The situation of this sector is usually presented from a broader perspective as elements of the financial system. The actors in this sector, banks and non-bank financial intermediaries, financial markets, etc., and the organisational and regulatory sphere form the core of the financial system. The system also indirectly includes non-financial enterprises and households involved in the circulation and creation of money. In principle, only a small sector of the natural economy that does not use monetary exchange remains outside this system and therefore is free from inflation and other money and credit market relations.

It is worth pointing out that even in the most developed countries, we can find a distinct, often marginal, sector of the natural economy associated with traditional activities, mainly involving agricultural production, handicrafts, and miscellaneous services. This sphere is beyond the reach of the financial system, commodity exchange, and state statistics. This sector is not an important target for economic policy; it plays a useful role as a bearer of traditions and environmental ties and as a shock absorber in periods of upheaval and regional crises, although it is considered to harbour an informal economy and backwardness.[15] An extreme example of the commercialisation and the expansion of state control over the natural economy was the destruction of private orchards and home gardens in communist countries and the promotion of denunciation concerning informal activities to tax offices in Western countries. The dilemma posed by the presence of natural economy can be reduced to a confrontation between fiscal radicalism and an appreciation of the importance of social bonding and economic security.

The systemic approach makes it possible to look at the activities of the entities and the components of the economic system in a dynamic and multidimensional manner in a long horizon. According to Zbigniew Polański, the distinguishing feature of the financial system is that it is a mechanism that contributes to providing services that allow the circulation of purchasing power in the economy. He points out the basic functions of the financial system in the economy, that is, the monetary function, which includes providing the economy with the necessary quantity and structure of money and the organisation of its circulation allowing various types of payments to be made; the capital and redistribution function, which enables the effective allocation of resources; and the control function, which is used to verify the decisions concerning the use of free monetary and capital resources.[16]

From the point of view of the smooth functioning of the entire economy, a desirable state is its security determined by the condition of the real economy sphere, including internal and external equilibrium, the state of social order, and the stability of the financial system. Its features include the quality of life of its citizens, high level of professional activity, price and exchange rate stability, and the sustainability of capital relations, which promotes predictability of market trends and behaviour. It is characterised by a low level of volatility and a high resistance to natural market phenomena in demand and supply. The stability of the system is conducive to the elimination of external shocks, the ability of society to withstand risks, the efficient allocation of financial resources in the economy, and the effective identification and management of risks. All this promotes the economic functions of the state as an efficient system and is a condition for the smooth functioning of the entire economy.[17]

So far, most attention has been paid to building financial stability. The concept is based on building a network for safety and risk control in the financial system. The Basel Committee on Banking Supervision, which initiates cooperation between central banks in this area, should be regarded as the forerunner of this concept. The recommendations of the Basel Committee follow the direction of coordinated behaviour of the institutions comprising the safety net to ensure macroeconomic stability based on an efficient market mechanism, a well-developed institutional infrastructure, the promotion of sound economic policies, and transparent procedures for systemic protection. This concept of doing politics through the financial lens does not, however, ensure successful economic development and stability. It seems impossible without protecting economies from the negative effects of globalisation, including the transmission of recessions and crises.

The confirmation of the differences between the economic and financial dimensions of stability and general prosperity is the example of the Eurozone. Much concern for improving the stability and security of the financial system is shown by the European Union. It manages the financial system of the grouping as a whole through cooperation with the European System of Central Banks and national and international financial institutions. The overriding aim of this policy is to safeguard financial stability, which is mainly implemented through macro-prudential policy measures. The pursuit of financial stability essentially boils down to solutions that have the following purposes[18]:

1. prevent excessive risk accumulation resulting from external factors and market disruption;
2. increase the resilience of the financial sector and reduce potential knock-on effect (cross-sector dimension);
3. encourage the application of a system-wide perspective in financial regulation to allow the development of an appropriate set of incentives for market participants (structural dimension).

Building economic stability is understood widely. It requires seeking to improve the resilience of the financial system to adverse developments. The aim is to ensure that its components, that is, financial market actors and regulatory mechanisms and arrangements, are able to withstand economic shocks and sharp corrections in financial imbalances and that, in the event of the materialisation of risks at the microeconomic level, there is no cascading of risk materialisation at the systemic level.

Economic stability policy can be a form of extension of the concept and experience of financial stability policy. In a report issued by the National Bank of Poland, stability is defined as a state in which the financial system performs its functions continuously and efficiently, even in the event of unexpected and adverse disturbances of a significant magnitude. The central bank has become the leading institution of the financial safety net with an increasing role in the sphere of monetary and financial stability. This is evidenced by the changes in the ways in which central bank functions, objectives and strategies, and the scope and instruments of monetary policy, including macro-prudential policy that is being implemented now. Central banks are expected to bear responsibility not only for monetary policy using standard and unconventional instruments but also for financial stability and the successful implementation of the process, whereby macro-prudential policy responsible for monitoring and mitigating the negative consequences of systemic risks is included in the bundle of objectives.[19]

Maintaining the stability of the financial system requires monitoring systemic risks arising in or around the financial system and taking action to eliminate or mitigate those risks. A stable financial system is a necessary condition for the sustainable economic development in the long term. In assessing the stability of the public financial system, the primary consideration should be the fulfilment of the basic functions of this system, that is, the allocation, redistribution, and stabilisation functions, and the care to prevent destabilisation and permanent imbalances.[20]

A loss of financial stability means a failure to meet the standards of the desired structure of receipts and expenditures in the public financial system evidenced by an increase in risk, which requires a response from public financial institutions. Signs of instability in the financial system can be seen in crisis-like phenomena at national and international levels. The role of the central bank in facing economic risks and the scope of action in the financial rebalancing mechanism during the crisis phase seem to be highly controversial as it does not produce satisfactory results in a sufficiently short period. The recent crisis in central banking has led to the undermining of standards that had been in place for years and that set the directions and methods of monetary policy. It has also led to a change in the perception of the central bank's role and obligation to take care of the stability of the whole economy as a system. This objective now appears to be more important than the monetary stability paradigm as the latter has clearly lost its prominence.[21]

The extension of the public intervention formula to include the provision of security and stability to the entire economy provides for institutional and regulatory arrangements and public assistance, financial assistance from governments, central banks, and other institutions, including local government and international institutions. Public intervention is fundamentally different from the assistance to the financial sector. The subjective scope is extended from the financial sector to other groups of economic actors. It is a targeted aid aimed at measurable results, which involves the need for coordination and interaction between all institutions of the public sphere. This means going beyond the relationship between the central bank and commercial banks. Ultimately, it is up to the state authorities to determine the sources of losses and assess their magnitude, take recovery proceedings, take *ad hoc* measures for stabilisation, minimise the negative impact, and determine the extent of guarantees and, in particular, the amount of financial compensation.

The involvement of public funds for aid requires regulation and depends, as does the choice of the aid path, on the extent of the crisis and the assessment of the circumstances and risk degree by state financial supervisory institutions. State intervention in times of instability in the financial system and aid to economic actors during a crisis are part of the state's economic policy. Much depends on the general condition of the economy, the political situation, the efficiency of the state apparatus, and the speed of action.

Economic security and stability have become central to the concerns of the coordination of policies of the state, the central bank, and the general public represented by various stakeholder groups. When determining the instruments for restoring and solidifying stability, it is worth taking into account the postulate to always carry out an account of the costs and expected effects of implementing the chosen stabilisation undertakings before deciding on the form of assistance to financial and non-financial entities. This principle should ultimately provide a broader view of the solutions to be implemented. It is about seeing long-term economic and social considerations beyond the scope of short-term and narrow commercial interests.

The financial system in state policy

Although state aid is generally considered to be late and inadequate in a severe crisis, deep recession, or polycrisis, the use of instruments to correct disturbances has had visible effects. To assess the importance of economic and financial stability in national policies, it is worth exploring how aid resources were allocated to specific economic and social priorities in the aftermath of the 2007–2009 sub-prime mortgage crisis triggered by the excessive expansion and speculation of the US financial sector in the property market.

The literature also describes numerous cases of unequal treatment of actors in other OECD countries, including the European Union. Examples of practical support for the strongest national banks, mainly operating in international markets, predominate. The provision of aid was justified by programmes to protect jobs in particular industries. Interestingly, the state aid provided to banks did not translate into support for weaker enterprises and stimulation of employment. Instead, it came down to levelling losses, recapitalising banks, and improving their performance; it guaranteed restructuring programmes and financing consolidation processes. The indicated examples of countries applying such policies included Spain, Portugal, and Italy, among others. The need for strategic financial sector recovery programmes was pointed out, taking into account the restoration of the competitiveness of banks and financial institutions while accepting low industrial activity and high unemployment. This way of rebalancing led to a further pronounced expansion of the financial sector and a deterioration of society and the real economy.

The so-called quantitative easing has turned out to be the main source of funding for financial sector support in the countercyclical policies of most highly developed countries. The process consists in "printing money", that is, enlarging the monetary base through the large-scale purchase of government bonds and lowering interest rates, leading to a strong surge of liquidity in the financial system.[22] As a result of this policy, the monetary base (M1) in the United States increased approximately 15 times after 2007, reaching currently the level of US$21 billion, exceeding the GDP dynamics many times over this period. In the EU, a money creation mechanism on a similar scale has been launched.[23]

Quantitative easing, introduced initially by the US monetary authorities and then by the European Union, Japan, the UK, and other countries, had short-term recovery effects, but the spread of this non-standard method of expanding liquidity by most countries and the protection of domestic markets from foreign currency expansion have led the global economy into chronic over-liquidity and inflation.

The anti-crisis policies outlined here, focused on the stability and security of financial sector institutions, have revealed new risks and directions for long-term changes in the global economy resulting from leaving the real and social spheres alone. It can be argued that the monetary policy for stable growth of the financial sector in recent years has been pursued by methods involving money debasement (QE), deterioration of the quality of the function of money, and rapid depreciation of its value. All this is confirmed by the rejection of the monetary stability paradigm and the decline in confidence in global monetary governance.

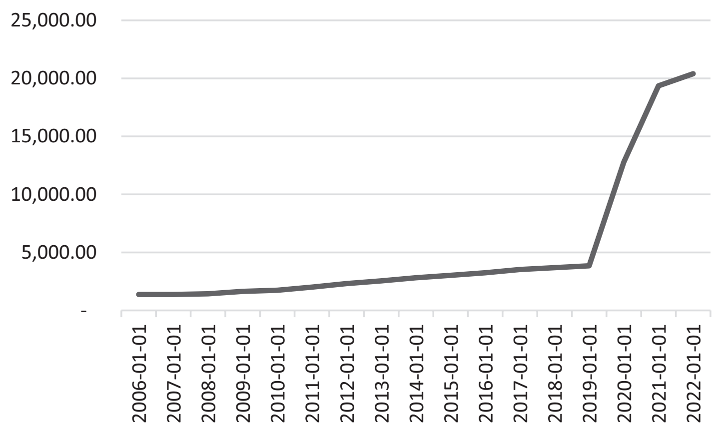

Figure 6.3 M1 money supply (2006–2022, in billion US dollars).

Source: Authors' own elaboration based on the FRED Economic Data

The current state of the financial sector, shaped by the intervention of states after the last crisis, is characterised by a significant accumulation of financial assets and an increase in capitalisation ahead of operational performance.[24] This period has also led to an increase in public debt and structural indebtedness in Western countries. In most economies, there is a further increase in the distance between the financial sector and the branches comprising the real sphere. The share of agriculture, industry, and other economic branches in the GDP of these countries is steadily declining. The high social consumption fund exacerbates dependence on imports of goods. The concentration of these phenomena increases risk exposure and raises new dilemmas for policy choices. It turns out that the state's objective in terms of financial system stability policy is to use public assistance in resolving problems and restoring the competitiveness of financial sector actors. Non-financial entities cannot count on assistance to a similar degree, which differentiates their position in relation to the domestic and foreign economic environment. The role of the state in safeguarding banks against systematic risks is limited to insuring against the consequences of adverse events, while the burden of the costs of assistance is reimbursed from public sources. The privilege of banks to be insured for free by the state contributes to their willingness to take risks and to external financial expansion, which promotes the concentration of the sector and the consolidation of financial entities. The state's safeguards for banks' activities are combined with cooperation in the pursuit of economic policy objectives, particularly with regard to foreign expansion. The opinion that capital has a certain nationality is confirmed by the participation of financial actors in setting objectives and influencing economic processes and state policy.

Structure-building impact of state economic policy

Today, in OECD countries, the financial sector essentially drives the GDP growth. In most OECD countries, it is the most important and expansive industry determining the functioning of the entire economy. It also employs the largest occupational group in banks and non-bank institutions involved in the sale and service of financial services, including controlling a wide stream of foreign operations. State economic policies that focus heavily on the stability of the financial sector are believed to diminish the risks and, at the same time, foster the expansion and dominance of the financial sector in the economy. Extending the scope of these policies to other sectors of the economy solves sectoral problems and stimulates economic growth.

Highly developed economies experience economic cannibalism in which the financial sector produces and at the same time absorbs the largest share of financial assets, including public aid. The excessive amount of money in banks and investment funds intensifies the search for high-return areas, often with excessively high risks. This is not about solving the problems of the real economy. There is an increasing temptation to participate in various forms of risky ventures and invest in space programmes and other uncertain projects, including involvement in the speculation market; the market for cryptocurrencies and their derivatives is growing rapidly; etc. This is the case for the financial sector's involvement in technology corporations, such as Microsoft, Apple, Tesla, and Uber, whose absurd capitalisation is detached from operational performance without guaranteeing an adequate return. In this way, the financial system has approved an additional mechanism for money creation and capital generation. Under this mechanism, large technology corporations, in cooperation with investment funds as major shareholders, build a financial pyramid by periodically increasing the value of their own assets regardless of their actual productivity. These phenomena are overlooked by financial supervisory institutions.

As the post-crisis experience of recent years has shown, the large-scale use of state aid instruments in favour of banks has led to a shift of the debt crisis from the revitalised financial sector to the public sphere of the state. The excellent condition of the financial sector is associated with the indebtedness of the largest economies, such as the United States, Japan, Italy, France, and Brazil, as well as the smaller ones, such as Greece and Portugal. Public debt burdens future generations only hypothetically because, in practice, it creates a market for debt instruments, which is the most important area of activity for banks and investment funds.

The mechanism whereby financial sector accumulation is driven by profits from public debt financing has become the most important large-scale form of economic activity and GDP growth in economically developed countries. In an open economy, foreign capital is actively involved in the process of financial asset accumulation. The growth of financial sector assets is confronted with the real sphere of the economy, which is marginalised in many countries. With a decline in the supply of domestic products, internal demand for consumer goods is increasingly being met by a wide range of imported goods. This phenomenon leads to an increasing dependence of the domestic in-kind sector on imported goods and, at the same time, raises the danger of the debt loop of the financial sphere tightening as it is the case in the weaker EU economies.

The allocation of the real sphere to countries with lower production costs has deepened the dependence of highly developed countries on imports of basic industrial products, ultimately leading to the closure of factories and the disappearance of specialists in many professions. Developments in technology and high labour costs make it sometimes impossible to restart production. The shortages recently observed in the market for semi-finished products, medicines, electronic car components, batteries and even clothing, footwear, and food lead directly to higher prices for imported goods and frequent disruptions of the supply chain.[25] In this context, the promotion of re-offshoring is completely ineffective and sham. Based on the process of the disappearance of many branches of the economy in Europe in the 1990s, such as the electronics, shipbuilding, and clothing industries, it is possible to make projections of other industries whose disappearance is in earlier phases now. At first glance, the automotive industry catches our attention, which is disappearing before our eyes under the influence of the expansion of Asian brands.

The growing imbalance of the real economy and simultaneous expansion of the financial sector at the expense of increasing public debt, with a decline in the importance of the real sphere of the economy, does not create a prospect that is satisfactory or beneficial for the state or any of the other stakeholder groups. The excess of money leads to an erosion of its functions and a decline in the quality of money, which in turn leads to a deterioration of exchange relations, avoiding currencies at risk, which usually ends in a crisis, inflation, an increase in the state debt, and a budget deficit. High inflation disorganises the process of exchange, settlement, investment, and financing and leads to the search for other forms of e-money raising confidence in money, security of financial settlements, and stability of savings. As a result of the growth of financial sector assets, there is an increase in government debt. Influenced by the cost of servicing foreign debt and the negative balance of exchange, the balance of payments deficit grows, etc. The chain of dependencies entails a general economic slowdown, inflation, rising costs, structural problems evident in the real sphere, unemployment, and a decline in income and the consumption fund, which, in the long term, deepens economic imbalances, deteriorates society's life prospects, and ultimately triggers the next crisis.

With the above in mind, Boguslaw Pietrzak is sceptical about the continued use of the effects of quantitative easing and increased liquidity of financial institutions. This phenomenon should also be assessed through the prism of economic effects, including the function of the financial system, the resilience to external and internal shocks, the fulfilment of the criterion of social trust by the system, especially its institutions, and the positive impact on the effects of the use of financial resources by entities of the real sphere and consequently on economic growth and socio-economic development. These issues also require the coordination of fiscal and monetary policies as key areas of state financial policy. This approach should be the starting point in selecting forms of state aid and determining the scope of non-conventional instruments used in restoring stability to the financial system. In this respect, the financial system stability paradigm is demonstrably false and does not work in practice as it leads to imbalances in the economic system. The public interest requires responsibility for the sustainable development of all spheres of the economy.[26]

In the search for the key to general equilibrium, questions are raised about the relationship between the adequacy of the development of national markets and the global financial market and the level of development of social capital. This directs attention to the importance of balancing freedom and the social dimension of the economy with stability and security treated as a strategic challenge faced by all categories of stakeholders.

Rival concepts of globalism and economic sovereignty of states in economic policy

One of the factors destabilising the global economy in terms of state responsibility for organising the material side of life is the competing opposing economic development initiatives. They are not theoretical concepts but economic realities expressing the struggle for economic influence and power at the current stage of globalisation.

It seems that top-down capital control is a dominant concept of globalisation represented by the world's largest economies. Behind this concept are cooperating investment and pension funds managing a cascading network of capital ties in conjunction with the world's largest banks and corporations. It turns out that the most radical slogans of economic corporate liberalism and economic and social change are carried on the banners by the representatives of the largest capital. The programmes of ecosystem defence, energy transition, and population migration are the official challenges of the largest investment funds uniting large corporations in their struggle for power and economic domination. The ideas of a green revolution, zero carbon and, in the near future, the reduction of breeding, individual consumption, and the mobility of society, make up the vision of a new civilisation. Given the ruthlessness in the exploitation of raw materials, the devastation of the ecosystem, social tensions, and neo-colonial dependencies, the new agenda of investor enrichment and the passivity of states are cause for alarm and dismay.[27]

A future in which there is a decline in the quality of life, a reduction in consumption for the masses, and the profound injustice of solutions providing privileges for the richest is a promise of domination over a pauperised world devoid of freedoms. This concept demolishes the achievements of civilisation and depreciates the foundations of civil society. Expansive corporations supported by private media and NGOs attack the sphere of public institutions of economically weaker countries. By disrupting public institutions, the aim is to disorganise public authorities and weaken the functions of the state. This new phenomenon is becoming an important element of internal divisions and social tensions.

The evolution of globalisation, or even deglobalisation, in recent years has revealed a number of dangerous developments leading to the accumulation of adverse effects and conflicts indicating dangerous civilisational traps and bringing out the polarisation of economic power and the deepening of structural mismatches.[28] It is becoming evident that globalisation, which brings unilateral benefits, deepens the unfair distribution of effects, and perpetuates inequalities, is an economic doctrine that does not take responsibility. Instead, it intensifies the dynamics of predatory exploitation of resources, contributes to the deepening of environmental devastation, and makes it impossible to break the barrier to growth.

In practice, the doctrine of globalisation means lack of control over some economic processes, asymmetry, and an inability to protect the domestic economy and to compete as it puts foreign players in a privileged position. Local actors become subcontractors, sometimes only because foreign companies can demonstrate higher capitalisation, first-class ratings, and guarantees from major banks. This phenomenon contributes to a drain on resources, the passing of costs to weaker countries, and consequently an increase in sectoral dependencies and unfavourable proportions of development in the economy. The new course of global economic polarisation ignores national borders and attempts at regulation. As a result, highly educated professionals are encouraged to emigrate, and a group of stronger countries acquire scientific discoveries and patents. At the same time, waste, worn-out equipment, and energy-intensive industries are shifted the other way round. Central Europe is where the sale of old cars and the dumping of waste from the rest of the EU are concentrated.

Resistance to globalism is growing not only in the weaker countries. The increase in the negative socio-economic effects of globalisation can be easily perceived in the United States, the United Kingdom, Germany, and France. The emerging resistance and aversion to globalisation can be described as an expression of the defence of economic sovereignty. The aim is to preserve social order and internal equilibrium. Economic sovereignty creates opportunities for smaller countries to survive and provides equal opportunities for development. This strategy is a natural reaction to the unequal treatment of the weaker in the globalisation process. Protecting own interests, controlling local resources and jobs, and creating the conditions for sustainable development and economic diversification can halt the devastation of the economy by globalisation processes. Moreover, a policy of defending economic sovereignty leads to the maturation of a sense of a community of economic interests and the maturation of the democratic institutions of the state as an independent entity in an open economy. The first step in this direction seems to be the need to investigate the mechanisms of globalisation and to revise the science of economics, which presents the functioning of the national economy in a traditional way, because it does not understand globalisation or hides its destructive power.

Freedom and security of cross-border operations is also not properly restricted by the barriers of globalisation. At present, no one questions the economic role of the state, which has become an active participant in supporting external expansion. In countries with a good understanding of the risks of economic openness, instruments of protectionism are consciously applied in such areas as defence and state security policy, internal market protection, the scope of state surveillance, planning for the development and use of scientific output, patent protection, and promotion of the most competitive industries.[29] This package also covers the policy of stability and security of the national financial system.

Factors conducive to economic sovereignty policies also include local circumstances, mismatches between demand and supply, inflexible labour markets, strong specialisation and preference profiles at a regional level, etc. Local economic and cultural circumstances result in a deep segmentation of markets that hinders the penetration of local markets and the spread of unfavourable trends despite the expansion of global corporations. Examples include a strong sense of values and cultural distinctiveness and the reluctance to change lifestyles and consumption habits. Such attitudes reflect resistance to the disintegration of the community, for example, by revolutionary slogans, such as, “eating worms”, or, “zero-emission”, with certain interests behind them that disrupt traditionally established local economic structures.

Challenges of state economic policy in search of a new model of economic policy

The long-term trends of the global economy are characterised by relatively high dynamics of complex and multidirectional changes. The projection of changes can be described more precisely by AI than by analysis of trends and risk indicators.

From the perspective of short-term analysis for business purposes, the changes are expressed as manifestations of economic instability marked by irregular periods of recession and economic growth, with long-term structural and qualitative changes behind them.

Following a systemic approach in economic policy, the state seeks synergies of sectors around long-term economic development goals.[30] Through reforms, improvements, and interventions, it unifies potentials, strengthens weaker links, and builds beneficial ties with the environment. In open market conditions, manifestations of economic instability develop spontaneously guided by the vision of benefits of economically stronger actors. Under the conditions of a traditionally understood liberal economic policy, the financial sector, and the real sphere of the economy, deprived of the sense of community of interests, pursue separate objectives that lead to the disintegration of the economy.

The rationality of the relationship between the financial system and the real sphere of the economy is that rapid GDP growth requires the financial system to be subservient while any problems related to the stability of this system, such as inflation, negative interest rates, and dependence on foreign capital, negatively affect the real sphere of the economy. At the same time, rapid economic growth contributes to the development of the financial sector, as exemplified by the Far Eastern countries (Japan, South Korea, and China), which are the "factory of the world" and the largest creditor in the global economy. The opposing claim, according to which a stable financial system makes it possible to achieve rapid GDP growth rates and the financial sphere stimulates the real economy, raises serious doubts. As the observation of globalisation in the OECD countries shows, a prerequisite for the development of the economy is an active state policy geared towards sustainable growth, with the coordination of economic interests, internal equilibrium, and diversification strengthening the resilience of the economy to external shocks.[31] A prerequisite for using the open economy for economic development is international competitiveness and the quality of the infrastructure connecting the economy to the global environment.[32] This also includes information, communication, and transport infrastructure to ensure the fast, cheap, and secure movement of resources. These actions are the domain of state authorities, local governments, and international organisations. International cooperation and economic and monetary integration can be a factor that contributes to mitigating the mismatch between elements of the financial system and the real economy.

The European Union, which as an integration grouping has taken on the burden of pursuing a common economic policy, has seen numerous failures in the financial and monetary system and in the real sphere. Although the member states have developed a generally high standard of living and level of economic development, the fading growth rate of the EU relative to its main rivals, that is, the United States and China, may be a test of the effectiveness of the economic policy. The moderate or even poor performance of the European monetary system in terms of external expansion and competitiveness with other leading currencies, even relative to EU countries that are not in the Eurozone, is noteworthy.

A cursory analysis reveals weaknesses in the integration mechanism that delay the effects of convergence. The adjustment of economic structures is based on administrative perpetuating dependency which stimulates aggressive internal competition, while the rise in living standards is deepening the polarisation of inequalities. Despite the passage of more than half a century of integration, the internal markets of the individual EU countries still differ significantly in their level of development, branch structure, income, and consumption levels. This phenomenon shows that the EU's common policy, like the Monetary Union, which is a result of the balance of power of the member states, does not produce synergy effects. For these and other school mistakes made by politicians, it is difficult to see progress in the internal development and improvement of the EU potential compared to other leading economies.

With respect to financial system issues, the EU focuses its attention on internal matters, mainly on observing and detecting weaknesses in national financial system structures and checking for resilience in member countries' banking sectors. It is not difficult to see that building financial stability is one of the elements of internal governance through the institutionalisation of prudential procedures and standards.[33] In principle, the organisation carries out passive activities. First and foremost, the EU has so far failed to create solutions that would mobilise a common potential capable of expanding its influence and defending its economy from external competition, while eliminating instances of internal rivalry or even attempts of domination between members that reduce the economic potential of the grouping. This hypothesis can be confirmed by many examples of unequal treatment of member states.

As in the case of globalisation on a world scale, the EU is a space where influences of national economies are shifted, and capital potential is polarised around economically stronger countries. National markets, like the EU internal market, are characterised by increasing asymmetry in almost every area. EU policy does not build an ethos of shared economies or pursue an agenda of consolidation of individual market segments. Instead, it sustains an ethos of internal competition. EU bodies act in favour of the economic interests of the strongest members. A stage of development, in which economic actors, including financial institutions, act in favour of pan-European interests, has not yet been reached. Banks and professional corporations, backed by the national capital of the member states, subordinate, or fight weaker competitors by weakening the EU's external competitiveness and this situation is accepted.

The test of the managerial prowess of the EU institutions may be the ability to solve numerous problems effectively. The European Union is not mature enough to undertake rational solutions as a supranational organisation. An example of this is the sluggishness or even helplessness in the fight against pandemics, the energy crisis, or the influx of immigrants, and in the help for Ukraine. The bureaucratisation, corruption, and statism, the unequal treatment of member states, non-treaty activities, and the strong involvement of EU bodies in political struggles and in the promotion of left-wing ideology contribute to the lack of economic achievements and unfulfilled expectations. All this points to the need for deep vigilance, accountability, and oversight of the initiatives of this international organisation by member states. The apparent replication of the negative phenomena of globalisation confirms the need to seek a faster path of development and deep changes in the mechanisms of the EU.

Globalisation must take place under conditions that respect the interests of all participants in the market game, and this requires security of economic transactions, a cooperative attitude, protection of the weak, compliance with common ethical rules, legal protection, and international supervision. Taking advantage of the opportunities created by globalisation requires working on increasing competitiveness, accurate allocation of resources and expenditures on development, science, and research focused on the attractiveness of the long-term offer on the global market. This, however, requires cooperation between branches and economic entities which should be allied with the state and local government.[34]

So far, the state, with the acquiescence of society, has been interested in protectionism by making protective instruments a source of additional budget revenue. These are actions of a preservative nature, artificially fixing the balance between the internal economy and the environment.[35] It is about the state's cooperation in defining an economic strategy that guides the activities of individual economic entities towards strategic goals, defined realistically, taking advantage of the opportunities to build and consolidate the competitiveness of the economy on a global scale. Therefore, there is a need for strategic planning and the use of economic policy instruments that support sustainable development and the construction of a diversified economic structure.

Ultimately, the success of economic development will be determined by the microeconomic level of governance expressing the intellectual potential and culture of the economic actors. The contemporary enterprise in the early years of the 21st century faces a number of civilisational, economic, and technological challenges worth tackling. Identifying the external conditions that make up the globalisation process allows for comparisons, self-assessment regarding the position held, including strengths and weaknesses, and an assessment of the ability to compete against the global environment. On the other hand, by accepting the objective circumstances of the global economy, a strategy of action can be defined, including the directions of individual development, which can be treated as internal challenges to change in response to the globalisation process. This is because it is clear that a company, to survive and grow, must respond to external challenges by implementing internal changes that express its intellectual and social capital.

With reference to the impact of globalisation on the enterprise, a distinction should be made between adaptation to the environment, which is expressed in the adaptation strategy, and autonomous development, that is, the search for an individual face and the development of an identity in changing operating conditions, which leads to finding one's own way of development against the background of the environment. Under the influence of globalisation, the enterprise is changing internally; its new personality results from autonomous decisions, creative attitudes, and the need for internal development. The competitiveness is an external and final effect of the processes taking place within the enterprise. To determine the extent of the changes brought about by the globalisation process, including deliberate changes intended to meet the challenges in this respect, it is necessary to answer a number of questions, and in particular determine what an enterprise should be like to remain competitive in the future. Thanks to a close analogy with social and civilisational processes, it is possible to refer to the positive experiences of all actors, including individuals and human communities.

Conclusion

Stability is an important economic state with many benefits for those operating in it. First and foremost, it provides certainty and predictability and thus reduces or even mitigates a number of potential risks. Economic stability enables companies to operate in a planned manner and calculate their expenses and revenues. Consumers can safely save money and make purchasing decisions.

Economic stability is also essential for economic development, particularly during times of additional economic or geopolitical risks, or polycrises. Under conditions of economic stability, companies are more willing to invest, leading to increased production and employment. Economic stability is also beneficial for exports as foreign investors and consumers are more willing to cooperate with countries with stable economies. Furthermore, given the benefits of economic stability, stability is regarded as a public good and the loss of stability can represent a large social cost.

Economic stability is particularly important in the context of the development and prosperity of small open economies, that is, one that is more exposed to external fluctuations, such as changes in commodity prices, international economic trends, or adverse political events. Particularly in small open economies, a strong financial sector can provide stability and support in times of crisis.

Higher benefits of globalisation will be achieved by an economy that is efficiently supported by a financial system providing greater flexibility and responsiveness to change as well as freedom of financing and investment, which means higher productivity, faster modernisation, more efficient marketing, and the ability to control cost proportions and profitability. This model provides space for the integrating function of the state responsible for the development and condition of social capital. The conclusions on the issue of economic stability are as follows:

- From the point of view of the smooth functioning of the entire economy, a desirable state is its security determined by the condition of the real sphere, including internal and external equilibrium, the state of social order, and the stability of the financial system.
- The economic system, together with supervisory institutions, must be able to prevent serious risks from materialising at a systemic or macroeconomic level when they materialise at an individual or microeconomic level.
- The perception of the central bank's role and obligation to take care of the stability of the financial system is changing. This objective now appears to be more important than the monetary stability paradigm as the latter has clearly lost its prominence.

In the face of global changes related to globalisation, and even deglobalisation, disruptions in supply chains, turbulence in financial and raw-material markets, increased risk of armed conflict, the paradigm regarding economic stability is changing, shifting the burden of stability management to the state, in particular to public finances, as described below:

- The extension of the public intervention formula to include the provision of security and stability to the economy as a whole provides for institutional and regulatory arrangements and public assistance, including financial assistance, from governments, central banks, and other institutions, including local government and international institutions.
- It turns out that the state's objective in terms of financial system stability policy is to use public assistance in resolving problems and restoring the competitiveness of financial sector actors, even in the event of severe turbulence, crisis, or polycrisis.
- The state's participation in bearing the burden of maintaining the stability and competitiveness of the financial sector constitutes a privilege for financial institutions, particularly banks, of being insured for free by the state, and contributes to their willingness to take risks and to external financial expansion, which promotes the concentration of the sector and the consolidation of financial entities.
- The mechanism whereby financial sector accumulation is driven by profits from public debt financing has become the most important large-scale form of economic activity and GDP growth in economically developed countries.

The choice of a global strategy and the adaptation of actors, including individuals, businesses, and social communities, to change is crucial for their future. Stimulating development in the long term will foster security of existence and increased quality of life, the expansion of choices, stability, and improved external relations. Mistakes made or failure to recognise the risks of globalisation can lead to a collapse of development, falling incomes, loss of markets, unemployment, and the collapse of long-term development programmes.

In an open economy, strategy requires facing the environment, taking advantage of opportunities outside the original local market as well as facing the environment and meeting its expectations, demands, preferences, and values. To be competitive, the offer must be broader than that of the competitors in absolute and objective terms and in the light of the expectations of product users. To achieve better results requires more efficiency and more productivity. This is not possible in all areas. In addition to natural advantages, which are impermanent, companies must strive for leadership when confronted with competitors. The global market is forcing higher product quality, which directly requires changes in organisation, high technology, and high staff qualifications. On the other hand, raising standards results in increased attractiveness of the offer, a higher technical level, and the development of staff competence. Those who limit their scope of activity to the local market condemn themselves to slower growth or risk external attacks, takeovers, loss of identity, and a slow retreat into obscurity.

Ultimately, governance under globalisation is determined by the individual, who, as an independent actor, is responsible for their future. Its behaviour is determined by its economic potential and ability to lead and develop professional skills to meet the challenges of globalisation. Its potential is based on the factors that make up an enterprise, that is, assets, employees of the organisation, and technology. These basic components of an enterprise largely define its opportunities, stimulate its development processes, and define its constraints in the global economy. These variables are also observed in its autonomous development.

Notes

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