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Reflections on the SARS-Covid-2 pandemic after one year: predictable, preventable but inevitable: an ecologist's perspective

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Abstract:

Aim: The major aim of the current essay is to argue that neoliberal capitalism, by virtue of its core tenets, has significantly increased the risk of disease outbreaks like SARS-Covid-2.

Conclusion/Finding: The dominant socio-political-economic system across the industrialized world is neoliberal capitalism that focuses on economic growth and profit maximization. These are obtained in part through the weakening or elimination of environmental regulations. Although neoliberalism has brought benefits to some, it has exacerbated social and economic divisions within and between countries. More importantly, it is undeniably responsible for increasing the rate of environmental destruction, especially in developing countries in the south, which are rich is resources and raw materials coveted by multinational corporations based in the western developed countries. The loss and/or fragmentation of ecosystems is also bringing people into closer contact with many species that were once largely insulated from human communities, such as bats, that harbor harmful viruses with the potential to affect people through zoonotic spill-over via another wild or domesticated species.

Originality/Value of Article: Because it eschews the precautionary principle, neoliberal capitalism is uniquely ill-equipped to prepare for potential calamities like pathogenic outbreaks and, more worryingly, climate change. This makes it obsolete in the Anthropocene. We need to seriously work towards making structural changes in the socio-political landscape in ways that reduce the damage we are doing and also strive to create social justice across the world. This is imperative if we are to create a sustainable future and to protect much of the living world from destruction.

Keywords: climate change; environmental destruction; extinction; habitat; neoliberal capitalism; profit
JEL: F64, P10, Q54

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1. Introduction

A rapidly increasing human population, combined with the advent and spread of globalization, has led to increased and unprecedented pressures on the environment (Ehrenfeld 2005). Humans are fragmenting and destroying vast tracts of natural ecosystems across the biosphere, actions that not only are wreaking havoc on biodiversity, food webs and ecosystem functions, but at the same time are bringing increasing numbers of people into much closer contact with species that were once insulated from human communities (Daszak et al. 2001). Nature is represented by a veritable labyrinthine network of ecological complexity that is inexorably connected through a chain of cause-and-effect relationships (Quammen 2012; Aronsson, Holm 2020). Most importantly, natural ecosystems into which humans are increasingly making incursions are literally brimming with pathogens, many of which are viruses that have to potential to infect us directly (like smallpox and polio), or via zoonotic transfer, via another species (i.e. Ebola, Hantavirus, Hendra virus, Nipah virus, MERS, SARS-Covid-1, SARS-Covid-2). Some of the most infectious and dangerous viruses that have historically led to deaths of millions of people, and which continue to pose a massive threat to humanity today, such as chicken pox, measles, and various strains of influenza are all zoonoses that were passed onto humans from a secondary host via a primary host (Wimalawansa 2020). Zoonotic spill-overs occur when secondary hosts – wild animals such as civets or pangolins, or domesticated animals such as pigs, horses or chickens – are infected by a primary host, such as bats, which are known to possess potent immune responses that allow them to harbour an array of pathogens (Plowright et al. 2015; Ye at al. 2020).

Over the past year, the entire world has been rocked by the largest human viral infection in over a century. SARS-Covid-2 was first detected in the vicinity of an animal market in Wuhan, China, in December, 2019, when several people (not all had visited the market) exhibited symptoms of a respiratory infection (Xu et al. 2020). Thereafter, the virus began spreading from China to other parts of the world on commercial airlines (Hoehl et al. 2020). As of this writing (early March, 2021), one year after being formally recognized by the World Health Organization (WHO) as a pandemic (Cucinotta, Vanelli 2020), SARS-Covid-2 has infected some 115

million people and claimed over 2.5 million lives in almost every corner of the globe (https://www.worldometers.info/coronavirus/), although the unofficial infection and death tolls are undoubtedly much higher. Furthermore, the economic costs of the virus, via a massive slowdown in economic output, are staggering, amounting to trillions of dollars by now, with a potential final price tag of as much as 35.3 dollars by 2025 (https://www.thenationalnews.com/business/economy/covid-19-may-cost-global-economy-35-3-trillion-by-2025-1.1069246). There is some light at the end of the tunnel via an unprecedented scientific response in developing multiple vaccines in record time (Kim et al. 2020). Despite that, the shadow of SARS-Covid-2 has been cast on humanity for years, perhaps decades, to come.

2. The natural (ecological) origin of SARS-Covid 2 is indisputable

Despite a proliferation of nonsensical and often quite bewildering conspiracy theories as to the origin of SARS-Covid-2 (Ahmed et al. 2020; Allington et al. 2020; O'Connor et al. 2020), there is little doubt by now that it originated in bats (probably horseshoe bats) and then somehow infected another species before infecting man (Lau et al. 2020; Zhou et al. 2020). The most likely conduit for this infection appears to be pangolins that are native to SE Asia and which are kept in large numbers in animal markets (Lopes et al. 2020; Zhang et al. 2020). SARS-Covid-1, which killed several hundred people and had a higher infection fatality rate than SARS-Covid 2, infected humans via civets that in turn had been harboured by bats (Childs et al. 2007). Although the precise geographical and zoological origins of the coronavirus are still being heavily debated, there is little doubt that it is a completely natural pathogen that originated in wild populations of a native species, most likely bats, and that it somehow infected another species where the viral genome was amplified before infecting man. Attempts to explain the global SARS-Covid 2 outbreak as an 'anomaly', or because the virus was either deliberately or accidentally released from a laboratory, are profoundly wrong and dangerous. The fact is not that the global pandemic occurred, but that it has taken as long for it to happen (after the Spanish flu outbreak of 1918-19), given the combined effects of the current socio-political system and the human onslaught on nature (Haas 2020). Indeed, everything around

the SARS-Covid-2 pandemic that has transpired was both predictable and preventable.

3. The SARS-Covid 2 pandemic was predictable, preventable *but* inevitable

One of the most astonishing aspects of the SARS-Covid-2 outbreak spread and subsequent establishment in 219 countries and territories around the world is how much pundits in the media and politicians have feigned shock and disbelief at the turn of events (Sternfeld 2020; Volpert et al. 2020). If anything, as stipulated above, an outbreak of a major viral infection was inevitable, given the numerous ways that humans interact with nature, exploit both wild and domesticated animals, and embrace a socio-political economic system that is singularly unprepared to deal with potential calamities. Neoliberal capitalism is perhaps the worst system in human history when it comes to preparedness for immediate threats like a viral outbreak, and especially slower, more existential threats like climate change.

Neoliberal capitalism, which is neither new nor liberal, replaced a more egalitarian form of capitalism in the late 1970s, coinciding with the administrations of Prime Minister Margaret Thatcher in the United Kingdom and President Ronald Reagan in the United States (Jones 2014). A recent history of neoliberalism is described by Peters (2012) and Kotz (2015). The core tenets of neoliberal capitalism include deregulation, the elimination or weakening of trade-unions, reduced taxation, especially for the corporate sectors and ruling elites, and adoption of 'trickle-down' economics in the hope that a concentration in wealth will lead to increased philanthropy (Hickel 2018). Neoliberal economics is closely tied with neoclassical economic theory, which cites human ingenuity, efficiency and unlimited substitutability among its core tenets (Czech 2000). Economic growth is a priority under the auspices of neoclassical economics, and is closely affiliated with the underlying motivation of profit maximisation that undergirds neoclassical economics.

There is little doubt that neoliberal capitalism is uniquely ill-equipped to cope with the emergence of pandemics and the burgeoning threats of global environmental destruction and climate change that characterize the Anthropocene.

Under neoliberalism, most corporations focus on profit maximization (Chomsky 1999; Duménil, Levy 2002; Monbiot 2016) while espousing slogans like 'corporate social responsibility' that are often little more than a public relations exercise (L'Etang 1994; Hanlon, Fleming 2009). The focus on profit places enormous constraints on the ability of governments and institutions to apply laws and regulations that protect society and the environment from corporate excess. The regulation of risk that was once well inculcated onto our political landscape via the precautionary principle has been increasingly downplayed or ignored as neoliberal capitalism has become more deeply rooted. The precautionary principle broadly states that it is better to be safe than sorry; in other words, a comprehensive scientific cause-and-effect relationship understanding is not necessary if an activity poses clear risks to human and environmental health (Foster et al. 2000; Kriebel et al. 2001). Part of the problem in implementing the precautionary principle is that its definition has sometimes been accused of being too vague and ambiguous, and that, if wrongly implemented, it will stifle growth and progress (Sandin et al. 2002).

Given the iron-like grip that the 'Washington Consensus' (neoliberal doctrine) has over most of the industrialized world, is therefore unsurprising that the precautionary principle was virtually ignored as SARS-Covid-2 began to spread across the globe in January of 2020. By the end of that month, the WHO was issuing dire warnings about the potential for the virus to become a pandemic, although the formal declaration was not made until March 11, 2020 (Cucinotta, Vanelli 2020). However, by February of 2020, SARS-Covid-19 was detected in every continent (Vlachopoulos 2020). At that time epidemiologists were already issuing stern warnings that their governments needed to respond instantaneously and decisively in ways to contain and suffocate the virus, preventing it from reaching a 'critical mass' that would permit it to spread. Indeed, they had been warning of an imminent pandemic for many years before that (Quammen 2012; Henig 2020), but their pleas have repeatedly fallen on deaf ears.

In hindsight, is relatively easy to understand why governments did not act immediately to prevent the emergence of the pandemic. Beholden to the front-loaded neoliberal doctrine, politicians were afraid of being accused of 'crying wolf' if they implemented draconian measures such as lock downs, curfews, and closed

borders, before the virus had taken hold (Platje et al. 2020). To be fair, their hands were effectively tied behind their backs by the corporate sector: if they did take drastic precautionary measures to safeguard their populations, and the virus fizzled out, then they were committing 'political suicide', because it could be argued that the virus would have disappeared anyway. Why impose massive risks on economies for a perceived threat? After all, wasn't this the case with SARS-Covid-1 sixteen years earlier? It was a case of 'damned if you do, damned if you don't'. Certainly, some measures were taken to control the outbreak of SARS-Covid-1, but nothing that significantly interfered with the vagaries of the hair-trigger neoliberal economies of the world. So, instead of responding proactively to a clearly growing threat posed by SARS-Covid-2, most western governments effectively sat on their hands and waited… and waited… and waited… until it was too late to contain the virus. By then, Pandora's box has effectively been opened; governments have been playing catch-up and reacting to viral waves ever since.

The 'sit and wait' strategy has, in my opinion, thus been an epic failure that has exacted an enormous economic and human toll. The toll has fallen heavily on poorly-paid workers employed by small firms that simply cannot keep them on the payroll, or else by large corporations that do not maintain 'contingency funds' in the case of an emergency. Instead, profits are ploughed into investor's portfolios. Large corporations in the travel sector, such as airlines, were among the first to seek government support when the pandemic led to lockdowns, stricter border controls and reduced business (Abate et al. 2020; de Rugy, Leff 2020). Ironically, as the pandemic has been tearing through most nations across the world, the number of billionaires also continued to increase (Collins et al. 2020; Kelly 2020). Among the clear 'winners' from the pandemic in terms of profit are the big pharmaceutical companies; for them, it can arguably be said that viral outbreaks are 'big business' because they will hold patent rights over the vaccines they develop. However, the longer-term profitability of SARS-Covid-2 vaccines are open to conjecture (Hooker, Palumbo 2020). Nevertheless, a deep concern is that poor nations that cannot afford vaccines will be unable to vaccinate much of the populations, further illustrating the gaping moral and ethical holes in neoliberal capitalism (Berthelsen 2020).

What has exacerbated the harmful effects of 'reactive', as opposed to 'proactive' government responses to SARS-Covid-2 outbreaks and waves, has been the refusal of some individuals to co-operate with measures, such as lock downs, curfews, mask-wearing and social distancing, that were implemented to suppress or contain viral spread and to prevent health care systems from buckling (Leung et al. 2020). This is another by-product of a generation in wealthy countries that has been weaned on 4 decades of the neoliberal-inculcated doctrine of 'unlimited freedom'. In other words, a small but significant minority of people in industrialized nations resent any measures that suppress their 'individual rights'. This mutant form of hedonistic devotion to self-interest over the broader interests of society is, some scholars believe, a clear by-product of neoliberal indoctrination (Amable 2011; McGuigan 2014; Giroux 2015). With the looming effects of climate change representing a much more serious threat to humanity than the current pandemic, the two-pronged effects of neoliberal capitalism: front-loaded economics that eschew the precautionary principle, and prioritization of individual rights over the welfare of society, does not bode well for the future.

Finally, must also acknowledge that neoliberalism has created a hugely divided world, where technologies are hoarded by the wealthy nations and the costs of pursuing unlimited economic growth are disproportionately paid for by the poor in the south (Athansiou 1996; Hickel 2017, 2018). Essentially, neoliberalism has led to the dissolution of borders and increased the spread of globalization which has allowed corporations to flee regulations in the wealthy countries to set up veritable sweat-shops in poor countries that are desperate for foreign investment (Bond 2006; Walker 2008; Donnelly 2019). Once established there, they can exploit cheap labour, virtually non-existent public health and environmental laws and thus plunder capital which is expropriated and shipped back to western markets. Ironically, political processes like 'free-trade' (which is an illusion) and globalization are embedded in neoliberal doctrine, but under the SARS-Covid-2 pandemic they conflict with public health and attempts to control the viral spread. In other words, border controls and strict quarantining that are necessary to contain the spread of the virus are the kinds of responses that are alien to neoliberal doctrine.

4. Concluding remarks

I have argued that the ability of SARS-Covid-2 to become a global pandemic was both predictable and preventable. Human biomass now exceeds all combined wild mammalian biomass by as much as ten times – with most of the remainder being made up of domesticated livestock (sheep, cattle, pigs, goats etc.) that is grown for human consumption (Bar-on et al. 2018). Moreover, we are entering the initial stages of a major extinction event – the sixth in the Earth's history – and the first that is generated by one of the planet's involved inhabitants (us). The combined effects of ploughing, paving, damming, dredging, slashing-and-burning, logging, mining, hyper-eutrophication or draining of wetlands, biological homogenisation via invasive species, dousing the planet in synthetic pesticides, and various other forms of pollution, including climate change, are placing stresses on nature and biodiversity that are unprecedented in tens of millions of years and perhaps longer (Dirzo et al. 2014). These drivers rarely work independently but are inexorably connected and synergized (Brook et al. 2008). Most importantly, as humans continue our assault across the biosphere, cutting our way deep into the heart of once-inaccessible ecosystems (especially in tropical biomes), we are blindly exposing ourselves to a potential array of novel pathogens. We are fortunate in a way that SARS-Covid-2 is relatively benign, with data from 139 countries reporting an infection fatality rate of approximately 1% (Grewelle et al. 2020). The next virus to become a pandemic may well turn out to rival the Spanish flu in terms of human mortality.

The question is, given that SARS-Covid-2 was both predictable and preventable, why do I believe that it was inevitable? This harkens back to the neoliberal political system which is entrenched across the industrialized world. Given the impotence that governments across the world displayed in response to concerted pressure for the corporate lobby to retain a 'business-as-usual' ethos until the horse had metaphorically bolted from the barn, is there any indication that we will be better prepared for the next one? My prognosis, writing as a population ecologist whose research involves the effects of climate extremes on biotic interactions, is not an optimistic one. Some forty years ago, leading atmospheric scientists and climate

scientists began raising the alarm about anthropogenic climate change (Rich 2019). Since that time, apart from relatively pedantic measures, the human response has been pitiful. The climate crisis by now is seen as the gravest threat to mid-term human survival, and yet, despite increasing urgency, much of the developed world continues to procrastinate and drag its feet, with wealthy nations failing to meet emissions targets. Although the vast majority of scientists forcefully argue the need to keep the global surface temperature rise under 2 degrees C over the coming decades (Rojelj et al. 2016), it appears that, even under conditions stipulated in the Paris Agreement (2015), that we will not keep surface temperatures under 3 degrees C (Kerr 2004). This will push our ecological life-support systems to the brink, and perhaps beyond.

Bearing these facts in mind, and given the planetary addiction to a fossil-fuel driven economy, is it really surprising that we are collectively unable to respond to the emerging climate catastrophe? Moreover, if we remain paralyzed in the face of a clearly imminent threat, such as SARS-Covid-2, then how will we respond to the much more serious threat posed by climate change? Indeed, will we even be prepared for the next pandemic, which is probably inevitable in the next several decades? An old axiom goes that, ‘those who do not learn from history, are doomed to repeat it’, and this most certainly applies with the SARS-Covid-2 pandemic (Thompson 2020). With climate change, we may very well get only one turn ‘at bat’. There will be no opportunity to repeat the mistake of inaction. Underlying the various threats to human well-being and survival posed by pathogens, environmental destruction, and climate change, are politics and economics, which play a major role in determining our relationship with the living world. We need to seriously rethink this relationship, and to work towards making structural changes in the political landscape in ways that not only reduce the damage we are doing, but also strive to create social justice (Athansiou 1996). Only be tackling this can we create a better, sustainable world for all.

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I wish to dedicate this article to those striving to create a healthier, more equitable and sustainable world. Photograph credits: SARS-Covid-2 molecule courtesy of Alissa Eckert, MSMI, and Dan Higgins, MAMS, and the Center for Disease Control. Photo of the starving polar bear is by Andreas Weith: https://commons.wikimedia.org/wiki/File:Endangered_arctic_-_starving_polar_bear.jpg; photo of the healthy polar bear is by Zoofari https://www.naturespicsonline.com/galleries/Nature33/_mg_2673.htm

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Harvey – Figure legend

Hypothetical timeline depicting societal responses to an immediate calamity (i.e. SARS-Covid-2, represented by a molecule of the virus) and a slowly emerging but more serious threat (i.e. climate change, represented by a healthy or starving polar bear) under political and economic systems that are based on either (A) short-term profit maximization and economic growth (e.g. neoliberalism) or (B), a more egalitarian system (e.g. steady-state economics) that considers longer-term impacts of human activity. Blue shading depicts high preparedness to immediate and emerging threats, whereas red shading depicts a lack of preparedness to threats irrespective of the time-scale involved. The impact of the threat is hypothetically proportional to the size of the subjects depicted. By applying the precautionary principle, threats posed by novel pathogens and climate change are reduced or eliminated, whereas under the neoliberal model the precautionary principle is downplayed or ignored. When this happens, pandemics are more likely to occur and society only responds after the fact through the rapid development of vaccines, but with enormous societal and economic costs. Given that governments have procrastinated on measures to address climate change, the future prognosis under neoliberalism is dire.

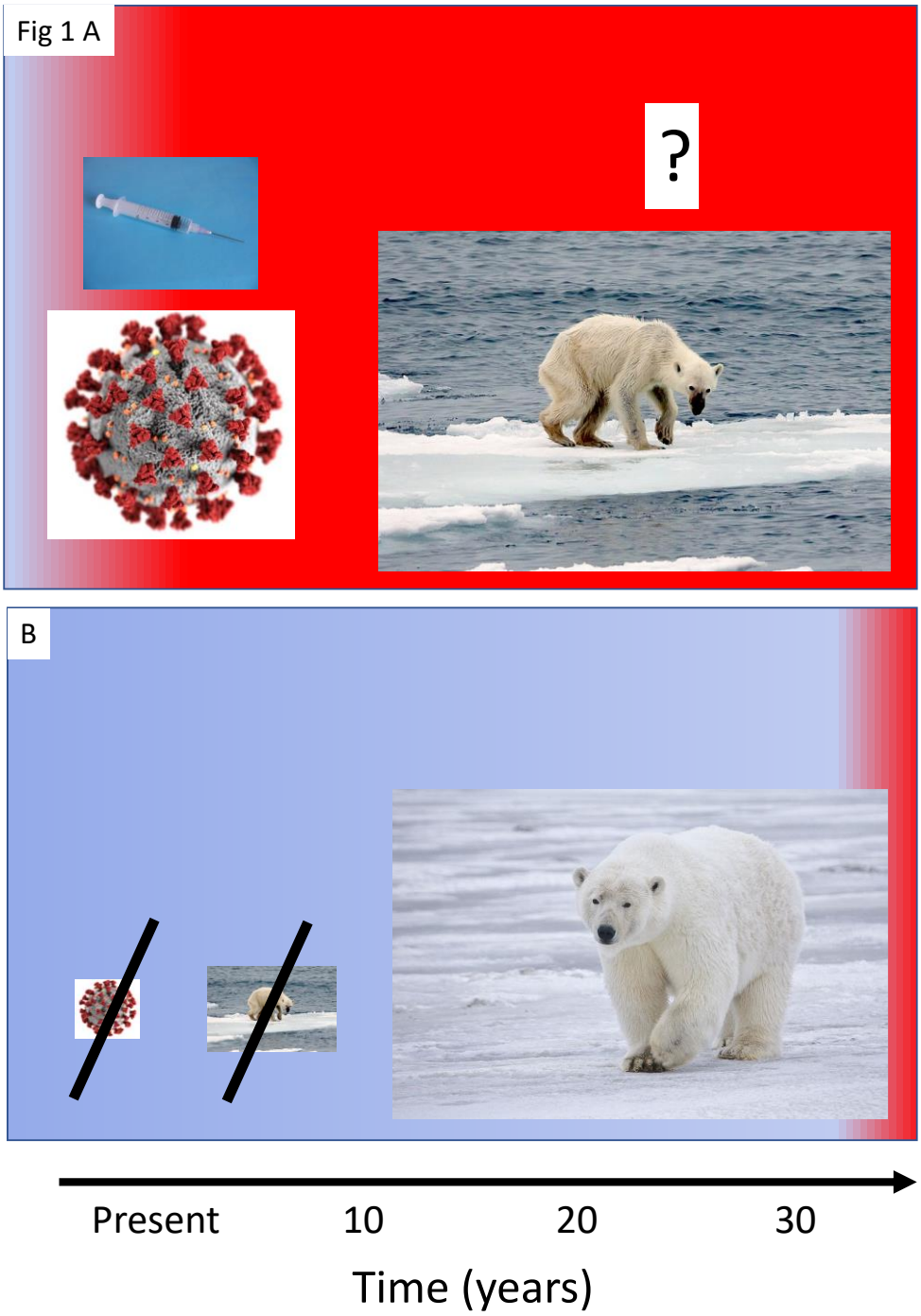
Fig 1 A
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A security-oriented corporate culture of an organization in a pandemic. A case study of WSB in Wrocław

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Abstract:

Aim: The paper aims to illustrate the importance of organizational culture in supporting security in an organization, on the example of a non-public higher education institution in Poland during the first year of the COVID-19 pandemic. Organization.

Design/ Research methods: The case study is presented in the context of theoretical reflections. the authors participated in the process of change during the pandemic, influencing the social norms shaping the culture of the organization for safety purposes in order to ensure the effective functioning of this entity under an epidemic risk.

Findings: This article has cognitive value and contains a description of the implemented procedures determined, on the one hand, by the organizational culture and, on the other hand, causing significant changes in the organization.

Contribution: Until recently, Management Science and Organization and Management Sociology did not deal with developing a security-oriented corporate culture of a particular entity in the context of the threat of an epidemic. The results may provide an example of good practice, and is the basis of future research on post-COVID security management.

organization
Keywords: Organizational culture, Security of the organization, Creating a culture for the security of the organization, Pandemic, COVID-19

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1. Introduction

The article aims to illustrate the importance of a security-oriented corporate culture organization as well as formation of its principles in the era of the COVID-19 pandemic on the example of a private university (WSB University in Wrocław and its department in Opole). Key theoretical issues related to the role of organizational culture as a management tool, and in particular the security-oriented corporate culture, are presented. A case study approach has been chosen, as this method reflects, above all, the trend of interpretative methodology and inductive character of management sciences supporting the realisation of the postulate of so-called "methodological eclecticism", enriching the research process and contributing to ensuring cognitive and pragmatic effectiveness (Matejun 2011: 203-213). The case study of the university included in the article shows significant transformations made in the times of the coronavirus pandemic in the social norms determining the culture of an organization for the sake of safety meaning that it is able to function effectively in the circumstances of an epidemic threat.

The implemented procedures, on the one hand, are the consequence of the organizational culture, while they on the other hand constitute factors of its change organization. The guidelines and regulations of the organizational culture, which are the subject of the analysis, have ensured the safety of the administrative staff, the lecturers and the students of the examined institution. This may constitute so-called good practice, because in hindsight, the procedures proved to be effective. The solutions described in the article may be suggested as examples for other organizations. What is worth emphasising, at the stage of implementation of security oriented solutions in the organization, but also at the stage of the analysis by the authors of the article of this case, there were no scientific studies related to solutions for such an extraordinary situation. Therefore, in addition to cognitive values, the article also contains practical values, which is an important contribution to the development of knowledge on management of the organization in emergency, crisis conditions, and thus overcomes a visible shortage in this area.

2. Organizational culture from a theoretical perspective

Culture is a well-known concept in social sciences, and has many definitions. The common explanation defines the concept of culture as the entirety of material and immaterial achievements of humanity, piled up, deepened and enhanced, having a hereditary character. It refers to the behaviour of social individuals, adopted patterns of conduct, observance of required rules, which are valid in a given group of behaviour (Ejdys 2010: 5). In social anthropology, the term "culture" defines the way of thinking, experiencing and reacting, covering the whole range of everyday behaviours, such as making contacts, greeting or manifesting feelings. Not gene inheritance or human nature, but influence of the social environment makes culture develop. Throughout their lives, each individual in a society acquires and consolidates certain patterns of thinking, perception and behaviour (Hofstede, Hofstede 2007: 16-17).

Organizational culture is usually characterised in the light of this definition and is often defined as a "well-established way of performing tasks". It can be argues that organizational culture is so important that it constitutes a significant regulator, complementing the procedures implemented in the organization. The level of organizational culture can be assessed in a relatively simple way, for example through insight into the structure of the organization, leadership, care for employees or remuneration strategies (Aniszewska 2007: 14-15).

Organizational culture is becoming an important issue in such disciplines as Management, as well as Sociology, mainly in terms of Sociology of Organization and Management (Hofstede, Hofstede 2007: 23-24). The quality of functioning of an organization is based on a common way of thinking and acting in a similar way by the members of the organization. Organizational culture is characterized by dominant views, provides not necessarily clearly defined rules of conduct in the workplace, indicates a sense of identity among the team and strengthens the social system. The set of developed principles and beliefs established by the members of the organization allows to determine the paths of their conduct and it is in this unconscious way that the organizational culture is reproduced by new individuals joining the organization. Each organization has an specific standard of conduct that

affects its operation. Based on the prevailing principles and customs, individuals enter a given organization and enhance their respect for standards and values (Ejdys 2010: 12).

Organizational culture also constitutes an important factor in development of an organization, while being a determinant of entrepreneurship (Majkut 2014: 137-141). It includes conceptual work indicating a course of action to increase efficiency. Elements of organizational culture may be presented by means of levels and manifestations of culture, pointing to unquestionable and unnoticed fragments and clear and recognizable. We distinguish "assumptions that we do not speak about", they show human interaction and approach to the environment. "Contracts and norms" are permanent principles that define how activities should be carried out and affect human relationships. It is important that the group should treat the activities in question as binding and acceptable. The result of such assumptions is to define the policy of a given organization by working out standards of functioning in order to ensure its success. In other words, it constitutes a set of social norms, patterns of behaviour and rules of conduct leading to specific, desired goals of the organization, and this translates into the values it wants to be characterised by. Additionally, the organizational culture includes "artifacts", both the objects in which the work is performed, the watchwords, posters, graphic symbols as well as public objectives of the organization. Culture most clearly manifests itself in behaviour of its members, the way they cooperate, how much they are involved in their work and what the relations between the members of the organization and their environment look like (Cameron, Quinn 2015: 28). Summarizing, the elements of organizational culture comprise: a system of values, a developed system of social norms to achieve a goal, a properly selected staff, a properly arranged place and cultural context which is influenced by the history building identity and symbols, logos, artifacts, etc.

Culture has an explanatory and control function, influences the attitude and behaviour of the members of the organization, acts as a mechanism that guides them. It can influence it in various ways. On the one hand, it has a positive effect on the functioning of the organization, but on the other hand, it may turn out to be a great obstacle and bring about negative effects. While the creation of a strong and

coherent organizational culture may be an essential corrective force for the organization, it may also turn out to be a barrier to activities that will co-create or worsen its situation (Rakowska 2013: 15).

3. An organizational culture securing security of the organization

When developing an organizational culture, one should also take into account the organizational climate, which can be observed in the form of the prevailing atmosphere or the level of satisfaction with functioning in a given organization (Rakowska 2013: 21). In the functioning of the WSB University in Wroclaw, the elements of the organizational culture developed over 20 years of its operation. The elements concern scientific, didactic, and administrative activities, as well as relations with students and listeners, which are reflected in the internal documents of WSB, general regulations and customary behaviour of the employees.

WSB in Wrocław is part of a holding, headed by the company TETOS S.A. (formerly TEB S.A.), which has been operating on the education, training and consulting market since 1994. TETOS S.A. also conducted investment projects in real estate, space lease and public services for the public. At the same time it is the founder and the main shareholder of TEB Edukacja sp. z o.o.[1] (operating mainly on the secondary education market) and TEB Akademia Sp. z o. o., which plays the role of founder of WSB Universities operating in 10 Polish cities. According to the Central Statistical Office (CSO), the WSB group had an 8.4% share in the market of non-public universities in Poland in 2019 (considering bachelor's, master's and postgraduate studies together).

At the level of the TEB Akademia Group (consisting of the founder of TEB Akademia sp. z o. o., the TEB Akademia Centre for Higher Education and other universities founded by TEB Akademia), such documents as the TEB Akademia Group Statute, the TEB Akademia Group's Corporate Principles, the Brand Book or the statutes and strategies of individual schools have been established. These documents regulate the operation principles within the TEB Akademia Group and

[1] Sp. z o.o. = limited liability company.

concern all aspects of the functioning of the WSB, including its financial, legal, organizational and know-how exchange, benchmarking, implementation of projects common to the entire group (synergy of activities), strategic partnerships, employee training and many others. Another aspect of the organizational culture involves brand attributes developed during the strategic workshops, which the university wants to be distinguished by (so-called quality features of the services of WSB University in Wroclaw: practicality of teaching, friendliness to stakeholders and innovation in the implementation of services, as well as in the educational offer) whose implementation is annually observed and analysed on the basis of research on brand attributes (BAM) conducted at the universities. The surveys, which are distributed electronically and on paper as part of this research (some are also carried out by telephone), are answered by the teaching and administrative staff of the university, WSB students, students of other universities, employers who cooperate with WSB as well as those who do not cooperate with WSB.

In 2020, due to the pandemic, the research was of a different nature, as it was carried out only in the form of an online survey and only among students of the TEB Akademia group (between 29th May and 29th June 2020). Due to the pandemic and the change in the nature of studying, the surveys additionally included elements such as problems related to remote studying, challenges related to remote learning, evaluation of the tools used for remote learning (Moodle, MS Teams, Zoom, ClikMeeting, Google Meet, VDI) and evaluation of information activities, such as the creation of a dedicated email address: koronawirus@wsb.wroclaw.pl, where questions about any issues related to studies and remote service in connection with the coronavirus pandemic can be send. More than 12,500 surveys were collected across the TEB Akademia group (unfortunately, at the stage of writing the article, the results were not yet known), which were distributed electronically.

Another element of the organization's culture comprise the implemented Quality Management System (QMS) which consists of: QMS Policy, QMS Book, QMS procedures and QMS instructions/manuals. The Quality Book is a document describing responsibilities and rights within the quality management system at WSB University in Wrocław. The responsibility for the practical implementation of QMS lies with the university authorities. The Book is a document increasing pro-quality

awareness. It is made available to all employees in the internal communication system Intranet.

Bearing in mind the above issues concerning organizational culture in general, it is worth asking what a security culture, or an organizational culture that serves its security means. Literature analysis allows us to state that there is no common explanation of the definition of security culture, so we can refer to the main idea that "there is nothing more indefinite than the word culture".

Security as one of the most basic needs of an individual is defined in the hierarchy of needs according to Abraham Maslow. In practice, all needs, including physiological needs, seem to be less important than safety needs (Maslow 2009: 66).

Security can be understood as an internal (mental) and legal state when an individual is convinced that he or she has a sense of support in another person or in a properly functioning legal system. It is distinguished by an acceptable risk with no adverse effects that could prove unacceptable to the subject. Commonly known, valuable values, the loss of which could cause a reduced sense of security include the loss of life, health, material and non-material goods and work (Oleszak 2012: 183).

A good learning perspective on the safety culture is provided by the International Nuclear Safety Advisory Group's report on the Chernobyl nuclear accident, which refers to inappropriate and unreliable operating safety conditions in the nuclear power plant. Since then, the term safety culture has become an issue of in-depth analyses. In 1987, the British Health and Safety Executive (HSE) presented a definition determining safety culture as a set of individual and group values and attitudes, the importance of competences, perceptions, behavioural patterns, skills that influence the quality of safety management in the company (Pagieła 2016: 382-383).

In 1996 Geller (1996) referred to the definition of this term as an element of development through entrusting all employees with functions, participating in the creation of the organization, teamwork and acquiring new skills (Lis 2013: 8). He indicates a fundamental importance that manifests itself in the responsibility and daily attitudes of all members of the organization.

The following elements are worthwhile distinguishing as they make it easier to determine the safety culture in the organization:

- physical work environment which includes, among others, machines and equipment, workstation equipment, noise, vibrations,
- employee behaviour including: compliance with health and safety rules, internal procedures, communication and networking, cooperation, ensuring special security within the company beyond the basic responsibilities,
- the characteristics of the employees, such as experience, skills and motivation (Lis 2013: 8).

The concept of "safety culture" can be defined by distinguishing the following approaches. The first approach is called behavioural, in which culture identifies itself with exhibiting certain safety behaviour (Obolewicz 2014: 12). An example of this approach is the concept created by B. Kaplan based on the assumption that organizational activities, attitudes, policies and procedures in the company have an impact on the level of safety culture (Pagieła 2016: 383). Another approach called "indigenous culture" is aimed at research on the values, attitudes and beliefs shared by employees in the context of security (Obolewicz 2014: 12). This approach is represented by A. Richter and C. Koch (2004), for whom the concept of safety culture defines collectively learned and recognised meanings, behaviours, experiences and perceptions related to occupational safety that guide risk and prevention. Z. Pawłowska (2004) exhaustively defines the term safety culture emphasizing that it is an element of organizational culture, which is a set of individual and collective attitudes, values and patterns of behaviour that have a significant impact on the management of work safety. These factors, the behaviour of individuals in the organization and their individual characteristics determine their involvement in the management of the occupational safety and health system (Pagieła 2016: 383). The third approach, called comprehensive, combines elements of behavioural safety (values, attitudes, standards), systemic safety (procedures, health and safety instructions, occupational risk assessments and occupational health and safety management systems) and technical safety (e.g. workplaces, machinery and equipment safety) (Szczygielska 2016: 5).

A comprehensive approach has been created by R. Studenski (2000: 1) who refers to activities protecting life and health both in the workplace and in personal life. These activities are grounded in a combination of psychological, organizational and social factors. Active participation in respecting the principles of safety should be given both in relation to work carried out on professional and nonprofessional grounds (Ejdys 2010: 17).

Summarizing, it can be noticed that the approaches which focus on exploring the concept of safety culture, devote their attention to norms and values or focus on the safety climate, behaviour or elements of the working environment. Very often all these elements are relevant. As a result, a variety of approaches can be encountered which are created by the objectives and the definition of safety culture adopted by the researcher (Rakowska 2013: 26-27).

The most common method for research on organizational culture involves using a comprehensive approach focusing mainly on tangible benefits for the organization. The comprehensive approach combines safety culture with other elements of the management system, e.g., a work safety system and a quality management system (Rakowska 2013: 27). The comprehensive approach also takes into account the broadly understood security elements in the organization already at the stage of creating its annual and long-term strategy plans.

The perception of security culture is based on communication supported by mutual trust, perceiving the importance and meaning of the concept of security, demonstrating the validity of preventive measures. It is also defined as a set of social, psychological and organizational factors influencing life and health in the working environment and also outside it (Najmiec, Łyczak 2010: 13).

A more specialised concept is the company's safety culture, referring to standards of behaviour (formal and informal) in the event of an emergency, concerning the state of awareness of the risks in the organization, taking safety into account when organising workstations, supervising, and in activities concerning technical and organizational improvements. It also includes analysing the causes of accidents and applying countermeasures. The last level of safety culture consists in the individual safety culture which is the individual's approach to life and health. It

includes personal beliefs, the individual's attitude to risk and indicates acceptable standards of behaviour in a hazardous situation (Ejdys 2010: 17).

A review of the various theories allows for formulating a general definition of the concept of safety culture, according to which it is a set of unwritten rules of conduct of each individual, taking into account the workplace – we mean all employees both at the lower and higher level, including the management. Its formation engages a long-term process, and its scope covers the entire structure of the company (Ejdys 2010: 19). The group of the company's employees who should be incorporated in the rules of conduct developed by the company should also include those who are not employed by this unit on the basis of an employment contract or other civil law contract, but perform official activities on its territory, namely, outsourcing companies, e.g. security, cleaning and others.

The work safety climate is considered an important element of the organization's safety culture and consequently it becomes a point of reference in identification of problems in the field of health and safety at work observed by members of the organization. At the same time, the safety climate is defined as a subsystem of the organization's climate, treated on an equal footing with the atmosphere in a given entity. Activities related to the proper management of the organizational climate are based on motivation, development and satisfaction of employees from their work (Lis 2013: 11-12).

The concept of a security climate can be defined as organization members' perception of the company's characteristics, the formulation of their own convictions on security issues and the expression of initiative in actions to improve security (Lis 2013: 11-12). However, such a model is possible primarily in companies that are open to the ideas of all employees, and many new solutions or changes are introduced in them through participation, where employees have an influence on what is happening in the organization.

4. Organizational culture for the sake of organizational security –a case study

The events initiated in the first half of 2020, i.e. the coronavirus pandemic, have made us look at the culture of organizational security from a slightly different, broader perspective than before. There are no reliable, representative studies on this subject, but it can be hypothesized that the majority of organizations were not properly prepared in terms of the culture handling security of the organization in the situation of an emerging pandemic. Therefore, the actions taken by WSB University are worthwhile studying. This case study can serve as an example of good practices for other organizations not only in the time of a pandemic, but also in the case of other sudden events that may adversely affect safety of people forming the organization.

Organizational culture, including the safety culture of the organization, as presented earlier, denotes implemented and internalized norms and values respected by the members of the entity. It is not an unchangeable area, as it is usually subject to evolutionary transformations. However, there may be circumstances that make radical and rapid changes to existing cultural norms and values necessary. Such circumstances undoubtedly include the occurrence of an epidemic threat which must cause such changes in the system of the observed norms of organizational security culture. In such a situation specific procedures must be introduced immediately, which assume the nature of leading standards of conduct limiting the threat. With time, as a consequence, they become leading principles influencing the organization's duration and even factors of the organization's development in difficult environmental conditions caused by crisis situations.

Characterising the situational context that created the need to adapt the organizational culture for safety, it should be noted that the first SARS-CoV-2 disease in the world was diagnosed in November 2019, in the Chinese town of Wuhan, located in the central-eastern part of China, according to press reports. The first case of coronavirus in Poland occurred on 4th March 2020 in Zielona Góra. It was a 66-year-old man who came from Germany by bus (gov.pl 2020).

In the period from November 2019 to January 2020 the disease appeared mainly in Wuhan, but already in mid-January the virus spread throughout China. On 24th

January the first case of the infection was confirmed in Europe (in Paris). In the second half of February large outbreaks appeared in South Korea, Italy and Iran (PISM 2020). On 11th March 2020, the coronavirus-related situation in the world was identified by the World Health Organization (WHO) as a pandemic (WHO 2020). On 14thMarch, in the light of the Act of 5 December 2008 on Prevention and Control of Infections and Infectious Diseases in People, an epidemic emergency was introduced in Poland (valid until 20 March) – a legal situation introduced in a given area in connection with the risk of an epidemic in order to take the preventive measures specified in the Act (Ustawa 2008. The next step involved introducing the state of epidemic threat (from 20 March) in accordance with the regulation of the Minister of Health.

In view of the worsening health situation around the world, measures have been initiated to limit the spread of the coronavirus. For these purposes, inter alia, travel has been significantly reduced, quarantines and curfews have been introduced, in some countries a number of sports, cultural and other events have been postponed or completely cancelled. Some countries have closed their borders (including Poland) or introduced significant restrictions on international traffic. Due to the outbreak of the pandemic in over 150 countries schools and universities were closed, affecting nearly 1.19 billion pupils and students globally. At present, 68% of the student population has been affected by the closure of schools and universities (UNESCO 2020).

Due to the prevailing situation at WSB University in Wroclaw, specific procedures have been proposed and implemented in the organization's daily practice, being new elements of the security-oriented organizational culture. Two stages of activities can be distinguished here. The first one concerns all relevant activities and organized internally by the employees of WSB University in Wroclaw. The second stage comprises activities implemented and coordinated at the level of the whole holding. In the first stage, these were activities organized and coordinated by the Chancellery authorities and WSB employees (mainly the Organization and Investment Department, including employees of the Administration Department, the IT Department and the Didactics Technology Department). At this stage:

- workers were secured with appropriate protective measures (reusable face masks were purchased, each employee room was equipped with a hand disinfectant and liquid for disinfecting office areas),
- dispensers with hand disinfectant were installed in the corridors (including the entrances to the building),
- information about proper hand washing was displayed in the toilets, successively supplemented with other announcements related to the fight against the coronavirus which were made public throughout the university, including at the entrance door. Similar content systematically started to appear in the internal communicators of the university addressed to employees and students (extranet and intranet) on the website and in social networking sites,
- additionally, disinfection of sensitive surfaces such as door handles, handrails, table tops and computer keyboards started. The next step was to suspend teaching classes in accordance with the relevant order of the rector of the university,
- teaching activities were suspended from 11th March 2020,
- remote working for university employees was introduced as of 16th June2020.

At the same time, the teaching staff was being prepared for on-line classes with the use of tools such as:

- Teams (one of the services of the Office 365 package based on the cloud containing a set of tools and services for teamwork which combines functionality with other Microsoft products).
- VDI – Virtual Desktop Infrastructure (a service that supports the user desktop environment on a remote server. Students are given access to their desktops on the network, so that they can connect to the classes assigned to them); thanks to this platform, all kinds of IT classes are mainly conducted.
- Moodle platform which supports the teaching process. It is a tool for sharing and managing materials used during classes.

In order to efficiently teach classes on-line, the university authorities decided to conduct a number of training courses on the use of these tools, and relevant instructions on paper and instructional videos were prepared for this purpose. Every person holding classes was able to use these materials. Online courses on the use of Teams for teaching purposes were the most popular. Basic and extended courses were conducted. The training sessions were held for several days, and then repeated. Training materials (films) are still available for WSB employees in Wrocław. The first didactic classes with the use of the above tools took place already in the second half of March, several days after the date of suspension of the didactic classes which officially took place on 12.03.2020.

The second stage involved work coordinated from the level of the holding company (TETOS SA). On 3rd April, the Safety and Health & Safety/Back to Work project team was established, including representatives from all entities of the TETOS Holding (TEB Akademia, TEB Edukacja and Trescor). The aim of the team was to:

1. define the procedures for the return of office and administrative staff, lecturers and finally students to the TETOS Holding's buildings,
2. define technical requirements in buildings in the area of building infrastructure, rules for day-to-day work and health and safety in offices and staff contacts,
3. determine emergency procedures in the event of the return of virus risk,
4. define guidelines for HR and managerial staff in the area of employee cooperation, operation of teams in office space,
5. implement the guidelines and legal provisions laid down by the State,
6. identify areas of responsibility and division of competences in the implementation of procedures.

At this stage, also the authorities of TEB Akademia together with the Chancellors of higher education institutions during the meeting of the Strategic Council (a group body making key decisions of strategic importance, composed of members of the Management Board of TEB Akademia and Chancellors of higher education institutions) on 22nd April 2020 appointed a "Back to work" team consisting of representatives of all higher education institutions. The work was coordinated and organized by TEB Akademia sp. z o.o. in Poznań. The team met on-

line twice a week. It also worked on the basis of shared files, which were a source of knowledge and experience exchange (know-how of coronavirus-related activities).

The administrative staff came back to offices on 1st June. The return was arranged in accordance with the guidelines prepared by TETOS SA in the document "Health and safety rules applicable in the TETOS holding company in connection with Covid-19" approved on 14th May 2020. The employees of individual WSB departments in Wrocław were divided into two teams, the first group worked on Monday and Tuesday and the other group on Thursday and Friday. Wednesday was a remote working day for everyone. The work was organized in such a way that the members of the two groups had no physical contact with each other. The employees of the local department in Opole worked shifts on the weekly basis. In the event of illness (or contact with an infected person) of any of the employees, this would not lead to a disturbance of standstill of the university's functioning. The university authorities made exceptions to this solution, namely they allowed 100% remote work for people 60+, people with chronic illnesses and those who could do their job online with no detriment to the work. The teaching staff who provided undergraduate and graduate degree programmes mostly had their contact with students online, with the exception of those few who attended the viva voce for undergraduate and master's thesis and in the case described below.

The first classes in direct contact with the student took place on 30th May. It was one group of MBA students. The classes were moved from a small practice room to the lecture hall. The students sat at a distance of no less than 2 meters from each other, the room was previously disinfected, there was also a disinfectant available at the entrance to the room, and the students went in through one entrance and out through another. Over the following weeks similar classes were prepared for MBA and postgraduate students. Classes that could not be organized on-line were held in direct contact. Pursuant to the Rector's Ordinance, the University did not anticipate traditional classes for undergraduate and graduate students by the end of the academic year 2019/2020. All of them would take place on-line.

On 15th June, the first viva voce examination in undergraduate studies (defence of bachelor's thesis) began. WSB created an opportunity for its students to choose the form of taking an exam. On the internal portal used to contact students (intranet),

each student could choose the form of taking an exam (on-line or in real life). The vast majority chose the real life option. The viva voce exams were prepared in the following way: they took place in a separate building, where no other administrative staff was present, the student was scheduled for a specific time of the viva voce exam and should appear not earlier than 10 minutes before the start of the exam. Then the viva voce began, the results were announced and the student was obliged to leave the facility. During the exam, the student sat at a separate table behind a plastic shield and the committee at its table at safe distances (min. 2 meters) from each other. Every hour the room was ventilated and after each student examined disinfection (table, handles, etc.) took place. It should be mentioned that the building where the viva voce took place was opened by employees of the Administration Department 30 minutes before the viva voce exam. There were two security staff members in the building all the time – one at one entrance (controls the entrances to the building (has a list of entrances) and the other one at the exit (directs the exit and blocks unwanted entrances). The exit and the entrance and the building inside were marked accordingly. All the time there were two people on the premises of the building to deal with disinfection and airing. According to the guidelines of the WSB authorities, no one else apart from students and members of the commission, employees of the dean's office and persons responsible for disinfection should be on the premises of the building during the defence. The adoption of these procedures constituting the standards of conduct has contributed to the achievement of the value of safe execution of the diploma exams.

Another challenge in creating an organizational security-oriented culture was to elaborate a system of rules of conduct to prepare the University for the beginning of the new academic year. The conceptual work on the preparation of this element of organizational culture took place under conditions of uncertainty (Work on this aspect began before the Ministry of Science and Higher Education announced the teaching guidelines for the next academic year). Regardless of the ministry's decision concerning the way the classes are conducted, the dean's authorities decided to introduce exercises into the curriculum, teaching students how to use remote working tools (Moodle, Teams, VDI) as of the new academic year onwards. This is one of the elements of the so-called ABC for the Student, i.e. a set of

necessary information which is provided to students starting their studies in WSB in Wrocław. This way of transferring knowledge has been functioning at the university for many years. Whereas, a specially appointed team has been updating the records constituting the principles of occupational health and safety in connection with Covid-19.

5. Conclusions

The basis for the functioning of an organization is provided by its culture. As indicated above, the components of the organizational culture can be presented by means of levels comprising interpersonal interactions and attitudes to the environment, and above all, permanent and fundamental principles usually occurring in the form of formal rules which affect the activity of the members of the organization in order to achieve the intended results which are of value to the organization. Improvement of security may be considered such a value. The quoted characteristics of procedures increasing security implemented at WSB University in Wrocław is a model example of such an organizational culture system. As Peter Drucker (1995) put it, when acting in turbulent times it is necessary to establish cultural standards in the organization enabling quick and significant improvement in safety of its members in case of sudden events. The coronavirus pandemic has turned out to be such a sudden, unexpected event which required organizations to implement various security procedures. It should be emphasized that the rapid development and implementation of all solutions and procedures for the functioning of the university in times of a pandemic, while maintaining the greatest possible sense of security for staff and students, was possible primarily due to the quick response to the situation. This was facilitated by an efficient flow of information, constructive exchange of opinions and ideas (e.g., in the form of consultations, workshops, brainstorming sessions) within the described organization, but also between WSB and the university's founder. This would not have been possible without the appropriate organizational culture in TETOS SA group, which serves such solutions, having the awareness that people are the most valuable resource of

the organization. This awareness goes together with values such as respect for the employee, support in combining work and private life, social responsibility, development activities for employees and their families (tetos.pl). It is worth emphasizing that this awareness not only can be observed among the top management of both organizations, but also among rank and file employees. This allows for a similar exchange of information, openness in generating ideas and ease, associated with a high level of understanding, in implementing them. The openness component, which is an elementary component of WSB group's organizational culture, has not only supported the work of preventing Covid-19, but also supported the creation of other internal regulations governing various areas of WSB's operation also including the strategy.

This article characterized the implemented procedures as, on one hand, consequences of the organizational culture and, on the other, as change factors in the example organization. This is an example of so-called good practice, because in retrospect, these procedures have proved to be very effective. Solutions described above may be provide ideas for developing such measures in other organizations, as pandemics and other threats may appear at any unexpected moment.

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The influence of the Polish financial supervision authority on the bank's management board

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Abstract:

Aim: The aim of the article is to analyze the supervisory measures available to the Polish Financial Supervision Authority in relation to the management board of banks operating in Poland and to indicate whether these measures have a real impact on their functioning and internal structure. On this basis, the proposed changes for the Polish supervision model will be indicated. The article is to be the basis for a discussion on the actual possibilities of supervisory authorities in individual European countries.

Design/ Research methods: dogmatic and legal method, reflection on the Polish banking law, Polish and foreign legal literature.

Conclusions/findings: The analysis of the indicated subject matter led to the conclusion that the possibility of using measures of an imperative nature is an element included in the concept of the Polish Financial Supervision Authority as a public administration body. Despite the powers vested in it, each time there must always be premises for the supervisory authority to apply certain sanctions to members of the bank's management board. Therefore, the Polish Financial Supervision Authority is not fully independent.

Originality/ value of the article: The article is of value for legislative bodies, it indicates de lege ferenda postulates that should be applied for the Polish Financial Supervision Authority to be independent in the field of supervision over bank management boards.

Implications of the research: The changes to the Polish banking law are necessary for the Polish Financial Supervision Authority to be able to exercise actual supervision, especially within the banking segment.

Keywords: Polish Financial Supervision Authority, Public Administration Body, bank body, The bank's management board, resources ad rem, ad personam measures, Art. 138 of the Polish Banking Act

JEL: K, K2, K23

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1. Introduction

The crisis in 2007 and 2008 exposed inadequate legal regulation of financial supervision, both domestically and globally. However, it led to a gradual unification of legal regulations concerning the financial market in the EU member states. As a consequence, inter alia an integrated supervision model has been introduced in Poland, Germany and Great Britain (International Monetary Fund 2009). According to the concept of integrated supervision, supervisory authorities should be independent in terms of decisions made.

The financial market is most often defined as all transactions related to the movement of money capital from entities with free financial resources to entities that need such funds (Bień 2003: 5). Supervision over the financial market plays an important role. Its correct regulation determines the efficiency and safety of all trading participants, which in turn affects the proper development of the economy (Jurkowska- Zeidler 2016: 14). The lack of appropriate regulations may lead to financial market participants taking actions that are unlawful and violate the principles of the Banking Act (Kaszubski 2006: 57-62).

Banking activity is a type of economic activity that is strictly regulated. Depending on the country, supervision over this segment is performed by specialized supervisory authorities with different supervisory powers (Lastra 1996: 25-30).

In Poland, since 2006, supervision over the financial market has been exercised by a specially appointed public administration body, is the Polish Financial Supervision Authority (Wiktorzak 2014: 88-90). It was equipped with supervisory powers to eliminate the emergence of both crisis situations and illegal activities in the area of, inter alia, banking, pension, insurance and capital sectors (Szumlakowski 2011: 54-60).

Establishing the PFSA is tantamount to adopting the model of uniform supervision over the financial market in Poland. Supervisory powers over the banking system, as well as the powers and means of implementing them, which the Polish Financial Supervision Authority has been equipped with from the Act of July 21, 2006 on Financial Market Supervision and the Act of August 29, 1997, The

Banking Act, which regulate the specific nature of the activities of this authority. These regulations are not exhaustive as they contain references to other national laws and legal acts of the European Union. However, they constitute the legal basis for supervision, among others over the banking system. The purpose of supervision over the financial market, pursuant to Article 2 (the act on supervision over the financial market) is to ensure the proper functioning of this market, its stability, security and transparency, trust in the financial market, as well as to ensure the protection of the interests of market participants through the implementation of objectives defined (Hawkesby 2000: 118), inter alia, in the Banking Act, the act of 22 May 2003 on insurance and pension supervision, the act of 15 April 2005 on supplementary supervision over credit institutions, insurance companies, reinsurance companies and investment companies being part of a financial conglomerate, the act on July 29, 2005 on supervision over the capital market, the act of November 5, 2009 on cooperative savings and credit unions and the act of August 19, 2011 on payment services (Fojcik-Mastalska 2007). Therefore, the PFSA performs a license, supervisory and regulatory function (Głuchowski 2010: 145). The supervision exercised by this authority can be divided into preventive and repressive.

In view of the above, the question is whether the banking supervisor has a real influence on the bank's management? After the analysis, it is necessary to indicate possible proposals for changes in the scope of its activity.

2. Bank authorities

The legal definition of the concept of a bank is contained in Article 2 the Banking Act. stating that the bank is a legal person established in accordance with the provisions of the acts, operating on the basis of authorizations authorizing the performance of banking activities involving risk, funds entrusted under any repayable title. It should be emphasized that, contrary to popular belief, the bank is not a financial institution, nor is it a unit of the public finance sector, which results from Article 9 point 14 of the Public Finance Act. It is a legal person (Srokosz 2000: 45-48). The issue of risk is inextricably linked with the concept of a bank. An

important feature of a bank is that it does not have any funds of its own, as most of the funds it has have been entrusted to it by trading participants.

The Banking Act distinguishes a closed catalog of legal and organizational forms available to banks, namely: a state bank, a cooperative bank and banks in the form of joint stock companies. The main difference between these banks lies in the different method of establishment and the different status of these legal entities. It should be pointed out that the Banking Act divides regulations concerning only state-owned banks (Articles 14-19), cooperative banks (Articles 20-20a) and banks in the form of joint-stock companies (Articles 21-28) (Wiktorzak 2014: 42-46).

Each bank, being a legal person, operates through its authorities in the manner provided for in the Act and in the statute based on it (Article 38 of the Civil Code). Members of the bank's governing bodies should have such qualities as: knowledge, skills, experience appropriate to the functions they perform and the duties entrusted to them, and should guarantee the proper performance of their duties. The attributes that characterize members of the bank's management board and supervisory board are general clauses, and consequently, there is no legal definition of these terms. If the PFSA decides that the candidate does not deserve approval, then he is excluded from applying for the position.

Situations in which the PFSA may not accept the candidacy of a specific person have been exhaustively regulated by the legislator in Article 22b paragraph 3 the Banking Act.

2.1. State bank

A state-owned bank may be established by the Council of Ministers by regulation. In the same way, it is liquidated. Both the establishment of this bank and its liquidation must be expressed by the PFSA. The authorities of a state-owned bank are the management board and the supervisory board. Their members may not conduct competitive activities, e.g. be members of the governing bodies of other banks, except where a state-owned bank is a shareholder of that bank. The term of office of the supervisory board is 3 years. Its chairman is appointed and dismissed by the Prime Minister. In turn, the members of the supervisory board are appointed by the Prime Minister from persons who are not members of the bank's management

board. The president of the management board is appointed and dismissed by the supervisory board. On the other hand, the remaining members are appointed and dismissed at the request of the president of the management board by the supervisory board. The appointment of the president of the management board and one member of the management board takes place with the consent of the Polish Financial Supervision Authority (Czerniawski 2013c: 1-3). The supervisory board of a state bank exercises general supervision, gives recommendations to the management board of the bank and suspends members of the management board from performing their duties. The influence of the supervisory board on the bank's management board is visible because it may repeal its resolutions in the event of finding them inconsistent with the law or the bank's statute. The president of the management board of a state bank is its representative, organizer of its activities and presides over the management board (Szczęsny 2004: 15-17).

2.2. Cooperative bank

According to the statutory regulation, a cooperative bank is a cooperative to which, in the scope not regulated by the Banking Act, the Cooperative Law Act applies. The articles of association of this bank are drawn up in the form of a notarial deed. The founders of a cooperative bank may be at least 10 natural persons. The function of the supervisory body is performed by the supervisory board consisting of at least 5 persons. Its members are appointed and dismissed by the general meeting, taking into account, inter alia, their knowledge, skills. The management board of a cooperative bank consists of at least three persons appointed by the supervisory board. The supervisory board informs the PFSA about appointing or changing the management board.

The work of the management board is managed by its president. The difference between a state-owned bank and a cooperative bank is that the management board of the bank in question has a separate position of a member or members of the management board who deal with the management of risks relevant to the bank's operations. The bank's management board determines the internal division of powers in the bank's management board, which is then approved by the supervisory board. The purpose of the division of competences in the bank's management board

is transparency and organization of the internal structure. The president of the management board of a cooperative bank is appointed with the consent of the Polish Financial Supervision Authority, requested by the supervisory board. First of all, it should be noted that the PFSA has an influence on the bodies of the cooperative bank already at the stage of their appointment, because the PFSA agrees to appoint members of the management board.

This is a personal right. It should be pointed out that there is a dichotomous division between the members of the management board. It manifests itself in the fact that the members of the management board are divided into those whose appointment the PSFA had to consent to and those who did not have to obtain such consent. In the provision of article 22d the Banking Act specific persons have been indicated who must obtain the consent of the Polish Financial Supervision Authority. The other members do not need the approval of the Polish Financial Supervision Authority. The legislator also does not indicate a specific number of members who must have such consent. According to Article 17 of the Banking Act the appointment of the president of the management board and one member of the management board shall be made with the consent of the Polish Financial Supervision Authority. The provisions of Article 22b shall apply accordingly (Gonnet 2010: 31-41). Moreover, each cooperative is obliged to undergo a lustration examination of the legality, economy and reliability of its entire operation at least once every three years, and during the period of being in liquidation. Vetting covers the period from the previous vetting (Article 91 § 1 of the Cooperative Law).

2.3. A bank in the form of a joint stock company

The regulation of the bank's bodies in the form of a joint stock company is analogous to that of a cooperative bank (Kidyba 2010: 34-48). The difference is that the founders of a bank in the form of a joint-stock company may be legal and natural persons, but there can be no fewer than 3. It is important that the provisions of the Commercial Companies Code apply to a bank in the form of a joint-stock company, o how many regulations of the Banking Act do not state otherwise (Bajor 2001: 3-4). According to Article 370 of the Commercial Companies Code, a member of the management board may be recalled at any time, however, the company's articles of

association may contain other provisions, in particular limiting the right to appeal to important reasons (see Table 1).

Table 1. Main differences between banks

Type of bank	**State bank**	**Cooperative bank**	**Bank in the form of a joint stock company**
The way of creating	Council of Minister	Form of notarial deed	Form of notarial deed
Bank bodies	Management board, supervisory board	Supervisory board, consisting of at least 5 people	Just like a cooperative bank
Special features	The term of office of the supervisory board is 3 years, the chairman is appointed by the Prime Minister	Founders of the bank minimum 10 individuals, specially appointed member of the management board responsible for managing the risk of significant bank operations	The founder of this bank may be at least 3 natural and legal persons

Source: author's own elaboration based on Kidyba (2010) and Bajor (2001).

3. Supervisory measures implemented in relation to the bank's management board

As indicated, the PFSA has an influence on the bank's authorities already at the stage of their appointment. The supervisory measures granted to the PFSA have been ranked from the least invasive to the most interfering in the bank's activities (this gradation results directly from the statutory regulation). These resources are broken down into ad personam and ad rem surveillance measures. From the point of view of the research assumptions of this study, only ad personam supervisory sanctions are relevant, as they directly apply to members of the bank's management board, and thus constitute the implementation of the supervisory powers of the

PFSA over this bank's body. The ad personam measures include: applying to the competent body of the bank to dismiss the president, vice-president or another member of the bank's management board directly responsible for the irregularities found, suspension of the members of the management board until a resolution is adopted on the motion for their dismissal by the supervisory board at the next meeting , dismissal of a member of the bank's management board in the event of a final conviction for an intentional offense or fiscal offense, the possibility of imposing a fine on a member of the bank's management board (Ofiarski 2013: 12-16).

3.1. Dismissing a member of the management board

Each supervision measure is a form of interference by a public administration body in the internal sphere of the bank being a legal person. There are no prohibitions resulting from the Banking Act and other acts regulating the activities of the PFSA regarding the cumulative application of supervisory measures and supervisory sanctions. The right to dismiss a member of the management board results from Article 138 sec. 3 point 1 of the Banking Act stating that the PFSA may apply to the competent authority of the bank to dismiss the president, vice-president or another member of the bank's management board who is directly responsible for the irregularities found. The indicated legal basis lists specific persons who may be dismissed by the PFSA, namely: president, vice president, member of the management board directly responsible for the infringement found. There is ambiguity regarding the understanding of the term of the management board member directly responsible for the infringement. The directly responsible member must commit the infringement on his own so that he can be accused of reprehensible action. Thus, the legislator divided the members of the management board into: directly responsible, indirectly responsible and not bearing such responsibility for the infringement. The negative action should, in principle, be demonstrated by the PFSA in a formal application to the bank by referring to the infringement, its characteristics and indication of the person who committed it (Czerniawski 2013b: 4).

The statement referred to above means a letter containing two formal requirements, i.e. the identification of the entity that committed the infringement and an indication of the infringement. The member of the body of the bank concerned cannot object to the request of the PFSA, lodge an appeal or make other appeals. It is a construction that cannot be appealed against. An application by the PFSA to the bank's competent authority is not binding, as it is solely up to the bank's supervisory board whether or not a member is dismissed. The PFSA's speech is a kind of preliminary stage consisting in the initiation of proceedings on the dismissal of an indicated management board member. It is the duty of the supervisory board to undertake checking activities. This obligation does not arise directly from a specific provision of the Act bank, but from all provisions regulating the duties of the supervisory board (e.g. Articles 16, 22aa The Banking Act, 219 Commercial Companies Code). Therefore, it is not possible to leave the Commission's proposal without consideration. After the supervisory board has analyzed the indicated violation, it may disregard the motion for dismissal, then it does not have negative consequences for the member of the management board. If the supervisory board finds any irregularities committed by a member of the management board, it decides to dismiss him. In correlation with the regulation in question, Article 138 sec. 3 point 2 the Banking Act, which will be discussed later in the article.

With article 138 sec. 5 the Banking Act the obligation of the PFSA to dismiss a member of the management board in the event of a final conviction for an intentional crime or for a fiscal offense, with the exception of offenses prosecuted on a private prosecution, as well as in the case of failure to inform the PFSA of the charges being presented to him in criminal proceedings within 30 days from the date of the charges. As a rule, the PFSA decides on the type of supervisory sanction it intends to apply. However, in the indicated article there is an exception in the form of the obligatory obligation of the PFSA by the legislator to use the supervision sanctions. Therefore, in this case, in the event of a legally valid conviction and failure of the management board member to provide information to the PFSA, this authority must dismiss the management board member. This is an obligation arising directly from the provision cited.

Another possibility to dismiss a member of the management board is provided for in article 22d the Banking Act. It stipulates that in the event that a member of the supervisory board or the management board of the bank does not meet the requirements specified in Article 22aa, the Polish Financial Supervision Authority may request the competent authority of the bank to revoke it. This is another possibility for the Commission to apply to the competent authority of the bank when a member does not have, in the opinion of the Polish Financial Supervision Authority, sufficient knowledge or skills, for example. The Commission may initiate proceedings to dismiss a member. The initiation of such proceedings is optional (Czerniawski 2013a: 8-13).

3.2. Suspension of a member of the management board

Another ad personam supervisory measure in the form of suspension of a management board member is regulated in Article 138 sec. 3 point 2 the Banking Act. It is a power of the PFSA which it can exercise on a discretionary basis. As indicated, this regulation is closely related to Article 138 sec. 3 point 1 of the Banking Act Suspension of activities consists in excluding the bank from making decisions with regard to its property rights and obligations. It enables the PFSA to act in two ways (on the one hand, it initiates the appeal procedure and suspends the activity of a management board member). Please note that the suspension concerns the scope of property rights and obligations. Thus, on the basis of a contrario inference, a suspended member may decide on the bank's non-property matters.

Article 138 sec. 4 the Banking Act introduces another option of the Polish Financial Supervision Authority to suspend a member of the management board in the event that he is presented with charges in criminal proceedings or in proceedings for a fiscal offense (first premise), or in the event of causing significant financial losses to the bank (second premise). It should be emphasized that these premises do not have to be cumulative. It should also be noted that in the case of the first premise, the ruling in question must be final for the suspension of the management board member to be effective. On the other hand, there is no legal definition of the concept of a significant property loss. According to Article 115 § 5 of the Criminal Code, property of considerable value is property, the value of which at the time of

committing the prohibited act exceeds PLN 200,000. The above-mentioned article of the Criminal Code cannot apply in this case, because it defines the property of significant value, and not the property indicated in The Banking Act significant loss of property. This concept should be defined by the PFSA itself, taking into account the circumstances of the loss suffered and its size in relation to a specific breach.

There shall be no equality sign between the suspension and the dismissal of a member of the management board. These are two different concepts. Suspension is understood in Judicature and doctrine as a state of transition, temporary cessation of certain activities. The suspended member of the management board still has the status of a member of the management board, but is excluded from making decisions in the scope of the bank's property activity.

In turn, dismissal means cessation of the previous function on a permanent basis. The dismissal is also a more intrusive method compared to the suspension in terms of its effects on the member of the management board concerned. As it results from the above considerations, the premises of the discussed institutions are not the same, which leads to the conclusion that there is no competition between them. Therefore, if the Commission suspends a member, there is no possibility to dismiss him.

3.3. Cash penalty

Ad personam measures also include imposing fines by the PFSA on members of the management board in the event of failure to comply with the recommendations regarding the conduct of business in breach of the provisions referred to in Article 138 sec. 3 the Banking Act, articles of association, refusal to provide explanations, information referred to in article 139, or in the event of failure to comply with the obligations set out in Chapter 11b (which constitutes the obligation to serve letters in the rehabilitation proceedings). The Polish Financial Supervision Authority may impose fines up to PLN 20,000,000 (Kawulski 2013: 21-25) on members of the bank's management board. This penalty is limited in time, as it cannot be imposed if more than 6 months have elapsed since the banking supervision obtained information about the act, or more than 2 years have elapsed since the act was performed. The imposition of a financial penalty by the PFSA on a management

board member is made by way of an administrative decision, which results from Article 11 sec. 2 point 17 of the Banking Act. It is final and immediately enforceable. The member of the management board concerned may request reconsideration of the case and then bring a complaint to the administrative court (Skoczylas 2000: 3-8).

Therefore, it is assumed that the indicated penalty is of an administrative nature. The amount of the fine should depend, inter alia, on the seriousness of the infringement, the method and the reasons for it, and the PFSA should take into account the infringer's previous behavior (Goodhart 2010: 14).

4. Concluding remarks

The powers of the PFSA indicate that this body acts to protect mostly the interests of the community. The possibility of using measures of an imperative nature is an element that is part of the concept of a public administration body. This fact distinguishes this supervisory authority from other institutions. It is a public administration body competent in matters of supervision over the financial market, in other words, a regulatory body classified as the protection of the financial market, including the banking segment. The purpose of banking supervision is the interference by the supervisory authority in the sphere of banking activity pursuant to legal provisions aimed at ensuring their legal and safe operation (Głuchowski 2010: 26-20).

In the literature, the suspension and dismissal of a management board member are classified as ad personam sanctions with which the PFSA has been provided. In order to be able to use these measures, it is necessary to meet certain statutory conditions. As a rule, the use of a particular legal measure depends on the PFSA's discretion.

It is a public administration body competent in matters of financial market supervision, in other words a regulatory authority classified as protecting the financial market, including the banking segment. However, does this allow the

banking system supervisory authority to have a real influence on the bank's management board?

In the event of an appeal, the bank's competent authority, i.e. the supervisory board, makes the decision on the appeal. The PFSA only initiates the process of a possible appeal, but it is not possible to appeal against a negative decision of the bank's body. It should be stated that the possibilities of influencing the bank's management board by the PFSA are significant, and the most important provision in this respect is Art. 138 sec. 5 of the Banking Act, according to which the PFSA is obliged to dismiss a management board member in the event of his final conviction for a crime or tax offense and in a situation where the management board member fails to fulfill the information obligation towards the PFSA.

Then the PFSA is obliged to make a decision with the statutory content. In this case, the dismissal of a management board member does not depend on the will of the bank's competent authority, but only on the decision of the PFSA. Therefore, there are two options for dismissing a management board member – one is optional, the other is obligatory.

The PFSA is a public administration body whose supervisory powers over the banking sector are very broad, and hence their ad personam implementation measures as well. Undoubtedly, the supervisory powers of the PFSA can be said in relation to the bank's authorities. The provisions regulating this interference cannot therefore be included in the so-called dead provisions. They apply when certain conditions are met. In conclusion, the PFSA performs tasks and competences strictly defined by law and cannot take actions without a clear legal basis. The supervisory powers vested in the PFSA do not have a direct effect, because, as a rule, it is not only up to the committee to decide whether a management board member is dismissed or suspended. The effectiveness of individual supervisory sanctions also depends on the bank's competent authority, i.e. the supervisory board.

It should be emphasized that the analysis covered the supervisory capacity of the PFSA with regard to the management board of individual banks operating in Poland. It should be pointed out that the postulated independence of the PFSA raises doubts, because the supervisory authority alone is not able to influence the indicated bank authority on its own. Despite the fact that this body is to be fully independent, it is

only possible to indicate independence in functional terms. It should be postulated that in the future the legislator should make this body fully independent in view of the goals set for this body. The proposed changes consist in the appointment of another supervisory body, fully independent of the PFSA, whose main task would be to replace the supervisory board operating in individual banks in the scope of making decisions regarding, for example, dismissal or suspension of management board members. Then the postulated principle of autonomy would be fully met, as the second body not related to the bank in any way (as opposed to the supervisory board) would be responsible for making decisions in the scope of this body of the bank. The new supervisory authority would include 7 people with expertise in finance, economy and banking. They would be appointed by the President and could not be part of any other collegiate body (including the PFSA).

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European Banking Union – an institutional analysis

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Abstract:

Aim: The Banking Union is an important step towards a genuine Economic and Monetary Union. The strengthening of the European banking system has become topic of debate since the 2008 crisis, when it became clear that stability and security of the system security may require increased supervision over operations conducted. The Banking Union was created to avoid the situation that taxpayers are first in line pay for bailing out ailing banks. The Banking Union consists of three pillars: 1) the Single Supervisory Mechanism (SSM), which centralizes supervision of European banks around the European Central Bank, 2) the Single Resolution Mechanism (SRM), which main purpose is to ensure the efficient resolution for recapitalization failing banks, and 3) the European Deposit Insurance Scheme (EDIS), which is still unfinished. The creation of the Banking Union is accompanied by remarkable transfer of sovereignty to the European level. This article aims to provide an overview of the changes unfolding across the Banking Union from a law and economics perspective, and to explain the role of the European Central Bank in supervision over the banking system, which is different from the policy of controlling prices through determining the level of interest rates and keeping inflation under control.

Design/Research methods: The analysis of the functioning Banking Union is based on review of literature and analysis of reports and legal acts.

Findings: The Banking Union supports financial integration in the EU by implementing a common set of rules and a common supervisory and resolution mechanism. The creation of the Deposit Insurance Scheme is likely to contribute to the protection of banks and consumers in case of a potential future crisis. The author argues that the European Central Bank as a supervisor of the financial market should create a second supervisory body, which would significantly strengthen the system and allow the ECB more efficiently fulfil its task as chief supervisor.

Keywords: European Union, Banking Union ,European Central Bank, Single Supervisory Mechanism, Single Resolution Mechanism, Deposit Insurance Scheme.

JEL: K10, K20

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1. Introduction

The Banking Union complements the Economic and Monetary Union and the internal market of the European Union (EU). It unifies the responsibility for supervision, recovery and resolution of banks. Moreover, it obligates banks operating across the euro area to comply with the rules applicable in the European Union stipulating that banks which commit errors are required to deal with them. In the wake of the 2008-2010 crisis it became clear, that what had to be established, especially in the euro area, was a new system of financial security, that would increase supervision over operations conducted by banks. Węcławski (2015) notes that change within the EU financial security system aim at the emergence of new institutions and new supervision standards. According to Węcławski, these changes should not only lead to micro-prudential but also macro-prudential supervision, the requirement of better endowment of banks with equity capital, increased cross-border supervision, the transfer of responsibility for the stability of large banks from public authorities onto banks' owners and debtors as well as on the banking sector.

The setting-up of the European Banking Union constitutes one of the most important legal and institutional changes in the institutional system of the European Union. The European Commission presented its own legislative initiative providing the basis for this in June 2012, when the European Council issued a decision authorizing the setting-up of a Banking Union within the euro area. The aim was to implement a more efficient banking supervision within the EU by authorizing the European Central Bank to supervise the euro area, including the euro-area Member States. The proposition of the Commission was comprised of three pillars: a Single Supervisory Mechanism (SSM) for banking supervision, a Single Resolution Mechanism (SRM) for the recovery of the banking system and European Deposit Insurance Scheme (EDIS). Establishing these three pillars was recognized as absolutely necessary for financial stability in the euro area .

Common supervision, crisis management and deposit insurance, in the opinion of the European Commission, will allow for deeper financial integration. This will reinforce financial stability in the Member States participating in the Banking Union and in the European Union as the whole. A more stable banking sector will mean

greater financing opportunities for companies of all sizes and more jobs and growth for European citizens. Deeper financial integration is also key to provide a wider choice of services at lower prices (COM 2017). This article aims to provide an overview of the changes unfolding across the Banking Union from a law and economics perspective, and to explain the role of the European Central Bank in supervision over the banking system, which is different from the policy of controlling prices through determining the level of interest rates and keeping inflation under control.

2. Legal and institutional context of Banking Union

The origins of the Banking Union dates back to June 2012 (Council 2012), when the European bond market was experiencing strong turbulences brought about by the crisis in the Spanish banking system, whose potential failure could have had incalculable consequences for the entire euro area. At that time, Spain conducted negotiations with representatives of the European Commission on terms and conditions of granting aid to the Spanish banking system. It was also at that time, that Herman van Rompuy, President of the European Council (Van Rompuy 2012) presented his own proposal aimed at putting an end to the antinomy existing between the banking crisis and the state of indebtedness of the sovereign euro-area Member States. In its essence, van Rompuy's proposal was to create a European Banking Union, which would be based on the following three pillars: firstly, strengthening the European Central Bank in terms of efficient supervision of all the euro-area banks, secondly, creating a bank deposit guarantee scheme for countries incapable of managing the capacity of their own banking system, and thirdly, setting up a mechanism and fund dealing with the resolution of banks which need that, without burdening the euro-area taxpayers with thus-related costs.

The publication of the President of the European Council constituted the basis underlying the decision of the European Council of June 2012 on setting up a Banking Union within the euro area. The subsequent step in the reform of the euro area involved preparing a project by the European Commission (COM 2012) in the

form of the Regulation of the Council of September 2012, which granted the European Central Bank a supervisory role across the euro area. The competences of the European Central Bank within the euro area were to be performed within the framework of the operation of the Single Supervisory Mechanism, consisting of an executive body – Supervisory Board (SB), whose main task would involve in the first place the responsibility for licensing, monitoring and implementing relevant regulations on liquidity, capital and other important issues. Moreover, what was also to contribute to the stability of the banking sector in the EU were the following measures: Single Resolution Mechanism and European Deposit Guarantee Scheme. The European Central Bank would also have the competence to approve rescue plans. The plan devised by van Rompuy also assumed, that a special procedure would be created involving the protection of deposits, which represents the third pillar of the Banking Union (Alexander 2012). On June 10, 2013 the European Commission proposed the adoption of the relevant regulations on the aforementioned issue. The draft directive was adopted by the Council and passed by the European Parliament in 2014.

3. Banking Union and internal market

The integration of bank regulations has long been sought as a mean to strengthen the banking system as a condition for the functioning of the common market. This idea dates back to 1957 and the Treaty of Rome in which for the first time the relevant regulations were put in place laying the foundation for the future economic and financial integration of Europe. Initially, it was predominantly about being able to settle freely and allowing for a free flow of people, services and capital across participating members. With respect to the harmonization of financial regulations, the Single European Act of 1986 represented a big step forward, allowing the so called Second Banking Directive to be implemented, with the directive facilitating considerably the operation of European banks across other Member States of the Union, without the requirement of having to obtain additional permits from the country where a particular bank planned to launch its operations.

This policy was supported by the Union institutions as well as by individual governments of the Member States following the assumption, that an increase in competition and intensification of the banking activity within the framework of a single market would be to the advantage of both banks and consumers. The 2008 banking crisis revealed, that the lack of appropriate unified regulations as regards the supervision of the operations of the banking systems of different EU Member States ultimately triggered an uncontrollable sovereign debt crisis, that threatened the cohesion of the euro area. In light of the above, in February 2009 the High Level Group chaired by Jacques de Larosière prepared a report, in which it proposed to launch a reform of the European financing sector with its main focus being the creation of three supervisory bodies aimed at safeguarding the functioning of the EU banking sector in the future (Ferran 2014). Drawing on the group report, the European Commission proposed setting up the European System of Financial Supervision, which would consist of authorities regulating the operations of the banking system, authorities responsible for security and operations of the monetary markets and authorities responsible for the European social security system. The chief objective of the above mentioned institutions would be to monitor and promote more effective regulation and supervision of the operations of the European financial markets, thereby contributing to the more efficient functioning of the common market.

That the tightening of the regulatory policy in the banking sector was the right move was confirmed by the debt crisis, that broke out in Greece in May 2010, when Greece had to accept an aid package put together by the European Commission and the International Monetary Fund. In May 2012 the debt crisis in the euro area deepened significantly when Spain was forced to use the aid package. At that time it was both the European Commission and representatives of the German government who recognized, that in order for further aid packages to be delivered, it was necessary to advance the institutional consolidation within the scope of the banking system supervision at the level of the EU institutions. The Commission believed, that in order to avoid the risk of excessive banks' debt across the euro area this step was necessary (Ferran 2014). The European Central Bank (ECB) was indicated as the most suitable EU institution endowed with the capacity to fulfil this

responsibility given the ECB's high credibility and authority, its successes regarding anti-inflationary policy, as well as its independence from other centers of political power at the level of the EU and the Member States. Furthermore, the creation of the Banking Union supervised by an already existing institution was regarded as a measure meant to improve the functioning of the common market, in light of the future actions seeking to counter the segmentation of the banking system in some of the Member States (Grunewald 2014: 271-273).

The financial instability in larger Member States of the euro area from the middle of 2011 led to renewed thinking about the interdependence between banking policy, financial integration and financial stability. In April 2012, the IMF managing director CH. Lagarde confirmed the earlier opinion, that the euro monetary union should to be supported by stronger financial integration in the form of unified supervision, a single bank resolution authority with a common backstop, and a single deposit insurance fund (IMF/CFP 2012). Suggestions for more integrated European banking supervision were further discussed during an informal European Council meeting in May 2012.

As mentioned above, the President of European Council, H. Van Rompuy, called for deeper integration in the Eurozone and proposed to create a Banking Union encompassing direct recapitalization of banks by the European Stability Mechanism, a common financial supervisor, a common bank resolution scheme and a deposit guarantee fund (Van Rompuy 2012).

The Regulation (EU) No 806/2014 of the European Parliament and the Council in point 1 says, that the financial and economic crisis has shown, that the functioning of the internal market for banking services is under threat. This is a real source of concern in the internal market, in which banks should be able to carry out significant cross-border activities (Regulation 806/2014).

Differences between national resolution rules in different Member States and corresponding administrative practices and the lack of unified decision-making process for resolution in the Banking Union contribute to lack of confidence and market instability. Different incentives and practices of Member States in the treatment of creditors of banks have an impact on the perceived credit risk, financial soundness and solvency of their banks and thus create an uneven playing field.

Divergences between national resolution rules in different Member States and corresponding administrative practices may lead banks and customers to have higher borrowing costs because of their place of establishment and irrespective of their real creditworthiness. So, customers of banks in some Member States face higher borrowing rates than customers of banks in other Member States, irrespective of their own creditworthiness. This undermines public confidence in the banking sector and obstructs the exercised of the freedom of establishment and the free provision of services within the internal market because financing costs would be lower without such differences in practices of Member States (Regulation 806/2014).

4. Single Supervisory Mechanism

In June 2012, more than two decades after the entry into force of the Maastricht Treaty, Eurogroup (2012) proposed to activate Article 127(6) of the Treaty on the Functioning of the European Union (TFEU) as a legal instrument allowing for setting-up a Single Supervisory Mechanism (SSM) for the purpose of governing and supervising the banks across the euro area, putting finally an end to the dichotomy in terms of the monetary policy controlled by the ECB and banking supervision under control of the EU Member States. Thus, the ECB was granted power to control about six thousand banks operating across the legal area of the European Union. Following a long debate and important amendments made by the Council and the European Parliament, the regulations regarding the SSM over the banking system were eventually passed in October 2013, to be entered into force the following month in November 2013. After a vacatio legis of one year they have been in force since November 2014 (Regulation 806/2014). According to point 7 of this Regulation, SSM should assure that the EU policy relating to the prudential supervision of credit institutions is implemented in a coherent manner, that the single rulebook for financial services is applied in the same manner to credit institutions in the euro area Member States and those non-euro area Member States, who choose to participate in the SSM and that those credit institutions are subject to supervision of the highest quality.

It is worth mentioning that the Single Supervisory Mechanism constitutes the main pillar of the Banking Union, being comprised of the ECB, as well as the representatives of the Member States forming the euro area. The main goal of the newly created supervisory system is to ensure the security of the operations of the European banking system and to ensure the unity and integrity of the internal common market (Walker 2014). All the euro-area Member States are automatically members of the SSM while the non-euro Member States may decide whether to cooperate closely with the SSM as part of the operations of competent national authorities. With respect to working closely together with national authorities within the scope of the banking systems of those EU countries which are not in the euro area, the ECB was authorized to adopt a special memorandum, in which it is explained how it intends to cooperate with the central banks in the non-euro area Member States as part of the bank's supervisory role (Smits 1997).

The European Central Bank is responsible for supervising directly the largest banks, which represent over 85% of the banking assets in the euro-area, as well as being partially responsible for the supervision of smaller European banks, with the supervision being conducted by the relevant authorities of the Member States (European Banking Federation 2019: 26).

5. Constitutional prerequisites for establishing the Banking Union

With the debt crises emerging, it became apparent that what was acutely needed was the implementation of relevant regulations seeking to prevent financial crises from occurring in the future. Owing to its reputation, independence and financial discipline, the ECB seemed to be the only institution which could be entrusted with this task. In 2012, when the Council issued the key decision allowing the Banking Union to be set up, it was not entirely clear what would be the legal bases underlying the functioning of this union and whether its administration should be carried out by an already existing institution or whether or not to establish a new one. The key question was concerned with the constitutional underpinnings of this decision. At that time only two options came into play: to set up a new institution or

to rely on the ECB. The first option would imply changing the treaties, which would be a long and uncertain endeavour given the lack of political stability in some of the EU countries. The choice of the second option did not rule out changes in the treaties. Eventually no decision was made as to any treaty amendments, because of the time pressure and uncertain situation on the international markets. The plan was to use the already existing treaty provisions as the basis for the measures to be implemented. Consequently, what was considered to form the constitutional basis for establishing the Banking Union was Article 127(6) of the Treaty on the Functioning of the European Union, which stipulates that the Council, acting in accordance with a special legislative procedure, may unanimously and after consulting the European Parliament and the ECB, confer specific tasks on the European Central Bank concerning responsibilities relating to supervision of financial institutions. A more in-depth analysis of Article 127(6) together with Article 13(2) of the Treaty on the Functioning of the European Union, which stipulates that institutions act within limits and in conformity with the law, shows that there are substantial limitations of constitutional nature in terms of granting further competences to the ECB to govern the Banking Union. The authority of the ECB extends only to individual financial institutions and it is not over financial conglomerates or investment firms. The conclusion to be drawn from the analysis of Article 127(6) of the Treaty on the Functioning of the European Union is, that if the European Central Bank is to be further strengthened by being granted new powers relating to the supervision of the financial market, here understood in its broad sense, the EU treaties will have to be changed. At this point one could suggest redefining Article 127(6) (before amending the EU treaties) in such a way as to make it possible to increase, if necessary, the supervisory competences of the ECB, as the bank has already reached the limit of its competences in accordance with the existing regulations (Hertig 2012).

6. European Central Bank's independence and effective banking supervision

In accordance with Article 130 of the Treaty on the Functioning European Union, the overriding task of the ECB is to ensure price stability while performing its statutory tasks. It should be acknowledged that the European Central Bank has been very successful in this area for all the years of its work, ensuring the stability of the euro area and value of the common currency (Gerdesmeijer 2009; ECB 2021). Such consistent policy coupled by the bank's complete independence, enshrined in primary EU law, from any political interference has had the effect, that bank has enjoyed great authority, being recognized as an independent and apolitical institution. Considering the above criteria, one has to recognize that these features make the bank also an important authority for exercising the supervisory role over financial institutions.

The problem is that in conferring additional tasks on the ECB, such as the supervision over the banking system, is something entirely different from the policy of controlling prices through determining the level of interest rates and keeping inflation under control. In this case one has to accept that the premise materialized in the Maastricht Treaty which has not changed until this day and which consists in ensuring the ECB's independence has had a positive impact on sustaining the stable value of the euro while being a necessary requirement to safeguard the bank's mission laid down in Article 130 of the Treaty on the Functioning of the European Union (Gortsos 2015).

Moreover, exercising the role of banking supervision implies the assumption that a greater number of aims will have to be achieved, of which not all are fully cohesive, such as financial stability, protection of investors and deposits, protection of consumers or anti-money laundering prevention. The supervision thus perceived exerts an impact on limiting or modifying property rights which belong to entities, both to natural and legal persons, e.g. shareholders or creditors. Conducting such policy involves the employment of a significantly greater number of legal instruments than is the case for the implementation of monetary policy. What is also more difficult is to determine clearly whether or not the goals set have been met.

The relationship between independency and responsibility is yet another issue. Unlike in the case of the monetary policy, where a complete independence from current policies is an asset, the banking supervision prompts the need to ensure a greater accountability to third bodies – in this case the ECB's independence anchored in the treaty appears rather problematic, since the lack of an adequate mechanism allowing for enforcing responsibility for decisions made violates the rule of law, and particularly, the principle of legality, and as such, one of the fundamental principles – values on which the European Union is based. In the long term, both competences of the ECB may prove to be incompatible with the primary aim of the bank which is to sustain price stability, because in order to ensure stability and liquidity of the banking sector, the Central Bank may be forced to conduct low interest rate policy, which may ultimately lead to easing the conditions for granting loans and increase inflation pressure. It is for this reason that combining these two competences in the ECB's hands appears to be such a controversial undertaking, whose effective implementation is in doubt, as in its exercising effective banking supervision the ECB may be forced to conduct a more lenient monetary policy (Alexander 2012). Thus, in the long run effective supervision may be conducted at the cost of an increase in inflation. Therefore, from the economic point of view, major concern is the potential conflict between price and financial stability, between monetary policy and banking supervision. The role of the ECB, prior to the financial crisis reflected by the German approach to central banking, was to target monetary or price stability. But the Eurocrisis 2010-2011 show that the Eurozone lacked proper crisis supervision and resolution mechanisms, so the new role of the ECB was necessary. The new supervisory mandate of the ECB requires a new staff with the required competence to exercise its supervisory function. In the opinion of Boyer and Ponce (2012), a second supervisory body would significantly strengthen the system and would allow the ECB efficiently and successfully fulfil its task as chief supervisor.

However, finding any other institutional solutions based on the Treaty on the Functioning of the European Union seems little realistic at this moment. That is the reason why the regulations adopted in November 2014 seek to build this kind of institutional architecture within the framework of the ECB's operations, which

prevents the internal conflict within the bank's operations in that separate authorities have been selected to be responsible for the monetary policy and for the supervisory policy.

In the Communication issued in January 2018, the European Commission noted, that the ECB fully accomplished the tasks conferred on it since 2014, when it had begun to fulfil its supervisory role, especially considering the short deadlines envisaged for the implementation of the tasks and highly differentiated supervisory practices across 19 Member States.

7. Single procedure for solving potential future banking crises

As the Economic and Monetary Union needs a fully functioning Banking Union in order to be able to continue the single monetary policy and support financial risk diversification in all the Member States, on June 10, 2013 the European Commission proposed to establish a Single Resolution Mechanism (SRM) for potential banking crises that may occur in the future. The SRM entered into force on August 2014 and should constitute one of the three pillar of the Banking Union. The aim of the new mechanism was to create a more unified and harmonized way to overcome problems related to failing banks, that would involve a minimum share of taxpayers' money and reduced risk to the Member States' economies. Within the internal market, the failure of banks in one Member State may affect the stability of the financial markets of the EU as a whole. Effective and uniform resolution rules and equal conditions of resolution financing across the Member States is in the best interests of the Member States in which banks operate, but also ensures a level competitive playing field and improving the functioning of the internal market. In the absence of the SRM bank crises in the Member States participating in the SSM would have a stronger negative impact also in the non-participating Member States. The procedure for activating the aforementioned mechanism in SRM is as follows: The ECB identifies a particular bank which operates in the Member State as a unit facing potential failure, a special authority obligated to activate the procedure comprised of representatives of the European Commission, the ECB and representatives of the

authorities of the country where the bank is based recommend a solution to the problem, the European Commission responds to the decision included in the recommendation on possible further steps that need to be taken, the national authorities are obligated to implement the recovery plan endorsed by the European Commission (see, e.g., Howarth, Quaglia 2014).

Although the procedure outlined above seemed effective, certain doubts were raised by the European Commission being granted such broad discretionary powers, especially in light of the content of Article 114 of the Treaty on the Functioning of the European Union. This article imposes far reaching restrictions on the EU institutions and authorities with respect to exercising discretionary power which are permitted, but only in cases concerned with the achievement of an important objective necessary for the sound functioning of the internal market (Ferran 2014).

Despite the implementation of the reform program for the financial sector, including, by virtue of the Capital Requirement Directive IV (Directive 2013/36/EU) and the Directive on bank recovery and resolution (Directive 2014/59/EU), stronger prudential requirements for banks, the key goal of the Banking Union is, in the Commission's view, the reversal of the fragmentation of the financial markets (Communication 2015). The fragmentation is to entail the weakening of the ties between banks and their national governments, while the supervision and resolution of the leading banks should be carried out at the level of the Banking Union.

In conclusion, it should be noted, that the elements of the Banking Union which are of institutional and regulatory nature, such as the unification of prudential norms in one rule book has already been implemented. Furthermore, all banks in the EU are supervised in accordance with the same standards; however, the banks of the euro-area countries are supervised by the European Central Bank in line with the supervisory task conferred on it. Finally, in case of failure, banks can be subject to recovery and resolution at the central level and in accordance with the same standards within the framework of the SRM. The scope of the SRM is a reflection of the Single Supervisory Mechanism, which means that the central body – the Single Resolution Board, in cooperation with national resolution authorities, is to ensure that in the situations where banks in the Banking Union were likely to fail in the

future, they would be governed effectively with minimal costs for taxpayers and to the economy.

In the opinion of the Commission stated in the Communication of 2017 (COM 2017) the completed elements of the Banking Union operate correctly and the implementation of the SSM was successful. This, however, does not yet mean that the full implementation of the Banking Union has been accomplished, for what is still lacking is the common protection mechanism for deposit guarantee, whose implementation will allow the stability of the EU banking system to be secured, and thus the stability of the internal market operations in terms of the banking services. As it was said, in the Commission Communication from 2017, The European Deposit Insurance Scheme (EDIS) would underpin stability in the banking sector by providing strong and uniform insurance coverage for all such depositors, independent of their geographical location in the Banking Union (COM 2017). Already in 2015 the Commission proposed the transfer from National Deposit Guarantee Schemes to the EDIS, which would contribute to managing more effectively the cases of failing banks. Besides, risk ought to be reduced further and risk management should be improved in banks through relaxing further the interconnectedness between banks and their countries of origin.

In the Communication from the Commission to the European Parliament, the European Council, the Council and the ECB (COM 2019), the Commission stated, that quarantining deposits on the European level would ensure, that all deposits are equally protected across the Banking Union and thereby strengthen the confidence of depositors and mitigate the risk of bank runs.

In December 2018, the Leaders of the EU called for the work on the Banking Union for starting political negotiations on the Deposit Insurance Scheme, the third and still missing pillar of the Banking Union (Carmassi et al. 2018).

Apart from the actions of the European Commission and European Council as regards the completion of the Banking Union, these authorities provided for a number of additional measures aimed at reducing the risk involved in non-performing loans. These loans affect profitability and viability of banks, and as such limit the banks' capacity to grant loans and ultimately may hamper economic growth.

8. Banking Union in the context of the COVID-19 pandemic

The COVID pandemic underlines the need to strengthen European Banking Union, especially the third pillar, the European Deposit Insurance Scheme (EDIS), which is unfinished yet. Completing the EDIS is important, because without the EDIS, depositors protection will not be equal in Member States. The differences in fiscal strength in Member States could result in differing levels of depositor confidence. Moreover, now misalignment persists between centralized bank supervision and resolution in the Banking Union on the one hand and national deposit insurance, on the other hand.

In opinion of representatives of European Central Bank, Jochnik and Adams (2020), the Banking Union has withstood the test brought about by COVID-19 very well, because this was the first time, that a single banking supervisor rolled out a relief package for banks across the euro area. ECB supervision has ensured, that the European banking system as a whole is better poised to withstand sever crises such as COVID-19.

9. Concluding remarks

The analysis of the progressive transformation in terms of setting up the Banking Union shows, that this transformation has led to limitation of the supervision of the largest banks by national authorities in favour of the centralization of the competences of the ECB, whose powers were substantially enhanced by assigning new roles in terms of the banking supervision across the euro area. New bodies were set up and integrated within the ECB, operating in accordance with a special mechanism, with their only goal being to fulfil supervisory functions. In light of the fact that the primary task of the ECB is to prevent inflationary pressures, the supervisory operations are carried out by staff and new authorities identified especially for this purpose. In this way, the legislator sought to prevent the internally conflicting situation in which ensuring the liquidity of banks might not necessary be compatible with the monetary policy. Considering the far reaching tightening of the

treaty provisions, in particular Article 114 of the Treaty on the Functioning of the European Union, as well as the case law of the EU Court of Justice in this respect, it is currently not possible to set up a separate authority that would specialize solely in performing the super advisory roles across the banking system. This kind of change, although necessary from the constitutional point of view, will only be possible, given the responsibility deficit and the potential conflict of interests of the authorities supervising the banking system under the ECB, after the amendment of the Treaty on the Functioning of the European Union.

Concerning to European Deposit Insurance Scheme, it should be noted, that finishing the EDIS would underpin stability in the banking sector by providing strong insurance coverage for all depositors independent of their geographical location in the European Union.

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The primary goal of monetary policy: reflections on the nature of the problem

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Abstract:

Aim: In this article, the state of the discourse concerning the final goal of the modern central bank is presented, in particular the aim of price stability, understood as low and stable inflation.

Design/Research methods: The article was prepared on the basis of scientific publications in the field of monetary policy as well as materials and documents from different central banks, including the US Federal Reserve System and the European Central Bank.

Conclusions/findings: Low and stable inflation reduces uncertainty about future price developments. This facilitates decision-making for companies concerning production and investment, and for households concerning consumption and saving. From a macroeconomic point of view, price stability is a prerequisite for the efficient functioning of the economy and for achieving high growth rates. In practice, the need for a quantifiable definition has been disregarded, while only a descriptive and qualitative definition of price stability is insufficient for an effective monetary policy and the implementation of the anti-inflationary mission by the central bank.

Keywords: central bank, monetary policy, price stability, inflation
JEL: E31, E51, E52, E58

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"Stable prices promote long-term economic growth by allowing households and firms to make economic decisions and undertake productive activities with fewer concerns about large or unanticipated changes in the price level and their attendant financial consequences. [...] achieving price stability is not only important in itself; it is also central to attaining the Federal Reserve's other mandated objectives of maximum sustainable employment and moderate long-term interest rates."

Ben Bernanke, 15 February 2006
(from: *Semiannual Monetary Policy Report to the Congress*)

1. Introduction

The mission and the goal of a central bank in the period preceding the outbreak of the first financial mega-crisis, i.e. in the decade opening the 21st century, used to be defined transparently and reliably from the perspective of all market players. There was no need to modify them by any means whatsoever. For years, monetary policy had been successfully implemented as a means to efficiently pursue the strategy of direct inflation targeting (DIT). One of key elements of this modern and multi-parametric strategy is that price stability is considered as the primary goal of monetary policy. Its second and equally significant constituent is the public announcement of a numerical inflation target, namely quantification of price stability as the central bank's most important goal (Duisenberg 2001).

In a distant past, as a means to deploy intermediate monetary strategies, ensuring price stability was not always possible, hence in some cases such strategies were abandoned. A good example is the money supply control strategy. This was particularly popular in the 1970's and 1980's among central banks of highly-developed economies. It was implemented by central banks operating in such countries as the United States of America, the Federal Republic of Germany, the United Kingdom and Switzerland. Under this policy, monetary authorities would maintain an increase of money supply in the economy at a pre-defined level which was assumed to contribute to inflation stabilization (Goodfriend 2007). A suitable example to mention in this respect is the classical principle of monetary base: Friedman's k-percent rule (Friedman 1969). However, implementation of this policy gave rise to numerous difficulties. It is commonly known that the price level in market economy, and particularly in one which is widely open to exchange with the

external environment, is affected by a number of factors. This has as a consequence that the mere increase of money supply does not necessarily translate directly into an inflation rise (Rhys, Barry 1976). Consequently, even when the money supply increase conform with the central bank's objective, this not always would it lead to the intended inflation level, since it might be strongly affected by a wide range of factors. This is the reason why implementation of this strategy was abandoned. Gerald Bouey, a former governor of the Bank of Canada, once said, "We didn't abandon the monetary aggregates, they abandoned us" (The Economist 2006).

The pursuit of the direct inflation targeting strategy coincided with a very beneficial situation in the global economy. Time had proved to be a valuable ally to central banks. In many aspects, it was a particularly beneficial period for the global economy, commonly referred to as the Great Moderation, lasting from mid-1980's until the first decade of the 21st century (Bernanke 2004). Institutions decisive of how monetary policy was molded, which gained actual independence in many countries, mastered the art of ensuring price stability far more effectively, and they would often achieve this goal by means of the DIT strategy. For a certain period of time, one might even have a misleading yet absolutely desirable impression that it was the end of economic cycles, and that a merger of constant long-term growth with low inflation would become realistic (Eckstein, Sinai 1986).

The external environment (stakeholders such as commercial banks, financial intermediaries, households, entrepreneurs, investors and shareholders) experienced no major problems accepting the message given by the central bank, since its content was clear and transparent, and raised no doubts among addressees. Moreover, the message was simple: to keep inflation under control by undertaking adequate actions in line with the strategy adopted, ensuring high efficiency of monetary policy. Neither did it require extended interpretation of law, nor any additional commentary to be provided by monetary authorities. Furthermore, in the meantime, no major and significant reasons and factors occurred to even consider potential revision of the solution previously adopted, not to mention taking its radical alteration into consideration. In this area, the central bank would follow a very simple principle: there are no strong stimuli to changes, and so there will be none. Not even once did it find itself in an extreme situation which would force it to

display some extraordinary creativity in the implementation of monetary policy, where it would be forced to resort to using unconventional instruments. At that period of time, constant economic growth was attained without any inflation pressure, and central banks were forced to change interest rates only to a very limited degree. It was simply unreasonable to "fix" what was working perfectly (Ciżkowicz-Pękała, Grostal 2019).

Price stability was approved and accepted as the fundamental goal of monetary policy by a decided majority of central banks all over the world. Its transparent interpretation as a process of maintaining low and stable medium-term inflation quickly became commonly acceptable as well. Keeping prices stable is the best contribution central banks can make to improving people's individual welfare. High inflation can lead to a spiral of increasing prices. The negative consequences of deflation are felt by everyone. Long periods of excessive inflation or deflation have negative effects on the economy. In spite of appearances, deflation is sometimes more dangerous for the economy and society than inflation. The macroeconomic implications of deflation are well known. The expectation of falling prices delays purchases and investment. The combination of falling output prices and downwardly rigid nominal wages damages the profitability of businesses and reduces the demand for labour. Deflation means that the real burden of nominal debt increases over time, making debt repayments more difficult for households, firms and governments. Whereas stable prices help to ensure that the economy is growing, jobs are safe and everyone can feel confident that the money in their pocket will be worth roughly the same tomorrow as it is today. This article contains a reflection on the choice of the goal of monetary in the context of the definition and meaning of price stability, in the context of economic changes during the last decade.

2. Choice of the goal of monetary policy

For several decades now, the monetary policy implemented by central banks of the most important economies in the world has been focused on the pursuit of its fundamental goal, i.e. attaining and maintaining low and stable medium-term

inflation. One should note that goals of monetary policy evolved as time passed, and the preferred orientation of these evolutionary changes was considerably affected by the theories considered predominant at the given time. Generally, they were Keynesianism or Monetarism (Przybylska-Kapuścińska 2008). Ultimately, the fact that it is none other than low inflation which has become the most important purpose of monetary policy is caused by practice rather than by theory. What settled that matter in the past was, among other factors, the developments taking place in market economies in the 1970's, i.e. prices increasing continuously and very dynamically. Many countries around the globe faced the challenge of high and long-lasting inflation in those times. The prestigious and influential British weekly magazine, *The Economist*, highlighted supply factors as those which strongly drove the inflation then, mainly the increase of energy costs, and primarily the rapidly growing petroleum prices caused by the first and the second oil shock. This was a clear example of cost-push inflation, which has been described as follows: "Inflation in the 1970's was largely driven by increases in energy costs, and especially by increases in the price of oil. The first oil shock, in 1973, sent consumer price inflation from around 4% to near 9%, but headline inflation thereafter fell back to 5%. Crisis hit again in 1979, and from 1978 to 1980 annual consumer price increases rose from just over 6% to near 15%" (The Economist 2010). It was Paul A. Volcker who helped to shape American economic policy for decades, notably by leading the Federal Reserve's brute-force campaign to subdue inflation in the 1970s and 1980s. Volcker as Federal Reserve chairman in the early 1980s raised interest rates to historic highs and triggered a recession as the price of quashing double-digit inflation. He was called the Inflation-Killer/Inflation-Buster. Volcker adhered to an unpopular view: "Things had to get worse before they could get better." Paul Volcker died on December 8th 2019 at the age of 92 (Lowenstein 2019).

Consumer price indices were rapidly rocketing. And so in the aftermath of the first oil shock, in the USA they went up by almost as much as 125%, i.e. from 4 to nearly 9%. After a temporary, relatively large drop, they glided up high again. The relative increase was nearly 150% when the next oil shock happened. The consequence of the oil shocks of 1973 and 1979 was stagflation (= stagnation + inflation), being a combination of high inflation and recession perceived as very

dangerous to the economy (Roubini, Mihm 2011). Economists tend to seek the reasons for that phenomenon in the negative supply shock which triggers both the price increase and production limitation or reduction. The term stagflation was coined in 1965 at a Parliament speech of a British politician, Ian N. Macleod, member of the Conservative Party. However, it was not until the times of the first oil crisis that this notion had grown in importance. One of the most interesting stagflation cases was reported in the American economy throughout the two-year period of 1974-1975. In March 1975, the US industrial production output dropped by nearly 13%, while at the same time, the annual consumer price index increased by ca. 12%. A similar situation was observed in 1979, when a significant decline in the economic activity coincided with the inflation rising abruptly. By December of that year, the annual industrial production output growth dropped nearly to zero, while inflation exceeded 13% (Bronfenbrenner 1976).

There is no consensus among economists on the causes of stagflation. Different economic schools offer their own view on its origins. For example, the supply shock theory suggests that stagflation occurs when an economy faces a sudden increase or decrease in the supply of a commodity or service, such as a rapid increase in the price of oil. In such a situation, prices surge, making production costlier and less profitable, thus slowing down or leading to negative economic growth. Another theory states that stagflation can be a result of poor economic policy. The government can create a policy that harms industries while the money supply increased too quickly (see Bruno, Sachs 1985; Barsky, Kilian 2002, 2004).

In 1975 the inflation rate in the United Kingdom was above 24%, whereas it exceeded 11% in USA, while a similar state of matters was observed in other countries. The average inflation rate calculated for the OECD states in the 1970's had a double-digit value (10.2%), and in the first half of the next decade, it was only one percentage point lower (9.2%). For instance, in 1981, among 30 OECD countries, only two reported their inflation to be below 5%, whereas the group's average was 10.5%. For the sake of comparison, twenty five years later, i.e. in 2006, as many as 25 OECD countries reported inflation rate below 5%, whereas the average rate of price increase equaled 2.2% (Blanchard 2011). Inflation was commonly proclaimed as public enemy no. 1, and a process of combatting it was

initiated, soon to appear as particularly tedious and requiring as much determination as time. The great inflation (meaning: The Great Inflation of the 1970s) changed the perception of the central bank and the monetary policy it implemented. "The central bank's role, as it is commonly acceptable nowadays, is the heritage of two most catastrophic economic crises of the previous century, i.e. the Great Depression of the 1930's and the great inflation of the seventies" (Harris 2008: 153). At this point, it should also be emphasized that the accelerated inflation of the turn of the 1970's and 1980's had greatly contributed to overcoming the 40 years long hegemony of Keynesism and facilitated the expansion of monetarist counter-revolution in the theory of economics (Snowdon et al. 1998).

In the 1970's as well as in the first half of the next decade, the fight against inflation was promoted to one of the main tasks performed by central banks in highly developed countries. It was then that a consistent pursuit of the anti-inflation mission became the imperative, and other objectives of general economic and monetary nature ceased to be perceived as priorities, and consequently faded into the background. The period of struggle against inflation gave rise to explicit definition of the central bank's fundamental goal. Mastering inflation and maintaining it under control attained the status of a systemic project. The motivations to apply such a solution were not merely of historical nature, dating back to not so distant past, but also stemmed directly from theoretical analysis. Correct functioning of a market economy dominated by high and persistent inflation is simply impossible, since the information function of prices is heavily disturbed under such conditions, and the entire mechanism of "distribution" and utilization of the means of production works in a distorted manner. Consequently, waste is observed across the entire economy. Only by bringing inflation to a low level and consistently striving to maintain its previously moderate dynamism, the central bank is able to create monetary conditions enabling the economy to attain a high rate of growth in the long-term. Therefore, the superior goal of monetary policy was defined as stability of the general level of prices perceived as an emanation of inflation considered civilized, i.e. brought down to a generally acceptable level with the price expectations being relatively permanently anchored. It is then that the central bank's policy may indeed by efficient.

Robert Lucas (1972)[1], one of the originators and advocates of the theory of rational expectations, claimed already in 1972 that attaining low inflation was far easier when the price expectations of economic entities were also anchored at a low level. It is common knowledge that future inflation depends to a large extent on the nature of the current inflation-related expectations based on which economic entities make their decisions pertaining to such matters as, for instance, price and remuneration levels. Therefore, one of the most efficient methods of long-term inflation controlling is stabilizing the inflation expectations of the market. They constitute the main driving force of the contemporary inflation processes. The phenomenon of central banks using what is referred to as the nominal anchor is exactly assumed to serve the purpose of bringing inflation expectations to the intended level and maintaining them on such a level for as long as possible. On the other hand, the more stable the current inflation is, and the lower the inflation expectations are as a result of the foregoing, the lesser the concerns about an unexpected rise of inflation in the future. On account of the struggle against inflation, price stability proved to be a natural candidate to be "nominated" the central bank's strategic task. The discussion on the choice of the best goal of monetary policy eventually ended with a consensus: price stability defined using the categories of the rate of inflation changes on an annual basis became the primary goal of contemporary monetary policy.

In the first half of the 1990's, there were countries, such as the United Kingdom, Canada and New Zealand, which adopted specific legislative solutions, emphasizing price stability as the most fundamental goal of monetary policy. This choice was based on a number of grounds, including the past experience of countries where low inflation rates were reported in a longer time horizon. These included mainly Germany and Switzerland. At this point of the consideration, it should also be

[1] R. Lucas, winner of the Nobel Memorial Prize in Economic Sciences (1995); as a President of the American Economic Association, at the 151st assembly of that organisation held on 4 January 2003, he delivered a speech (*The presidential address to the American Economic Association*) presenting an extremely bold and risky hypothesis that the key problem of macroeconomics, namely prevention of recessions, had already been solved, and that no more crises were to be expected. He was terribly wrong though, since five years later the first global economic mega-crisis broke out (15 September 2008 saw the spectacular collapse of the Lehman Brothers investment bank).

mentioned that many American economists would refer to cases of countries where low and stabilized inflation had been observed in order to persuade congressmen to enact suitable regulations. For instance The Federal Reserve Act as amended in 1977 directs the Federal Reserve to pursue monetary policy to achieve the goals of "maximum employment, stable prices and moderate long-term interest rates" (Steelman 2011: 1).

3. Price stability. Definition and meaning

It may seem that price stability is a comprehensible notion by the very essence, and that its practical interpretation should not pose any problems, not only to experts but also to members of the general public. However, it is not as simple as it seems. The question is whether defining it from the qualitative perspective only, reinforced by concise characterization, is precise enough and sufficient to proceed to the application phase. Or is it rather indispensable to define price stability using purely quantitative categories, making it possible to use instruments of descriptive or even mathematical statistics? One should at least decide how to express it: for instance, in the form of price rate changes or changes in the price level itself. If the chosen alternative is the price change indicator, how is it to be calculated and using what data? Some possible options include the consumer price index, the wholesale price index, the GDP deflator or the selected components of the latter (e.g. for consumption). There are numerous questions which require answering. However, a decided majority of them does not comprise the subject of this article.

In the quantitative dimension, price stability used to be understood as equivalent to low inflation, e.g. of less than ten per cent per annum (Fischer 1984; Bernanke 2002; Svensson 1999). It is important to have a clear definition and meaning of price stability in the context of monetary policy. For instance, in 1998 the ECB Governing Council formulated the quantitative definition of price stability: "Price stability is a year-on-year increase in the Harmonized Index of Consumer Prices (HICP) for the euro area of below 2%. Price stability must be maintained over a medium-term perspective" (ECB 2016). In addition, in May 2003 the Governing

Council also clarified that, in the pursuit of price stability, it aims to maintain inflation rates "below, but close to, 2% over the medium term" (Banco de Portugal 2017). Price stability contributes to achieving high levels of economic activity and employment by improving the transparency of the price mechanism. Under price stability people can recognize changes in relative prices without being confused by changes in the overall price level. This allows them to make well-informed consumption and investment decisions and to allocate resources more efficiently (White 2006).

In most cases, however, the matter of price stability in the economy was addressed rather generally, often without properly assigning a specific numerical value. The very stage of quantification, i.e. characterizing this category in quantitative terms was not considered particularly important. Former Federal Reserve Chairman Alan Greenspan famously defined price stability in qualitative terms as a situation in which "...households and businesses need not factor expectations of changes in the average level of prices into their decisions" (Greenspan 1994). The most significant aspect was the idea, and the quantitative dimension was considered of secondary relevance, since the term *low inflation* was regarded as sufficient, even though it was glaringly overgeneralized. In certain terms, the said *low* level of inflation is actually a conventional category, entailing methodological and practical difficulties in measuring the phenomenon itself. One danger is that low inflation that persists over the longer term provides only a small buffer against deflation: if inflation is low, it only takes a relatively small shock to tip the economy into deflation. The macroeconomic implications of deflation are well known. The expectation of falling prices delays purchases and investment. The combination of falling output prices and downwardly rigid nominal wages damages the profitability of businesses and reduces the demand for labour. Deflation means that the real burden of nominal debt increases over time, making debt repayments more difficult for households, firms and governments.

In 1995, the US Senate established a special commission appointed the task of examining the method used for calculating consumer price indices (The Advisory Commission to Study the Consumer Price Index or The Boskin Commission). Its head was professor Michael Boskin, who also chaired the team of economic

advisors to President George H. W. Bush in the years 1989-1993. On 4th December 1996), the Commission published its final report entitled *Toward a More Accurate Measure of the Cost of Living*, where it was claimed that the official Consumer Price Index (CPI) had been inflated in 1996 by ca. 1.1% on the annual scale, and in preceding years – by ca. 1.3% (Gadomski 2014). The foregoing implies that the actual inflation is usually lower than suggested by the calculations performed, independent of the measurement method applied (aggregate price index according to the formulas by Laspeyres, Paasche, or averaged Fisher's price index).

What has become the most significant element in the discourse on price stability is the central idea. In this respect, one may refer to the famous credo of the German Federal Bank (Deutsche Bundesbank), coined at the end of the 1970's by the then President of Buba,[2] Otmar Emminger (1977-1979): "Preisstabilität ist nicht alles, aber ohne Preisstabilität ist alles nichts" ("Price stability is not everything, but without price stability, everything is nothing.") (Schneider 2007). How succinct and, at the same time, accurate statement it is, even though it does not directly mention any value of the indicator describing price dynamics. It should be noted that many solutions concerning the statute and functions of the European Central Bank (ECB) as well as the European System of Central Banks (ESBC) were being patterned after the concepts already applied for some time by the central bank of the Federal Republic of Germany, and especially those applicable to the broad scope of independence of this institution of public trust, for instance, the bank's considerable financial independence, the procedure under which the bank's authorities were appointed and the principles of tenure of the bank's decision making bodies (National Bank of Poland 2004). The German central bank was always considered as the role model for other monetary authorities. What seems particularly meaningful in this respect is the observation made by Jacques Delors (1992), President of the European Committee between 7 January 1985 and 24 January 1995:

[2] Economists and analysts interested in how central banking functions often use the acronym *Buba* to describe the German Central Bank (Deutsche Bundesbank). It was derived from the opening two letters of the two words forming the federal bank's official name – Bundesbank.

> "Nicht alle Deutschen glauben an Gott, aber alle glauben an die Bundesbank. […] Die Behörde hat sich weltweit ein Ansehen erarbeitet, wie kaum eine andere. Ihrer Politik ist es zu verdanken, dass sich die D-Mark einst zu einer der stabilsten und renommiertesten Währungen der Welt entwickeln konnte" (Teutsch 2007).

> ("Not all Germans believe in God, but all believe in the Bundesbank. [...] The Monetary Authority has won a worldwide reputation like no other. Thanks to its policy D-Mark was once able to develop into one of the most stable and renowned currencies in the world.")

There are many definitions and descriptions of price stability, and they are basically similar or at least very convergent in terms of the actual content, with the differences between them remaining in the sphere of semantics. They usually differ as to the degree of generality or the extent of the characteristics provided for the category itself. The foregoing provides grounds for different interpretations. In spite of that, they still provide a very satisfying object of analysis for experts. Some of the definitions and descriptions of price stability are discussed below.

A definition of price stability which gained popularity among central banking specialists was proposed in 1996 by the contemporary chairman of the Board of Governors of the Federal Reserve System, A. Greenspan, who performed this function for five consecutive terms of office starting from 11 August 1987. "Price stability is that state in which expected changes in the general price level do not effectively alter business and household decisions" (Greenspan 1996). It is indeed concise and provides interesting economic content. This one-sentence characterization of price stability operates with categories of inflation expectations and their potential impact on the behaviour of two groups of economic entities. For A. Greenspan, price stability is equivalent to a state of the economy where the expected changes in the general price level do not actually affect the decisions made by entrepreneurs and households. One may only conclude that price stability, according to the interpretation of the American central bank guru, means the expected inflation being low, and most probably corresponding to weak dynamism of creeping inflation, to the point that, on account of its negligible potential for disturbing the level and the structure of prices and the possible acceleration of processes of currency depreciation, it cannot trigger any considerable change to the decisions and the arrangements already made by market players. In other words,

price stability is such an actual situation where no one is anxious about the power of inflation and its disruptive impact on the course of economic processes. In practice, there is no mention of anticipation of a discernible price increase, for it will most probably be insignificant, and therefore potentially acceptable. Despite the simplicity and the synthetic nature of the definition proposed by A. Greenspan, its operational applicability is inconsiderable, as it lacks the element of quantification. To recapitulate the foregoing consideration, it should be noted that price stability, as interpreted by A. Greenspan, means a price level being stable enough to prevent the expectations concerning its change from becoming the main factor taken into account while making key economic decisions by those who participate in economic processes.

Merely two weeks after taking a new office (1 February 2006) as the chairman of the Board of Governors of the Federal Reserve System of the United Stated of America, on 16 February 2006, B. Bernanke delivered the Semiannual Monetary Policy Report to the Congress before the United States Senate Committee on Banking, Housing and Urban Affairs. It is then that he also made a comment on price stability and its role in the performance of the American central bank's mandate: "Stable prices promote long-term economic growth by allowing households and firms to make economic decisions and undertake productive activities with fewer concerns about large or unanticipated changes in the price level and their attendant financial consequences. [...] Achieving price stability is not only important in itself; it is also central to attaining the Federal Reserve's other mandated objectives of maximum sustainable employment and moderate long-term interest rates" (Bernanke 2006b). It should reminded that it is the very quotation which opens this article as its keynote. Chairman Bernanke stressed the contribution of stable prices to the promotion of long-term growth. Economic entities, such as entrepreneurs and households, pursue their objectives without fearing about the potential occurrence of unexpected large-scale changes to the price level and the resulting financial consequences. The component of inflation expectations was skillfully emphasized in the foregoing passage. Money does not lose its value in a manner which would be perceptible for the owners. Then the rate of depreciation of a monetary unit is very low, almost unnoticeable to an ordinary citizen of the given

country or foreign investors. For 2% inflation, as calculated on an annual basis, the rate of currency depreciation equals 1.96%, whereas in the case of 3% inflation – this rate of current depreciation is 2.91%. For the sake of comparison, when the inflation rate is very high, e.g. annually coming to 50%, the currency depreciation rate will equal as much as 33.33%. At this point, it should be added that for the American central bank, price stability does not only matter in itself, but its importance for the Fed is crucial in terms of performance of the dual mandate resulting from the relevant act.

A direct reference to the manner in which the category of price stability was understood by A. Greenspan many years ago can be found in an article entitled *Stable Prices, Stable Economy. Keeping Inflation in Check Must Be No. 1 Goal of Monetary Policymakers* published in January 2008. Two American economists who were or are affiliated with the Federal Reserve Bank of St. Louis believe that price stability is equivalent to inflation being low and stable to the point that it does not affect economic decisions of businesses and households. When inflation is low enough for a sufficiently long period of time, people do not waste their resources to protect themselves against inflation and its negative effects. It is then that they are willing to both invest and save, since they are convinced that money will not lose its value for a long period of time (Poole, Wheelock 2008).

Under conditions of creeping inflation, there is typically no problem protecting the value of money, since the interest rate on such financial products offered by banks and issuers of debt instruments as traditional deposits or corporate and municipal bonds makes it possible to maintain the purchasing power of previously accumulated savings. At the same time, it does not generate any new stimuli for radical change of the market players' conduct, because it simply triggers no concerns about severe loss of the purchasing power of money emerging as time passes. Furthermore, the information function of prices under conditions of low and stabilized inflation is attained and performed in a sufficient manner, there is no intensification of uncertainty in the actions undertaken by investors and consumers,

and no significant disturbances to the economic activity is observed.[3] It is relatively easy to distinguish between changes to individual prices of goods and services occurring under the impact of the law of supply and demand observed in individual fragmentary markets and those triggered by a change in the general level of prices. This enables markets to allocate resources to individual industries and sectors of economy characterized by the highest profitability more efficiently.

The two aforementioned economists from the Federal Reserve Bank of St. Louis, W. Poole and D. Wheelock, perceive price stability in the following manner:

> "Price stability is usually interpreted to mean a low and stable rate of inflation maintained over an extended period of time. [...] The ideal rate of inflation is zero, properly measured. Biases in price indexes imply that, in practice, price stability will likely be consistent with a small positive rate of measured inflation, [...] depending on the specific price index [...] price stability does not mean that the price index is constant. Monetary policy could never eliminate every wiggle in the inflation rate; nor should policymakers try to do so" (Poole, Wheelock 2008).

What matters particularly in this respect is the observation that price stability is not equivalent to a constant price index. Moreover, monetary policy will never succeed in eliminating all inflation rate fluctuations, and therefore, those responsible for managing it should not attempt to do so. Other aforementioned elements are rather typical, i.e. low and stable inflation rate maintained for an extended period of time.

The National Bank of Austria (Die Oesterreichische Nationalbank – OeNB), on the other hand, understands the nature of price stability as follows:

> "Das Ziel der Preisstabilität bezieht sich auf das allgemeine Preisniveau in der Volkswirtschaft und bedeutet, dass sowohl andauernde und hohe Inflation als auch Deflation vermieden werden. Preisstabilität trägt auf verschiedene Weise zu einer lebhaften Wirtschaftsaktivität und einem hohen Beschäftigungsstand bei. Die Vorrangigkeit des Ziels der Preisstabilität in der Geldpolitik reflektiert den breiten Konsens in der Ökonomie, dass Geldpolitik reale Größen in der Wirtschaft […] nur kurzfristig beeinflussen kann, aber langfristig darauf keinen Einfluss hat" (OeNB 2016).

[3] In case of high inflation, the information function of prices quickly becomes distorted, and one observes increasing uncertainty and impairment of economic activity, intense redistribution of income and assets as well as growing phenomenon of what is referred to as money flight.

> ("The goal of price stability relates to the general price level in the economy and means that both persistent and high inflation and deflation are avoided. Price stability contributes to brisk economic activity and high employment in different ways. The priority of the goal of price stability in monetary policy reflects the broad consensus in economics that monetary policy can only influence real variables in the economy [...] in the short term, but has no influence on them in the long term.")

In such a perspective, price stability refers to the general level of prices in the economy, which means that both prolonged high inflation and deflation should be avoided. Price stability may differently contribute to the revival of economic activity, at the same time being favourable to high level of employment.

Price stability in the eurozone was very precisely defined by the European Central Bank. In 1998, the ECB's Governing Council[4] formulated a quantitative definition of price stability which reads as follows:

> "Price stability is a year-on-year increase in the Harmonized Index of Consumer Prices (HICP) for the euro area of below 2%. Price stability must be maintained over a medium-term perspective" (ECB 2016).

This definition was made even more precise five years later (May 2003). The following passage was added:

> "In the pursuit of price stability, it aims to maintain inflation rates below, but close to, 2% over the medium term."

The European Central Bank clearly stresses the need for maintaining price stability, as it is considered the fundamental goal of the Community's monetary policy and of the entire Eurosystem. There is a dedicated provision in the treaty (article 127) which highlights its superior rank, attaching primary importance to price stability. It is clearly stated that price stability plays the most important role in terms of the contribution of monetary policy to attaining favourable economic conditions and high employment rate.

M. Noga, a former member of the Monetary Policy Council[5] of the second term of office (2004-2010), has proposed a very clear, concise and informative definition

[4] The ECB was founded on 1 June 1998.

of the fundamental goal of monetary policy implemented by the central bank of Poland, stating that "it is commonly recognized that a central bank's main goal is to provide for price stability in the given country" (Noga 2012: 102). This economist also refers to article 3 of the act on the National Bank of Poland (NBP) of 1997 which reads: "the basic objective of the activity of NBP shall be to maintain price stability, while supporting the economic policy of the Government, insofar as this does not constrain the pursuit of the basic objective of NBP." Price stability is one of the most significant categories and notions of the Polish monetary policy, defined directly in the act on the central bank.

In the latest official document released by the National Bank of Poland, namely the *Monetary Policy Guidelines for 2016*, price stability has been defined as follows: "Nowadays central banks define price stability as low, yet positive inflation, which does not adversely affect the decisions of economic agents, including investment and savings decisions. Price stability may be threatened not only by excessive inflation, but also by persistent deflation, especially if accompanied by slow economic growth or stagnation" (NBP 2015). The foregoing definition contains elements which directly refer to the price stability definition formulated by A. Greenspan in the mid-1990's. A few years later Federal Reserve Chairman A. Greenspan stated that "price stability is best thought of as an environment in which inflation is so low and stable over time that it does not materially enter into the decisions of households and firms" (Greenspan 2002). This is a fairly common definition of price stability, and it has two essential characteristics. First, actual inflation must remain low and stable, and second, people must have confidence that inflation will remain low and stable. This second characteristic may not get as much emphasis as it deserves. Price stability is more than keeping inflation in check – it also means keeping inflation expectations in check. They have been laid down in more detail, emphasizing the symmetrical threats to price stability posed by both excessive inflation and persistent deflation. The expression "low, yet positive inflation" used in the NBP's definition is understood in this respect as open inflation of moderately intensified force of acceleration in time, without the destructive potential of price increase which might become activated with large force in the

[5] Rada Polityki Pieniężnej.

future. An equation mark may be placed between it and creeping inflation of low intensity, characterized by a rather limited increase of the average price level in the economy, one which does not exceed 2-2.5% over an annual period. Inflation of such characteristics, without clearly distinguishable peaks in the amplitude of changes, is currently treated as a normal phenomenon of economy, since neither does it cause discernible perturbations in the market mechanism and its functioning, nor triggers any negative economic effects. As time passes, the price level rises at a relatively low rate, posing no threat to the given country's macroeconomic stability and economic growth dynamics.

In mid-December 2015, the NBP's head office hosted a scientific conference summarizing the ending 3rd term of office of the Monetary Policy Council (2010-2016). In his speech, NBP's President M. Belka stressed that "it is a success of the NBP and all the previous Monetary Policy Councils that inflation in Poland has remained stable and low for years, as it does not exert any negative impact on macroeconomic processes and citizens are not faced with the painful price increase in their everyday life. By that means, the Council achieves its main goal, namely the pursuit of price stability" (NBP 2016). Uninterruptedly for 18 years (since 1998), the National Bank of Poland has implemented monetary policy which ensures long-term price stability to the national economy. The mean inflation rate in the years 2004-2010, measured with reference to CPI, came to 2.8%, whereas within the last six years, it equaled 1.8%. In both these cases, the average rate of price changes corresponded to the NBP's mid-term inflation goal (2.5% ± 1 percentage point). Moreover, the National Bank of Poland has consistently supported macroeconomic balance and efforts aimed to maintain stability of the financial system, particularly after the global economic crisis outbreak.

To recapitulate the foregoing, a decided majority of definitions and descriptions of price stability proposed in publications elaborating upon central banking and monetary policy as well as in various reports and expert's papers are understood in a similar, if not identical manner. What remains an issue open for discussion is how to interpret it: as a more or less extensive description assuming the form of a characteristic of stabilized creeping inflation or even a reference to a specific base value of the price change rate on an annual basis. Frequently quoted definitions of

price stability, on account of their purely descriptive nature, lacking any direct reference to the price index, find very limited practical application for obvious reasons.

The ultimate goal of monetary policy in highly developed countries is usually defined as an annual inflation rate being positive, yet not higher than 4%. The countries where the DIT strategy has been deployed define and publicly announce the numerical value of the target, and by that means they establish how price stability is understood in quantitative terms. The gist of the problem is exactly the pre-set target, without any permissible deviations.

Striving to achieve the assumed final goal of monetary policy, the central bank potentially supports maintaining long-term stable and sustainable economic growth, creating favourable conditions in the monetary dimension by ensuring mid- and long-term price stability. It is then far easier and more efficient to implement social and economic programmes as well as to perform all tasks assigned to the central body which manages the economic policy compared to acting under conditions of developing inflation processes or persistent deflation trends. That is why both price stability as well as its relentless institutional advocate and promoter, i.e. the central bank, play such a crucial role in economic processes. The benefits of maintaining price stability in the economy are multi-faceted and undisputable, and the following are the most important ones (Błaszczyk 2010):

- Price stability helps to improve the transparency of the price mechanism. Under price stability people can recognize changes in relative prices, without being confused by changes in the overall price level. This allows them to make well-informed consumption and investment decisions and to allocate resources more efficiently;
- Price stability helps to reduce inflation risk premia in interest rates. This reduces real interest rates and increases incentives to invest;
- Price stability helps to avoid unproductive activities to hedge against the negative impact of inflation or deflation;
- Price stability helps to reduce distortions of inflation or deflation, which can exacerbate the distortionary impact on economic behaviour of tax and social security systems;

- Price stability helps to prevent an arbitrary redistribution of wealth and income as a result of unexpected inflation or deflation.

Price stability is the indispensable and well-proven ultimate goal of monetary policy, irrespective of the subtle differences connected with its definition and interpretation. The above observation is by no means exaggerated, but it rather constitutes a confirmation of the price stability's invaluable importance in ensuring high economic activeness of contemporary societies, which has evidently been empirically proved (Beyer, Reichlin 2006). The following statement by B. Bernanke, at that time a candidate running for the nomination to the office of the Fed's head (15 November 2005), delivered before the Committee on Banking, Housing and Urban Affairs of the U.S. Senate, confirms the foregoing:

> "...central bankers in the United States and around the world have come to understand that ensuring long-run price stability is essential for achieving maximum employment and overall economic stability. In recent decades, the variability of output and employment has decreased markedly, and recessions have been less frequent and less severe. I believe that the Federal Reserve's success in reducing and stabilizing inflation and inflation expectations is a major reason for this improved economic performance. If I am confirmed, I am confident that my colleagues on the Federal Open Market Committee (FOMC) and I will maintain the focus on long-term price stability as monetary policy's greatest contribution to general economic prosperity and maximum employment" (Bernanke 2005).

4. Concluding remarks

In the contemporary market economy, the primary goal of monetary policy is price stability, being commonly understood as the central bank's effort to maintain low inflation over the medium term. Nevertheless, in the mid-term perspective, the monetary authority cannot guarantee a relatively low, yet positive inflation rate for various reasons, including the fact that many factors, both internal and particularly external in nature, affecting the level as well as the course of inflation in time, remain beyond its control. In this day and age, the level of inflation in a given country is heavily affected by various stimuli and impulses imposed by the global

economy. The foregoing is an outcome of globalization processes, strongly intensifying over the last two decades (IMF 2005). There are well known cases of strong multidirectional pressure of external supply factors exerting their influence by means of imported inflation, as it is commonly referred to. They can significantly raise or reduce the inflation rate in the national economy (Forbes 2019).

The discourse in the mid-1990's concerning the choice of suitable goals of monetary policy ended with a consensus. The central bank's fundamental goal is price stability understood as equivalent to low inflation, less than ten per cent at the most on an annual basis, pursued over a mid-term horizon. Almost by nature, this solution rejects the competitive goal of price level constancy which would correspond to zero-level inflation. Bearing in mind the difficulties connected with appropriate estimation of the inflation rate, as highlighted by the Boskin Commission (1996), actual inflation could even frequently be negative, indeed tuning into the most genuine form of deflation.

Ultimately, the fact that it is none other than low inflation which has become the most reasonable purpose of monetary policy is caused by practice rather than by theory. What played the leading role in this respect was the intense inflation processes which dominated the global economy of the 1970's and the first half of the 1980's in the aftermath of the first and the second oil shock. Also the visionary concept promoted by the president of Bundesbank, O. Emminger (see Schneider 2007), claiming that price stability was not everything, but without price stability, everything was nothing, became commonly accepted. Its very essence has been expressed in practical terms in the quantitative definition of the European Central Bank's goal.

The following quotation seems appropriate to recapitulate the above analysis in the most concise and compact manner: "Price stability is the most powerful tool the central bank has to promote economic growth, high employment and financial stability. Price stability also enables monetary authorities to pursue secondary objectives, including the reduction of fluctuations in real economic activity and the management of financial and/or liquidity crises" (Poole, Wheelock 2008: 3). The foregoing is the very essence of the efforts undertaken by the central banks as a means to improve the manner in which the economy functions over a mid- and long-

term period as the fundamental goal of monetary policy, namely price stability, is pursued. The contemporary indicators of good standing of a market economy include high long-lasting and sustainable economic growth, high employment rate, low inflation rate and financial stability of the system. It is for the price stability that monetary authorities can make their immensely important contribution to the activities aimed at reducing the scale of inevitable fluctuations in the real sphere, assuming the form of variations in production volumes and employment.

Price stability, being the target for which the central bank relentlessly strives on account of its major anti-inflation mission, is also particularly favourable to the struggle against economic, banking and liquidity-related crises. Under normal macroeconomic conditions, leaving aside a clearly extreme situation, which both the global economic mega-crisis of the years 2008-2009 and its prolonged consequences evidently were, one may conclude that there is essentially no alternative goal to price stability in monetary policy. Price stability promotes efficiency and long-term growth by providing a monetary and financial environment in which economic decisions can be made and markets can operate without concern about unpredictable fluctuations in the purchasing power of money.

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