

The twentieth anniversary of fundamental market reforms in Poland. What have we achieved; what have we learnt?¹

Abstract: The second festival Days of Poznań University of Economics (PUE) marking the anniversary of granting the university status took place on 20–21 January 2010. The PUE Days 2010 was a special event as the celebration coincided with the twentieth anniversary of the introduction of fundamental economic reforms in Poland.

The PUE welcomed a special guest – Professor Leszek Balcerowicz, a holder of the PUE honorary doctorate, the prime author of the stabilization program and the former Deputy Prime Minister and Minister of Finance in charge of economic policy in the government of Tadeusz Mazowiecki twenty years ago. Professor Balcerowicz delivered a lecture on “*Economic transformation in Eastern Europe: Conclusions after 20 years of experience*”, and held a meeting with students during which he talked about the current economic crisis and its impact on the Polish economy.

Professor Marian Gorynia, the President of the University, chaired a debate in the main Auditorium entitled “*Polish economic transformation 20 years later*” during the PUE Days. The speakers included Professors Bogusław Fiedor, Stanisław Gomułka, Krzysztof Jajuga, Tadeusz Kowalski, Witold Orłowski, and Andrzej Wojtyna. An exhibition presented publications by the PUE researchers focused on the market reforms of 1989–1990 was also held in the main University building.

The PUE Days ended with the presentation of an honorary doctorate to Professor Stanisław Gomułka – a distinguished Polish economist and co-author of the market reforms in Poland. The PUE Senate awarded the honorary doctorate in recognition of Professor Gomułka’s eminent contribution to the development of economic science, in particular macroeconomics, comparative economics and growth theory, and his role in preparation and execution of market reforms in Poland. The ceremony was attended by numerous representatives of Polish universities and the business world as well as the local government officials. Professor Gomułka presented a special lecture on his many years of research in the field of economic growth mechanisms. He stressed the need of having two different classes of theories of economic growth, namely, one for technologically advanced countries, and

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another one for the economies striving to catch up. Professor Gomulka underlined the role of economic policies fostering the innovation absorption capacity in countries, which attempt to close the technology gap. He also outlined the long-term specific trends of changes in growth conditions and innovation processes in the global economy.

Keywords: competitiveness, convergence, divergence, economic crisis, economic growth, effectiveness of reforms, globalization, income distribution, innovations, Poland, poverty, social stratification, social exclusion, transformation, transition economies.

JEL codes: E65, O16, O47, O57, P52.

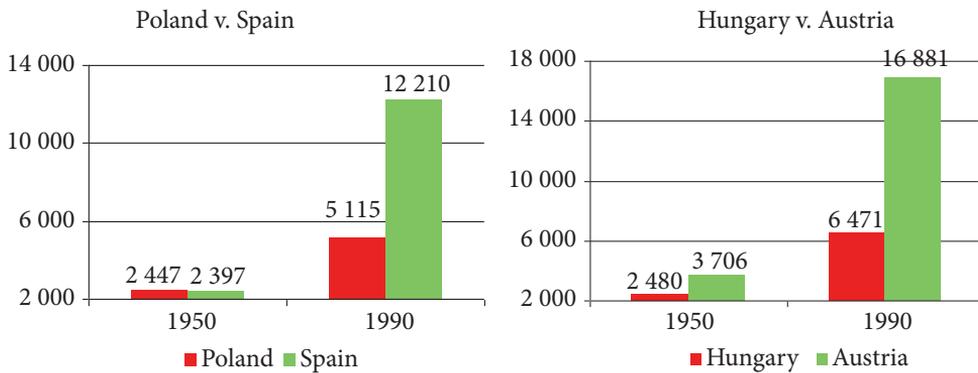
1. Economic transformation in Central and Eastern Europe: conclusions after 20 years of experience (Leszek Balcerowicz)²

If we want to go beyond a mere description of what is called transformation and carry out its analysis and evaluation, we need to adhere to proper methodology, which, despite its simplicity, is rarely followed. First of all, we need to establish what is meant by the variable to be explained. It is usually economic and non-economic results, or changes in people's standard of living. Secondly, we need to isolate the main determinants of differences within these results: initial conditions, various external factors influencing a country's economic life, and the economic policy being implemented (not just declared). To begin with, it should be stated that these fundamental principles of proper methodology are often blatantly violated, also in what is referred to as academic circles.

First, analysis is often replaced with invective. The words *liberal* or *neoliberal* (which, as we know, is even worse than *liberal*) are used instead of thorough analysis. I believe that those who do so abuse their academic titles.

Second – and this is a slightly higher level – we tend to confuse the role of initial differences with the role of economic policy, particularly when comparing China with Central Eastern Europe. For instance, seeing China's much better performance than Russia's, we argue that this is only because China's policy is superior to Russia's. I'm not saying that these differences don't exist, but such a simplistic comparison ignores the great significance of initial differences. The China of the late 1970s was dominated by farming, which was easy to privatise effectively because it relied on primitive technology. This could not be repeated in Russia, where the role of farming was much more limited; in addition, Russia's agriculture was dependent on complex technologies. As can be seen, in each case the initial drive was completely different.

² Prof. dr hab. Leszek Balcerowicz, *Warsaw School of Economics*. A lecture delivered on 20 January 2010 during the 2nd Poznań University of Economics Days.



Per capita GDP (in international dollars of 1990) in 1950 and 1990

Figure 1. The differences between communist countries and Western Europe increased considerably

Source: Maddison Database

Third, we ignore a fundamental precondition for any thorough analysis and comparison, which requires that the options compared should take into account all costs and all effects. But what do we hear? The phrase *social costs* is used mostly

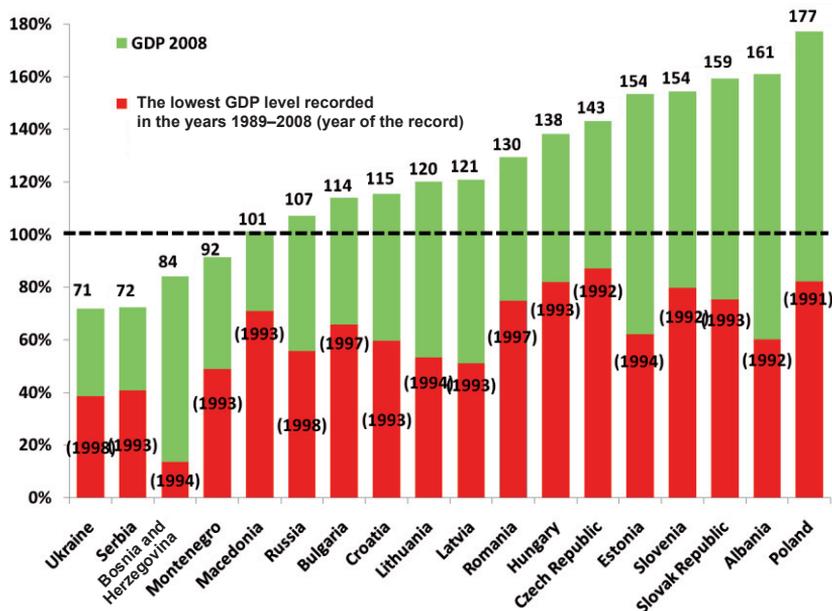


Figure 2. GDP growth (1989 = 100%)

Source: EBRD Transition Report 2008; EU Commission

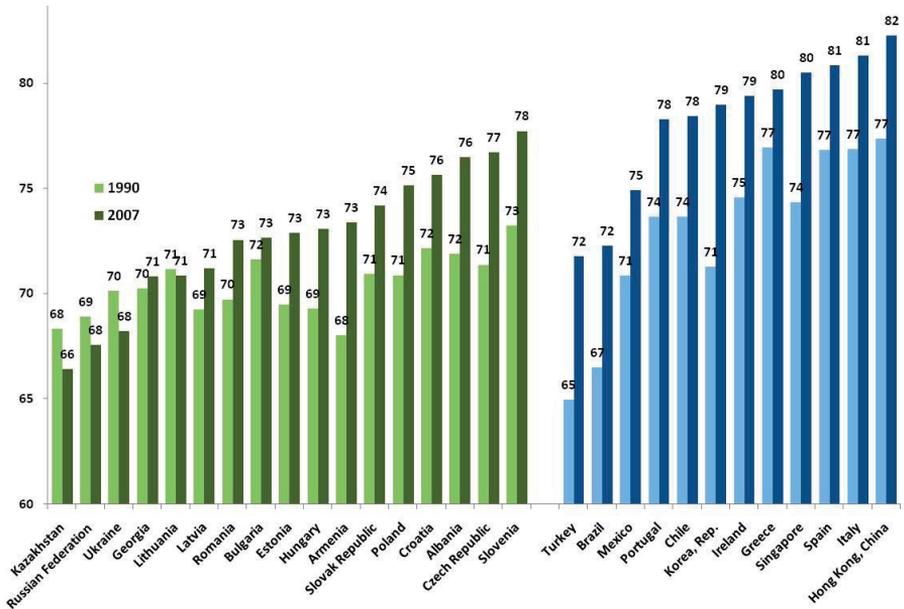


Figure 3. Life expectancy at birth (years)
Source: WB World Development Indicators

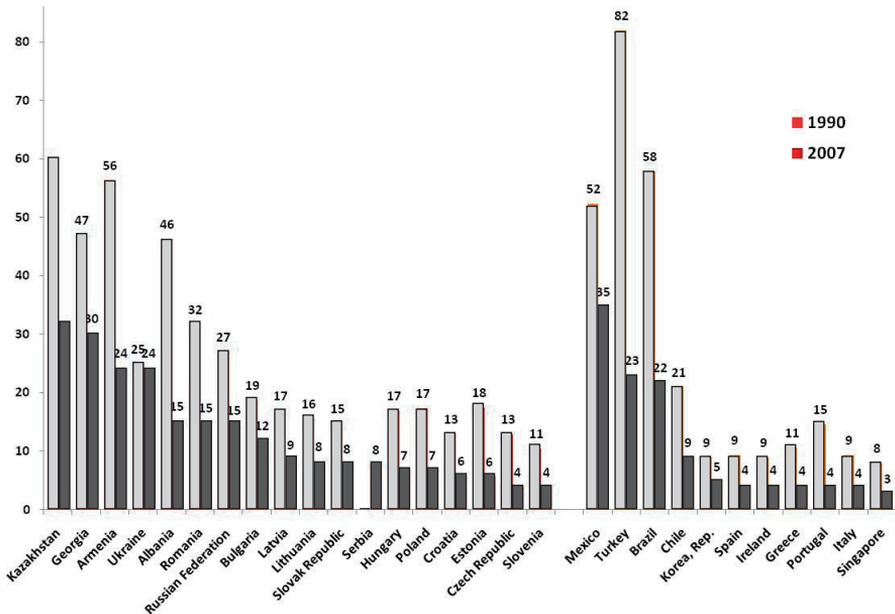


Figure 4. Child mortality below five years (per 1,000)

in relation to reforms. Five times a day I'm asked what were the costs of one reform or another (in Poland, that is). But what would have been the costs of blocking the reforms? Associating the phrase *social costs* only with doing something would be equivalent to saying that medical treatment is costly and giving it up is not. The list of such extreme violations of proper analysis is much longer, but I'll make do with this.

Moving on to analysis itself, let's recall what was the cost of socialism in the sense of falling behind the others.

In 1950, Poland was at the same level as Spain in terms of per capita income, but in 1990 its income was 42% of that in Spain. The gap between Maoist China and Western Europe was widening, but since 1970 the Chinese economy has been accelerating. Some naive people think that the Chinese have invented a better socialism. Under the leadership of what's referred to as communist party, they are in fact embracing capitalism, even if it's undeclared and very imperfect. Without this, they would never have combated the poverty of hundreds of millions of people.

Now I'd like to make a comparative analysis of the main indicators. What do we find most striking here? In Central Eastern Europe, there are great disparities in people's living standards, both economic and non-economic, which means that twenty years ago the differences were much smaller than now.

Let's look at the rate of GDP growth.

In 2008, Poland's GDP was nearly 80% higher than in 1989. Then there are other Central European countries. But Ukraine's GDP was only 71% of its 1989 figure, and Russia's is only a little higher. We can see enormous gaps, then. What's interesting, these big differences have occurred not only in economic but also in non-economic standards of living. As far as I know, researchers devote much less attention to the latter phenomenon, even though it's very important.

For example, life expectancy has generally increased almost everywhere, but to a different extent. In Poland it has grown from 71 to 75 years. I hasten to add that this is true mainly of the weaker sex – in this case men – who previously suffered a premature death. But let's take Russia, where life expectancy has fallen. We could attribute this not only to economic issues but also to – how to put it? – a bad structure of alcohol consumption, which first of all concerns one sex, and the consequences are there for all to see.

Another indicator (I would even call it civilisational) is infant mortality per 1,000 live births. In this respect, Poland has seen a great improvement: there's been a fall from 17 to 7, just as in Hungary. Ukraine has experienced a much smaller improvement (a decrease from 25 to 24).

As we can see, we have extremely interesting empirical data which should be somehow accounted for. I'll tell you very briefly how, in my view, we should account for differences in economic growth. This is what's done in many studies which try to identify the most significant causes of differences in economic growth after communism. In the short term, the differences resulted from initial differences.

Smaller countries, e.g. Lithuania, Latvia or Estonia, were naturally more dependent on COMECON, and it was them that suffered more from the fall of communism than larger countries, e.g. Poland. Later on, however, the gap between Poland and them narrowed.

What counts in the long term are mostly differences in two factors. First, in the scale of accumulated market reforms, i.e. privatisation, liberalisation, building institutions of a limited government which are needed to enter into market transactions and prevent crime. A lot of empirical research has been conducted in this area. The more such reforms you accumulate, and the sooner you start to do so, the better it is for economic development. If you initiate reforms with a five-year delay, the entrepreneurship environment improves five years later. A case in point is Romania and Bulgaria, which provide textbook examples of delayed reforms and their consequences. All this results in huge costs. Even fewer reforms have been carried out in Belarus, and the costs – the costs of lost opportunities – are even higher.

There have been fewer studies into the very big non-economic differences, especially in health. I strongly recommend conducting such studies. Those that I'm familiar with have been carried out by Prof. Witold Zatoński, a cardiologist who deals with medicine on a social scale. It has turned out that the link between economic change and health improvement is very strong and much more significant than the relationship between therapeutic medicine and health. We should simply live in a way that will minimise the need for therapeutic medicine. Economic factors have an impact on what health researchers deal with on a social scale, namely, on the diet – the post-1989 revolution in prices and supply brought about health-oriented changes in the diet (some healthy products, e.g. lemons, have become relatively cheap and available) – on patterns of alcohol consumption, which can be influenced by finance ministers imposing taxes to diversify the prices of high- and low-alcohol beverages.

A second factor deciding whether or not, and how quickly, a country is reducing an economic gap is macroeconomic (fiscal, monetary) policy, or, to put it briefly, the policy that determines the rate of growth in total demand in relation to potential product growth. The matter is dead simple intellectually but difficult politically: a cautious macroeconomic policy is conducive to economic growth. A careless policy is destructive to growth, which is testified by various economic slumps. Some of them – in Ukraine, Hungary, or Greece – are taking place right in front of our eyes. We could draw a simple comparison: if we want to win a long-distance car race, we must as soon as possible get a better car than the one we had at the start – this is what structural market reforms are. In addition, we must drive the car in such a way that we won't get into a skid on the first bend – this is what a cautious macroeconomic policy is. In short, from the perspective of a poor country, a recipe for catching up consists of a lot of consistent capitalism-oriented reforms (including competition, without which capitalism doesn't work) and a cautious macroeco-

conomic policy. Both the former and the latter are difficult to implement – that’s why so few countries are developing quickly and continuously.

A recipe for disaster is conservatism in reforms and radicalism in economy stimulation. By stimulating demand when supply is stagnant in countries restricted by socialism or statism we won’t achieve prosperity – we can only cause instability, catastrophic inflation, stagnation and a slump. Unfortunately, since stimulation, unlike reforms, tends to be popular, there are many examples of economic disasters. In a democracy, as we know, whether we talk of a success or a failure, ultimately depends on how something is perceived by the public opinion. That’s why we need to work on this all the time.

In the last part of the time given to me, I’d like to tell you what is really essential for a rapid development of our country, which wants to catch up with others. Opinions on the subject differ, also among economists. In my view, in order to identify the priorities of the reforms properly, we should first of all establish what factors are particularly important for long-term development and, secondly, we should determine in terms of what important factor Poland performs very poorly, which means that a lot of things should be changed. According to these two criteria, we have most to do in public finance, which involves the need to increase employment. I know this is not the only factor. Innovativeness, for instance, is extremely important but, fortunately, in this field we have less to do, in the sense that we should stick to competitive capitalism and openness to the world, get rid of socialism at universities (so that they will no longer be public), and do a few other things. However, the gap in terms of institutional determinants of innovativeness is not as large as that in the field of public finance. Here, we are far behind countries which were economic tigers; we have a much higher budget spending in relation to GDP (over 40%), whereas all the economic tigers I know, when starting from the poverty level, had it below 20% and maintained the proportion for a long time.

Economists don’t have to be reminded that inflated spending (and government spending is always inflated when welfare spending is inflated) leads to higher taxes. In addition, we have a public debt which rises dramatically whenever the world economy experiences a downturn. Bad public finance is related, through very strong mechanisms, to low employment. That’s why solutions such as increasing employment (that is, postponed retirement, fewer people receiving a disability pension, and a few other things) are key factors in improving our government finance. I could mention other factors, too. It is very important to privatise more. In the last few years, Poland hasn’t seen a real privatisation of the biggest firms because privatisation activity has enabled the state to retain control over these companies. I can see no justification for this. State ownership poisons both the economy and politics.

To conclude, in a country which has been independent and democratic for twenty years, the *past* is determined by the distribution of opinions in society – this decides what and who we choose. We have a great deal to do here. The most important poli-

tics, in my view, is “non-political” politics: an activity that will persuade the public opinion to reduce the chances of various Santa Clauses, who should be left at home and eliminated from politics. The ultimate aim is to influence the public opinion in such a way that even a populist will have to become a liberal, because otherwise he will lose an election. I’m trying to do just that individually and through a non-governmental organisation which I founded in 2007. I recommend you have a look at it – it’s the Civil Development Forum (FOR).

2. Debate “Polish economic transformation: 20 years later” (Marian Gorynia – chair, panelists: Bogusław Fiedor, Stanisław Gomułka, Krzysztof Jajuga, Tadeusz Kowalski, Witold Orłowski, and Andrzej Wojtyna)

The debate featured Prof. Bogusław Fiedor (Wrocław University of Economics), Prof. Stanisław Gomułka (former Professor at the London School of Economics, Poland’s former finance minister), Prof. Krzysztof Jajuga (Wrocław University of Economics), Prof. Tadeusz Kowalski (Poznań University of Economics), Prof. Witold Orłowski (Warsaw University of Technology) and Prof. Andrzej Wojtyna (Cracow University of Economics, member of the Monetary Policy Council). The debate was moderated by Prof. Marian Gorynia.

Marian Gorynia: I think we could start our debate with a few general observations. I’d like to refer back to Prof. Leszek Balcerowicz’s speech and say that probably all, or, more conservatively, most of us agree that the years 1989-2009 were very special. Considering what Poland and its economy experienced after the war, especially in the 1980s, we can say that, in the 1990s and the subsequent years, we achieved a great success. This is confirmed by statistical data, three of which I’m going to present. First, if we compare ourselves with other countries, in the transformation period Poland has suffered only two decreases in GDP (1990 and 1991). You could say that it’s as many as two years. We should note, however, that all the other countries undergoing transformation have experienced more such years. Second, in 1997 we were the only one of all the countries under transformation with a ratio of more than 100% between our gross domestic product in 1997 and GDP in 1989. In the case of Poland, the ratio was 112%, whereas for all the other countries under transformation the figure was below 100%. Third, something that Prof. Balcerowicz has also mentioned, our total GDP growth in all the years of transformation was about 80%. I believe this 80% is a huge success because none of the countries going through transformation has repeated this.

For our debate, we have selected three topics, which will be discussed in three rounds. The first issue is the impact of market transformation on the diversification of people's level of prosperity, income dispersion in Poland, social stratification and possible exclusion. In other words, while recognising that the transformation was undoubtedly successful, we should still discuss the distribution of its effects. The second round will concern the integration and opening of the Polish economy and its participation in globalisation processes. The third issue is the Polish economy's international competitiveness.

Could you please present your views on how the effects of transformation are distributed? We agree that, on average, we have all benefited from it, but *on average* could mean a great deal with reference to specific people.

Bogusław Fiedor: I can't answer this question directly. Let me start with a typology of transformation models. I would distinguish three general models: *muddling through*, i.e. for many years, the case of Russia, and the case of Belarus; *third way*, for many years the case of Bulgaria or Romania; and *capitalist revolution*, a group which includes Poland. It seems that these three patterns are fundamentally different in terms of the relationship between the long-term growth rate and the scale of social disparities. Perhaps capitalist revolution, which I support, must lead to a temporary increase in social disparities but, at the same time, in the long term, a rapid growth – and this is confirmed by statistical research – causes a rise in the income level, also in the bottom income deciles and quartiles. This is an eternal problem, which the recently deceased P. A. Samuelson vividly compared to a “loaf of bread” problem: would we rather have a larger loaf cut into unequal slices or a smaller one, but sliced into equal, thinner pieces? I strongly favour the former way of slicing. In the long term, of course, we should also think of measures to reduce social differences, although I believe that growth alone will deal with the problem. It's an empirical experience of all highly developed countries that, in the long term, economic growth reduces disparities. Nevertheless, we should somehow address this in policy, first of all not through macroeconomic policies as sometimes is the case but others: especially educational policy, social policy, and labour-market policy. These are the instruments which can reduce, in the short term, the negative (also for growth) effects of social disparities.

Stanisław Gomułka: I hoped to learn something about Poland's income differences from the latest, recently-published *Statistical Yearbook*. But, according to this yearbook, household incomes account for about 40% of the national income, whereas individual consumption for about 60%, so the reliability of income data is low. In general, transformation has generated a large group of entrepreneurs and large incomes of self-employed people. At the same time, we can see a considerable government redistribution in favour of farmers, old-age pensioners and disability pensioners. Without this redistribution, farmers' income would now be half as high. Old-age and disability pensioners were, and still are, protected, too. In Poland, the

incomes of old-age pensioners' households (per person) are a little higher than average. I've seen questionnaire surveys showing that about 10% of households believe their financial situation is very good, and about 25% that they are poor. These statistics suggest that the disparities are considerable. But it seems that below the poverty line there are predominantly people who are poorly educated, often unemployed, with a large number of children. On the whole, I would say, income differences resulting from transformation are clearly greater than in the past, but are still moderate, lower or much lower than in most post-communist countries, also lower than in China. However, there are vast material disparities, far greater than before transformation, but this is another story.

Witold Orłowski: Let's begin with a simple calculation. We had a communist system, which fairly equally distributed income through a wide distribution system, and in which remuneration was not related to qualifications. All this considerably reduced people's motivation to work efficiently. Having moved from that system to a system in which remuneration depends on your talent and qualifications, it followed that, with the same level of national income, if some people were to receive more, others had to be given less. In other words, if there were groups which gained, then there must have clearly been groups which lost out. Today, of course, when the income level is twice as high, even those who lost out are probably better off than twenty years ago. Unfortunately, it's little consolation because people like to think in relative, rather than absolute, terms. When defending communism in East Germany, Erich Honecker famously argued that a worker's living standards were higher than in the Kaiser's time. But east Germans were looking at their west German cousins and could see a painful difference. Moving back to Poland: there are obviously groups which can feel frustrated because they have relatively lost out, and there are groups which have relatively gained (of course, if we measured this in absolute terms, it would turn out that almost everyone has gained). It follows that the appearance of income differences and widespread resentment was inevitable. We can only ask ourselves whether the increase in inequality in Poland was not greater than necessary. Those who believe so cite the examples of the Czech Republic and Hungary, where the increase in differences was smaller. The problem is more complicated, though. There are two common-sense approaches to understanding disparities. The first one is simple: a disparity takes place when two people receive different remuneration. The second approach is that we consider it an undesirable inequality if people with similar qualifications receive different pay. If we compare the Czech Republic with Poland, we will easily notice that Poland has a much higher proportion of people who live in rural areas and, by and large, have lower qualifications than urban population. This is what may, to a large extent, account for the difference between the two countries' income disparities. With the first approach to understanding disparities, we should say (just as was said in communist times) that there must be no income differences, that there must be an income parity be-

tween the city and the country. For what reason? There must be an income parity between people with the same qualifications, so if a farmer has low qualifications there is no reason he should receive the same salary as a university professor. The fact that Poland has greater income differences than the Czech Republic results not from some horrible mistakes in economic policy but, I believe, from much greater gaps between the levels of human capital development. There are areas in Poland – both geographical and social – where human capital development is highly unsatisfactory. The effect are relatively large income differences. How to counteract this? The answer that we should take away from those who possess more is wrong. A real solution is, as far as possible, to provide equal opportunities, that is, to invest in the development of human capital (especially in deprived areas), and this is not something that can be done immediately.

Andrzej Wojtyna: First, I'd like to draw your attention to a puzzling or surprising phenomenon, namely that increased income disparities have turned out to be a relatively small obstacle to the transformation process. I don't think we can fully account for this. One hypothesis can be that, under the previous system, income distribution or, more precisely, access to consumer goods and services was by no means equal. For this reason, the transition to a *de facto* capitalist or market economy with, as might have been expected, greater income disparities was not so sudden. One way to solve this puzzle can be to use the achievements of behavioural economics, which indicate how strongly the perception of relative differences in income determines people's behaviour. At this point, I'd like to quote Prof. Robert Frank, who presents a bit surprising, or even amusing, research results. Mencken defined a rich man as someone who earns a hundred dollars a year more than his wife's sister's husband, i.e., his brother-in-law. The economists David Neumark and Andrew Postlewaite tried to study the behaviour of a large sample of pairs of sisters in the US in terms of women's motivation behind looking for a job. Of course, local unemployment, pay rates and the education level were significant, but the significance was relative. What was crucial was income. The likelihood that a previously unemployed woman would look for a job increased from 16% to 25% if her sister's husband earned more than her own husband. As can be seen, this is not just an entertaining anecdote or a humorous aspect of economics; comparing one's situation with the closest points of reference is very important in people's behaviour. The perception of income differences can also be seen from the angle of political economy. In one of December 2009 *NBER Working Papers*, Alberto Alesina et al. analyse a very interesting problem which couldn't be modelled before. The question is whether income-structure changes caused by some very strong shocks – such as war, transformation or the current crisis – are perceived as socially just or unjust; in other words, whether they are accidental or result from one's industriousness and abilities. The authors have developed a model by means of which their analysis can take into account the fact that today's recession, e.g. in the United States, has changed the way we perceive

the relative increase in the significance of random factors which determine income-structure changes, i.e. factors independent of the education level, efficiency, etc. If so, then this can translate, through the channels of political economy, into an increased support for those parties which intend to reduce income disparities.

Krzysztof Jajuga: Let me comment on what has been said, because it's difficult not to do so. Do disparities really exist? As a professional statistician, I analyse such phenomena by means of statistical distribution. In this case, variance may have grown, but the mean has moved to the right. Is it better to have a distribution with a low mean and a low variance, or a distribution with a much higher mean but also a higher variance?

Explaining this phenomenon is an important thing. People often use relative categories. They say they earn less than average. It seems to me, though, that we should always analyse the factors that cause this. Here, the factor of qualifications is definitely significant; so are other factors, such as the size of a city or the region of a country. These differences, however, are the effect of not just transformation but also earlier developments. Larger cities have always been characterised by higher wages and these disparities.

And one more thing. We seem to form judgements about transformation in the wrong way, because we are doing so with the benefit of hindsight. We should look at it from the perspective of what we knew in 1989; this is a conditional assessment and diagnosis. Having the information available in 1989, could we have carried out the transformation differently?

Tadeusz Kowalski: First of all, let me comment on what has been said so far. I'd like to underline the fact that Poland's income inequality, measured in 1989–2007/2008 by means of the Gini coefficient, increased more than in such countries as the Czech Republic, Hungary or the Slovak Republic. Poland's Gini coefficient rose from about 0.24 to 0.40, which means that its increase was the biggest among the countries compared. An important element correcting this picture is the considerable significance of Poland's informal economy.

Secondly, we should perceive increased income disparities in a global context. Very few people know that, compared with other regions of the world, during the transformation period Central Europe saw the greatest increase in income differences. Again, using the Gini coefficient, we should note that the average for the whole of Central Europe was about 0.31 in 1990 and 0.43 in 2000. At the same time, Latin America's coefficient was 0.55 and 0.57, respectively, and in South Asia it fell from 0.38 to 0.33 in 2000.

Let me stress at this point that the growing inequality should not be associated with market transformation only. No less important factors behind this process were technological changes, gaps in education and qualifications, or insufficient mobility.

The third factor I'd like to mention is a strong increase in the significance of meritocracy: there is a clear relationship between education and pay. This link can be

seen in Poland, in the Czech Republic, Hungary, and even in China. In Poland, for instance, the earnings of people with a university degree were 12% higher than the national average, whereas in 2007 they were more than 60% higher. The process, however, was accompanied by a widening gap between the highest and the lowest earners (a gap understood as the ratio between the incomes of the richest 10% and the poorest 10% of people); at the beginning of the transformation period it was 3.5, now it's as much as 6. Is this a lot? I don't think so, because during Poland's market transformation there was no social unrest, so the social and political acceptance of the scale of disparities was sufficient not to cause bitter social conflicts over pay or wealth. Another problem is whether the disparities were conducive to economic growth. It's difficult to answer this question with confidence, but a test of sorts was the stability of the political and social systems in countries with such income differences.

Marian Gorynia: I'd like to thank all the members of the panel for their comments in the first round. Let me now turn to another issue, which has already been touched upon. It's the Polish economy's integration, opening to and participation in the processes of internationalisation and globalisation. I'm going to quote only two figures to describe in a simplified way the opening of the Polish economy in the past twenty years. While in 1990 the share of the Polish economy in world exports was 0.4%, today's share fluctuates around 1.1–1.2%. So as far as our share in world exports is concerned, there's been a three-fold increase. In the last twenty years, Poland has seen an inward flow of foreign investment worth between one and two hundred billion dollars. At the same time (which is also notable, although not everyone seems to have noticed this), as much as thirty billion dollars' worth of foreign direct investment has "left" Poland in the sense that Poland-based companies have invested more than thirty billion dollars abroad. Naturally, as experts point out, this opening of the Polish economy has both positive and negative implications. Some people say that the fact that, despite all this, we are open to a relatively small extent has enabled us to survive the economic slowdown quite easily. But this is a question for members of our panel.

Krzysztof Jajuga: I think that the financial sector has been, in large part, integrated into the global market, and the fact has taken place in the last twenty years. Some people say this is bad. I can still recall severe criticism of the sale of Polish banks to foreign capital. Each solution has its advantages and disadvantages, but the integration has happened. There are clearly negative effects, as well: we are benefiting from globalisation, but globalisation has its costs. It leads to a rapid increase in effectiveness, particularly in the case of financial assets, but it also increases risk rapidly. We are affected by this risk too, although, during the recession, thanks to a relatively stable financial system, to a lesser extent, I believe. Poland still has a relatively low *beta* value, i.e., dependence on the global market. We have benefited from this low *beta* value. A small share of exports in GDP has, in a way, helped to

alleviate the crisis. This was one of the factors, especially an increase in net exports despite a fall in exports themselves. In my opinion, integration does have its positive effects, especially in terms of global financial results.

Tadeusz Kowalski: There are many measures of an economy's openness and integration with the international environment. First, I'll focus only on accumulated foreign direct investment (FDI). Eurostat's full comparative data for 2008 are available to us. In 2008 Poland's accumulated FDI, which accounted for 32% of GDP, was lower than in Romania (35%), Spain (42%), the Czech Republic (54%) and Hungary (57%). So the saturation of the Polish economy with FDI is still rather low. On the one hand, this is food for thought, indicating, among other things, deficiencies in the institutional field and in business environment quality. On the other, it shows what trends we'll have to deal with in the foreseeable future. What was the structure of Poland's inward flow of FDI? First of all, it reflected our country's comparative advantages in terms of resources. That would be the first dominating factor which could be identified; a second factor was that resulting from the size of the home market.

One of the more important features of Polish transformation and, at the same time, a measure of its success is a comparison between Poland and Spain. Poland's ratio of its exports of goods and services to its GDP is now higher than that of Spain, a country with a home market of a similar size. There's no better or simpler way of testing an economy's competitiveness than to make its companies compete with rivals in a single European market. Poland has a favourable balance of trade with its most important EU partners, including Germany.

When presenting a full picture of trade relations, we should note that, especially in comparison with Hungary or the Czech Republic, we have a relatively low level of intra-industry trade and one of the smallest shares of the export of technically advanced goods in total exports. This state of affairs suggests both the extent of negligence and the direction of changes which must be made in this sector of the Polish economy.

Andrzej Wojtyna: I'd like to start with what economists should always emphasise: that choices are not only made on the basis of the micro-macro distinction; they are also of an inter-periodic nature. What is profitable in the short term may not necessarily be profitable in the long one, and vice versa. In this context, I'd like to draw your attention to two things. First, I don't entirely agree with Krzysztof Jajuga, with his generalisation that our financial market has been fully integrated. It may have been integrated, considering a quick or immediate transmission of some unfavourable shocks to Poland. But, on the other hand, what is profitable in the short term and what I called backwardness rent in one of my articles has helped us respond to the current crisis and to current shocks – it is, among other things, a low level of financial market development. This is reflected in the fact that, as far as the financial sector is concerned, our managers were treated – let's be honest – somewhat condescendingly

by the owners of these institutions. But it has turned out that we have benefited from this because they believed that access to some new lucrative financial instruments should be allowed only to parent banks. They believed that Poland is good for more traditional banking. This proved more favourable for us, which doesn't mean that in the long term the new products that will be created won't prove more positive. At this point, I'd like to mention an interesting study by Tornell, Velasco and Westerman concerning emerging markets (from which we can learn a great deal). The authors published its results in a series of articles and then in a book (the research was conducted before the downturn, which would have probably changed their conclusions). Their analysis, based on long time series, led to the general conclusion that countries which have gone through a financial crisis have a higher growth rate than countries which haven't gone through it or have experienced it to a lesser extent. The research suggests that some Schumpeterian process of creative destruction concerns not only the real sphere and technological progress in the production sphere but probably financial innovations as well. Today's crisis, which they didn't take into consideration, might modify the results obtained. In many years' time, when we can assess the effects of the present recession, it may turn out that it was incomparably less severe than the Great Depression and that the positive results of creative destruction will prevail, although I'm rather sceptical about it.

And another example, which concerns the distinction between long-term and short-term benefits. The fact that we are still not part of the euro zone has helped us in the short run because currency depreciation was a shock absorber in the crisis. It doesn't mean, however, that it's a favourable solution in the long term. Personally, I'd rather we were in the place of Slovakia, even though, in the short term, we suffered a fall in GDP in absolute terms, rather than a fall in the growth rate.

Witold Orłowski: First, let me refer back to what Andrzej Wojtyna has just said. In Poland, we can hear many people say, "Look, how good it is not to have the euro in a time of crisis". But please, remember that exactly a year ago, when it seemed that the currency might collapse, nearly 70% of Poles stated that they would like to join the euro zone immediately because, of course, the euro protects you from the nightmare scenario of a currency collapse. But once we know that the bad scenario hasn't occurred, we are quite happy that the zloty has depreciated.

Going back to the issue of the economy's openness, there is no doubt that it's one of the greatest changes of the last twenty years. The opening of the economy accelerated dramatically as our European Union membership approached. It is debatable if EU membership caused the acceleration or we became EU members just because our reforms reached a critical mass. The fact is that this is what happened. Why is it so important? Because we can talk of two hypothetical models of economic development. The first one is a country that is growing thanks to home-market development (services-sector development is the most dynamic then). The other model is a country that is growing thanks to exports (in which case the most dynamic sec-

tor is usually the processing industry). There is widespread misunderstanding in Poland: it's said that since services account for 60-70% of GDP, then it's clear that a rapid growth can be achieved thanks to services rather than industry. Look at the economic growth of various countries around the world in the last few decades and you'll see that, in fact, domestic consumption can usually grow at a long-term rate of 3 or 4%. Can it grow faster? Normally, a fast growth in domestic consumption increases tensions, inflation, trade deficit, and currency crises, which impedes development. But countries which have achieved a really high rate of GDP growth are those with a rapid increase in foreign trade and industrial production. In fact, exports are the only category of final demand which is capable of long-term growth of more than 10% without causing economic tensions. That's why I believe that, in the long run, if we want to see a really fast economic growth in Poland, we should, first of all, think of how to exploit the fact that we are in the European Union, that we are competitive, that we can rapidly develop our exports. Because this is, actually, the only ticket to a growth of 7-8%, rather than 3-4%. And just one more thing. Someone may ask, "If we have survived the recession better than others because we were less open to trade, maybe liberalisation and openness are the wrong avenues?" My first answer is as follows: in North Korea, nobody may have noticed that there was a recession in 2009. The second answer is that if you want to fly high, you must take into account greater risk; it's possible that sometimes periods of crisis are included in the price of rapid development.

Stanisław Gomułka: As Rector Gorynia has observed, The success of this openness to the world is really enormous. A threefold increase in Poland's participation in world exports and imports is a lot, but the starting point was totally unsatisfactory. At the moment, the share of our exports in world exports is more or less the same as the share of Poland's GDP in the world's GDP. This is roughly what a moderately developed country of a moderate size needs. So the initial negligence and underdevelopment in this area have been eliminated. I'd like to mention maybe an even greater success in the product composition of exports and imports. We used to export such things as coal, sulphur, aluminium. Now we export something completely different: rather highly-processed industrial goods. As for the import of investment goods, now we are importing annually about as much as we imported in the whole decade of the 1970s. Investment imports are associated with technology transfer. This openness of the economy is of great significance here, not so much because we are benefiting from the economies of scale, but chiefly because this is a channel through which new technological ideas, new products and technologies are reaching Poland. In effect, the rate of labour efficiency growth in the transformation period is twice as high in Poland's industry as in west European countries. In this ever-increasing technological integration with western Europe, the United States and Japan, a significant part is played by foreign direct investments. These were not enormous, because they were just 3% of GDP but, as they accumulated,

the manufacturing output of companies with a dominant share of foreign capital accounted for about 60% of Polish exports.

Bogusław Fiedor: The point I wanted to start with has basically been discussed by Professor Gomułka. I'd also like to underline the great significance of foreign direct investment for growth dynamic in real terms. Additionally, it's hard to overestimate the fact that, for many years, foreign direct investment was a very important factor in balancing Poland's budget. There were years when it was foreign direct investment that was crucial to this balancing. So this aspect of FDI is also very important. I'd like to further discuss the influence of European integration and opening to the outside world on the real sphere of the Polish economy. It seems to me that, irrespective of Professor Orłowski's observations, we should talk of an extremely positive impact of integration on the Polish economy's growth and development. Particularly in the sense that it forced us to accelerate processes related to various aspects of the real dimension: growth in the areas of technology, the environment and energy. Without the integration process, such a rapid institutional change or reforms of the basic macroeconomic policies wouldn't have been possible, either.

I'd like to mention one more thing. Hardly anyone here has discussed the issue of globalisation. It seems obvious to me that Poland – whether or not it has joined the European Union – would have been exposed to various kinds of pressure and threats related to the globalisation process. I believe that Poland's European Union membership is the factor that helps us absorb some negative consequences of the globalisation process. This is related to my general conviction that the cause-and-effect relationship is not as it is generally thought to be, namely, that processes of regional economic integration are primary, while globalisation is their result. I think it's the other way round. Regional economic integration is a reaction to the globalisation process which reduces some potential and actual globalisation-related threats. It was just as well that Poland, as a European Union member, was able to reduce these negative effects of the globalisation process.

And the last, very general, point. It's really still too early to form definitive judgments on these matters because Poland is a country where all of the three things mentioned by Professor Gorynia in his introduction (integration, economic opening, globalisation) occurred simultaneously. That's why it's often hard to distinguish effects from causes, or to demonstrate a cause-and-effect relationship. We should bear this in mind.

Marian Gorynia: I think we can move smoothly to the third round. When we discuss the opening of Poland's economy and the economy's relations with its environment, the issue of the Polish economy's international competitiveness crops up. If the world's gross domestic product exists at all, then a lot of countries are doing their best to make their share in this "cake" as large as possible. As far as the Polish economy's international competitiveness is concerned, let me draw your attention to something I would call a paradox. On the one hand, we can say that, in the twenty

years of transformation, the Polish economy has been relatively successful. On the other, if we examine any international-competitiveness ranking lists, they demonstrate that things are going very badly. For instance, we can draw such a conclusion from the World Competitiveness Report's ranking list and other similar studies.

I'd like to ask the members of our panel to say if this is a paradox or a circumstance which could somehow be explained.

Witold Orłowski: I always find it hard to answer this kind of question because I don't want to say that Poland is an ideal place. Everyone knows that a great many things should be done in Poland about competitiveness, as understood by the World Economic Forum, or about the country's long-term growth capability. On the other hand, I must say that ranking lists don't tell the whole truth, and for a very simple reason: most of them are adjusted to some definitions of competitiveness, formulated to meet the needs of highly developed countries. Let me give you a simple example. One of the basic indicators is spending on research and development, and the logic behind this is simple: if you spend a lot, you are competitive; if you spend only a little, you are definitely non-innovative, backward, and uncompetitive. I'm not saying that we spend enough in Poland, but please note that our situation is different from such countries as the United States, Germany or Japan, which are at the forefront of economic and technological progress. If they don't develop a new technology themselves, they won't buy it from anyone because even if it does exist, it is jealously guarded from competitors. Backward countries, however, don't have to create this technology. For Poland, a step forward is often purchasing a ten-year old technology which is already obsolete in the US, but in Poland, with its lower labour costs, the technology may be highly profitable and optimal in terms of the relationship between investment cost and income. Let me repeat it: I'm not saying the situation in Poland is good; I'm sure a lot should be done to stimulate entrepreneurship, but being at the bottom of ranking lists results simply from inaccurate measurement.

Andrzej Wojtyna: I'll try to briefly present my opinion as a macroeconomist. I wouldn't see a paradox here, or at least wouldn't attach so much significance to this. Rector Gorynia realises much better than I do how little we know about foreign investors' actual decision-making processes. When decisions are made whether or not to invest in Poland, I suspect that a reliable study of long-term prospects plays a much greater part than one's place on a ranking list. From the macroeconomic point of view, however, what is crucial is our assessment of how an economy responds to shocks or crises. Let's compare the growth rate before the current crisis, namely 7% per annum, with that of about fifteen years ago, that is in the mid-1990s. At that time, the relationship between the current-account deficit and GDP was more than 8%, whereas during the latest overheated boom it was about 4%. This is an effect of the fact that, in reaction to the Asian and the Russian crisis, the supply side of our economy has been considerably strength-

ened. A very important thing now will be the micro-level reaction and the key relationship between wages and labour efficiency, or the level of labour costs per unit in the recovery period. We have yesterday's results for December, which are a little worrying: wages have accelerated to over 6%, and the consensus forecast, which has always been accurate in the past, has decreased by half. There is a real risk that the mechanism which, in my opinion, has been a factor stabilising the reaction to the latest recession may stop working. The mechanism was that real-wage growth was considerably slowed down, practically to zero level but, at the same time, the fall wasn't absolute. Owing to this, wages sustained consumer demand, providing a soft landing for the economy. A vital thing will be the level of labour efficiency. The period of slowdown saw some kind of labour-force hoarding in companies, which knew from the previous crisis that it's easy to lay workers off but later, during recovery, it's difficult to rehire them. As we can see, companies are behaving differently from the way they responded to the crisis of the late 1990s. I think that comparing these two recovery periods may be highly interesting for master's degree and doctoral students.

Stanisław Gomułka: From the macroeconomic point of view, a country is competitive if there is something in our products and our companies that increases the share of our exports in world exports. We have just said that, in the last twenty years, Poland has been highly successful in this respect. The share of our exports in world exports has grown about three-fold, which implies that Polish products must have had attractive prices and quality specifications, and must have been competitive. This has happened in spite of only moderately advanced technologies, and bureaucratic barriers that are higher than anywhere else. Such high competitiveness results primarily from the fact that wages in euros are quite low. One of the reasons is a favourable currency exchange rate. There is a significant difference between the purchasing power parity exchange rate and the market exchange rate. If it wasn't for this difference, the euro should cost about two zlotys, not four. In a word, we are paying with a lower purchasing power of our incomes in the world market for the fact that we don't have technologically advanced products, and that human capital and other factors are a problem.

Bogusław Fiedor: If Professor Gomułka doesn't mind, I'd like to carry on with this topic. I'm going to refer to Professor Gomułka's well-known distinction, a distinction frequently made in today's subject literature, between countries of "forefront technology" and countries of peripheral capitalism. Although in world statistics Poland ranks among moderately developed countries, from some perspective it continues to be numbered among countries of peripheral capitalism. This is the perspective taken by Professor Gomułka. Nevertheless, it's typical of such countries that competitiveness and success in world markets are mainly efficiency driven, rather than innovation driven. This doesn't mean, however, that in the long term, especially if we stop benefiting from the difference between purchasing power and exchange

rates, it won't be necessary to increase productivity, among other things as a result of increased innovativeness. But, of course, it can't be done at once, which is not to say that it can't be done at all. The case of Spain demonstrates that this is feasible, and it's a question of not just increased outlays on research and development but many other factors which are discussed or analysed in successive World Economic Forum reports. It's also a question of the quality of the institutional environment and the education level. In the long run, sources of increased competitiveness related to the closing of the effectiveness gap will be slowly depleted, and the process will rapidly accelerate once we join the euro zone. From this point of view, it's a very important turning point. To put it briefly, that's why we are forced to take care of these endogenous sources of knowledge, technologies and innovations, to increase their importance in relation to today's dominant foreign sources of increased effectiveness and innovativeness. It's vital to have some policy in this area because it's not possible to move from today's level of 0.5% of GDP to a 2–3% spending on R&D in a year. This is a long process, dependent on some political consensus. And the last observation. In my opinion, there has never been, and there will never be, a miraculous recipe for increased competitiveness. Even the development of a country's sphere of knowledge, technology and research is just one of many necessary, but not sufficient, factors. We must remember that there is no panacea for suddenly becoming an innovation-driven economy.

Tadeusz Kowalski: Measurement of international competitiveness is based on a system of numerous measures, some of which are arbitrary and subjective. The picture of a given country, for instance Poland, is, in large part, a function of subjective assessments, opinions, questionnaire surveys, and so on. Poles and entrepreneurs doing business in Poland tend to criticise the country, emphasising its weaknesses and problems. In effect, if we look at how Poland ranks among other Central European countries we are competing with and should be compared with, it turns out that in 2009, for the first time in many years, we ranked second (after the Czech Republic). In recent years, our position in relation to Hungary, the Czech Republic, Slovakia, Lithuania or Ukraine was weak (fourth or fifth place). Apart from the aforementioned underestimation of our achievements and emphasis on various shortcomings, it was significant that in international competitiveness research a lot of stress is placed on the criterion of institutional quality. Actually, legislation quality, law-enforcement culture and business-environment quality are our weaknesses. Still, we should explicitly highlight the fact that in the last twenty years we have reduced the per capita GDP gap between Poland and – without exception – all the already-mentioned Central European countries undergoing transformation. At the same time, we must admit that we have made the progress at a much higher social cost than if we could better manage institutions and the market mechanism's institutional environment, broadly understood. The social cost would be lower, and living standards would be higher.

Krzysztof Jajuga: It would be inappropriate not to refer, at this point, to the World Economic Forum. I wouldn't overestimate it because these are only ranking lists. They oversimplify the picture by changing an interval scale into an ordinal one. This doesn't change the media fact that we have moved up the scale and are now in the 45th or 46th place. It's notable that the ranking list is created on the basis of variables divided into twelve different areas, but not all areas are relevant for us. Of the twelve groups, we can ignore the last two, which concern innovation-based economies. It's worth having a look at some other variables. There is one very interesting variable – the amount of time needed to start a business – whose value is disastrous for Poland (31 days).

Poland doesn't rank very high in terms of institutional aspects, where countries like Singapore, New Zealand and the whole of Scandinavia come out extremely well. It's about trust in public institutions.

Marian Gorynia: In each round, all the members of the panel presented their different and multifaceted views and comments. Thank you very much. I think the best conclusion of the debate will be not a summary of what has been said, but your questions for members of the panel.

Andrzej Czyżewski: Distinguished Members of the Panel, Professor Orłowski. I'd like to ask you for a more detailed reflection on farming income parity or, in fact, the definition you have just given, that "if a farmer doesn't have sufficient qualifications (as in a non-farming sector), why should he derive a parity income from farming?" In the European Union's Common Agricultural Policy and in Poland, a farming income parity has a different sense from the one you've presented. It's the main goal and instrument of economic policy, broadly understood. Why? Because it compensates for the transfer of an economic surplus, which "escapes" from the farmer (producer) to his more and less immediate environment, and without the government's intervention policy it won't return (automatically through the market) to the producer. Why does it escape? Because, under market conditions, land, as a peculiar factor of production, reacts differently from labour or capital. First of all, it is immobile, and food consumers act in conditions of consumption pressure as well as a relatively limited price and income flexibility of demand. These determinants create permanent barriers to the development of agriculture – a demand barrier, an income barrier and a structural transformation barrier – and the principle of farming and non-farming income parity used actively in agricultural policy helps us to overcome them. Professor Orłowski, if you expressed your view before the European Parliament, you would spark a wave of protest because the most developed farms in France, Denmark, Belgium, and the majority of farms in Great Britain, Germany and other EU countries have "negative" farming incomes owing to their high production costs. Expanded reproduction processes can take place in these farms only because they apply in practice the principle of farming and non-farming income parity which is promoted by the EU's Common Agricultural Policy.

Professor Orłowski, please don't oversimplify the problem because farming income parity is related not so much to producers' qualifications as to a relatively balanced relationship between prices, incomes and costs in agriculture, or, more broadly, to a balanced development of the whole food sector, a fact which, in turn, is vital to the national economy.

Witold Orłowski: Please remember that, first of all, I clearly talked about the way income parity was understood in communist times, in the 1980s. At that time, suggesting that income levels should be equal in the city and in the country had nothing to do with a reasonable agricultural policy. However, we should admit that the European Union's Common Agricultural Policy is very controversial (I know that, in the European Parliament, I'd be booed for this comment). In general, it's said that this is a policy whose aim is to prevent very radical changes in income, to prevent labour resources from being restructured and transferred to other sectors of the economy too fast. From the social point of view, the aim of such a policy is clear. But there is always the question whether an agricultural policy which slows down the restructuring process in rural areas is rational. In the Netherlands, farms could be profitable even without a common agricultural policy. Ideally, Polish farms could also be like that. Of course, this might be achieved by increasing efficiency and using stronger incentives. We could understand why the adjustment process should be spread out in time. Nevertheless, I'd like to stress that the Common Agricultural Policy is a matter of controversy – not its very existence, but whether or not a deliberate weakening of market mechanisms is exaggerated and whether or not it unnecessarily prolongs the restructuring of agriculture.

Witold Jarmołowicz: Before asking my question, I'd like to briefly refer to this plane of the discussion which concerns social disparities caused by income diversification, because that's how this was presented. First, let me note that the members of the panel have expressed careful (that is, diverse but moderate) opinions on the subject. I believe such an approach is justified for several reasons. First, because this plane, in comparison with other research into transformation – is still rather poorly recognised, though knowledge of the field is crucial for socio-economic policy, and the problem of inequality provokes a lot of controversy among the public.

On the one hand, for instance, we see five million poor and very poor people (whom Professor Gomułka has mentioned); on the other, there are a few hundred people working for banks who earn several hundred zlotys a month.

In his comment, Professor Kowalski, not without reason, referred to the Gini coefficient, a recognised indicator which shows the degree of diversification in income distribution in various countries. In this respect, the coefficient doesn't place Poland at an oligarchic level, though no longer at an egalitarian level, either.

The question remains what has actually changed in the social structure if we take into account differences not just in wealth but also in income streams, if we want to take into account changes taking place during transformation. First of all, when we

want to evaluate these changes, we also face the question of whether they can be related only to the past, or to the present and future state in various market-economy countries and countries like Brazil or Canada.

Because, while we are laying the foundations of a market economy, we still don't know what economic system we are trying to develop in Poland. Even so, we can say that social income in relation to the total of people's "average" income is still high (up to 30%) and that income from work, of course, predominates (over 50%). Additionally, it is within income from work that very significant "market" disparities have taken place, which has acted as a "driving force" behind the process of building the new system. My question for the members of the panel is as follows: should the state, now and in the future, through its macroeconomic (monetary, fiscal, remuneration) policy, help to enhance and accelerate the processes of income diversification, or should it be more neutral or even reduce these differences significantly?

Bogusław Fiedor: Let me start from a global perspective. Historical experience shows two things (though there are obviously exceptions to this). First, the more developed the country, the greater the proportion of income that arises from work, and the smaller the proportion that derives from ownership. Second, within income from work, the differences are shrinking, too. The question is, what is this caused by? I think the answer is the state's tax policy, which is not necessarily active (progressive) today. I wouldn't recommend it for Poland because, for the time being, it much too often proves counterproductive from the viewpoint of the purpose it is supposed to serve, i.e. reducing disposable-income differences in relation to income before taxation and before social transfers. In my view, the main avenue to smaller differences in incomes from work is investing in human capital. That's why educational and research policies, broadly understood, are such important areas of the state's activity today.

Andrzej Wojtyna: Let's not forget that Poland's increase in income diversification is relatively small compared with, for instance, the growth in the United States. A surprising thing stressed by political scientists is that, in the current crisis, the fact has such a small influence on a rebirth of the left. It turns out that these growing disparities don't necessarily translate into increased social unrest. I don't think Poland has exceeded an optimum level of income diversification beyond which negative factors start to predominate, slowing down GDP growth, just as it happened in many Latin American countries in the past. In the last decade, Brazil, which has exceeded this level, has been highly successful in its attempts to reduce these disparities. When you exceed the optimum level, the scarce resources in the public sector – which otherwise might have been earmarked for developing human capital, education, etc. – have to be committed to other public services, such as maintaining public order. It's vital that this level of income diversification shouldn't be exceeded.

Eryk Łon: Let me ask two questions. The first one is about integration with the euro zone. Which path to the euro zone do you favour, the Slovak (a quick adop-

tion of the euro) or the Czech one? The Central Bank governor said recently he couldn't imagine the Czech Republic joining the euro before 2019. The other question concerns yesterday's news report in the media. The European Central Bank is considering introducing regulations on the basis of which a member country may leave the euro. As we know, no such procedures have been developed yet. There is lively debate about the issue, especially in the context of Greece's financial problems. Some economists are already encouraging Greece to leave the euro zone as soon as possible.

I've always thought that economists, but also a large proportion of the political class, agree that we should join the euro as soon as possible. The National Bank of Poland recently published an individual report produced under the direction of its new governor, who was regarded, at least initially, as an enthusiastic advocate of a quick adoption of the euro. The report was more positive than the previous one, prepared during Leszek Balcerowicz's term as the bank's governor, which mentioned an additional 0.7% growth in GDP over about ten years. It's not just a question of satisfying some conditions, then. Of course, Slovaks were determined to meet the conditions in the last few years. If previous Polish cabinets had shown a similar determination, we might have succeeded (although Hausner's plan was implemented fully, not in about 40%). And if Law and Order's subsequent coalition government had continued this policy... In any case, also finance minister Zyta Gilowska said that we should have joined the euro zone as soon as possible. However, Jarosław Kaczyński's cabinet was generally eurosceptic, and now we obviously have a new situation. We have a huge deficit in the public finance sector, and it seems that the year 2015, which I mentioned as early as a year ago and which Premier Donald Tusk mentioned recently, is obviously quite an ambitious date. It's a realistic deadline, though it will require a lot of effort, so it's not the most important problem. We'll join the euro as soon as this is feasible.

Andrzej Wojtyna: This is a very important issue which would have been unimaginable just a few years ago. A minister who only mentioned leaving the euro would probably have had to step down. From the perspective of the theory of optimum currency areas, I believe the key problem is that one significant condition isn't satisfied in this actually existing union. In a currency union which is the United States, the federal budget plays a major part, accounting for several dozen per cent, while in the European Union the figure is just 1%. In effect, the ability to react to asymmetric shocks using the joint finances is very limited, all the more so because agriculture takes probably 75% of this. Another important thing was that, in practice, the Stability and Growth Pact was unable to prevent Greece from using creative accounting, even though, to a large extent, it wasn't a secret. As a result of the lack of transparency, these fiscal effects proved to be much stronger than expected. Now, the problem is whether or not to provide help and, if so, how. Room for manoeuvre is limited by moral hazard because if we help Greece now, other countries will

expect the same in the future and will pursue a less prudent budget policy. On the other hand, it would be very bad for the euro zone's credibility if a member country was to leave it during the first serious economic crisis.

Krzysztof Jajuga: I'd like to add that a key thing is the decision to submit an application to ERM2. We should do this when there is a lower risk of failing to fulfil the four ERM2 membership criteria. I don't think we can hope that the criteria will change. We should file the application when the situation is stable.

There were at least two moments when Poland could have joined the euro with relatively little effort. It's regrettable that we didn't take advantage of this opportunity.

During the discussion, Professor Andrzej Wojtyna was asked about Poland's sovereignty: doesn't the country's entry into the euro zone involve transferring some of our sovereignty to foreigners?

Andrzej Wojtyna: I may disappoint you but, for me, sovereignty isn't just having a national currency, which, in the long term, could prove much less stable than the currency of a group which we decided to join anyway in a democratic referendum. Let's remember that we don't have such treaty options as Great Britain or Denmark does, but our situation is similar to Sweden's. We can continue our interesting discussion about a referendum. I can recall that more than ten years ago, when the discussion about a new constitution was in progress, I wrote to Jan Rokita, my MP for Cracow, suggesting that the constitution should stipulate that our currency could be not only the zloty but also the currency of the organisation we intended to join in a democratic way. Let's not forget that a sovereignty based on one's own currency may actually stand for very little. What does this kind of sovereignty mean in the case of countries which experienced hyperinflation cycles, had no anchor of inflation expectations in their currency, and had to find it in the dollar or another currency in order to maintain their economic existence, understood as trust among foreign companies or investors. We've signed the Treaty of Accession and we simply have to adhere to it. It may have been a mistake not to set the latest possible deadline for accession in the treaty. It should have been like this, "You are obliged to join the euro zone after joining the European Union, but the period can't be longer than ten years. You can spread the adjustment periods in time according to your preferences, but it can't take longer than ten years." This didn't happen, probably because euro-zone countries didn't know themselves whether or not they wanted to see us there. Unfortunately, we too often delude ourselves that they will encourage us to meet the criteria and join the club.

Tadeusz Kowalski: I'd just like to add that it's imperative that we differentiate between formal and actual sovereignty. Poland is a relatively small open economy, integrated with the EU and the external world through the transfer of goods, services and capital. It should be additionally underlined that we are a net importer of capital. In the sphere of monetary policy-making, such an economy has no actual sovereignty; it must pursue a conservative, standard monetary policy. For this rea-

son, at least, we should adequately prepare for joining the economic and monetary union as soon as possible. Let me add something that you as a banking analyst will probably confirm, namely that it's very likely, almost certain, that joining a homogeneous capital pool will attract and facilitate an inward flow of FDI to Poland, which in turn should help us bridge the civilisational gap. Finally, let me add that the likelihood that the euro zone will generate a higher interest rate than Poland's current rate, which contains a relatively high premium for specific risk, is very remote. For this reason, the answer is obvious.

3. Crisis and the Polish economy (Leszek Balcerowicz)³

For the last two years, we have repeatedly heard the phrase *global financial crisis*. Being an economist, it is difficult not to discuss the subject, which is very important for the world and for particular countries. To begin with, let's explain the phenomenon itself.

I. *Crisis* – there is no precise definition of the word, and it does not make sense to look for one. Just as there is no precise definition of *youth*. Is a thirty-year old person young or no longer so? We should accept it, then, that *crisis* is usually understood as serious disturbances exceeding normal fluctuations in economic activity. In this sense, we can talk of a crisis in the years 2008–2009, especially in developed and a few less developed countries. Last year, the whole West experienced a recession, i.e. instead of growing, the economy was shrinking, but the phenomenon was even more intensive in some less developed countries, e.g. in the Baltic states. So much for the crisis itself.

Why is this crisis described as financial? Because it occurred (or started) in the financial sector, a crucial part of a modern market economy. And the financial sector means commercial banks, which specialise, on the one hand, in accepting deposits from individual clients and companies, and, on the other, in providing credit. There are also investment banks, which, despite the name “bank”, do something else – they act as intermediaries in the issuance of securities; sometimes they conduct independent financial operations. Finally, there are universal banks, which combine several functions, there is commercial insurance, and there are pension funds. All of them are financial institutions. Some of the transactions carried out between these financial institutions are called a financial market. If we issue bonds

³ A lecture delivered on 20 January 2010 at the Concert Hall of Adam Mickiewicz University in Poznań during a meeting with Poznań university students and secondary-school pupils, as part of the 2nd Poznań University of Economics Days.

or companies' shares through stock exchanges or otherwise, these transactions are called a financial market, too. Altogether, the financial sector consists of financial institutions and markets.

Why does a financial-sector crisis have deeper implications for other sectors of the economy? The reason is very simple. The financial sector is very important for the development of other parts of the economy. Let me remind you that the financial sector is an intermediary between those who save money and those who obtain credit. And those who provide credit or finance try to get it back, which is only natural, so they supervise the debtors (this is also a very important function). In a modern economy, this sector is so significant that if it experiences a crisis, all the others suffer from its consequences. Not every economic sector is so important. For instance, before the crisis, the United States experienced another bubble which burst – it was the Internet bubble. It didn't have major repercussions on a global scale, not even in the United States itself. Although the Internet is so important, the Internet bubble, after it burst, didn't have such an impact as the disturbances in the financial sector did. This demonstrates the significance of the sector.

Why is the current crisis described as global? Is it because it has occurred everywhere with an equal force and at the same time? No. Not all global problems are of this nature. This is a global crisis because it started in the American economy, the most important economy in the world. If it had been restricted to Liechtenstein, Belgium or even Holland, no one would have bothered about this, because these are small economies. However, the United States accounts for about 25% of the world's economy, so if this (not only economically) powerful country is hit by a crisis, it has an impact on the rest of the country's economy and on the economies of other countries, primarily those which maintain special relations with them.

II. How does a crisis in a globally significant country affect other countries? This is an effect of two main mechanisms which are at work because the world is "globalised".

It might be worthwhile at this point to discuss a word which is often used and equally often misunderstood, namely *globalisation*, which is often used as blackmail (see the aggressive alterglobalists, who try to present their arguments using violence).

What is globalisation, then? It's a situation where there are no artificial barriers in relations between people from different countries. Globalisation is the opposite of isolation, or the situation where the world is divided into isolated entities referred to as countries and where hardly any relations are cultivated among them. No global crisis is possible, then, because a crisis hits only isolated entities. But we know beyond reasonable doubt that isolating individual countries is a recipe for poverty, especially in countries which are poor and rather small. Such an isolation implies being cut off from knowledge, information and competition.

Throughout most of its history, mankind was divided into isolated individuals. It had been like this until the 18th century, possibly except Roman times, with their good roads and *pax Romana*. Relations between people from different countries

were strengthened by the development of modern capitalism, that is by economic freedom, which consisted of the freedom to maintain economic relations not only within a country but also with people from other countries. Such a phenomenon is called *free trade*. The opposite of free trade is a booth on the road where you pay a toll and high taxes. The first globalisation started in the 19th century and lasted until World War I. Subsequent attempts to revive it failed, ending in severe economic problems referred to as the Great Depression. It was a time when globalisation made a giant step backwards, i.e., economic barriers were created. It was also a time when the world made a giant step backwards, seeing the triumph of such systems as fascism and communism. Who suffered the most at that time? It was poor countries.

After World War II, globalisation started to revive – first, barriers in economic relations among developed countries were gradually lifted, which helped them develop. Then they were joined by some less developed countries, which put a stop to their isolation. The first among these were the “Asian tigers”, which developed extremely fast. Then the phenomenon started to spread. Obviously, the communist world remained beyond the reach of globalisation.

Globalisation is not a completed process but, in general, our world is more globalised than it is isolated. For instance, until the late 1970s, Maoist China had been a country of economic disaster, isolated from the world, ruled by a rogue and murderous regime. Tens of millions of people died in the time of, and because of, the Cultural Revolution. In the late 1970s, China started to open to the world. Although they don't say so, the Chinese are moving towards a capitalism open to the world, which is part of globalisation. Their reforms have saved hundreds of millions from poverty. With a suitable internal system, opening to the world is a powerful force that helps to bridge the gap between rich and poor countries.

In a “globalised” world, if one of its parts is hit by a crisis, the crisis spreads. Such are the consequences of globalisation; we can compare it to fire. Living without fire would be rather gloomy, though we wouldn't risk being burned. But which do we choose: living without fire to avoid being burned or living with fire? It's the same with many other things.

How does a crisis spread? When the world is “globalised”, a crisis spreads through two mechanisms: financial relations and trade relations. Through **financial relations** because a lot of banks are international, which means that, to a large extent, they operate abroad. If they operate in a country undergoing a crisis, they suffer as a result – their assets decrease in value or they contribute to the crisis themselves. An extreme example of this is Iceland. It's a small country (population: 300,000) with gigantic banks which expanded into Great Britain and Holland. Since the expansion was careless, the banks made substantial losses. The fact has an impact on the small Iceland, which is under pressure to cover the losses.

But financial integration brings considerable benefits as well. What are they? We can use foreign capital to accelerate our growth. We don't have to rely on our own

resources. The point is that we should act wisely, doing only a few things at a time and in a field which is profitable. The temptation to use capital too quickly or unwisely is huge. Some financial innovations have probably gone too far and so they have failed. The market works by trial and error.

Generally speaking, developed countries are more integrated through the financial sector than less developed countries. Consequently, what happened in the United States affected developed countries first (e.g., Germany, western Europe in general, and Japan, although this country has its own problems).

The second type of relations is **trade relations**, or foreign trade. If we export a great deal and foreign markets are shrinking, our exports are shrinking, too, which affects the rest of our economy if the export sector employs a lot of people. But the extent of the impact depends on the extent to which a country is dependent on exports, which in turn depends on their level. On average, small countries export a larger proportion of their manufacturing output (and consequently they import more) than large countries. This may partly explain why Poland has been less hit by the recession than Lithuania, Latvia, Estonia, the Czech Republic or Hungary – we are a far larger country than the Baltic states and the other countries listed. We don't deserve great credit for the fact that Poland is more populous than Lithuania – we would have to go back a thousand years and work out what is the source of the differences and to what extent they determined the subsequent population of these countries. This is simply an objective factor. Additionally, the countries which have suffered the most committed their own economic-policy sins and would have run into trouble even without an external shock, though the problems, if less serious, might have arisen later.

What is the main economic sin? It's the opposite of what populists say – that we should “stimulate” the economy by introducing more money into it. Usually, the word *stimulate* is positively associated with warmth, and its opposite, *cool down*, with cold. This is the irrational basis of such recommendations. A lot of people are taken in by this primitive populism.

And what happens when spending is increasing too fast? Sometimes inflation goes up – it's a phenomenon which is harmful to the economy and to people. A high and/or rising inflation rate introduces harmful uncertainty into entrepreneurs' and ordinary people's lives.

Sometimes an excessive growth in total spending involves an excessive growth in government spending. What happens if “stimulation”, favoured so much by populists, takes place? Sooner or later, taxes start to rise. The only cause of high taxes is the fact that they are used to finance spending. This is the income which the state takes out of taxpayers' pockets. So complaining about high taxes is an example of making a fuss because their only cause is high spending. We should focus on limiting such inflated spending rather than complaining.

If we “stimulate” the economy and increase spending, after some time we have to raise taxes, which is unpleasant and harmful to economic growth. And when we

increase spending, we have to finance it somehow. The easiest solution is to print money. The government is the country's only institution which can do this legally, although it shouldn't print money to cover spending which can't be covered. However, if the central bank is independent, it opposes this as long as it's independent and as long as there are people there who want to do so. A central bank like this is an indispensable guardian of monetary stability.

If we can't print money under political pressure, we have to borrow it. This is called *public debt*. The more the country is in debt, the higher interest it has to pay, and, if this continues, it finally falls into a debt trap. In other words, the country isn't able to repay its debt.

Poland got into such a situation in the 1970s, a decade which some people remember as the best times – a real bonanza. In fact, it was a time of economic disaster: Poland was running up a debt, the money borrowed was used to finance abortive investment projects, “luxurious consumption” of bananas was accelerated because, under communism, bananas were a symbol of luxury. This was illustrated by the expression “banana youth”, used to refer to young people leading a life of luxury, i.e. to those who could afford to buy bananas. This is how the borrowed money was wasted.

When Poland achieved freedom and Tadeusz Mazowiecki's government was formed in September 1989, other countries considered Poland a bankrupt. But in addition to this, what wasn't known at the time – not even to me when I was assuming the position of finance minister – was a huge domestic debt owed to the country's own society. Some people opened hard-currency accounts, but the money (several billion) was almost gone: previous governments had spent it on imports. There were also “building-society books”: people saved money in the hope of getting a flat. They deposited the money but didn't get the flat. There were “car books”: people saved money to buy a baby fiat, but they didn't get it. The debts (both foreign and domestic) inherited from communism had to be repaid. Finally we repaid them.

A second form of “stimulation” takes place when credit for companies and household grows too much. What happens then? First, the percentage of credit decisions increases because the quality of the decisions and their speed often collide with each other. Second, when money enters markets in which supply can't be easily increased and demand (i.e. spending) rises, what happens then? There's an increase in prices. A typical market where you can't easily increase supply is the art market. There will be no new Rembrandt, Manet or Picasso. You can only forge their works, and forgery is prevented quite effectively.

Houses and flats are goods which are difficult to produce quickly because they take time to build. If the amount of credit entering the housing market rises suddenly, prices of flats and property increase. Then, what is popularly called *speculative bubble* grows and grows and grows... and finally bursts. And when it bursts,

pleasure ends and distress begins. So if you want to avoid an economic slump, you must be alert in good times. In other words, you must make sure that there is no cheap politics, this food for the naive – an excessive increase in spending – because this is a road to crisis, not to prosperity.

You achieve prosperity by improving the environment of people's activity in such a way that more productive work – intellectual, creative and innovative – is more profitable than less productive work, that working more is more profitable than working less, that people are not punished for working more, that you can't easily get money if you don't work (e.g. in the form of various state benefits). Although proverbs are not always right, the following is true: "No work, no pay."

III. I have said what *global financial crisis* is, how its effects are spread, and why some countries have suffered more and others less. But what were the causes of the crisis?

There are many inadequate and superficial explanations which are catchy because a shoddy but noisy intellectual product sells better in the media than a refined one. I'll present some of these explanations.

One of them suggests that this is a crisis of capitalism. Where is the error here? A crisis **within** capitalism is confused with a crisis **of** capitalism. Capitalism as a system is defined through some foundations: the dominance of private ownership, a contract rather than a command. The market means voluntary cooperation. Nothing has happened to challenge these foundations. However, if someone has doubts about capitalism as such, they should compare it with an alternative system, which is socialism.

According to socialists' own original definition, socialism means the state monopoly of the economy and ownership (and very often no market, which must lead to commands and central distribution). Where can we find good examples of socialism? Cuba and North Korea? We could also add Iran. Although some people think that it has nothing to do with socialism, in fact it does, because there is a great concentration of political and economic power there. There has never been a good socialism, a system based on the state monopoly of power over society and the economy. After some time, every form of socialism brought disaster, at least in the form of missed opportunities, and sometimes humanitarian disasters (see Stalin's Soviet Union, Mao's China or Pol Pot's Cambodia).

There is a second popular explanation, put forward especially by moralisers (there are a lot of them in Poland because moralising gives many people a sense of superiority). They say that the crisis was caused by greed. Let me add, just in case, that I'm against greed, too. But what does it mean that the crisis was caused by greed? Do they mean behaviours that are described as *greedy*? If so, we should ask what their origin is. It's not enough just to say something. What could cause behaviours called *greedy* to intensify? Is it that suddenly some people have become greedier, in other words, their character has deteriorated? In this case, we should demand evidence for this. We should ask what mechanisms increase greed. For instance, has

some greed virus appeared? When reading various analyses, I didn't find that biologists had discovered a greed epidemic in the sense of some biological mechanism.

A third explanation is closer to reality but it carries a risk of error. It's said that it's the financial sector – or some of its features – that caused the financial crisis. Here, we risk confusing symptoms with causes. The place where a problem occurs doesn't have to be a cause of the problem. For example, we know where catarrh occurs – in the nose. But is the nose its cause?

Where are the causes of the crisis then? There's no full agreement among those who systematically deal with the problem. But they do agree about some factors. Let me refer to a report which I co-authored – it's the de Larosiere report, produced by a team appointed by the European Union to diagnose the causes of the crisis and formulate recommendations. The team consisted of eight people, and I had an opportunity to participate in its work. The report is publicly available.

According to such analyses, a major cause of the crisis were errors in the policy of public institutions. We should remember that an economy always works in a specific environment, and some of this environment is created by public institutions (parliaments, governments or central banks). The financial sector, especially banks, its most severely affected part, is particularly strongly influenced by the environment, which is created by public institutions.

I have already said that a boom increases when credit grows too fast. When does it grow too fast? Credit grows too fast when interest rates are too low. And the latter depend on the central bank. If it lowers interest rates too much, then, on the one hand, the borrowers are pleased but, on the other, the savers are dissatisfied. What is particularly important, however, is that credit – since it's cheap – grows too fast. And if it grows too fast, a bubble appears, which finally bursts. A lot of people agree that it was a mistake on the part of the Fed (Federal Reserve System, or the American central bank) to lower interest rates too much in 2003 and to keep them at a low level for a long time. What's more, in the United States, there was political pressure (from Congress and other politicians) to give everyone, or nearly everyone, a home loan, even if the person didn't meet the requirements or wasn't creditworthy. This is what generated such bad loans. In other words, what was at work in the USA was politics. Finally, some official international regulations turned out to be wrong.

Other countries which were most badly hit by the slump, e.g. Spain, Ireland, Great Britain, and the Baltic states, also experienced such excessive-boom mechanisms.

IV. What are the implications of this for Poland? I think everyone in Poland would like the process of catching up with Western living standards to be fast rather than slow, because this translates into such basic things as flats, better health care, more trips abroad, the state's strength measured with the capability to finance the army. A large number of important things are related to economic growth. But these mass desires don't automatically translate into activity which promotes development be-

cause some people support what impedes the country's development. The fewer there are of them, the faster we will reach Germany's living standards.

The future of our economy depends on two factors. First, the world situation; second, what will be going on in Poland. As for the world situation, we can only say that the world is getting out of the recession, although the speed of the process is highly uncertain. What is important to us, however, is that we have no influence on what will happen, say, in the United States. We have no influence on China or Japan, either. We can have some influence on them through the European Union. Here, I think, Poland's *raison d'état* is to choose one priority: insisting that those mechanisms which promote the development of all member countries, including Poland, should be strengthened, and opposing those solutions which inhibit development. To be sure, there are a few of them in the EU, e.g. an unreasonable climate policy based on very weak intellectual foundations. There is a danger that it will burden the economy, especially the poorest countries' economies, with additional taxes.

We can, and should, have the biggest influence on what is going on in Poland. The point is that in democratic Poland we should make better decisions, that popular but harmful decisions should be lower in number. In a democracy, "you've elected your bed, you have to lie in it."

In Poland, there is too much grumbling and too little civic activity. Too many Poles are apolitical out of snobbery: they say all politicians are thieves, fraudsters, and so on. However, politicians are as diverse as other people; just as with students – not all students cheat at exams; and not all journalists mislead the public. We can't be taken in by these catchy and shameless slogans intended to exempt us from the moral duty to take care of our country when it can't move forward. It's imperative that people be mobilised around a few proposals which stimulate development and reduce the danger of disturbance. And the more difficult such mobilisation, the greater its importance.

What it means in practice is a few simple things. Rather than listing all of them, I'll just highlight those which should be particularly emphasised.

First, we should know what factors are especially important for development and which are less important, and we should treat the important ones as priorities. Second, we should know in which of the important areas we have a lot to do, i.e., in what terms we compare unfavourably with economic tigers, countries which have been developing rapidly for many years. Using these two simple criteria, I conclude that where we have the most to do is the important area of public finance. Our budget spending is exceptionally high. In effect, we have very high taxes, and our public debt, on which we pay high-rate interest, is growing fast. And it's we who pay the interest, not Santa Claus.

What is the source of this huge spending? Government spending is huge when welfare spending (money received without working) is huge. The more welfare money, the higher the taxes. We need to face the problem, but there is a lot of pop-

ulism around it, combined with moralising about defending the poor and the weak. Research shows, however, that chronic and high unemployment (in developed countries such as Germany or France) results from excessive government interference and too much welfare state, and that we suffer from a premature fiscal eurosclerosis. Huge government spending is related to another fact: that those who work in Poland account for only 57% of people of a productive age who are capable of working. What it means is that, on average, one Polish woman has to support one Polish man, or vice versa. In this situation, taxes have to be high. Some of the reasons are that people retire too early and that it's too easy to qualify for a disability pension. All of this means living off other people, without work, or receiving various benefits and working in the black economy. This is the biggest problem we have to solve. I haven't heard of an economic tiger with a fiscal and social burden similar to Poland's. The burden of all the countries which developed fast and for many years was half as heavy (about 20% of GDP or less, while ours is over 40%). This is because in democratic Poland people have elected too many false Santa Clauses who promised to give them something. But they can obtain it only from taxes, so when these were not enough, they increased public debt.

A few other things need to be done as well. We can hear a lot of confusing things and rubbish about privatisation because some people associate it with self-interest or a small business owner – this is where a mental burden of communism becomes apparent. And the matter is so simple: state ownership equals Włoszczowa. The case of Włoszczowa shows who has effective control of a state-owned company – it's a politician. As long as companies are state-owned, they will be vulnerable to mismanagement and mistakes, and they will go out of business as soon as they face competition (just as Poznań's Cegielski plant did – privatisation was delayed for too long; prior to that, Pewex and Polish shipyards went under in a similar way). State ownership poisons both the economy and politics. Since there is a large pool of positions to fill, what should politicians be preoccupied with? They will be busy filling the posts. We can't just condemn this; we need to change it. We should give up the myth of the old family silver, which no longer exists, take away these toys from politicians, and privatise them, i.e. transfer ownership-related power to individuals and non-political institutions.

Company privatisation in Poland is seriously delayed because of the noisy demagogues, including the Supreme Chamber of Control, which until recently was busy accusing those privatisation ministers who had done a great deal. People who did so much good for Poland and its economy, e.g. Janusz Lewandowski, faced prosecution. Now Emil Wąsacz, another person who rendered great service to Poland, is being prosecuted; before that, by the decision of the parliamentary majority, he faced the State Tribunal. This demonstrates how much should be changed in Polish democracy.

Reforms should result in more people working, lower welfare spending, and lower taxes. Then the economy will gain momentum. Control of companies should be

taken away from politicians, which will additionally bring in revenues and close a possible gap.

We should also improve Polish law and make it more stable because there is a lot of unproductive grumbling about that. What is the source of bad law? It's legislative activity. And law is created by elected MPs. So law will be good when our electoral decisions are better. We should give up the socialist rubbish that the more laws there are, the better. This legislative diarrhoea destabilises the working environment for people and companies; it results in the majority of laws being amendments to existing legislative trash. Our ideal should be one thing: no new laws, which means that laws should be so good that they wouldn't have to be changed. This is, of course, difficult to achieve, but it should at least serve as a guiding principle. And if someone boasts about having passed 300 laws in a year, then what he does is simply harmful.

A recipe for growth is simple and we should know it. Another step is mobilisation, just as it happens in a real civil society.

In every society there are populists, people who seek to inflate the state, either for reasons of a false ideology (called socialism or statism) or out of political or personal interest. For instance, if a politician loves power, he will oppose privatisation, because it means losing some of his power. Many entrepreneurs, in turn, don't like competition, so they will exert pressure on politicians to protect them (by providing subsidies and imposing tariffs). It has always been and will always be like this, which doesn't mean that such an approach must prevail. It prevails only when there is no sufficient counterbalance to it, when society is dominated by martyrdom and complaining. The right response is a well-organised social mobilisation aimed at winning, every single day, our peaceful battle against populism. It is then that Poland will be safe, will develop rapidly, and will effectively use its freedom.

4. Speech delivered by professor Stanisław Gomulka during the honorary degree conferral ceremony at the Poznań University of Economics⁴

Your Magnificence Rector of the Poznań University of Economics, Honourable Promoter, Esteemed Members of the Senate, Honourable Reviewers, Ladies and Gentlemen!

Among the guests, I am particularly delighted to welcome the Danish and the Russian Consuls. The Kingdom of Denmark gave me great help in a difficult time. As for the Russian Federation, I have fond recollections of close cooperation with

⁴ The ceremony was held on 21 January 2010.

key reformers of the country, especially with deputy Prime Minister Arkady Gaidar and his collaborators in the second half of 1991.

The degree of *doctor honoris causa* is one of the highest, or maybe even the highest, award a university can bestow. Therefore, I feel extremely honoured to be presented with such a prestigious award. I particularly appreciate the fact that I am receiving it from a university which made a substantial contribution to the development of economic sciences, education and public debate during the Second and the Third Republic.

On such occasions it is customary for the person awarded to say something a bit wise, something a bit new or at least not trivial, something that at the same time refers to the results of his research. Because, since I completed my doctorate at the University of Warsaw over forty years ago, I have been intensely focused on explaining the sources of disparities in the economic growth rate, both between countries and in time, I would like to devote to the subject the 20 minutes given to me by Rector Gorynia. To deliver a lecture I usually needed 55 minutes. Fortunately, the latest issue of *The Poznań University of Economics Review* features my article on this very subject, titled "Mechanisms and Sources of World Economic Growth". This article, therefore, should be treated as a full and ultimate version of my lecture. Here and now, I will restrict myself to just a few observations.

Firstly, the initial theories of economic growth advanced by such economists as Harrod, Domar, Solow, Kuznetz or Kaldor, and Kalecki in Poland, focused primarily on what is called quantitative growth factors – mainly employment and capital accumulation. The key role of innovation and qualifications was appreciated but, for instance, the innovation rate itself was not explained. This was so, even though as early as the 1950s it was clear that although capital accumulation is essential to sustain economic growth, the main source of people's income and material wealth is economic activity that triggers or produces qualitative changes in the economy, namely innovations and human skills. In other words, it is activity which introduces new technologies and products, changes institutions and increases human capital.

Although this view has been beyond question for many years, a lot of people (including economists and journalists) still claim – now even more emphatically than 10 or 20 years ago – that economic growth has been based on knowledge and information only in the last decades.

Our research leads to the conclusion that a long-term increase in income and material wealth has always been based on knowledge, except that percentage changes in the volume of this knowledge had, for thousands of years, been small until they accelerated dramatically two-three centuries ago.

Explaining this acceleration and showing the prospect of an inevitable (according to this theory) slowing down of qualitative changes and economic growth constitutes the subject of a considerable proportion of my works, especially those written between 1970 and 1990.

Secondly, from the perspective of my works, it is a grave mistake not to distinguish between a contribution to knowledge growth globally from qualitative changes on the scale of a specific economy. In catching-up countries – such as today’s China, India or Poland – economies can be and, in these three countries, are very innovative, despite their modest contribution to the world’s resources of knowledge.

Thirdly, we should carefully distinguish between highly developed countries, where almost exclusively their own qualitative changes determine the innovativeness of their economies, from less developed countries, where innovativeness is dependent on knowledge transfer from others rather than on their own contribution to world knowledge. Such a small contribution from these countries is, at the present stage of their development, nothing unusual.

My fourth observation is as follows. In the last thirty or forty years, many models have been developed to describe economic growth in highly developed countries on the basis of the division of the economy into two sectors: (1) that which manufactures conventional goods with the knowledge given, and (2) a sector which produces qualitative changes or, roughly, that which comprises research and development as well as all kinds of education. An implication arising from many of these models has been that the rate of qualitative changes increases in parallel with the share of investment in GDP or with the ratio between employment in the sector of qualitative changes and total employment. However, empirical data do not confirm such implications in highly developed countries. In effect, the empirical test has been failed by some well-known models, including Arrow’s learning-by-doing theory as well as Romer’s and Lucas’s theories. Others, including the Phelps model, have passed the test quite well.

But the Phelps model of 1966 applied to what is called balanced growth, where labour and capital outlays in the sector of qualitative changes grow at the same rate as in the sector manufacturing conventional goods. In the last two-three centuries, however, the sector of qualitative changes has been developing several times as fast as that manufacturing conventional goods. It was the extension of the Phelps analysis to such a balanced-growth situation, or, in my economic definition, to the situation of technological revolution that I analysed in my studies.

My research leads to three conclusions which may be a little surprising or, at least, are still rarely found in the textbook literature.

1. An innovation and economic growth theory for catching-up countries must be completely different from that for most developed countries. The Nelson-Phelps model was one of the first to be relevant to catching-up countries. The model assumed that the greater the technological gap, the greater the diffusion and technology transfer. In this expression, the authors referred to Veblen and Gerschenkron’s idea of the advantages of backwardness. This model, however, fails when applied to exceptionally little developed countries with a limited capability to absorb innova-

tion. This is because it turns out that in catching-up countries, unlike highly developed ones, a great deal depends on institutional reforms and economic policy. One of the reasons is that in catching-up countries, unlike highly developed ones, the share of investment in GDP and education spending are those variables that have a considerable influence on the innovation rate and, consequently, on the rate of economic growth. Economic policy, in turn, may have a great impact on national savings and the investment rate.

2. In highly developed countries, the rate of GDP growth per person, though exceptionally high and quite stable in the last two-three centuries, will remain at more or less this level for some time only, the time needed to fully utilise, on a global scale, people with a talent for innovation and entrepreneurship.

Now, after the two-three centuries, such utilisation has taken place only within the group of most developed countries. But in catching-up countries the degree to which resources of this kind of talent are exploited is still quite low. This is what constitutes the reserves of accelerated growth on a global scale. It is a gradual exploitation of these reserves that will sustain such accelerated growth for some time.

3. With time, as these growth reserves are exhausted and the world's population is expected to stabilise, balanced growth on a global scale must result in a gradual slowing down of GDP growth per person to a level much lower than the one we have seen for the last two-three centuries.

My last observation is about the implications of a theory about fundamental similarities between paths of growth before the technological revolution of the last two-three centuries and after the revolution was over, in other words, after returning to the path of balanced growth, i.e. an equally fast growth of the conventional sector and the sector of qualitative changes. In both situations, per capita GDP would obviously be radically different, but the difference would no longer apply to the rate of further GDP growth.

According to this theory, the extremely fast economic growth in the period between these two epochs, which is the period we live in, is a kind of superfluctuation in the history of human civilisation, a phenomenon stretching over three-four centuries, therefore a relatively short one.

This superfluctuation has already raised and is still raising the level of material wealth per person. It is doing so very fast, about an order of magnitude faster than in previous centuries. This theory of mine implies that, globally and historically, we are returning to a relatively slow economic growth, to an epoch of considerable absolute changes in per-capita GDP, but small changes in percentage terms.