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# Poland's Socio-Economic Potential and Barriers to Its Use

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Poland advantageous economic results stand out against the background of the European Union. Despite the global crisis, the growth rate of Poland's GDP remains relatively high (especially in comparison with the countries of the euro zone). This can be considered as a sign of our strong development potential, which has also been confirmed by the progress made during the twenty-five-plus years of the transformation period (see S. Rudolf, *The Transformation Process...*).



The future possibilities for Poland's sustainable socio-economic development will be determined by the methods and effectiveness by which Poland uses its own sources of developmental potential. Macro-economic barriers to optimal use of this potential involve, *inter alia*:

- The deteriorating demographic situation (low fertility rates and the decreasing number of people of working age, together with the growing number of elderly people);
- Phenomena related to the syndrome of premature de-industrialization;
- Permanently high unemployment;
- The relatively low level of wages and related social exclusion;

- Strong income polarization and increasing wealth stratification.

These phenomena, if not dealt with properly, could create insurmountable barriers to further development, including a demand barrier which would create, among other things, barriers to employment and wage growth. Low wages in turn constitute a disincentive for innovation.

These factors, coupled together by negative synergy, could create an anti-innovation ecosphere and to a large extent form a vicious circle. This could be further aggravated by the increasing deflationary processes, the decline in interest rates, and the liquidity trap syndrome, which among other things results in a low propensity of companies to invest, even despite hav-

ing increasing amounts of money at their disposal.

All these factors could create conditions not only for the middle income trap, but also create the risk of permanent stagnation, already visible in the richer countries, e.g., in the USA, (see E. Mączyńska, *Stagnacja na wieki [Stagnation forever]*). Such risk emerges in these countries in conditions of zero or negative real interest rates and the tendency to maintain liquid cash resources instead of investing. This reduces the chances for an investment revival and an invigorating rise in interest rates, which thereby increases the gap between the actual and potential GDP.

These threats also apply to Poland. “Although we delude ourselves that the Polish miracle is a

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symptom of Polish specifics, this by itself does not change the fact that Poland is characterized by an anti-innovation culture of a croissant” (see J. Żakowski, *Polski rogal* [*The Polish croissant*]). These developmental barriers are not only of an economic nature, but also of a social, cultural and political nature [(see section Co nam przeszkadza [What is impeding us]). Moreover, among the various barriers there also is a negative synergy of feedbacks, leading to an antinomian drift (“Simultaneous progress together with anachronism; being in the front and dragging behind” – see P. Czapliński, *Antynomiczny dryf* [*Antinomian drift*]).

Although it is usually more or less clear what actions could be taken to remove blockades, often there is no political will and/or political mechanisms to take such actions. This antinomian drift acts, as described by Tobin, like “throwing sand in the wheels”.

Almost every factor of Poland’s development potential has an equivalent agent blocking development (i.e. there is always a down side). Antinomian drift causes a significant part of the development potential to be blocked or wasted to fight problems that we ourselves create.

These problems are primarily:

- An inefficient system of law-making and enforcement of law; the weakness of the judiciary and the excessive duration of judicial proceedings, including in economic matters; dysfunctions of democracy; and ‘legal inflation’. The latter term refers to the variability and complexity of legal regulations, which “soften them”. Laws are often excessively detailed, such that almost every change in the economic reality creates the need for detailed le-

gal adjustments. It’s like chasing the white rabbit.

- The overly complex, opaque, and irrational tax system. The system in its current form does not properly perform any of its fundamental functions - neither fiscal, redistributive, nor pro-development. It is expensive and encourages the circumvention of regulations and the manipulating and evasion of taxes, including the tax carousel and VAT tax theft. The tax burden falls most heavily on the poorer segments of society. and least affects the richest.

- The weaknesses of Poland’s labour laws foster manifestations of the nineteenth-century model of capitalism, and even ‘farmhand jobs’ in labour relations. This creates not only purely economic problems, but also social tensions, reducing the quality of politics and fostering bad relationships in the workplace.

- The growing public debt and lack of sustainability of public finances make it difficult to fight unemployment and increases the risk of deterioration of the demographic situation, with resulting increases in spending on pensions and on health care.

- The dysfunction of the political system increases the ‘election cycle syndrome’ and the related precedence of electoral objectives over long-term objectives, which is harmful to the economy, especially to its macroeconomic and socio-economic efficiency. This reinforces the phenomena associated with the old saying, known to democratic systems, that “efficiency has no voters.” The syndrome of a short electoral cycle, and the resulting dominance of a short-term perspective, is accompanied by a marginalization of the culture of strategic thinking. This is not conducive to pro-

developmental and pro-inclusive investments in the economy, which require a longer time horizon.

- The increasing anomic and erosion of trust, deregulation, lowering of ethical standards, and chaos and contradictions in the system of values result in a build-up of uncertainty and make it difficult to assess what is good and what is bad in people’s actions, in political decisions, and in the functioning of the economy, and in addition makes it difficult to determine which ways of attaining goals are acceptable and which are not; and what is value, and what is anti-value. Because of all this, despite its transformation successes Poland still ranks in the “lower-end” of the ranking on innovation, which is a key prerequisite for further bridging the gap between the developed countries after 2020 and reducing the risk of the middle income trap.

### The need to change the paradigm and socio-economic priorities

Persistent unemployment, social exclusion, and an imitative model of



development and other manifestations of the wastage of development potential represent a long-term threat to Poland's harmonious, sustainable, socio-economic development. This highlights the need to seek a new model and new foundations for economic decision-making, including in the sphere of innovation and related investments.

This model should be a pro-inclusive one, in which social cohesion would be the main driving force of development and a public priority, and the chrematistic effect (enrichment) is just an effect, not the goal. Such a model is consistent with the requirements of the civilization of knowledge society, releases human capital, strengthens social capital, promotes the optimal use of developmental potential, and stimulates innovative, efficient, sustainable paths of long-term development.

The need to change the paradigm has, with respect to Poland, a three-fold dimension:

- Firstly, it results from the need to catch up in terms of the share of research results (R & D) implemented in the economy;

- Secondly, it is connected with the necessity to intensify the rational implementation of knowledge resources available on a global scale;

- Thirdly, it involves the need to free the economic decision-making process from the omnipotence of short-termism, i.e. the priority of short-term goals.

The asymmetries, disequilibria, and the antinomian drift characteristic of Poland are weakening Poland's development potential. The reasons for this are complex. They are not only of an economic and political nature, but also of a cultural and civilizational one. Not all of them can be quickly eliminated, and this applies especially to the

civilizational and cultural reasons. But neither are any of them given forever.

The pro-inclusive model of development is supported by a number of factors, including the experiences of other countries. International comparisons show that countries with a greater inclusiveness of their socio-economic system, i.e. countries in which the sustainability of socio-economic policy (e.g., towards the labour market) is of high rank importance, have a greater resilience to threats and developmental crises. This is because, inter alia, by making better use of human capital their development is to a greater extent based on integrating competences, which increases the level of innovation. According to the ranking of innovation in the European Union developed by the Dutch UNU-MERIT institute, four countries rank at the top of list: Sweden, Denmark, Germany, and Finland. Three of those countries - Sweden, Finland, and Denmark - also occupy high places on the Bertelsmann Foundation's European ranking of social justice, which takes into account the prevention of poverty, equal access to education, employment and health care, social cohesion, and intergenerational equality. In contrast, neglect of pro-inclusive policy (as it is widely understood), motivated by short-term chrematistic objectives (ad-hoc profits or savings), results in the negative phenomena of "social sub-tenancy" and exclusion. This weakens social capital, leads to a marked reduction in economic growth opportunities (see J. Czapieński, *Ekonomiczne znaczenie miłości dalszego bliźniego* [*The Economic Importance of Continued Love*

*of a Distant Neighbour*]), and inhibits innovation. According to the same sources, out of the four countries with the lowest level of innovativeness in the EU (Bulgaria, Latvia, Romania, and Poland), two - Romania and Bulgaria - are at the bottom of the ranking of inclusiveness (alongside Greece and Hungary), and the two others rank only slightly higher.

The need for inclusiveness and its corollary - reducing the growing inequality in income - has been confirmed by numerous studies, including those published recently by experts from the IMF (Ostry, Berg, Tsangarides, 2014). The importance of inclusiveness and its positive impact on economic efficiency was also confirmed in studies conducted by Florence Jaumotte and Carolina Osorio Buitron, which also show the positive impact of unionization on the rationality of functioning of enterprises and the increase in inclusiveness (POWER from the PEOPLE, 2015). Earlier, Joseph Stiglitz also pointed out that inequality is one of the factors which wastes development potential and contributes to the gradual dependence of states on capital (Stiglitz, 2013). The importance of inclusiveness was even appreciated by Milton Friedman, considered to be the "pope of neo-liberalism", who suggested a negative income tax for the lowest-income people as an important factor of economic stability and maintaining demand. These and other studies also show that employee participation in corporate management fosters the rationalization of management decisions and strengthens the position of companies on the market.

Research and rankings, together with comparative analyses, indicate that a paradigm which exces-

sively impedes inclusion in favour of competition and which overestimates the importance of rivalry based on efficiency at the expense of safety, leads, as a result of citizen's insecurity, to the formation of a civilization of conflicts and quarrels, a culture of permanent aggression, a cheating society, exclusion and self-exclusion, passivity, hostile confrontations, and destructive criticism of others, all of which result in increasing insecurity, creating a vicious circle. These phenomena undermine the ability to work together, which is a prerequisite for growth based on innovation, understood as the implementation of positive changes (see E. Bendyk, *Złożony świat innowacji [The Complex World of Innovation]*).

Excessive market confrontations, resulting from destructive competition, lead to many undesirable phenomena, threats, and "risky behaviour" (e.g., addictions), which bring about high social costs and make "the boundary between rivalry and destruction almost imperceptible" (A. Morita – see Hampden-Turner, *Trompenaars*, 2012, p. 122). These types of intertwined threats also exist in Poland. One of their symptoms is narcissism, giving vent to excessive, ostentatious consumption undermining the economic stability of many families and being an expression of the culture of superficiality, which is a kind of consumption exhibitionism and uncritical complacency with regard to one's addictive symbolic consumption, characterized by rivalry and a desire to achieve status. This is one of the reasons why "the energy of Polish modernity is being exhausted" (Czapliński) - partly along with the depletion of its "creditworthiness".

The priorities of the socio-economic policy are closely connected with the formation of the state-market

relationship. They define long-term strategic goals – socio-economic objectives beyond the electoral cycle aimed at creating a system of values corresponding with provisions of the constitution. Czapliński's observation that "once holistic concepts - of the welfare state, emancipation of the individual, liberalism, and a free market – have become unceremoniously cut and crushed" can be regarded as the literary quintessence of the drift in this area. This increases the risk of social anomie and the erosion of trust.

The emerging socio-economic dysfunctions in Poland (including increasing manifestations of social exclusion) and the apparent direction of the post-crisis civilization shift indicate that today the Polish developmental priority should be focused on social inclusiveness as broadly understood, meaning the involvement of all participants in Poland's social and economic life in order to make optimal use of its developmental potential and prevent its wastage.

In today's economy of highly developed countries, the barrier of effective demand makes social inclusiveness one of the primary developmental obstacles. Scarcity of demand arises from with the rapidly growing (as a result of technological change) growth opportunities in the production of goods and services. This leads to overproduction and its related extensive negative consequences, such as reductions in employment and investments, devastating competition etc., also creating the vicious circle syndrome. A new model of developing socio-economic reality is necessary to break this circle.

#### **Social inclusiveness as a priority and prerequisite of sustainable, harmonious development**

Social inclusiveness, which induces

social cohesion, requires the multi-dimensional involvement of all participants in social and economic life in order to achieve optimal creation and exploitation of development potential. The inverse of inclusiveness is social exclusion, mainly manifested by unemployment and poverty.

Social inclusion is a value in itself. In this study, however, it is treated primarily as a driver of innovation, competitiveness, and economic efficiency. Under the present conditions a model of social inclusiveness is also a model that brings about an increase in innovation. It is essential to put Poland on the tracks of the "civilization of knowledge", which is a prerequisite for further sustainable development. An inclusive system both releases and drives creativity and entrepreneurship by strengthening positive relationships based on the sense of security, trust, and a community of interests. An inclusive economy is a system based on the greatest possible number of sovereign and equal participants, joined by bonds of partnership and conscious interdependence rather than hierarchy and subordination in relations between the state, citizens, businesses, and social groups.

Under the conditions of today's knowledge civilization, the ability to produce, accumulate, process, disseminate, and wisely use knowledge becomes the main engine of growth. Every instance of exclusion inhibits development, because it always limits the social capability to use knowledge and other elements of human capital. Exclusion is to a large extent the result of weak inclusive mechanisms, both social and economic.

The fundamental elements of an inclusive socio-economic system are:

- **Institutions of social inclusion**, aimed at developing and strength-





Prof. Elżbieta Mączyńska during the 6th Innovative Economy Congress, Warsaw, June 2015

ening civilizational achievements. These are understood as the regulations concerning, *inter alia*, achievements such as universal social security and health care, universal access to education, a guaranteed minimum wage, trade union rights, and protection of common goods;

- **Inclusive enterprises**, aimed at the optimal absorption of knowledge and innovation, and the effective reconciliation of the interests of employers with those of employees and the public interest;

- **An inclusive market**, i.e. a market characterized by optimal, socially accepted rules of entry and exit, understood as the guarantor of the contract culture, fostering symmetry in the rights of contractors as business partners and including the protection of consumer rights;

- **Inclusive State, law and local government institutions** as guarantors of justice and respect for the rule of law, supporting creativity, innovativeness, and the development of pro-inclusive institutions, and also operating as a system which prevents the creation of exploitative institutions and inequalities in access to the law.

**There is increasing evidence that the inclusiveness of a socio-economic system is a prerequisite for harmonious development, while social exclusion (i.e. excessive inequality) and the non-inclusiveness of a socio-economic system inhibit its development and create crises.** This is reflected in the results of the work of Daron Acemoglu and James A. Robinson (2014 *Dlaczego narody przegrywają* [*Why Nations Fail*]). Based on their multi-sectoral research they come to the conclusion that the success of a country is not determined by climate, geography or economic policies. According to these authors the reason some societies fail is: “extractive institutions”. Extractive institutions discourage people from saving, investing, or innovating, thus wasting the effects of their work. Extractive political institutions support extractive economic institutions. They concentrate power in the hands of a few people, who exploit the achievements of others. Are such symptoms, which could threaten our future, present in Poland?

Unfortunately, the existence of institutional ineffectiveness has been confirmed by the research conducted in Poland (e.g., Balcerzak, Pietrzak, 2014). According to the research of Acemoglu and Robinson, this may spell defeat for us when we will have to develop in reliance on our own resources.

However, if we acknowledge (despite the vicious circle currently in effect) that there is no such thing as historical destiny, it may be possible to **replace “extractive institutions” with inclusive and pro-inclusive ones.** What is needed, however, is a broad coalition of all persons concerned to come out in support of this change of direction, i.e., the transformation of the State, enterprises, society, and the market, because together they constitute a system of interrelated and interdependent institutions.

*The report “Reforma kulturowa” [Cultural Reform] sets out recommended actions for achieving social inclusion. We encourage you to read it. The full text of the report is available here: <http://www.answerthefuture.pl/raport.html>*