Savvas Katsikides · Hardy Hanappi
Editors

Society and Economics in Europe

Disparity versus Convergence?

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Editors
Savvas Katsikides
Department of Social and Political Sciences
University of Cyprus
Nicosia
Cyprus

Hardy Hanappi
Institute for Mathematical Methods in Economics
University of Technology of Vienna
Vienna
Austria

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Chapter 3
Polish Economic Policy, Internationalization, and Globalization

Marian Gorynia

Abstract After fifteen years of transformation, which started in 1990, the Polish economy was at a point that encouraged careful reflection on the directions and priorities of the economic system's evolution. The transformation process has fundamentally restructured the economy, both in regulatory and real spheres. The numerous achievements of the period of economic restructuring are undeniable. At the same time, however, we cannot ignore all the missed opportunities and problems that are still awaiting solution. This brings up the question about the hierarchy of factors that will determine further stages of the transformation.

3.1 Introduction

After fifteen years of transformation, which started in 1990, the Polish economy was at a point that encouraged careful reflection on the directions and priorities of the economic system's evolution. The transformation process has fundamentally restructured the economy, both in regulatory and real spheres. The numerous achievements of the period of economic restructuring are undeniable. At the same time, however, we cannot ignore all the missed opportunities and problems that are still awaiting solution. This brings up the question about the hierarchy of factors that will determine further stages of the transformation. In 2004, the still unfinished transformation of Poland's economy was accompanied by the country's accession to the European Union (EU) and the continuous process of globalization—a fact that creates many dilemmas for Poland's economic policy. The main problems concern the pace, sustainability, and stability of economic growth; the possibility of making full use of available factors of production (especially human resources); inflation; the state of public finance; external equilibrium; and the capability to absorb aid funds provided by the EU. The internationalization of national economies, which leads to the globalization of the world economy, provokes questions

M. Gorynia (✉)
Poznań University of Economics, Poznań, Poland
e-mail: m.gorynia@ue.poznan.pl

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about the place Poland can hold and will hold in the international division of labor. This is what society's level of prosperity will depend on. The common denominator of these problems is ensuring the economy's long-term competitiveness. There are many conceptions of economic policy that would be conducive to achieving a high competitiveness of the national economy. Very often, recommendations based on these conceptions are mutually contradictory. Sometimes these contradictions are fundamental; sometimes they result from different approaches to problem solving in a long-term and a short-term perspective.

Herein I present the determinants of and recommendations for economic policy. Three factors have been identified that determine the Polish economy's position in its international environment, and, connected with this, the possibility of benefiting from the international division of labor and, as a consequence, the possibility of increasing prosperity. The three factors are

- completion of transformation—the significance of this factor will decrease with time;
- integration with the EU—this factor is especially important because of the great significance of relations with the EU for the Polish economy;
- globalization/internationalization—this factor will determine Poland's place in the world economy; it creates many opportunities for but also presents threats to the Polish economy.

The third factor seems to be the most dominant and most important.

Because of the Polish economy's character (a liberal and open-market economy fully cooperating with the international environment), the recommendations formulated here will focus not so much on how economic policy should help domestic firms (which are exposed to competition from foreign companies, including foreign direct investors) but more on how to create business-friendly conditions in Poland. The convention adopted here can be described as a "cosmopolitan approach to capital"—what is really important is not the source of capital but the effects in the form of new jobs created, taxes paid, production technology, and the transfer and implementation management ideas. To put it another way, what counts is increased prosperity and affluence; their sources are a secondary and instrumental matter. In fact, the perspective adopted here calls into question the need to use different economic policy instruments in relation to companies that are domestic or foreign in terms of the source of capital. Such a perspective is consistent with a general trend observed in the world economy (at least in its liberal part), open to international cooperation. The trend is to introduce regulations that treat businesses operating in the territory of a given state on an equal basis, irrespective of the source of capital.

It seems that the significance of the transformation factor referred will decrease with time. This was a dominant factor in the 1990s, especially in the first half of the decade. Paradoxically, as the transformation progressed, its role of became less important. Obviously, areas with a post-Communist legacy must undergo further and consistent transformation.

In the long- and the mid-term view, the most important factor seems to be EU membership, which provides a great chance for progress in our modern civilization. Membership offers the Polish economy excellent development opportunities, provides the chance to make better use of available resources, and facilitates companies' expansion into EU markets. In spite of many reservations, EU membership also implies an improvement in the quality of the regulation system.

In the long run, however, it is not EU membership that will be most significant. Integration with the EU is a process that is part of a larger whole—an evolution of the world's economic system. Consolidating the present monoculture of economic relations with the EU would be inadvisable. There is every indication that the new, future growth poles of the world economy will be situated outside Europe. It is imperative, therefore, to take advantage of the opportunities offered by European integration but, at the same time, to try to become an integral part of the world's larger "economic landscape." In this case, one might recommend a "diversification of economic relations" that would serve Poland's long-term economic health and security.

The recommendations with regard to economic policy that are presented here have been restricted to those areas and issues that—in the author's opinion—should become the focus of attention and action on the part of economic policy. What is not discussed are those areas and issues where economic policy interference should be rejected or discontinued.

3.2 Economic Policy: Building the Economy's Long-Term Competitiveness

An essential element of every country's economic policy is a uniform, traditional macroeconomic policy, which embraces such major types of policy as fiscal policy, monetary policy, price policy, income policy, and employment policy.[1] In this study, we are not suggesting recommendations for this policy. However, it is justified to consider whether the state's economic policy should be restricted to traditional macroeconomic policy or if it should also embrace elements and instruments that go beyond the policy's usual scope. Theoretical arguments

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[1]The present study has been written as part of the State Committee for Scientific Research's research project entitled "Polish companies' strategies towards foreign investors' expansion" (No. 2 H02D 011 24). The article is a considerably modified version of "Pro-competitive policy in the context of EU integration and globalization," published by Gospodarka Narodowa, December 12, 2000.

Karpiński (1992, 90–103) sees fiscal, monetary, customs, price, employment, social, regional, and investment policies as traditional macroeconomic policies. Scientific/technological and innovation policy, structural adjustment policy, restructuring policy, and environmental policy are, in his view, modern macroeconomic policies. According to the same author, economic policies of particular industries include: industrial policy with its numerous varieties, such as energy and raw material policies, as well as agricultural, transport, and trade policies.

(Hirst and Zeitlin 1989; Timlinson 1989), but above all most countries' economic policy practice, suggests the advisability of supplementing traditional economic policy instruments with other tools whose common declared purpose is most often to increase the competitiveness of a given economy. The competitiveness argument is often used with reference to the Polish economy. The question in this context concerns the kind of economic policy instruments that should be used to counteract the negative aspects of Poland's integration with the world economy and, in particular, to ensure the level of competitiveness that will facilitate the Polish economy's further integration with its international environment. We can distinguish two general conceptions of economic policy that supplement traditional economic policy with a view to increasing the economy's competitiveness:

– increasing the competitiveness of Polish exports in foreign markets (enclave model);
– increasing the competitiveness of the economy as a whole (integral model).

In my opinion, there are many arguments suggesting that the enclave model should not, or even must not, be used. Within the enclave model, export and/or investment receive special treatment.[2] The integral model emphasizes increasing the competitiveness of the whole economy, not just the export sector. In the present situation of Poland and its environment, the basic strategic problem is developing a competitive production of goods and services sold in both domestic and foreign markets (Płowiec 1997).

Two general recommendations for economic policy could thus be formulated (Gorynia 1996):

– Economic policy should support the development of company competitiveness;
– Economic policy should approach this support in an integral way, i.e., it should not make an unfounded distinction between instruments supporting competitiveness in two dimensions: exporters' competitiveness in foreign markets and producers' competitiveness in the open domestic market.

The above criteria are met by the conception of a liberal and institutional industrial policy (Gorynia 1995). The essence of a liberal and institutional industrial policy is to promote broadly understood development and entrepreneurship. This policy uses mainly instruments that are universal in character. Although these instruments go beyond the focus of a traditional macroeconomic policy, their common feature is the uniform character of all their aspects. The whole economy—all sectors, branches, industries, sections, and other meso-systems—are in principle treated in the same way.

[2]Using the term enclave model with reference to special treatment of the export sector is analogous to favoring the enclave model as a way of treating foreign direct investment in central European countries. In the case of foreign investment, the enclave model implies a different treatment of foreign and domestic investors. The opposite of the enclave model is treating foreign direct investment on an equal basis with local investment (national treatment) (Samonis 1992).

Four main directions can be distinguished within a liberal and institutional industrial policy:

- policy of development support;
- policy of competition support;
- policy of privatization; and
- policy of economic self-government support.

For example, within the policy of development support, the following actions should be mentioned:

- supporting investment;
- supporting innovation, research, and development;
- supporting education and training;
- spreading business risk; and
- supporting the development of information systems and the diffusion of information.

Polish foreign trade policy, an element of a liberal and institutional industrial policy, should take the following directions (Płowiec 1997):

- lift barriers to export development such as barriers connected with production quality, the offered conditions of payment for exports (export credits, insurance of export transactions), and/or infrastructural barriers; and
- develop nontariff forms of protecting producers from unfair competition or from excessive imports.

Economic policy should also focus on creating a business climate that will attract foreign investors. Foreign direct investment (FDI) should prove particularly useful n[3]:

- developing management staff and operations personnel;
- raising the professional level of management;
- transferring production and marketing technology as well as management technology;
- introducing technologies that are energy-saving, material-saving, and environmentally friendly;
- privatizing the economy further; and
- helping improve the trade balance in the long-term.[4]

[3]It should be pointed out that these expectations are not always sufficiently realized. The threats connected with the branch structure of foreign investment in Poland, particularly with the process of "servicization," are highlighted by Kotowicz-Jawor (2001).

[4]It is emphasized in the related literature that a limited export propensity of Poland-based companies with foreign capital may result from the fact that, owing to a large domestic market, their sales strategy is oriented toward the Polish market. Kopeć (2000, 189) writes: "In the case of Poland, the motive of a large domestic market generally prevailed. On the other hand, because of a significantly smaller absorption of the Hungarian and Czech markets, foreign investors' strategy was to consider the possibility of undertaking export activity."

At this point, it is good to present Porter's (1990) view (to which I subscribe) on the role of economic policy in creating and sustaining a competitive advantage. There are four basic determinants of an industry's international competitiveness:

– factor conditions;
– demand conditions;
– related and supporting industries; and
– corporate strategy, structure, and level of rivalry.

Porter (1990) refuses to recognize the role of economic policy as a fifth determinant. The government has an indirect effect on national competitive advantage by influencing the four determinants. The government influences the determinants, and the determinants affect the government's behavior. The government plays an important role in creating advantage, but this role is a partial one because other factors are significant. The repertoire of instruments used by the government to influence specific determinants, and which Porter (1990) analyzes, is very wide but also highly instructive. The government's influence on factor conditions concerns such fields as education and training, science and technology, infrastructure, capital, information, and direct subsidies. The government's influence on demand conditions concerns such fields as government purchases, product and process regulation, influence on industries-purchasers, early and sophisticated demand stimulation, information for the purchaser, technical standards, assistance for foreign countries, and political connections. The influence on related and supporting industries involves implementing the right policy toward the media and influencing the formation of industry bundles-centers. The influence on corporate strategy, structure, and competition means supporting internationalization, stimulating the right choice of individual and corporate goals, promoting internal competition, encouraging new entries, pursuing the right trade policy, and influencing foreign investment.

Thus, the following question arises: How does the fact that Poland is participating simultaneously in two important economic processes—integrating with the EU and joining the world economy system through an increased participation in international trade and FDI flows—determine Poland's economic policy? An additional factor that has to be taken into account is transformation. We should, at least partly, agree with Ohmae's (1995) thesis about the continuing erosion of the nation-state's sovereignty, reflected in the restricted freedom of economic policy.[5] Poland's membership in such organizations as the WTO, OECD, CEFTA, IMF, and EU means that some of the prerogatives traditionally enjoyed by the nation-state are being deliberately and voluntarily ceded. This process, however, serves the purpose of increasing society's prosperity; no one in the world has ever invented a better way of achieving this aim than participation of an economy in the world economy and its wide integration with it.

[5] Restrictions connected with the co-occurrence of transformation and globalization are pointed out by Kołodko (1999, 309–10). See also Gray (1998).

However, Lipsey (1999, 93) points out that we should talk of alterations of power, rather than of its loss, in nation-states, because the decreasing significance of states refers only to macroeconomic policies, such as tariffs, exchange rates, or tax instruments of stabilization policy. Additionally, Lipsey (1999, 93–94) shows the reallocation of national government power to supranational bodies (upwards) and to local governments (downwards).

There is an interesting idea concerning the relationship between the degree of an economy's openness and the government's size in terms of the share of budget spending in the GDP (Streeten 2001, 61–63). Most economists would expect globalization to reduce the government's size, which should be an effect of a liberal trade policy and a lower effectiveness of national monetary and fiscal policies. It turns out, however, that in the case of small and open economies, such as those of Sweden, Austria, Switzerland, Belgium, Luxembourg, and the Netherlands, the relationship is quite the reverse. In these countries, budget spending is a relatively large share of the GDP. Rodrik (1996) suggests that the underlying cause of this phenomenon could be the fact that, in the case of these economies, the government's important role results from its being an absorber of external shocks, which can be very harmful to small economies.

It should be emphasized, however, that the impact of internationalization and globalization on the role of nation-states is not clear. Undoubtedly, rather than eliminate the significance of national governments, these processes modify the scope and instruments of their policy (Milward 2003, 146). Sometimes it is argued that in the present situation the role of a nation-state is greater than in the past, especially in EU countries (Chesnais et al. 2000). Polish economic policy should therefore take into consideration the determinants resulting from EU integration and globalization. As has been emphasized, it also seems that, in the short- and midterm view, issues connected with EU membership will take precedence, whereas in the long run, globalization problems will be most important. EU membership means having to adjust Polish economic policy to EU standards. EU policy covers many areas. Wysokińska and Witkowska (1999) list the following policy areas: trade, agriculture, energy, supporting research and technological development, competition, environmental protection, consumer protection, transportation, regional policy, social policy, and policy towards small and medium-sized enterprises.[6] In virtually each of these areas there are solutions affecting the competitiveness of EU economies. Emphasis should be placed on the "pro-competitiveness level" of EU regulations that varies across sectors. Therefore, we cannot talk of a uniform pattern of supporting competitiveness in all sectors within the EU. An example of a sector in which competition, that is, effectiveness, considerations have a less important role to play is agriculture. It is difficult to say if it is possible to use a different solution, but emulating EU models of competitiveness support in Poland is risky. In the long run, will the EU's agricultural market be separated from the international

[6]The aspect of competitiveness is also extremely important with reference to regions and regional policy (see Domański 1999).

environment? If not then building Poland's agriculture according to the EU model is unreasonable—this sector's likely long-term integration with the international market will require further intensive adjustment processes. Using substantial domestic funds to increase (supplement) EU funds allocated for farming subsidies may be imprudent in the long run, because it may lead to the phenomenon of "artificial competitiveness," which is not based on real cost and/or quality advantages. Strengthening competitiveness patterns based on state interventionism is harmful. Liberalization processes in international food trade, inevitable in the long run, will give rise to restructuring processes in the sector. The greater the state's involvement, the more painful these processes will be.

One of the features of the EU's policy of competitiveness support in nonfarming sectors is trying to achieve high competitiveness through competition promotion. This was synthetically formulated in the EU treaty, which reformed founding treaties of the communities, as an entry to creating conditions necessary to ensure competitiveness of the common industry by both the EU and its member states. Actions taken to achieve this should be in accordance with the system of open markets and should take into account the following (Wysokińska and Witkowska 1999, 205):

- accelerating adaptation to changes in industry;
- creating conditions for the initiatives and development of companies, particularly small and medium-sized ones;
- creating a climate conducive to companies' cooperation; and
- encouraging better use of industrial potential in innovation, research and technological policies.

An important factor shaping the EU's policy of competitiveness support was also the "Communiqué on industrial competitiveness policy for the European Union," presented by the European Commission to the EU Council in September 1994. The document focuses on four issues (Wysokińska and Witkowska 1999, 205–6):

- promotion of intangible investments, i.e., investments in research and development, intellectual property, education, and training;
- development of industrial cooperation (identifying and removing barriers to cooperation within the EU and with its foreign partners;
- protection of fair competition, both internal and external (in particular reducing the role of the state and concentrating on horizontal support at the expense of sectoral support); and
- change in the role of public authorities (simplifying legislation and administrative procedures especially for small and medium-sized enterprises properly using structural funds to support the development of competitive sectors of industry with regard to the situation of particular regions).

This brief outline of the basic principles of the EU's approach to economic policy's support for competitiveness leads to two observations:

- these principles are consistent with the liberal and institutional industrial policy mentioned earlier;
- the principles presented are only guidelines—they give national institutions considerable freedom in determining the details of economic policy.

It should be noted, however, that the EU's official views and reports are not always shared by researchers. The following is a presentation of views held by a group of academics from EU countries on the EU's industrial policy (Cowling 1999). Their position could be summarized in several points:

- In the 1980s, economic policy in Europe was dominated by privatization and deregulation—there was no discussion about a positive economic policy;
- In the 1990s, discussion was resumed with the publication of *Competitiveness White Papers*;
- In the 1990s, a new economic policy, namely, the policy of competitiveness, involved reorientation—abandoning sectoral undertakings (sector privileges) owing to difficulty in picking winners for horizontal industrial policies;
- Analyses of policies actually implemented suggest that departing from sectoral policies is not complete, and the horizontal policies declared turn out to be largely sectoral;
- In practice, the implementation of horizontal policies has to contain sectoral elements—sectoral instruments are mixed with horizontal ones;
- There is a visible trend toward the growing significance of ad hoc interventions targeted at individual companies;
- Despite declarations of the departure from the policy of picking winners, many sectors in EU countries remain under the surprisingly strong influence of "national champions."

However, the authors of the work cited here do not advocate the need to return to the policy of bureaucrats who pick winners using new, improved methods. Their suggestions seem to be going in a somewhat surprising direction. In their opinion, the fact that the state refrains from sector-oriented intervention (because it is not competent enough to do otherwise) is also a kind of intervention. This creates an empty, undeveloped field, which is taken over by transnational corporations—industries are selected not at the state level (as in the case of sectoral policies), but at the level of corporation boards. Elitist corporation boards plan the directions of expansion—at the heart of what is called market economy, major decisions are like long-term plans constituting a transnational corporation strategy. In corporations, decision making is not democratic; it often means making choices that are not socially beneficial, resulting in "strategic failures." A remedy for the irregularities identified could be the introduction of a different method of choosing industries or types of activity. This choice should be made in a process of democratic selection—development sectors should be identified and accepted by the largest possible number of people so that the sectors (types of activity) will be of the greatest possible benefit to them. The burden of decision making, or in fact evaluating the proposals put forward by corporations, should be moved to the local community level. According to the authors of this proposal, two initiatives of the EU are convergent with their way of thinking: the Regional Innovation and Technology Transfer Program and the Regional Innovation and Strategy Program. Both these programs are orientated toward stimulating growth and raising the standards of living in Europe's underdeveloped regions through stimulating technology transfer and innovation activity.

We should here mention the Lisbon Strategy, a program that was designed to increase the competitiveness of the EU by 2010 in the goods and services market. The purpose of the Lisbon Strategy, which was adopted in 2000, was to make the European economy more competitive, especially in relation to the United States. The strategy involved restructuring the socioeconomic system in order to achieve higher competitiveness. It was aimed especially at building a European economy based on knowledge, i.e., the development of the information society, research, and innovation, and the opportunity to acquire appropriate qualifications and skills;

– the implementation of the principles of sustainable development and environmental protection, including the preservation of human resources, use of renewable energy sources, and prevention of unfavorable climate change caused by global warming;
– the liberalization and integration of network industry markets (power industry, telecommunications and post, transport, fuel sector) and the financial services market;
– the development of entrepreneurship based on deregulation, elimination of administrative and bureaucratic barriers, better access to capital and technologies, and creation of the same competition rules for companies operating in a uniform domestic market;
– higher employment, a changed social model, and the ability to meet the challenge connected with the aging of societies (increased professional activity, increased flexibility of the labor market, improved education, modernized social security system, reduced poverty, and what is known as social exclusion) (Wysokińska and Witkowska 2004, 23).

It seems significant what priorities result for Poland from the Lisbon Strategy. The strategy reduces the role of the state, or the "public hand," to three kinds of activity:

– providing support with public (domestic and EU) money, i.e., expenses approach;
– liberalizing EU markets, i.e., regulatory changes; and
– internal reforms in particular countries, i.e., institutional and regulatory changes (Szomburg 2004, 45).

One has to agree with Szomburg that the priorities should be to focus on the system, or the economy's institutional and regulatory framework, and to complete structural reforms. As for the implications of globalization for Polish economic policy, Dunning (1999) lists the most important questions connected with the role of the nation-state in the face of globalization:

– How does the growing structural interdependence of particular components of the world economy affect nation-states' abilities to conduct a traditional regulatory activity?
– How does the growing mobility of man-made, invisible, intangible resources, such as knowledge and information, affect nation-states' abilities to regulate these processes?
– What can and what should national governments do to ensure adequate quality of resources connected with the place of their jurisdiction so that it will be possible to attract and retain in a given country resources owned by transnational corporations, which in turn is a condition for achieving the country's economic and social aims?
– Which types of policy require reassessment so that they can serve as competing instruments for attracting mobile resources of international corporations to a given country?
– Do liberalization and globalization weaken or change the nation-state's role?
– Which of the tasks that the state performed properly before globalization are carried out better by the markets?
– How justified is perceiving the state's role in terms of supplementing rather than substituting the market?
– Does the occurrence of transborder networks of business activity require a more systemic and transnational approach to regulation?
– How do globalization forces change the optimum size of a national government?

According to Dunning (1999), due to continuous globalization processes, common perceptions of the state's role in the economy should be totally redefined. This applies to four aspects of the role:

– distinguishing between the state's systemic and operational role in the economy;
– factors unique to a given country and influencing the state's role in the economy;
– the ways governments respond to globalization; and
– governments' appropriate territorial jurisdiction.

In the traditional approach, this role is reduced to the opposition between the systemic and the operational role. Dunning (1999) advances the thesis that globalization not only increases the systemic role but also fundamentally redefines it and decreases the significance of the state's operational functions. Traditionally, the state's systemic role was reduced to creating conditions for economic activity in order to minimize nonmarket costs of coordination and transaction costs of economic activity. When economic activity becomes more complex, specialized, and interdependent, when the markets become uncertain or are affected by external effects, information asymmetry, and opportunism, the state assumes additional institutional and supervisory responsibility. To function properly, an economy in which information and innovation have a major role to play by definition requires broad participation of nonmarket institutions. This implies the need to ensure that the law is obeyed, order is maintained, property rights are respected, contracts are executed, and conflicts resolved. Dunning (1999) furthers the idea that globalization brings about far- reaching changes in the state's systemic role. This is connected with the necessity to create laws and regulations on an international scale (e.g., intellectual property law) to ensure that the institutional norms and regulation systems of a given country do not put its companies and citizens in a worse situation than those from other countries (e.g., regulations concerning environmental protection, competition policy, tax systems, etc.); to lift international trade barriers; and to fight discriminatory procurement policy, technical standards, problems on the border, and so on. Dunning (1999) believes that the state's systemic role has to undergo constant creative destruction.

With regard to the state's operational role, equally or even more relevant is the creative destruction concept. Although systemic functions are an inherent role of the state, its direct involvement in the functioning of an economic system (operational function) should depend on a comparative analysis of the cost of this action and the costs of other institutional solutions. The situation in this field is evolving continuously—there are cases when state interventionism is justified by extremely high transaction costs of pure market regulation. This is what happens when dealing with idiosyncratic (specific) investments or when some capital goods take on features of public goods and generate enormous fixed costs. Examples include infrastructure projects with major external effects that lead to a significant divergence of private and social benefits.

It should be emphasized at this point that the ideas developed in the 1970s and 1980s by proponents of what is called "new market-failure theories," such as Joseph Stiglitz, George Akerlof, Oliver Williamson, and Paul David, seem to be losing ground (Cowen and Crampton 2002, 3–25). One can even come across the opinion that new market-failure theories overestimate relative imperfections of the market economy. In many cases, theoretical justifications of market imperfections are implausible (Cowen and Crampton 2002, 24). It is stressed that the term "market failure" itself contains an unfounded prejudice: one cannot talk of the fallibility of the market before the latter is analyzed. Instead of the term "market-failure theory," Tabarrok (2002) offers the concept of "market-challenge theory." The debate suggests that one should not expect a major revival of the state's operational role that would invoke arguments put forward by the authors of new market-failure theories. According to Dunning et al. the government's operational intervention in the functioning of markets can be justified when distortions of international markets are greater than those of domestic markets—when business entities from a given country face foreign risk of a noncommercial character, information asymmetry, or opportunism. These market imperfections most often apply to small and medium-sized companies. In such cases, the government can provide information on foreign markets, insure companies against political risk, and negotiate the lifting or lowering of trade barriers with foreign governments.

It is worth emphasizing that, according to Dunning et al., there is no single, best recipe for how particular governments should respond to globalization. This depends on numerous, specific determinants: institutional and economic infrastructure but also the social and cultural structure of particular countries. One of the basic indicators of each national administration's stance on the globalization issue is government policy toward FDI. Dunning et al. put forward a very important and, to some, controversial view on the issue: because of globalization, action taken by national administrations should not depend on who owns the firms under their jurisdiction. Therefore, government policies toward FDI should not focus on attracting or accepting the "proper" investments. Policies toward investment should leave aside the issue of ownership of companies, which operate within the jurisdiction of particular governments.

As for the spatial aspect of the state's changing involvement, which is an effect of globalization processes, one can distinguish three levels of spatial regulation: micro-regional or subnational, national, and macroregional or supranational. According to Dunning et al., globalization affects the relative importance of these levels in such a way that the role of the first and the third levels tends to grow, while the role of the national level decreases. However, of utmost significance here are qualitative factors (changing function of the nation-state) rather than difficult-to-measure proportions of the state's involvement at particular levels.

With regard to the policy of supporting the economy's competitiveness, it seems that the conception promoted by Dunning et al. is a modern and progressive conception that can be applied also in Poland. Its innovativeness lies in a distribution of emphasis that is different from that of other approaches. The conception draws heavily on the achievements of new institutional economics, neo-institutional economics, Schumpeterian economics, evolutionary economics, and resource-based (especially knowledge-based) economics. The conception approaches the issue of competitiveness holistically (systemic competitiveness), but it also takes into account and develops the aspect of competitiveness—neglected in other approaches—connected with the level of transaction costs, which should be reduced thanks to properly working institutions (institutional competitiveness).[7] Global capitalism, in which also Poland increasingly participates, requires focusing on human capital, knowledge, and creativity. An extremely important role in it is played by the services sector and infrastructure (Dołęgowski 2000). In these conditions, the basic directions of promoting the state's international competitiveness should be:

- to ensure an adequate quantity and quality of resources (resource creator and improver)—high quality of human capital (e.g., education), high propensity to innovate, efficient financial market, etc.;
- to promote transaction cost reduction—good legal system (contract execution), adequate infrastructure, eliminating information asymmetry, risk reduction

[7]The relationship between entrepreneurship and the institutional structure of markets is discussed by Noga (2001).

(insurance systems), preventing discrimination against businesses from a given country, concluding international economic agreements, etc.[8]; and
– to create an investment-friendly climate and to exert influence on the economic ethos.

The most important,[9] critical role of modern democratic governments in the economy is to create and maintain an effective economic system (Porter 1990; Dunning 1994). According to Dunning (1994), this role can be reduced to five issues:

– Governments should create and present to their voters a distinct and challenging vision of the country's economy;
– Governments should ensure that institutions responsible for changing the vision into reality are ready and able to adapt to requirements of an economy based on knowledge and innovation;
– Governments are responsible for making the accessibility, quality, and cost-effectiveness of general and universal resources comparable to those in other countries (transport infrastructure, public services, education infrastructure, telecommunication infrastructure);
– Governments should create and maintain an institutional framework and ethos that facilitate ongoing improvement in the resources and skills under their jurisdiction; and
– Governments should make every effort to promote the creation and development of micro regional clusters, because it is increasingly evident that the competitiveness of domestic industries depends not only on the efforts of firms that make them up but also on their interaction with suppliers, customers, and rivals (Dunning 1999, 119–20).

It should also be noted that, with reference to the last points above, Dunning (1999, 120–21) questions the economic justification for widespread regional policies aiming to reduce income differences and the pace of economic development. Solutions adopted by the EU often hinder the creation of micro-regional clusters. Dunning (1999) is even convinced that governments can contribute to the most effective allocation (distribution) of activity within their countries by avoiding the wrong policies rather than by taking positive action. It seems that the ideas deserve especially thorough consideration in Poland, where the level of the state's interference in regional policies is still not very high. It may be possible to avoid the mistakes made earlier in other countries, where the governments determinedly pursued the policies of bridging regional differences.

[8]Transaction costs can also be reduced thanks to social capital, which is responsible for generating social confidence (see Matysiak 1999).

[9]This section of the text is based on an expert analysis commissioned by the Prime Minister's Socio-Economic Strategy Council (Rada Strategii Społeczno-Gospodarczej przy Prezesie Rady Ministrów).

Interesting views on the state's role in creating a nation's competitiveness can be found in the idea of building a nation's wealth (Kotler et al. 1997). According to this concept, a nation can be treated in the same way as a company, which implies that it can derive benefit from the application of strategic market management. Methodologically, the procedure of creating a wealth-building strategy draws on the ideas of strategic corporate management. First of all, one should determine a nation's strategic lever—assess the nation's current competitive environment and determine its goals and aims on the basis of the environment's features. The nation's strategic lever should then be translated into pragmatic and specific guidelines that will determine areas of public policy whose aim is to improve competitiveness (both micro competitiveness and macro competitiveness). To increase competitiveness, a country has to use two types of public policy. The first is a basic policy on investment and industry and trade building strategies. A sine qua non for an effective basic policy is pursuing specific types of support policy. Therefore, a second policy is needed to support policy embracing macroeconomic policy, national infrastructure development, and institutional framework development. The last stage is the strategic implementation of the conceptions that have been developed. Assessing the idea under discussion, it should be noted that its innovative character is mostly a matter of language—its content is similar to the approach of Dunning et al.

While considering the impact of globalization on particular countries' economic policies, we should also note the approach suggested by Lipsey (1999). Lipsey appreciates the great role of globalization in changing today's world economy, but at the same time he observes that globalization is only one element of a larger process, which is a set of structural adjustments that take place in the world economy and are an effect of the information and communication technology revolution. According to Lipsey (1999), the main, long-term cause of globalization is technological change.

Another important aspect of the relationship between globalization processes and the economic policy carried out is the awareness of the ethical and moral determinants of globalization, which—as one might expect—should also be reflected in the economic policy implemented. This is an extremely broad issue, which does not arouse particular interest, probably because Poland is a minor player on the economic map of the world. Nevertheless, the issue should be mentioned in order to emphasize its significance. Dunning (2003) has put forward a very interesting view on the matter:

> If global capitalism—arguably the most efficient wealth creating system currently known to man—is to be both economically viable and socially acceptable, then each of its four constituent institutions (viz. markets, governments, supra-national agencies, and civil society) must be not only entrepreneurial and technically competent, but buttressed and challenged by a strong and appropriate moral ecology. (1)

3.3 Directions and Forms of Supporting the Competitiveness of Polish Companies and Products in the Single European Market

Perhaps contrary to expectations, in this section I do not recommend any other new, numerous, complicated, specialized, partial, and fragmented instruments for supporting Polish companies' competitiveness. In my opinion, the state's present role should not evolve toward a full imitation of solutions adopted in other EU countries or the multiplication of additional instruments for supporting competitiveness. Naturally, one should draw conclusions from positive experiences and consider using them, but this cannot be considered an imperative. To begin with, a few introductory assumptions, which—although they seem obvious to some—are not always accepted by all. The assumptions are as follows:

– There should not be many instruments supporting competitiveness, the instruments should not be complicated, and instrument "management" should not be difficult or expensive (either at the level of the regulation center or in companies at which the instruments are targeted). There should be no "regulation jungle," which is difficult to understand, monitor, and apply in firms, and which makes it difficult, or even impossible, to diagnose the effects of particular policy measures.
– The instruments should not be too numerous; they should be simple, easy to understand, and cheap to operate. It should also be added that the instruments should be realistically constructed and have good sources of finance (some instruments, perceived by companies as attractive, were not used because of the scarcity of budget funds, although, under existing regulations, companies were entitled to them).
– The basic form of competitiveness support is economic freedom, i.e., lack of the state's interference except when necessary. The state's role should be to provide an efficient framework for economic activity, which comes down to building broadly understood institutions and ensuring the existence of proper infrastructure. Everything that goes beyond the role thus defined is supplementary, less important, and does not considerably influence competitiveness.
– One has to accept the fact that there are no simple or miraculous recipes for improving international competitiveness. Competitiveness building takes time and effort. Using temporary macroeconomic policy measures or what is called "pro- export policy" does not solve the problem. In an open economy, focusing on pro-export policy is an illusory solution, because competition takes place not only, and not predominantly, in foreign markets (where exporters compete with foreign rivals), but predominantly in the domestic market (where Polish firms compete with import suppliers).
– Instruments to support competitiveness should be horizontal, not vertical (although, as many studies show, there are considerable departures from this rule in many EU countries, despite declarations that this is a "sacred rule").

If we accept the last statement, it seems as if improving Polish companies' competitiveness is not so crucial to create an extensive arsenal of additional, partial, and specialized instruments. It is essential to solve significant and quite obvious problems that, apart from being extremely important for competitiveness, will not cause protests from our EU partners (unlike, for example, some suggested forms of public aid for companies) but will gain their full approval and, at the same time, encourage them to invest and do business in Poland. For one could ask the following question: Does it really matter that the manufacturer of an export product has received an export subsidy, that is, the simplest form of financial support (another question is whether this is permitted by the international obligations that Poland has assumed), if his product cannot reach the customer on time because of the disastrous state of Polish roads and, as a result, the manufacturer will have to pay a contractual penalty for not meeting the delivery deadline? With budget funds being dramatically limited, is it better to pay subsidies to fortune's darlings (the concepts of rent- seeking and lobbying suggest that they are not merely fortune's darlings) or to build roads that everyone can use to deliver goods to foreign customers efficiently and on schedule?

One could continue: Does it really matter that an exporting manufacturer received money (or rather its part) for goods exported because he insured the transaction with the Export Credit Insurance Corporation, if most of his products are sold in the domestic market (which is typical of the majority of Polish firms) and a large proportion of domestic customers do not pay him on time, which causes serious difficulties for liquidity, including its loss and, as a result, the manufacturer's bankruptcy? Again: Does it matter that a company had antidumping tariffs introduced on goods imported to Poland if, at the same time, some of these products are smuggled into Poland? There is no end to such questions. In a situation where many restrictions and impediments of major and universal significance (because they affect everyone) cannot be removed, building specialized and refined instruments seems unjustified.

The best and most desirable form of competitiveness support is eliminating infrastructure problems and the numerous irregularities and absurdities of the tax and legal systems. Economic policymakers' attention should focus on those issues that are priorities in what is called evolutionary and institutional economics: building good and efficient institutions, education (including studies and work placements on a much larger scale than at present), infrastructure, and so on. In other words, the priority should be to build an environment conducive to starting and conducting business activity. There are several crucial issues to this point:

- Pro-competitive policy requires that money should not be drained from companies by the tax system. Companies should keep the money to finance investment, innovations, new products, and other factors that are the essence of competitiveness through diversification.
- To be competitive, companies must find some basic economic logic in their environment—this logic is defined by an extremely complex system of

concessions, permissions, licenses, and restrictions accompanied by heavy charges paid to the state for its authorization of some forms of business activity.
- The competitiveness of companies and products is determined not only by production costs but also by what is called transaction costs. Transaction costs depend on the level of trade security (e.g., slow and incompetent business courts only raise the level of these costs), creditors' rights in relation to debtors, and the efficiency of debt collection, bankruptcy proceedings, the land register system, etc.
- Companies' competitiveness is greatly affected by the labor market's quality, especially by the level of its flexibility, liberalization, and labor force mobility.

If one realizes the extent of neglect, irregularities, and delays found in the important areas listed above, it turns out that to compensate for them, at least partially; one would need a system of powerful specialized instruments for supporting competitiveness. It is also necessary to consider the fact that overcoming these limitations to Polish companies' competitiveness meets the requirement for a horizontal character of the action taken. On the other hand, while resorting to more refined instruments for supporting competitiveness, one is tempted to give them a more vertical character, which in practice is unavoidable and which would be a breach of Polish regulations.

One could therefore pose the fundamental question: Where should economic policymakers' attention be directed if they are to improve Polish companies' competitiveness in the face of serious budget cuts (which each of them has to take into account anyway)? The shortest answer is that their attention should focus on overcoming the problems of greatest significance and horizontal character, and only additionally on more specialized instruments. There are no convincing arguments or, more importantly, no money for multiplying new instruments or extending those that exists already. Instruments currently in use need to be reviewed, some modified, others eliminated. A discussion of the most important issues follows.

In industrial policy, the idea of shifting from selective to horizontal policy is as valid as it is unrealistic with reference to some fields. A distinction must be made between an industrial policy targeted at "decadent" industries and a policy oriented toward the development of promising "growth" industries. As for the former, the sectoral programs underway (e.g., mining, metallurgy) should be continued and completed. Giving them up is impossible for various reasons. On the other hand, according to the philosophy of horizontal policy, the very act of selecting "growth" industries is preposterous because instruments of this policy should not make a distinction between some industries and others. What is acceptable is supporting entrepreneurship, competition, and innovation in general, irrespective of the industry. However, in the EU, horizontal instruments are often used half-heartedly and the policy measures adopted are, to a large extent, selective. From this point of view, therefore, our partners' behavior is troublesome: Poland's willingness to abide by existing rules involves the risk that if the partners do not follow the rules, Polish firms will find themselves in a more difficult situation than their foreign competitors.

With respect to support for small and medium-sized business provided in combination with active labor market instruments and regional development policy, one should note an extensive offer of fragmented and specialized instruments available in Poland. One may doubt if it is justified and effective to disperse funds to such an extent and provide decision-making centers with various forms of support. The consequence of such a situation is, first of all, the interested party's poor knowledge of the regulations and high costs of using the instruments in relation to the value of the support provided. Restricting some programs to certain selected provinces (*voivodships*) does not seem logical. This is an instance of a selective policy in its regional version. What should be recommended here is consolidated action accompanied by information support.

In foreign economic policy, there is little room to maneuver. Free trade agreements signed in the past decade and other international accords (especially WTO regulations) drastically limit the freedom to carry out customs policy. This policy can be, and in fact is, reduced to suspending or reducing automatically tariffs on some goods and to increasing tariffs as part of the use of protection clauses, which gives the right to raise the degree of domestic market protection in strictly specified situations. Here, it is recommended that the number of trade partners with whom Poland has signed free trade agreements should be systematically increased. This is one of the factors improving Polish exporters' access to foreign markets. Moreover, the use of trade instruments permitted by laws protecting against increased or dishonest export is not very extensive and causes great controversy. What can be recommended here is improving Polish companies' ability to use this kind of regulation, although this does not seem to be a very promising instrument for improving their condition. Further, more attention should be directed to the policy of export support and promotion. Poland is often criticized for not having an effective pro-export policy and, consequently, is advised to create such a policy. One can accept this opinion only partly. It is doubtful whether a special pro-export policy, which would single out export activity from other business activity, should be created. What Poland needs is not so much pro-export policy as a policy to boost entrepreneurship, supply, competition, and development. If one agrees with the opinion that what needs to be done is to give the economy a horizontal character, one should note that special treatment of export (through the use of special instruments) is at odds with this opinion. The only justification for using special instruments in export is the intention to prevent market inefficiency (distortion), which may be caused, for example, by other states' intervention. Then the argument for state assistance for companies is to create equal opportunities, which, however, usually results in the occurrence of new distortions. It should also be noted that recognizing the legitimacy of implementing pro-export policy on the basis of the concept of market distortions leads straight to the rejection of the idea of the horizontal character of policy. This is because distortions are different for different goods and geographical markets and would require the diversification of policy instruments on these planes. Clearly, the theoretical basis of implementing a pro-export policy, diversified in terms of goods and geography, is hard to accept. Taking into account the high administrative costs of pursuing such a policy and the scarcity of budget funds, it is easier to understand skepticism toward this kind of state activity.

Poland uses, in practice, quite a number instruments to financially support export (e.g., export insurance and guarantees, export credit interest subsidies, guarantees for financing export undertakings, government loans for financing the import of Polish goods and services by developing countries). They are characterized by highly changeable regulations, dispersed and limited budget funds, and little interest from exporting companies. In other words, their use and effectiveness are limited. It would be advisable to give up the instruments that are not used anyway and concentrate on two or three of the most important measures (e.g., the Export Credit Insurance Corporation, although not without some reservations). It is not a good strategy to multiply initiatives and programs, which only disperse attention and funds among fragmented and partial activities. Paradoxically, it is not pro-export policy but a holistic economic policy that should be responsible for the development of export in Poland—first of all, a monetary policy to ensure stability and equilibrium, and a fiscal policy that will allow companies to keep more funds for development.

The comments above could end with the following: The fewer economic policy instruments and the more simple and unambiguous the instruments, the greater their effectiveness, the lower their costs, and the greater the chance that the attempts that politicians and officials make to "privatize" these instruments (corruption, lobbying, rent-seeking) will fail. In the case of Poland, this relationship seems to be particularly strong.

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