

## **CHAPTER 4**

### **SYSTEM TRANSFORMATION VERSUS STATE PLACE IN CONTEMPORARY ECONOMY**

#### **Introduction**

Traditional arguments about the state's place in economy locates all acceptable solutions on the axis, whose ends point neoliberal concept of state minimum and postkeynesian welfare state, which practical implementation was Sweden in the period of 70s and 80s last century. One has to add, that the problem of state's place in economy naturally concerns the conditions of democratic law state and market economy, which means, market allocation mechanism is over political allocation. In other cases, so in communism states, in theocratic or fascist dictatorships, in many states of the Third World, which do not fulfill minimum standards of law and democracy, the problem of state's place in economy is really important, but solutions in this case should be the subject of political science, not of economics. In such cases, the character of economy is not so important. The extent of state's competitions is pointed by the power of government (to be exact- its abilities to adjust violence and threaten it) and its political will, no state's ability. That is why, the economies with a high level of market, just like Singapur, Russia or China should not be the subject of analysis, which accept described at the beginning traditional assumptions.

The starting point for the problem of state's function is the depiction of Adam Smith. He numbered among them:

- to defence society against violence and assault from the other independent societies (national defence),
- to assure the members of society the protection against injustice and pressure from the other members (assurance the internal safety and effective administration of justice),
- to supply public goods, understood as such goods and services, which access is in the society interest as the whole and at the same time their production's profitability does not guarantee their enough supply (Smith, 2007, p. 379-380).

Let us notice, that the first two of the mentioned functions are really peculiar public goods' supply, but in opposite to the last function, their realization by the state does not have any reasonable alternative. Although, private subjects are used both in generating services of national defence and in services of internal safety. In the first case as suppliers of equipment in realization of the service, in the second case – even as a subjects who complete the service's offer (bodyguard's firms), or subcontractors supplying services for the state's order (private penal institutes).

J. Beksiak, who declares liberal character of his point of view in this case, suggests different set of state's functions:

- protection of the order- the author understands it mainly as a protection of ownerships, assurance safety of turnover and fight with crime,
- protection against harmful businesses (interpreted as to level negative exterior effects),
- organization of monetary system,
- managing of public goods (Beksiak, 2001, s.156).

Important complete to the original Smith's conception is pointing the organization of

monetary system as inalienable state's function ( if it is not handed over supranational organizations). The protection against harmful businesses' effects is compliment to different, ordoliberal state's conception. The managing of public goods from author's point of view is also concerned with such goods, whose public character can be changed into private one, so it means- both: clear and mixed public goods (Stiglitz, 2004, s.156). This distinction is important in according to possibility of pointing the limits of state's being in the economy. According to orthodox, liberal point of view, the needs which satisfying is needed by society, they can be realized, where is possible, also by the private goods. This problem is often confused. Especially, the distinction between goods supplied by public sector and public goods is often missed (Stiglitz, 2004, s.157). If we accept this distinction, so we will have to add production and supply of pure public goods to the state's competition. The other goods can be produced by private entities and distributed by the state according to the following principles: without payment, partly payment or payment based on market prices. In according to described point of view, the final criterion limiting the extent of state's participation in goods' production should be concerned with its influence on total effect of business activities. If the state's participation, through production and supply of public goods, makes the national product bigger, it means, that this participation is justified.

In the presented work the author J. Beksiak enumerates activities of economic policy among state's functions. In according to stricto liberal point of view, such activities should not be practised at all. As a last resort, their extent should be minimized . These activities involve:

- stabilization policy (monetary and fiscal),
- policy excites business activities,
- social protectionism,
- economic protectionism (Beksiak, 2001, s.27-29).

Liberals claim, that monetary and fiscal policy should be limited. In turn to economic protectionism (industrial policy) and policy excites trade cycle are said to be harmful. The next matter, forcible especially in the conditions of transformation economies, is providing for firms and companies by the state. Liberal solution also here means extreme limitation, even disposal of this sector. This process comes up opposition from the political elites and from trade unions. The state as an owner is a more convenient partner for them.

The presented overview of state activities' extent shows the area, which is arguably appurtenant to it. There is also much more wider area, which can be the point of having arguments between neoliberal and neokeynesians. The argument is concerned more with state's competitions than with state's role. Reference to the ordoliberal thoughts can bring a change to this matter. On the basis of ordoliberal thoughts, not only the extent of competitions is important, but also the matching of them. In liberal and in neokeynesian state's concept, its competitions are an unsubordinated set to any priorities. This is clear, that individual functions or their lack have own substantiation. However, there is no general thought, which brings order into the system of state's competitions and determines its relations to management processes. Ordoliberals suggest in this case economic order concept. The main point in this concept is protection of freedom and market order. This approach, although historical, blends with the new institutional economy in a good way. The new institutional economy treats the economic order separately as a specific production factor. (Hockuba, 1995, s.493). Formal and informal ethical – moral norms, which build this order, point not only the extent of competences but also hierarchy of functions. For the ordoliberal conception the main rule is keeping order based on competition. The state's activity and its competences should be subordinated to this rule in the area like stabilization policy, antymonopol policy meant as an enforcing the equality of all the members in the economic play, protection of private properties, liberty in reaching contracts and enforcing

responsibility for the activities' results (economic and regulation ones). The content of state's entitlements without the mentioned main rule would not be the same. "As a private ownership of production means is the basis for an order based on competition, so order based on competition is essential condition for private ownership of production means, which can not lead to abuse in the area of economic and social activities". (Eucken, 2005, s.315).

The introduced W. Eucken's conception of state's role should be described more in details especially in the case of responsibility entities, which take part in economic processes. The author claims: "...who is in charge of plans and firms and household' activities, this one bears responsibility for it" (Eucken, 2005, s.321). One more kind of entities, which take part in market play, should be involved in this correct rule. This is the state, that can determine the managing processes in both ways:

- by taking part in these processes as an owner or co-owner of a company,
- by making and enforcing flawed regulation norms, which discriminate one entities against the others.

The first of these situations can be seen as a passing one. State's part in ownership the companies should be consequently limited. Although, the total liquidation of it seems to be impossible. The another type of influence on competition and allocation processes seems to be immanent feature of each system, where the state plays regulation role. Orthodox liberals try to solve this matter through limiting the regulation functions of state. If it is known, that the competition processes are deprived of regulating institutional frames and they contribute to monopolization of the whole economy, we will have to find another solution. It can be the change of organization structure in these institutions which build the state – departure from the model "state-monolith" with its hierarchy, compact structure.

The state can act efficient as a bundle of central institutions, which only coordinate each other activities. In such system there is lack of reactions of supervision and subordination and the accepted vision of social-economic order can join all its elements. Realization of this solution would demand essential institutional changes, also a change of constitution. The president and government's competences would be limited, but competences of other central institutions would be increased. To these institutions belong: a Monopolies and Mergers Commission, a new department regulating the labor market (which joins clerks and public labor inspection' competences), so far not existing office which will be in charge of efficient health services and many more, which are not yet specified and finally The Central Bank, which is nowadays a precedent derogatory the hierarchy principle in state's structures.

The limitation of government's competences would be concerned with resignation from ownership's function ( apart from excluding the other existing so far competences in aid of new offices/ departments). It would be also concerned with strengthening the regulation and supervision functions in these areas, which would be given to the government. It would mean to increase the efficiency of norm's enforcing, which are the essence of social-economic order and at the same time consequently clearing the legislative system of these regulations, which would give the clerks/politicians the power of privilege or discrimination one part of participants against the others. So understood guard's role in the social-economic order would de facto mean rather increase than limitation the number of tasks, which are done by the government, at least to the time when the system of legislative norms would be ordered. To government's important competences in this new structure, which would be easy to foresee, would also belong the charge of R&D development. This one is understood not only just as a management support and assurance a better flow of products from this sphere to original industry (to companies, which can not afford to buy innovations in this sphere by the market course). This is also understood as a budget policy, which assures development in this sphere, in the areas of education and university researches.

The ordoliberal state's conception is as a kind of remedy for observed processes of degeneracy the traditional parliamentary democracy nowadays. We are observing its transformation into "medial democracy". The main criterion, which is the basis for the society to choose their representatives, is its attraction based on television image (seldom press image). Substance virtues are the minor factor, which is more and more useless. This is because the voters/ spectators are annoyed with the speeches, which are more and more not communicative or appeals about changes. They are different from society's point of view concerned with social-economic reality. The society also experiences the expert language badly. This language is used by lawyers, politicians or economists in forming their points of view or program's conceptions. It causes a loss of public discussion about clue problems for the state. Firstly, this is because of necessity of simplification the arguments or because of these arguments are a little bit concerned with populism (it is often under the influence of the PR experts). Secondly, this is because there are less possibilities of competent forming points of view and own programs by the politicians. In each democracy politicians aspirations for reelection is natural and it is transformed more often into lust for power ( it can be explained as a will concerned with finishing the began transformation activities, which are considered as important transformation in social-economic order).

We can talk here about proceeding negative selection in the area of political class. Its more competent representatives are replaced by the experts, who can only have argument on television ( which is rather called as a talk show than as a discussion). These kinds of programs attract spectators and reach a success not because of content, only because of insults. This phenomenon is additional barrier for the transformation processes. The processes need some possibilities, which can help the actors cope with each other on the political stage and reach merithorical, rational compromises.

The system changes, which can be derived from ordoliberal thoughts, would deprive the main part of state's positions of the attraction, because it would be difficult to hold them and have the feeling about taking decisions concerned with all state's matters. Moreover, more specialized institutions need to employ better qualified labor.

The conception about the state's place and role, which has been known so far, is also concerned with its present shape and it will be verified very strictly during next few years. The state is in the face of a lot of global crises and it has to oppose them. This exam can be difficult, but possible misfortunes can became an incentive for further, braver modifications in the institutional state's structures and its competences' extent. Each team, that works on the crises, can point the weaknesses in the institutional system, but it can also help to change the institutions, whose usefulness has been empirical called in question in this way.

The first of these crises – financial crisis – presented in the whole. The first opinion about state's institutional efficiency, that faced this crisis, is not so bad. Important is, that the crisis' threat has been recognized and it has been also ( although there have been some resistances) accepted by the politicians and public opinion. There are also suggests how to solve this problem in the global and country scale. In Poland the threats are first of all derivative phenomenon concerned with the crisis, like: oportunistic bank's attitudes; the increase of unemployment, which is caused through dismisses from some supranational concerns; difficulties with keeping the export on such level, that avoids negative balance; problems with paying the consumption credits in currency, which results from weak zloty exchange rate.

This situation should goad on system solutions of some problems concerned with next transformation progresses: the efficiency of anti-monopol policy (inter alia, it should be activated trough averting the market dissymetry, also in the bank-client relationships) and development of institutional infrastructure on labor market. Prospective reaction for the crisis are Exchequer's promises, which show boost of some entities' privatization. It could help the

budget with additional tools, which are essential for softening some of the crisis' after-effects. It could also help entities which have been privatized to increase the chances to survive unfavorable economic trend. If Poland, which is not possible, would improve its economic position (bearing losses at the same time) towards the majority of EU countries, society's trust toward Establishment would increase. This would also increase a chance to conduct institutional changes more substantially.

The next and more difficult case is the ecological crisis. During the last twenty years the improvement of environment has not been a result of consequently politics, only a side effect of collapse some offshoots and industries. Such situation was calmativ. It caused to give up the conception of reindustrialization the economy. The conception was concerned with a change from branches' structure, which originates from XIX century and described as a mandatory in the previous system, towards a structure based on staffsaver and ecologically neutral hightech branches. Consequently, Poland is not able to limit the emission of greenhouse gases quickly and it causes, that it has to accept antyecological points of view in world's and european negotiations concerned with environmental protection principles.

Delay in modernization and rationalization the rail transport, privatization the Polish National Railways and demonopolization the rail transport services, tends for strengthening this disadvantageous position. Major part of rail transport, which is growing in the developing economy, was whisked off to road transport. The result of it was bigger emission of harmful gases and too much use of rail infrastructure. Polish economy, that met with ecological crisis, is not prepared yet to manage market rules and it started to give up the reindustrialization. A solution, which would fit the transformation logic, would be speeding up the restructuring in rail transport sector, quick development of high –tech industry and increase of expenditures for building necessary road infrastructure. It needs from government more determination and efficiency than normally. Moreover, the government should present an extended program of support the R&D. Without it the development of high technology will be difficult. If not, Poland can be eliminated from the active participants on global market and our country can be pushed aside somewhere in the global market periphery.

The third threat is global social crisis, which is specific for each country. Its main symptom is social exclusion which concerns the poorest stratums and environments in each country and sudden increase of differences in life style among developed and poorer countries in the world. Such situation causes rise in costs in state's functioning, because of necessity to spend more money on social protection and public safety. At the same time it causes a decline of budget incomes, because of production fall and decrease of employed labor force there. In the international relations it means increased migration, which causes broadening of black economy and increase of crime (extremely, also terrorism ).

The point of exam, which the state facing the crisis has to pass, is based on creating institutions responsible for labor market; preparing convenient conditions for choosing cost-effective new investment variants; fighting with reasons that cause exclusion globally. We should consider desistance from present agricultural policy (not only in Poland, but in the whole EU). This policy prevents countries from Africa and East Europe from getting in European Union markets.

Confrontation polish state with these three global crises brings a question about features, which the state has to show. First, we have to point the stability of relations between the state and society, especially not allowing further alienation of state. Sense of threat, which is caused by any crisis, can be used to overcome alienation barriers.

The second important feature, which the state has to show, is high level of clerks' qualifications. Although, perspectives to change the trend of demoting politicians' competences is not promising, the financial crisis can help- without any harm to budget, concerned with additional costs- to improve the level of clerks through more resolved

selection of employees. Earlier, it would have been impossible, because the salaries in budget sphere are said to be measly. But at this time, when we face the growing unemployment, the benefit of working in budget companies is relative stability in employment. It is not necessary “start paying to be able to demand”. Now we should expect professional approach, extended horizon, open-minded thoughts, which can bleed the bureaucracy. The point is, the politicians should give recognition, that such improvement of managing quality is essential also for them.

The third feature, which state has to show, is ability of building informal experts' milieu about the institutions. It would be beneficial if the politicians brought their own limitations of content home to them. In efficient state a politician does not have to be omniscient. The politician has to know only who to ask about the point of view, be able to listen to it and to conclude the advice on practical way. Honestly showing own lack of knowledge inspires society confidence more than showing off a way with words on media. Society confidence to Establishment is not state's feature, but more often than not it is caused by the state and its representatives' behavior. These behaviors are perceived not only by politicians' statements and their programs, but also by delineating the law rules and by actions of institutions that protect the social order. It is not enough to say “friendly state” – which is created by one of the Poland's parliamentary committees. There are also needed: friendly judgments, attorneys and police that inspire society confidence and even friendly Tax Office. It could help to prompt the potential of social capital. Its lack is a basic barrier of social-economic development in Poland.

### Summary

The state's quality and its role does not express the ability to ensure the citizens standard of living, but it expresses the ability to create such conditions, which could mobilize people to take far reaching challenges and take the responsibility for themselves and for the environment. The state should create such play rules, which would give the opportunity for people to self-improve. We must build institution, which simplify access to knowledge, education and culture and enable promotion based on achieved cultural capital (Kiwak, 2004, s.45). This economy, whose entities are equipped with this capital, will develop more active than this one, which is supported by traditional methods of interventionism.

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