

THE APPLICATION OF INSTITUTIONAL ECONOMICS TO ANALYSIS OF THE TRANSFORMATION OF THE POLISH ECONOMY

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ABSTRACT

The aim of the article is to analyse the role of institutions as one of the most important factors in economic and social development. Different aspects of Polish economics are discussed in the light of the theoretical work of Arrow, von Hayek, North, Williamson and others, and conclusions are drawn.

Keywords: *Transformation, Polish Economy, Institutional Economics*

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INTRODUCTION

This study considers the evolution of the complex relations between the power of the state and the economy in the European and global contexts. The treatment of these issues serves to develop and exemplify the following theses:

- The market and the state (broadly understood as the government) are the most important institutions regulating the behaviour of economic subjects. The relative scope of influence of each marks off one economic system from another.

- The relationship between the state and the economy may be both symbiotic and conflicting. An efficient state is essential if the economy is to function well, and the functioning of a free economy is necessary for a democratic state to become strong. However, attempts are frequently made for one side to dominate the other. Ensuring the relative autonomy of the market and the state is an indispensable condition both for institutional equilibrium and for both spheres to operate efficiently.

- An economy that is based on the market mechanism displays a tendency to cut its ties with the social macrosystem and to subordinate to

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itself various areas of social life. This requires that institutional solutions be found to counteract this tendency.

- The market, the state and the institutions of civil society form the basis of institutional balance essential for building up an efficient economy and a consolidated democracy. The relations between these three may be described as a form of power sharing and a system of checks and balances.

- In comparison with the private economic sector, the institutions of the public sphere in Poland have been only partially reformed and they remain very inefficient. In the context of the transformation of the Polish system, they may be regarded as an incomplete component.

- Globalisation increases the demand for a strong and efficient state and for robust civil institutions.

THE INSTITUTIONAL FOUNDATIONS OF ECONOMIC MANAGEMENT

Economic management is the process of using the resources available, whether these be natural, human, capital or technological, for as great a degree of satisfaction of human needs as possible. Adult humans dedicate the majority of their time to economic management. This is not only confined to production, but also includes consumption where needs have been satisfied. This constitutes an important aspect of human activity and falls within the sphere of interest of economics, which is the science of economic management and has as its aim the discovery of the rules governing the process of transforming the resources of production into products and services. Exchange in economics is frequently defined as the science of the principles of choice with reference to production, how to produce and for whom. Paul Samuelson, author of the best known textbook in this field (Samuelson, 1980) is one of those to define economics in this way. The need for economics and its significance results from the fact that in striving to satisfy their needs humans are always faced with limitations on resources. Economics accepts the presupposition that people's needs are limitless, while resources are always limited, as expressed by the concept of the "scarcity of resources". Economic choice is therefore usually difficult and dramatic.

The availability of resources and technology is not the only constraint placed on choice. Others are the nature of the needs in question, the areas in which they fall and the order in which they are to be satisfied. Institutions constitute a further constraint. Institutional issues only became associated with the field of interest of mainstream economics in the second half of the twentieth century. The link was made initially by the economists of the German historical school and Marxists, followed by representatives of American institutionalism led by Thorstein Veblen. However, these currents

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of thought were at the time a backwater of academic economics, which, from the late nineteenth century, was dominated by neoclassical economics.

In simple terms, "institutions" are products of social life that regulate behaviour in a relatively durable and systematic way. Institutions help to make behaviour orderly and, to a large extent, predictable. They form the framework within which people pursue various types of activity, defining the activity and its limits. Since the time when humans decided to live in communities and became mature enough to submit, consciously and in their own interests, to certain rules, institutions have become of considerable importance. In their primitive form institutions were traditions, beliefs, myths and the generally accepted codes of conduct and ways of comprehending reality. Many centuries and even millennia had to pass before these rules and norms took on formalised form and were framed in writing and upheld by organisations, including the state or, more precisely, the power of the state.

What part do institutions play in the way the economy and society function? The most important aspects of this role may be defined as follows:

- they order and regulate people's behaviour, making it relatively predictable;
- they condition the efficiency of individual and collective activities;
- they link the past with the future;
- they bind the individual to society.

Douglass North, a leading authority on the part played by institutions in economic development, arrived at the conclusion that institutions form underlying structures that help to create order, thus enabling the risks of exchange to be reduced (North, 2002).

In the new institutional economics the threefold division of an institution has received fairly widespread acceptance. The divisions are its norms, its markets and its organisation. The norms cover both informal practices, such as traditions, customs, religious norms and established codes of conduct and ethics, and legal procedures executed by the state authorities. Markets have become associated with a group of institutions as they constitute a powerful determining mechanism of people's behaviour. It may be said that the majority of those living in a market economy regard the market as a very important institution and submit to its rules.

One of the main criteria in an economy is efficiency and thus the relationship between cost and effect. Economics seeks various ways of improving efficiency, as this enables ever more human needs to be met, while continually dealing with the problem of limited resources. The creation and maintenance of institutional structures is costly, but good institutions ensure that economic transactions are carried out efficiently and that economic management is increasingly efficient. The costs that have to be

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borne in the maintenance of the institutional framework of economic management are referred to as transactional costs in the economy. This category of costs has been loudly trumpeted and has aroused widespread interest in institutional issues among economists.

Transactional costs have become one of the most important categories in the new institutional economics. There are two main reasons for their significance. Firstly, they have acquired greater meaning when the cost of economic activity as a whole is evaluated and make up an increasing proportion of the total. Secondly, their value is directly connected to the quality and comprehensiveness of an institution. The growing complexity of the processes of economic management requires the use of ever more intricate and subtle systems of regulation. If it is recognised that the economic system is a collection of interrelated institutions that mark out the framework and define the rules of economic activity, the comment of Kenneth Arrow that transactional costs are the operating costs of the economic system (Williamson, 1998) become particularly apt. The state bears a large part of these costs and has the responsibility of ensuring that the legal administrative frameworks for the activity of economic bodies are stable and operate properly. In this respect an increase in the costs borne by the state is reflected in the phenomenon known as "Wagner's Law", which states that as the economy grows public costs play an increasing part in GDP, with an inevitable rise in taxation. The remaining share of the transactional costs falls to individuals and private bodies. These are now involved in a wide range of contractual costs, including the drawing up and execution of individual contracts. Olivier Williamson, known as a leading exponent of the economics of transactional costs, considers that the development of this economic theory as a science of choice, in other words a science of the principles for making a choice within the framework of the existing limitations of technological and institutional resources, should be directed towards treating economics as a science of contract.

Williamson distinguishes two ways of creating social and economic order, the first being publicly organised order and the second privately organised order. The former is based on creating institutional frameworks through the process of public choice, thus making use of political mechanisms. Quite a strong current of thought has developed in economics known as the theory of public choice. This utilises the standard tools of macroeconomic analysis to investigate political decisions and decisions taken in the public sphere in its broadest sense. Constitutional economics, of which the best-known representative is James M. Buchanan, has researched the mechanisms for creating an institutional framework for the exercise of public choice, now usually referred to as "constitutional order." This theory has gained considerable popularity among economists, as the choice of

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institutional framework may be of no less significance for efficiency in economic management than the typical market choice, in which resources are allocated and the transaction is directed towards price incentives. A large section of the economic theory of the state lies in the part of economic analysis concerning the choice of institution and the evaluation of the influence of the institution on economic management.

The branch of the new institutional economics that deals with private ordering is also of great importance in assessing the relationship between the state and the market. The works of Williamson mainly concern this aspect of institutional formation. He claims that order created privately is of greater significance for business today than that created by public organisation. Those who participate in economic management by means of private agreements are the ones who find the institutional solutions which improve efficiency, such as contract types, organisational structures or methods of motivating the parties in a transaction. One of the most important methods shaped privately in this way is the collection of institutions labeled by Williamson "governance structures."

Williamson also proposed a division of transactional costs into *ex ante* and *ex post*. The former are associated with the drawing up of a contract (e.g. the collection of information, design, the search for the contracting parties, negotiation and the guaranteeing of the agreement). The latter are the costs incurred after the contract has been completed and includes the costs connected with its execution. The main aim set for himself by Williamson in his research was to seek ways of reducing or making savings on the transactional costs. The most important way of restricting transactional costs is to improve the running of the institution at all levels, including organisational structure, property rights, management methods and contractual regulation. The transactional costs in economic management are comparable to friction in physical processes and the smooth running of the institution to the oil that reduces the friction.

Economics literature provides various ways of dividing transactional costs, including the following:

- those borne by the public authorities and those covered by private individuals,
- *ex ante* and *ex post*,
- the cost of entry into an economic system and that of remaining part of it.

Institutional economics in both its earlier and its later form (American institutionalism and the new institutional economics respectively) has considerably reinforced the economic theory of the state, which was treated

as a side issue in classical and neoclassical economic theory and was one of the least developed branches of economic science.

THE PLACE OF THE ECONOMIC SYSTEM WITHIN THE SOCIAL MACROSYSTEM

Economic management is, in general, a social process, and its social dimension is manifest in the following:

- society designates formal and informal institutional frameworks for economic management;
- economic management based on a division between work and exchange creates a variety of social ties;
- economic and social structures have strong reciprocal effects; for example, the organisation of economic management and its results shapes the class structure or stratification in a society.

One of the best known definitions of the state was formulated by Max Weber. His concept of the state, like that of state bureaucracy, was based on experience of the countries of Western Europe and was mainly idealistic in character. Weber was interested in the question of the "rational state", which would have a beneficial role to play in the development of capitalism. As he saw it, the rational state, as the union of institutions, would have the sole ability to exercise constraint (Weber, 2002) and this would be based on a system of competent officials and rational laws. He then added that the state in this sense existed only in the Western world (Weber, 2002). The concept of the state and state bureaucracy as formulated by Weber is considered to be something of a model or ideal. William A. Niskanen presents a different approach to the analysis of bureaucracy, which assumes that state officials and politicians act on the principles of *homo oeconomicus* and also that similar mechanisms operate in the sphere of politics as in that of the market (Niskanen, 1975). Niskanen is the creator of what is known as the economic theory of state bureaucracy. A review of the various formulations of the relationship between the political process and state administration today, especially in the Western world, is presented in by Guy B. Peters (Peters, 1995).

Karl Marx and his followers presented a distinctive concept of the state, or at least the state apparatus, as a tool in the hands of the ruling class, and the principles on which the communist states operated were later based on this, making, at least formally, the state the instrument for securing the interests of the working class. Most private property was done away with, the market was replaced by the central state, the tripartite division of power was abandoned and the activity of the state was subordinated to the party, so that the state became an all-consuming demon and could interfere

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in every area of life. All the borderlines between the sphere of influence of politics and that of the economy were blurred. Later this turned out to be one of the main reasons for the collapse of the communist system.

Few economists question the thesis that a well-run and efficient state is indispensable to the functioning of an effective economy. One of the tasks of the state is to maintain the complex institutional structures that underpin the market mechanism. The fact that the role of the state is appreciated in this way is largely due to the achievements of institutional economics.

Economists of the mainstream, the chief element of which is classical and neoclassical economics, attribute a relatively small role to the state. Economic management has to be regulated by the "hidden hand of the market" and not by the state. The function of the state, expressed theoretically in this way, is restricted to establishing and enforcing laws, including property laws, and to delivering essential public resources, which the market does not adequately ensure. Most economists also acknowledge that the market fails in certain areas (market failure) and that in these cases different means must be introduced to regulate it and to solve economic problems. In this the state acts primarily as the main collective body. The state is an entity that implements decisions taken within the framework of public choice, a choice exercised through political mechanisms and institutions and which plays a part no less important than the individual choices made in the market.

One of the key issues regarding the relationship between the state and the market is that of defining and protecting the relative autonomy of the two spheres. Excessive interference of one with the other or, especially, subordination of one to the other are seen as symptomatic of an institutional disorder and as such is not conducive to social and economic development. An important area of economic autonomy has been the factor known as the "European miracle," an acceleration of development that enabled Europe, and later the Western world, to enjoy a centuries-long economic ascendancy over regions of the world in which the economic sector has not gained the same autonomy (North, 2005). The authors of a book on the economic success of the Western world, Nathan Rosenberg and Luther E. Birdzell, have drawn attention to the great importance of the autonomy of the economic sphere in relation to the religious and political spheres: "Initially, the West's achievement of autonomy stemmed from a relaxation, or a weakening, of political and religious controls, giving other departments of social life the opportunity to experiment with change. Growth is, of course, a form of change, and growth is impossible when change is not permitted. And successful requires a large measure of freedom to experiment. A grant of that kind of freedom costs a society's rulers their feeling of control, as if they

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were conceding to others the power to determine the society's future. The great majority of societies, past and present, have not allowed it. Nor have they escaped from poverty." (Rosenberg & Birdzell, 1994).

Deep changes in the economic, political and social systems have been brought about by the accelerated economic growth that began in the early nineteenth century, the increasing complexity of economic and social structures, the magnification of the activity of the state and many other factors. One of these changes affected the meaning of both traditional institutions that had evolved over the years and those that had been consciously designed and set up. The American sociologist James S. Coleman named this process the "rational reconstruction of society" (Coleman, 1993). Violation of the traditional institutional structures and the greater significance attached to designed institutions, which was one of the conditions of progress and modernisation of the state and the economy, also gave rise to a number of problems and threats. The relationship between the economy and society changed, and there was the problem of restoring institutional equilibrium. Current economic development requires experiment and change in the institutional sphere, while, on the other hand, ensuring the necessary minimum of predictability and regularity of behaviour of the participants in the economic processes. The solution to the problem of institutional mutability and continuity, comprehensiveness and institutional balance, is key for successful social and economic development.

In today's world the significance of purpose-designed institutions and institutional experiments has unquestionably increased. This has been particularly evident in the post-communist countries, which have had to make a choice of their new institutions, a choice largely directed towards following the solutions arrived at in the western world. Imitating institutions is always efficient and has sometimes had surprising results. The term "designer capitalism" was coined by Claus Offe to refer to a system designed and created by the elite responsible for the reforms in the post-communist countries (Offe, 1999).

In Poland, significant autonomy in the private economic sphere was gained as a result of the reforms carried out in the early 1990s, and this very evidently contributed to the fairly quick and harmonious economic growth of the following years, in spite of considerable political turbulence and attempts by politicians to interfere in economic matters.

CHANGES IN THE RELATIONSHIP BETWEEN THE MARKET, THE STATE AND CIVIL SOCIETY

The foundation of democracy today is the tripartite division of power between the legislature, the executive and the judiciary, a relationship

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described as a system of checks and balances. A basic condition for upholding democratic government is the particular balance between these three. If one of the three forms of power is excessive and is in a position to subordinate the other two to itself, democracy is under attack. In a democratic system these three kinds of power complement and control each other. The relationship between the market and the state is similarly fundamental to the operation of democratic capitalism. Economic freedom, ensured by a freely operating market, is an indispensable component of the democratic system. No democratic state has yet succeeded without a market economy, but it should also be remembered that a market economy does not itself ensure democracy. There is still the difficult task of working out the appropriate balance between the state and the market by means of the checks and balance mechanism, using complementary mutual control. Political democracy requires that strength be balanced and controlled in the form of the market. Power mandated by means of democratic elections may degenerate into authoritarian, inefficient or unjust power (Arrow, 1985). Arrow, the 1972 Nobel prize-winner in economics, declared himself in favour of the various mechanisms of power and control, but even in the market economy these, like the mechanisms of democracy, sometimes fail (Arrow, 1985).

The development of capitalism is based on the strengthening of that component of the social macrosystem which is market economy. Relations between society and the economy are undergoing changes to the advantage of the latter. The process of the rooting out of economy from society was probably best described by Karl Polanyi in *The Great Transformation* (Polanyi, 1944).

In post-communist countries the state played a very important part in carrying out system transformation, the aim of which was the construction of an efficient market economy. Some analysts believe that it was precisely the aptness of the policies of the state which was the main reason for the success of the Polish transformation. The reason for the diverse results of transformation in other communist states may be found in the highly variable strategy of the state and the quality of its operation. Unfortunately, in the late 1990s symptoms of "damage to the state" appeared, including inefficiency in carrying out many essential system reforms, the growth of corruption, a decline in social support for state institutions, attempts to violate the autonomy of the administration of justice by the executive power, a deterioration in the quality of legislative acts, institutionalised irresponsibility on the part of public officials, lack of cohesion in the system of regional politics, hindrance to the introduction of a civil service and the general treatment of positions in public institutions as "political plunder". This

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was described in Volume 4 of EU-Monitoring, under the title: *Quality of the government: Poland nearer the European Union?* (Hausner & Marody, 2000).

Globalisation heightens the significance of the centres of control of economic processes on the supranational, and especially on the global, scale. The opening of economies to international influences, the liberalisation of trade and the increase in the range and speed of information on the global scale, reduce the possibility of autonomic regulation of the economy by the national authorities. The importance of international corporations, whose economic potential in many cases exceeds the economic potential of whole countries, even those of average size such as Poland, is growing. Many matters cannot be controlled by the forces of individual countries; international agreements and strong international organisations are also necessary. The problems of pollution, international terrorism or the drugs trade cannot be effectively limited through the decisions of individual countries alone. These are global problems and require global solutions. The difficulty of finding such solutions results from a lack of suitable institutional structures acting on an international scale. The United Nations Organisation, in which such great hopes were placed from the end of the Second World War onwards, is unable to fulfill the functions required of a regulator of global processes. Without the clear support of the United States of America this organisation has been unable to initiate effectively any more serious attempt to solve the chief global processes of state capitalism. The necessity of an interventionist state, working considerably beyond the scope of a watchdog, has been underestimated, a state which has made possible the successful integration of the Polish economy with world economy (King & Sznajder, 2006). Stiglitz (2004a and 2004b) assesses the role of the state in the process of the transformation in Poland similarly favourably.

National states, or their strong integrated formations such as the European Union, therefore remain the most important collective units for the regulation of the most crucial economic, political and social affairs. Strong states are therefore an indispensable component of international economic order. This idea is the main theme of Francis Fukuyama's work devoted to the role of the state in the modern world (Fukuyama, 2005). The main theses formulated in the work may be expressed as follows:

- It is necessary to distinguish the range of the state's influence from the strength and effectiveness of the state power. A complex state (with a wide range of state power) may simultaneously be a weak state. This was earlier indicated by Gunnar Myrdal (Myrdal, 1975). In New Zealand the decrease in the range of the state's functions consolidated its strength; in Russia, however, the restriction of the state's function caused a simultaneous decrease in its strength.

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- The contention that a reduction in the state's role is essential, voiced for instance by the advocates of the so-called "Washington consensus", is unfounded, as in some domains the state's role may be restricted, but in others it should be strengthened.
- A decline in the function of the state in poor countries is the main limitation on their development.
- A weak state is fertile ground for terrorism and other global threats.
- There is no universal model for a state, or state authorities, which would produce similar results if put into practice in different countries. The migration of institutions does not work in the same way as the migration of goods or capital (Fukuyama, 2005).
- The difficulties which economists have with, for example, the problem of the state result from the fact that the gains of other social sciences have not been sufficiently utilised in economic organisational theory. This tendency is, fortunately, undergoing change, thanks to the popularisation of achievements in institutional analysis, especially thanks to the rapid development of new institutional economics.

A strong and efficient state does not necessarily mean a centralised state. Most modern countries have, on the whole, a three-tiered structure of public power: apart from the central authority there is also the regional and local authority. The question of where the decision-making power of the state should lie is difficult to resolve without knowing the circumstances and history the country. A good principle in ordering this area of organisational measures is that of subsidiarity. This is a popular principle in the countries of the European Union, including Poland, where it has even been written into the Constitution. The realisation of the principle of subsidiarity is also reinforced by the social teaching of the Roman Catholic Church. According to this principle, the possibility of decision-making on matters of importance to the population should be placed at the lowest possible organisational level of society and opportunities should be created of solving these issues at this level, above all at that of the individual itself. A well-organised society and state give the greatest opportunity to making decisions (freedom of decision) to the individual. The principle of subsidiarity is sometimes called the principle of the primacy of the individual over society. It is also connected with the individual's responsibility for the decisions made. In matters exceeding the capabilities of the individual it is justifiable to appeal for assistance, most often on the basis of collaboration, from the levels of social organisation closest to the citizen: his family, local community and religious or professional organisations. Only when it is beyond the scope of these groups is the task of solving a problem referred to the higher levels such as

the regional or national. The principle of subsidiarity may also be extended to the supranational level.

There are more and more problems which need to be solved through the co-operation of many countries, or even of the world community. An example of advanced international co-operation has been the activity of the European Community. The process of relocating decision-making authority is of a bipolar nature: the devolution of decisions in matters within the public sphere can be clearly seen, in Poland as elsewhere, but the significance of supranational decision-making authorities is also increasing. The decisions contained in the treaty reforming the European Union, signed on December 2007 in Lisbon, are a sign of both the need and the tendency.

The question of the decentralisation of decision-making authority has been taken up quite often in economics literature. An important theoretical contribution to this issue is the work of Friederich von Hayek on the effective using of knowledge in the economy. Hayek divides the knowledge available humanity into the general and the specific. The former may be transferred, whilst the latter is tied to a specific person, place and time. This knowledge is non-transferable and scattered, but is the more important in that it represents most of what is accessible to mankind. The quality of the economic system and the efficiency of economic management depend primarily on the possibility of using specific knowledge. Without the market mechanism and freedom of economic activity this is not achievable. The utilisation of knowledge or, more exactly, the optimisation of knowledge, becomes possible thanks to competition and the price mechanism, which delivers both information and stimuli to economic bodies. Hayek is recognised as the precursor of the economics of knowledge¹. One of the greatest weaknesses of the centralised planned economy was that much specific knowledge was unusable, as this kind of economy was based mainly on transferable knowledge. Nor was there a price system in place to generate the information and stimuli essential in rational economic management. This was one of the reasons why Hayek considered the communist economic system ineffective and doomed to failure (Kostro, 2001).

Hayek's theory also inspires reflection concerning the relations between state, market and society. For him the central category in these relationships was the issue of freedom. Both the accepted concept of the state and the economic system in operation ought to create the greatest

¹ F. von Hayek depicted the meaning of knowledge in the functioning of economy and society, above all, in his three publications: *Economics of Knowledge* (1973), *The Use of Knowledge in Society* (1945) and *Knowledge, Evolution and Society* (1983).

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freedom for the individual. The state's main task is to ensure lawful government. As in the case of the market economy, law is, according to Hayek, a product of the evolution and experiences of whole generations. It marks out the basic rules for fair and honest conduct on the part of members of society (general rules of just conduct). Although the state power should be equipped with the privilege of using compulsion, nonetheless in Hayek's concept of the state it is primarily the law and not people that govern (Godłów-Legiędź, 1992). Hayek's concept of the state and law resembles to a certain extent that of Cicero, who was the first to define the state through law and sought the sources of law in human nature. A legal bond, as the basis of the state, connects citizens, and the law is the world's "wisdom" and induces man to worthy conduct (Szyszkowska, 2004).

Hayek maintained that the "great social institutions" such as family, market or capitalism are founded on morality and are an effect of spontaneous order. He believed fervently in the superiority of the principle of spontaneous order over the principle of social or political constructivism. Being a true liberal, Hayek became simultaneously a severe critic of modern democracy, mainly due to the possibility of using that system for the restriction of individual freedom and excessive growth of the state. He claimed that law itself had lost its meaning; whereas once it was a fundamental common principle, today it has become inconstant and serves private interests, all in the name of social justice (Sorman, 1983). The damage to democracy, which arose from situations such as the replacement of democratic ideals with the tyranny of the majority, induced Hayek to propose a new model of organisation of public power, ensuring a balance between the institution passing fundamental laws and the government regulating the ongoing business of running the state. This model of power proposed by himself Hayek called a "demonarchy" (a term formed from the Greek words: "demos" – people and "archein" – authority) and treated the proposal as an element of the "utopia of change," the creation of which he believed to be necessary (Sorman, 1983).

THE STRENGTH OF THE MARKET AND THE STRENGTH UNDER CONDITIONS OF GLOBALISATION

Even greatest free market enthusiasts have detected areas in which it has fallen short or failed (market failures) and see the reason for the existence of a market with various supplementary regulatory mechanisms. Enthusiastic supporters of the democratic system likewise admit that this system also has areas in which it falls short and which are analogously termed failures of democracy. Both the market economy and the democratic

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system require new measures to be taken in an era of rapid globalisation. Globalisation strengthens the position of the market and global economic bodies. However, it poses a threat to the autonomy and strength of the state and the institutions of civil society. The economic potential of many international corporations, measured by the value of their production, already exceed the GNP of countries of average size. A rapid concentration of financial capital ensues, which favours a liberalisation of the turnover of capital and the collapse of the planned economy. We are witnessing a further stage in the uprooting of the economic system from political and social systems. The phenomenon which J. Stiglitz refers to as "market fundamentalism" has made its appearance. The most important activities on the international scale are aimed at removing barriers to the free operation of the market. In this context it is difficult to decide whether the interests of global economic bodies are behind these activities or a conviction that "the market will free you, enrich you and make you happy." In general, economic theory advocates free operation of the market, free trade and the mobility of production factors, including people. It is increasingly easy to identify the economic and political players on the global stage but there is no system of enjoining political responsibility for the results of their actions. Political responsibility may only be enforced relatively efficiently on the national scale and not on the global scale. This unwillingness to take political responsibility is very often exploited by the global players. In my view globalisation violates the symmetry between the state's regulatory powers and its responsibility for matters that impinge on it. An increasing number of economic, environmental and political problems have their origin in the activity of supranational bodies. This situation necessitates a redefinition of the role of the state, its autonomy and its methods of carrying out its policies.

One of the ways of resolving this problem, relevant to at least one part of the planet, is to create a strong international grouping, of which the most advanced in organisational form is the European Union. Within the territory covered by this type of grouping it is possible to create institutions that regulate matters of a supranational character in a way that goes beyond the scope of individual member states. One function of the European Union is that it is a response to the need for global public resources. It is obviously a limited response but is important all the same. Firstly, on the European Union scale it is obviously possible to tackle a larger range of acute global problems than anywhere else, problems that include food safety, issues of social and economic exclusion, environmental pollution and the social and personal security of its citizens. Secondly, the European Union constitutes an extremely strong unit on the global scale. It currently has at its disposal greater economic potential than the United States of America and also has the opportunity to become an equally strong body politically. It can therefore

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exert its influence more effectively in global affairs and their regulation than individual member states could when acting independently.

Acting on the principles of subsidiarity, the European Union is also striving to strengthen social and economic structures on a local and regional scale. In developing local government, supporting the institutions of civil society, protecting the natural, cultural and social variety within its geographical area and carrying out ambitious programmes to improve social and economic cohesion the European Union forms an exceptional enclave of global space. Jeremy Rifkin, the prominent American thinker, perceives and appreciates these tendencies. According to him the "European dream" represents quality of life, sustainable growth, "deep play" and common human rights. It is increasingly popular among the younger generation, who seek involvement in global development while at the same time remaining rooted in a local dimension (Rifkin, 2005).

The "European dream" and the "European challenge," the basic components and characteristics of which can already be quite clearly identified, is an extremely ambitious undertaking which aims to find institutional frameworks which will, on the one hand, enable the potential benefits of globalisation to be reconciled and made use of and also, on the other, safeguard the values, whether individual, local, regional or national, that are under serious threat from globalisation. An example of this is the outworking of what is known as the European model of agriculture. The principle was already accepted when the European Economic Community was created in 1957 that agriculture would be protected and supported from public funds in view of its many important economic, cultural and social functions in Europe. From these assumptions the Common Agricultural Policy (CAP), the most important common policy to date, developed. The history of the CAP is highly instructive and is an important example of harmonising certain standards, both those of the market (efficiency and competitiveness) and those applied beyond it (food safety, the protection of natural and cultural diversity, ensuring the vitality of rural areas and many others) with the search for a suitable allocation of decision-making authority and political instruments at member-state level and in the organs of power at the European level. The European Union is currently the laboratory for one of most important experiments in forming a new model of the state and supranational public power. The attempt to bring in a Constitution for Europe, by which the European Reform Treaty was finally accepted, is an extremely important step in carrying out this experiment.

In the member countries of the European Union a large part of the GNP is collected, mainly in taxes, and then distributed by the state. This amounts to approximately 45% of GNP, considerably more than in other

developed countries outside Europe, such as the USA or Japan. In this context the common European Union budget is relatively small, totalling approximately 1% of the GNP of the member countries. Although most economists have been sharply critical of the large role given to the state in the redistribution of GNP, this also has some clearly beneficial effects and enables various policies to be carried out that correct the effects of the market mechanism, including the so-called "negative external effects" of the market. It is in Europe that the concept of the welfare state has been carried through most fully, and Europe also has a relatively low income gap in society.

The large part played by public costs in the countries of the European Union and also the considerable costs incurred in realising its common aims act as prompts to pay particular attention to the rational and effective outlay of these funds. The theory of economic management of public funds is a comparatively poorly developed part of economic science. Economists have dealt primarily with the private and market sectors. Weaknesses in the economic analysis of public costs are particularly evident in Poland, where cost accounting is not carried out in a systematic and complex manner and the advantages of various institutional measures to meet social needs, for example in education, the health service and public order, are treated similarly. If it is borne in mind that public costs at different levels of the state administration are equivalent to nearly half the GNP, it may easily be imagined that opportunities for rationalising public costs and making the state more efficient are being insufficiently exploited.

In the European Union the idea of "good governance" is being developed to include "new public governance". There is no real equivalent in Polish to the word "governance" and the expression *zarządzanie publiczne*, or "public management," is often substituted, which only partly reflects the issue in question. In keeping with the requirements of the economics of the public sphere, such as the rationalisation of costs, a broader application of economic accounting, the practice of budgeting as a compulsory task and the introduction of elements of competition in the carrying out of public duties, it is suggested that the attention of the public authorities should shift from government in the usual sense to management in the public sphere using various levels of state organisation and non-governmental institutions, in other words shifting "from government to governance".

Relations between the state and economic institutions can be regarded as dependant on what is needed in terms of autonomy, complementarity, conflict, interdependence or symbiosis. Granting economic bodies a considerable degree of autonomy in relation to the state (the political authorities) and religious institutions is an important factor in favour of economic development. Autonomy of the economy is also an effective

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restraint on arbitrary political power. The freedom of the economy is an extremely important element of civil freedom, and in political and economic systems where economic freedom has been restricted other civil liberties have shrunk or disappeared.

For civil liberties and democracy to be safeguarded, however, considerably more is needed than freedom in economic management; a well-run, efficient state, an active civil society and free media are also necessary. Both state power and the market economy show a tendency to expand at the cost of other aspects of social life. Institutional measures restricting both "imperial" tendencies are therefore essential. Whereas the strength of the state authorities is still mainly determined by factors within the country, the strength and position of many economic bodies feeds on global resources. On the world scale we are witnessing a growing imbalance between the real power represented by pan-national economic bodies and state and social power which remains internal to the states themselves. Observing these tendencies, Ralf Dahrendorf came to the conclusion that probably the most serious consequence of the system of values in force was that its emphasis on elasticity, productivity, competition and the generation of profits was destructive in terms of public services, public space and the significance of service (Dahrendorf, 2003).

After almost twenty years of post-communist transformation, Poland, the pioneer of the process and for a certain time its leader, has not worked its way into a state even remotely resembling an institutional balance between the spheres of market, state and civil society. Whilst the strength and efficiency of the reformed economy do not give rise to any great reservations, the state's efficiency and quality of governance deserve very low score². Poland is an example of increasing asymmetry in the development of the private and public spheres. In the latter no stimuli or mechanisms have been implemented which would lead to the successes of the private sphere. The weakness in the way public life is conducted is not only a matter of low levels of efficiency and lack of effectiveness on the part of the state authorities but also of inaction in the civic institutions, which have not managed to rouse themselves sufficiently. A particular stimulus to improve the working of public institutions has been the pressure of the demands made on the candidate countries for European Union membership. In this they managed to achieve the minimum progress necessary and

² For many years Poland receives quite low ranks in international reports concerning the quality and effectiveness of management. Taking into account competitiveness of the Polish economy, it was classified on 48th place, and if it concerns effectiveness of public institutions – 73 place (World 2007).

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Poland became a member of the European Union. After this took place in 2004 the drive to reform in the public sphere again slowed down.

Through the considerations set out above I have tried to show how important it is that relationships between the state and the economy take on an appropriate form in the context of situations that occur on the European and global scales. The weakness of the state institutions and the economy prevent Poland from taking advantage of the opportunities offered by globalisation and European integration, and these do not constitute sufficient protection against the dangers created by the two processes. A second wave of structural and institutional reform is essential for Poland and this must be directed towards radical improvement in the efficiency of the state, reducing the asymmetry between the development of the private and the public spheres of action and stimulating civil society to greater activity. In many respects this is the most difficult part of the transformation of Poland, but it is one which needs to be put into practice as soon as possible.

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