

Springer Studies in Alternative Economics

Grzegorz W. Kolodko

Political Economy of New Pragmatism

Implications of Irreversible Globalization

 Springer

Springer Studies in Alternative Economics

This book series offers an outlet for cutting-edge research in alternative, heterodox and pluralist economics. It features scholarly studies on various schools of thought beyond the neo-classical orthodoxy, including Austrian, Post Keynesian, Sraffian, Marxian, Geogist, Institutional-evolutionary, as well as feminist, radical, social, green, and ecological economics. It aims to promote pluralism of economic ideas, methodological approaches, and topics.


The series also welcomes works that seek to develop alternative visions of the economy, economic structures and new approaches that aim to serve society, for example by embedding the economy within the ecosystem, or to enrich economic thought by advancing diversity, gender, race, and social equality. All titles in this series are peer-reviewed.

Grzegorz W. Kolodko

Political Economy of New Pragmatism

Implications of Irreversible Globalization

 Springer

Grzegorz W. Kolodko 
Kozminski University
Warsaw, Poland

ISSN 2731-5908 ISSN 2731-5916 (electronic)
Springer Studies in Alternative Economics
ISBN 978-3-031-12262-0 ISBN 978-3-031-12263-7 (eBook)
<https://doi.org/10.1007/978-3-031-12263-7>

© The Editor(s) (if applicable) and The Author(s), under exclusive license to Springer Nature Switzerland AG 2022

This work is subject to copyright. All rights are solely and exclusively licensed by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use.

The publisher, the authors, and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, expressed or implied, with respect to the material contained herein or for any errors or omissions that may have been made. The publisher remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.

This Springer imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

For Gabriela, my younger sister

Prologue

A millennium ago—in 1021—the bravest Vikings from the north of Europe, after a daring and grueling expedition, during which many of them—yet, their numbers are unknown—died, found a new land that is still called that way today—Newfoundland. We do not know the exact name given to it by those courageous sailors. The place they arrived at is now called *L’Anse aux Meadows*, in memory of later French colonialism. The Vikings reached an island off the north-east coast of a vast territory, a double continent that had to wait another half a millennium to be named America, which in turn is the name we owe to the Italian traveler, Amerigo Vespucci. He avoided the mistake made by Columbus, as he knew that he came to a vast new continent, the New World. Then, in September 1519, a small flotilla of five galleons under the command of Ferdinand Magellan sailed from southwestern Europe, off the coast of Spain, and set off on a journey around the world, the sphericity of which many people still did not believe in. Those valiant sailors, like the Vikings, headed west but took a southerly course to do the seemingly impossible—to circumnavigate the globe. Shortly after, the Sun was no longer setting over the empire of the Kings of Spain, Charles V, and Philip II. There were also other empires emerging and evolving, with the Sun shining over them for some time. The age of globalization has arrived, although nobody used that term to describe this process. A process, because it is exactly a course of events whose essence can only be grasped in terms of the passage of time.

Contents

1 Introduction	1
References	3
2 New Pragmatism for New Times	5
2.1 Identity of Economics	5
2.2 State of Affairs	11
2.2.1 Demographic Changes	12
2.2.2 Environmental Changes	13
2.2.3 Scientific and Technological Revolution	15
2.2.4 Non-inclusive Globalization	17
2.2.5 General Crisis of Neoliberal Capitalism	19
2.2.6 Crisis of Liberal Democracy	22
2.2.7 Second Cold War	26
2.3 Objectives and Method of Economics	28
2.4 In Search of a New Paradigm	40
2.5 Useful Economics	44
References	46
3 Political System and Socio-economic Development	53
3.1 Ideas and Interests	53
3.2 Between Democracy and Authoritarianism	55
3.3 Political System—An End or a Means to an End?	61
3.4 Political System and Economic Development	68
3.5 Entrepreneurship and Competitiveness	73
3.6 G7—Between Megalomania and Responsibility	77
3.7 Disappointment with Democracy	82
3.8 Influence of Democracy, Authoritarianism and Meritocracy on Social and Economic Development	86
3.9 What, Why, and How to Compare?	89
3.10 Threats to Meritocracy	96
3.11 A Good Prince and a Bad Dictator	103
References	105

4	People’s Planet	109
4.1	From the G20 to COP26	109
4.2	The Scent of Flowers and the Singing of Birds	112
4.3	Who Will Pay for It?	117
4.4	Every Cloud has a Silver Lining?	122
4.5	Ethical Dimension of Environmental Protection	126
	References	128
5	Leadership: Economics and Politics of Great Change	131
5.1	Perestroika and Glasnost	131
5.2	The Round Table and the Berlin Wall	134
5.3	Retrospection	138
5.4	Theft First, then Confiscation—A Strange Russian-Western Partnership	143
5.5	The Power of Thought	146
	References	152
6	One-Third of a Century of Transformation	155
6.1	The Beginning and the End of the Post-socialist Transformation	155
6.2	The Pros and Cons of the Polish Transformation, or Between the Neocolonization and the Golden Age	164
6.3	Reality and Opinions	169
6.4	Post Hoc Ergo Propter Hoc	172
6.5	What If...	175
	References	180
7	Shortageflation 3.0: War Economy–State Socialism–Pandemic Crisis	183
7.1	Different Faces of Inflation	183
7.2	Inflation Suppression	186
7.3	Economics of Flows and Economics of Stocks	192
7.4	Shortageflation Rate	197
7.5	What’s Next?	199
7.6	The Worse, the Worse	203
	References	206
8	The Irreversibility of Globalization	209
8.1	The Essence of Globalization	209
8.2	What’s Going on	217
8.3	Polish Ways	223
8.4	Shortening Distances	237
	References	242
9	Ending, or How to Row Uphill	245
	References	251

Epilogue	253
Bibliography	255
Index	257

List of Tables

Table 3.1	Freedom indexes in selected countries	65
Table 3.2	Economic growth rate in countries with different political systems	67
Table 3.3	Economic freedom—economic growth—democracy	70
Table 3.4	Human capital index, HDI, and national income per capita, GDP (PPP)	71
Table 3.5	Estimates of the value of human capital taking into account inequalities in various political systems	72
Table 3.6	Socio-economic and political characteristics of a dozen Southeast Asian countries	85
Table 3.7	Comparison of socio-economic and political characteristics of selected democratic and authoritarian countries (the order of countries according to the scale of HDI improvement in the decade 2011–2020)	88
Table 3.8	Unemployment rate in selected countries with different regimes in 2018–2020	90
Table 3.9	Rankings of selected countries with different political systems from the point of view of GDP dynamics and changes in human capital	90
Table 5.1	Democracy index in selected countries with different political systems	137
Table 6.1	Changes in the level of production and the rate of inflation (CPI) in Poland in 1990–1991 (in percent)	159
Table 7.1	Changes in the production level and the inflation rate in the US and the UK in the years 1946–1949 (in percent)	187
Table 7.2	Changes in the level of production and the inflation rate in China in the years 1990–1993 (in percent)	189
Table 7.3	GDP decline rate and forecasts in selected countries in 2020–2022 (in percent)	195
Table 7.4	Average shortageflation rates in selected socialist countries in 1977–1984 (percent)	198

Table 7.5	Core inflation rate, increase in public debt and average level of retail prices in selected European Union countries in 2021	200
Table 8.1	Indices of human development in selected countries in 1990–2020	239
Table 8.2	Human development index adjusted for environmental pressures	242

List of Charts

Chart 3.1	Economic growth in authoritarian and democratic countries in 1991–2020 (GDP per capita 1990 = 100). <i>Source</i> Own calculations based on data from WB (2021a)	68
Chart 3.2	Liabilities of low and middle-income countries towards China in 2010–2020 (in USD billion). <i>Source</i> World Bank International Department Statistics	80
Chart 3.3	What is more important—democracy or economic development? (Percentage saying that democracy is more important than economic development). <i>Source</i> ABS (2021)	83
Chart 3.4	What is more important—political freedom or reduction of income inequalities? (Percentage of supporters of political freedom). <i>Source</i> ABS (2021)	84
Chart 3.5	Growth rate of GDP per capita (PPP) in Vietnam, Malaysia, Thailand, and the Philippines in 1991–2020. <i>Source</i> WB (2021a)	94
Chart 4.1	Production and export of anti-COVID vaccines (in millions of doses as of October 2021). <i>Source</i> Our World In Data (2021a, b)	110
Chart 4.2	Afforestation and deforestation in 1990–2020 (global change of land areas, million ha). <i>Source</i> FAO (2020)	113
Chart 4.3	Forecast of greenhouse gas emissions in the world until 2030, gigatons. <i>Source</i> ETC (2021)	116
Chart 4.4	Public debt of OECD countries in 2021 (in percent of GDP) Data for Israel, Columbia, Costa Rica, Mexico, and New Zealand is for 2019. <i>Source</i> OECD (2021)	120
Chart 4.5	Countries with the highest level of military expenditure. <i>Source</i> SIPRI (2021)	123
Chart 4.6	Hypothetical savings in military expenditures to be shifted to environmental protection and counteracting global warming in 2021–2030. <i>Source</i> Own calculations	125

Chart 5.1	GDP per capita in China, Poland, and Russia (1990 = 100) (PPP, constant 2017 international \$). <i>Source</i> For years 1989–2019: WB (2021); for 2020 China and Russia: WEO (2021), for Poland: GUS (2021)	135
Chart 5.2	China’s GDP as a percentage of Russia’s GDP in 1989 and 2020 (by PPP). <i>Source</i> For years 1989–2019: WDI (2021); For 2020: WEO 2021	136
Chart 5.3	Doomsday Clock—minutes to midnight. <i>Source</i> Doomsday Clock (2022)	142
Chart 6.1	Recession and economic growth in Poland and Ukraine in 1990–2021 (GDP per capita, PPP). <i>Source</i> For years 1990–2020: World Bank (2021), (constant 2017 \$). For the year 2021 for Poland according to the draft budget for 2022, for Ukraine according to the announcement of Prime Minister Denys Shmyhal at the Kyiv International Economic Forum (Ukrinform 2021)	158
Chart 6.2	Periodization of one-third of the century of post-socialist transformation in Poland. <i>Source</i> Central Statistical Office, GUS, different years	166
Chart 7.1	From shortageflation to slumpflation. <i>Source</i> Author’s own	189
Chart 7.2	GDP per capita of China, Poland, and Russia, 1990 = 100 (PPP, constant international dollar 2017). <i>Source</i> For years 1989–2019: WDI (2021). For the year 2020: China and Russia WEO (2021), Poland GUS (2021)	190
Chart 7.3	Excessive savings in advanced economies (percent of GDP). <i>Source</i> OECD and World Bank (see: Economist 2021c)	195
Chart 7.4	Growth in current deposits and other liabilities of banks to households between 2017 and 2021 (percent). <i>Source</i> NBP (2021). Data for 2021 on a full year basis, assuming the same growth rate in subsequent quarters as in Q1 2021 compared to Q4 2020	196
Chart 8.1	Share of world trade in gross world product, 1990–2020 (percent). <i>Source</i> WB (2021c)	213
Chart 8.2	GDP per capita (PPP, constant international dollar 2017), 1990 = 100. <i>Source</i> Own calculations based on WB (2021b)	220
Chart 8.3	Big five—China, US, India, Japan, Russia. China’s GDP 1990 = 100 (PPP, constant international dollar 2017). <i>Source</i> Own calculations based on WB (2021b)	221
Chart 8.4	Contribution of employment, capital, and productivity to GDP growth in China, 1990–2050 (percentage points). <i>Source</i> The Economist Intelligence Unit (presentation online 23.09.2021)	228

Chart 8.5	For the trajectory of Poland catching up with Germany in terms of GDP per capita. <i>Source</i> Own calculations	238
Chart 8.6	Scenario of closing the gap between the Polish and German Human Development Indices. <i>Source</i> Own calculations.	241

Chapter 1

Introduction



After the publication of *Truth, Errors and Lies: Politics and Economics in a Volatile World* (Kolodko 2011) and three years later *Whither the World: Political Economy of the Future* (Kolodko 2014), now it is time for the third part of my trilogy: *Political Economy of New Pragmatism: Implications of Irreversible Globalization*.

Although there are opinions that the first two volumes read as if they were written yesterday, I cannot remain silent. A lot is going on around us—close by, very near, as well as in distant places, far away. And, unfortunately, there is relatively more evil than good going on compared to the time when only one, my first book, was on my mind. Despite the enormous progress made by humanity over the last decade or so, the problems to be solved are piling up. There are more contradicting ideas and interests; various cultural, social, political, ecological, economic, and, what is particularly dangerous, military conflicts are multiplying. One should never give up hope for a better future because all these problems and conflicts can be solved with the power of human knowledge; yet, there is no certainty that they will be solved. It depends. On what? This is the question I try to answer in this book.

In *Truth, Errors, and Lies...* I wrote about a dozen Great Issues of the Future, abbreviated as GIF. I have not multiplied them in the subsequent volumes of the trilogy, because—I believe—they comprehensively capture the entirety of the surrounding reality and processes occurring in the world. In *Whither the World*, I have only switched the order of the first two issues. Axiological issues have come to the fore—the diverse values guiding people and their communities—and only after them came the issue of economic dynamics. These dozen GIFs were presented in the following sequence:

1. The evolution of values and their cultural implications for development processes.
2. The rate and limits of economic growth.
3. The institutionalization of globalization *versus* the increasing lack of coordination and chaos.
4. The regional integration and the way it meshes with globalization.
5. The position and role of non-governmental organizations.

6. The natural environment and competition over dwindling natural resources.
7. Demographic processes and human migration.
8. Poverty, misery, and social inequality.
9. The knowledge-based economy and society.
10. Scientific and technical progress.
11. The evolution of networks and its economic consequences.
12. Conflicts and security, war, and peace.

Having assumed such an order of presentation and discussion of these issues, fundamental for modern civilization, I commented that the list could have been arranged differently. I could have started with the last point about security, war, and peace and ended with the point that used to be first—conclusions concerning the evolution of values that drive our various actions, that make us take actions or give them up. Now, it would probably be necessary to sequence these Great Issues of the Future differently, without adding any additional points, though. They seem to encompass all of the great issues that we, as humanity, will need to properly deal with in the future. However, some of the challenges, mentioned in these books about the world, have clearly moved forward. Particular attention should be drawn to the issues of inequality, human migration, and climate change. There are specific interdependencies and links between these three GIFs. In particular, inequalities—in income and wealth, in access to public goods and the Internet—as well as environmental changes and climate warming, making life unbearable in a growing number of places on Earth, result in intensifying human migrations that are difficult to control. It is already so bad that it threatens democracy (where it exists), social stability, and peaceful international relations. The world got into a trap, which makes it all the more important not to waste time just standing by and watching things unfold and get complicated, but to seek ways out. Some people lose faith that these ways exist, but they are there. It is therefore necessary to find and show them and make an effort to follow the right paths.

Without insisting on the earlier sequence of the twelve Great Issues of the Future, I do not directly refer to them in this book, although I continue the thoughts outlined there. More important than the sequence, which is always more or less debatable, is comprehensiveness. The great French artist Jean-Luc Godard, one of the founders of the New Wave of filmmaking that was so fashionable over half a century ago, when asked how to make such great films as he did in *Breathless* (1960) and *Contempt* (1963), replied that it was simple—a film must have a beginning, a middle, and an end. The journalists were quick to take note of this valuable thought, but before they realized that the master was saying truisms, Godard added: but not necessarily in that order. That is the point. In art, a beautiful picture can be painted without drawing everything in a specific sequence. In film, the work must be complete by the time *The End* credits roll. There are different principles in science than in art, and it is better not to start from the end. After all, the most important is to comprehensively answer the questions raised, although sometimes the correct formulation of the questions per se enriches our knowledge.

The twelve issues—even the most important ones—are a lot. Eventually, even the set of commandments had to fit into the Decalogue. In management science, it is assumed that one of the features of a good leader is that he or she never requires more than three important things to be dealt with at once. Therefore, this dozen of GIFs is not a proposal for leaders, especially political ones—just imagine the ‘effectiveness’ of a leader calling on his supporters at a rally to take up these causes. He would not even be able to remember them himself. This is a proposal for intellectual consideration and a suggestion as to the directions of political actions on a large socio-economic scale and for a very long time.

The matter of the modern world is so complex and convoluted that it can be described in various ways, using a multitude of methods introducing successive characters to the screen of this unique global cinema. Well, we live in a time of chaos and that is why we long so much for an elementary cultural and institutional order that not only makes it easier to understand what is happening around us and why, but above all, leads to peace in our lives and a greater degree of predictability as to what the future holds. While living with great uncertainty about the shape of that future is intellectually inspiring for some, it is depressing and frustrating for far larger parts of society. People prefer to know what awaits them. They would most like to know that there is a bright future ahead of them. This may or may not be the case.

When in 2011, I presented the first volume of the trilogy at Columbia University in New York, a professor from the School of Law, when asked to comment, said that it was a very interesting publication, although he felt as if I thought that one could not understand anything unless one knew everything. I replied that I did not go that far, but I do think that in order to understand anything, one needs to understand a great deal. I would like this third part of the trilogy to help us a bit.

References

- Kolodko, Grzegorz W. (2011), *Truth, Errors and Lies. Politics and Economics in a Volatile World*, Columbia University Press, New York.
- Kolodko, Grzegorz W. (2014), *Whither the World: The Political Economy of the Future*, Palgrave Macmillan, Houndmills, Basingstoke, Hampshire.

Chapter 2

New Pragmatism for New Times



Insanity is doing the same thing over and over again and expecting different results.
Albert Einstein (1879–1955)

2.1 Identity of Economics

Economics is a beautiful science because it serves human well-being. It is a body of knowledge about economic activity in all its aspects, and when we are able to add new segments to the knowledge accumulated over generations—new observations of phenomena and processes and their innovative theoretical explanations—it is no longer just knowledge, but a science. Yet, it only remains a science for as long as it is at the service of truth, when it focuses on objective analyses and in-depth generalizations, and not when it becomes ugly, when it is merely an instrument in ongoing political and ideological disputes or a tool in the hands of the lobbyists of special interest groups. In the latter two cases, economic knowledge is undoubtedly useful, but it is not a science, and such activities cannot be assigned the attributes of beauty inherent to economics as a science that perceives and examines human—individual, group, social, civilizational—economic behavior and puts its interpretations into a theoretical framework. Therefore, economics can be described as a science when it creates value added in terms of knowledge about economic activity.

However, the matter gets complicated because not only are there many unresolved problems, but economics itself is also in a phase of fundamental changes. According to many authors, it is in a state of crisis, and some even claim that it is a broken science, which—like Alice in Wonderland—believes in various contradicting things at the same time. Indeed, economics is currently in an extremely difficult situation, due, on the one hand, to the essence of its subject matter, that is, the condition of the contemporary economy and its cultural and real, including technological environment, and, on the other hand, due to the functions which an advanced and enriched knowledge about economic activity is supposed to perform. From both of these points

of view, the present period is special, as it raises new questions to which new answers have to be sought. This is a fascinating challenge that traditional schools of economic thought cannot successfully tackle (Skidelsky 2020). A different reality requires a different approach, which particularly applies to economics.

With the movement of people together with the goods and services they produce and provide, economic thought wanders as well—with accompanying questions and answers. For some time now—counting in decades and generations rather than in years and political electoral cycles—we have been living in a world of new quality, which from a broad economic perspective can be described as a beyond-GDP reality. This implies the need to develop a beyond-GDP economic theory that will serve as the base for a beyond-GDP economic policy and a beyond-GDP development strategy addressing the current and future problems. In other words, it is about a holistic approach to development, a concept of comprehensive development. The beyond-GDP reality means that many economic phenomena and processes, in the broad sense, occur outside the field of human activity observed and explained by mainstream neoclassical economic thought so far, which has focused on the conditions and mechanisms of growth identified, in simple terms, on the microscale—with the maximization of return on invested capital and on the macroscale—with the maximization of national income, most often understood as Gross Domestic Product, GDP.

While astronomy studies essentially the same reality as it did two and a half centuries ago—and if anything changes in this field, in the wake of successive scientific discoveries, the ideas about that reality change, not the reality itself¹—economics, if we abstract from the otherwise fascinating history of economic thought and economic history, essentially refers to the present. More precisely, since the present is less than a blink of an eye—to the recent past and the near future. Let us, therefore, speak not about the present, but about contemporaneity, which is changing greatly and rapidly.

The economics of contemporaneity describes and interprets the economy and societies that are considerably different from those of the past. There is an idyllic picture of an almost self-sufficient economy in the times before the first Industrial Revolution, when someone very resourceful had his own “...enterprise with its own mills, distilleries and breweries, sawmills and tar kilns, brickyards and plants manufacturing their own barrels and shingles. He made his own linen, nails, and oils – linseed, hemp, and rapeseed. He exported flour and groats from his properties to Gdańsk using scows” (Gostomski 1951). For what he carried with these scows—boats steered by raftsmen, sailing with the flow of the Vistula river—he could buy the goods he needed, which he did not produce in his multibranch farm. How simple was the economy explained by Adam Smith, when in 1776 he published *An Inquiry into the Nature and Causes of the Wealth of Nations*. He could describe the sphere of production as viewed through the prism of a pin factory and barter relations based

¹ I am leaving aside the changes in the cosmos that occur as a result of explosions or collisions between celestial bodies, which we learn about after a time that is a function of the light years separating the occurrence of the fact from the time it reaches the consciousness of earthly observers.

on contracts between a baker and a shoemaker. Now, such a description must be made, inter alia, by observing global financial flows and distribution relations in the e-commerce networks. Of course, bakers and shoemakers are still needed, although the euphoric apologists of hi-tech feel that this is no longer the case: a smartphone, Spotify, and Uber are enough, clicking is enough. GDP per capita in England in Smith's day (Smith did not know this category; his was a before-GDP economy) was about 15 times lower than it is today. England's GDP per capita in 1776 was £2044 (calculated in 2013 prices), while in 2019, before the COVID-19 pandemic, it was around £31,000 (Our World in Data 2021a, b). The population of the then loosely economically connected world was about 10 times less numerous than it is today. The whole world in total produced some 150 times less than it does now. Forty years later, David Ricardo was studying international trade relations and developing the theory of comparative costs, by analyzing the exchange of English cloth for Portuguese wine (*On the Principles of Political Economy and Taxation* published in 1817), although the economy had already gained momentum as a result of the Industrial Revolution, which in time came to be called 'the first', and the population of Earth exceeded the first billion.

Today's economy is also very different from the one described and interpreted by Karl Marx in *Capital* a century and a half ago,² as over time more sophisticated ways of getting rich at the expense of others have emerged than those of the primitive and brutal nineteenth-century exploitation of the working class by the bourgeoisie. Our economy is also different from the one intellectually embraced three generations later by John Maynard Keynes, who explained the demand-side mechanisms for controlling the economy on a macroeconomic scale.³ The breakthrough he made in economic thought was no longer sufficient half a century later as a result of the intensification of the contemporary phase of globalization, that is, the liberalization and integration of national economies and capital, goods, and labor markets, previously functioning largely in isolation, into an interconnected global market. The previous misconception that the sum of microeconomic rationalities did not guarantee the macroeconomic rationality, which Keynesian interventionism tried to correct, was exacerbated by the second-generation misconception that the sum of macroeconomic rationalities does not result in the global rationality.

The memorable contributions to the science of economics by such giants as Smith, Ricardo, Marx, and Keynes, as well as many other notable scholars, cannot be overstated. However, there is no doubt that if they were faced with the reality given to us, they would formulate other—sometimes completely different—questions and come to other conclusions than they did in their times. This is proven by the later achievements of such economists as Friedrich Hayek, Oskar Lange, Michał Kalecki, Milton Friedman, James Kenneth Galbraith, Douglass C. North, or Joseph E. Stiglitz.

² The first volume of Marx's fundamental work *Das Kapital. Kritik der politischen Ökonomie* was published in German in 1867. Marx's contribution to philosophical and economic thought has been extensively discussed by Stedman (2016).

³ Keynes's fundamental work *The General Theory of Employment, Interest and Money* was published in 1936.

The evolution of the research field of economics over the past half of a century towards a post-industrial economy quickly proved insufficient. It is demonstrated by the fact that economics is not able to answer numerous and salient questions if it abstracts from such categories as expectations, irrationality, the value of leisure time, the price of fresh air, social cohesion, complexity, or geopolitics. Investigating the conflicts of economic interests and suggesting ways to resolve them still remains the backbone of economics. Where there is no conflict of interests, there is no economics. We also constantly deal with the differences between our ideas (Brunnermeier et al. 2016). Sometimes, in cases of apparent contradictions, economists can prove the validity of opposing views by moving on the solid grounds of reality rather than strolling around in Wonderland. It is a bit like in an old joke where a wise man answers the question: “How much is two times two after all?” saying: “Well, it depends if you’re selling or buying”.

Robert Aumann, Nobel Laureate in Economic Sciences, said of his two distinguished colleagues: “In 2002, a Nobel Prize was awarded to Vernon Smith and Daniel Kahneman. The prize that was awarded to Kahneman got a lot of press because it was for what is called ‘behavioral economics’, which stresses the irrationality with which people often act. But people ignored the other half of the Nobel Prize, to Smith, who got the prize because his work showed that people do act rationally. Actually, this prize was given to these two people not for proving that people act irrationally, but for developing the methods of experimental economics. Smith came to the conclusion that people do act in accordance with the dictates of neoclassical economics; in other words, they do act in accordance with rationality postulates. Kahneman came to the opposite conclusion, and they shared the Nobel Prize”. (Aumann 2009, pp. 24–25). Well, that may be the case in economics. In astronomy, either the Sun had to revolve around Earth or Earth had to revolve around the Sun; it could not be both at the same time. It is not necessarily the case in economics...

In the beyond-GDP reality, the essence of the conflict of economic interests and ideas is different than it used to be, which is a natural consequence of the advance of productive forces and the evolution of production relations. Much has been contributed to the study of the changes taking place by such trends as institutional, behavioral, experimental economics, or neuro-economics, but it is necessary to go further, deeper, and broader, and above all, to make economic thinking more prospective. If economics is unable to anticipate the coming processes, it should at least keep up with them. If modern economics cannot be the economics of tomorrow, it should at least not be the economics of yesterday.

The matters get even more complicated. Modern economics has to go beyond the area of the market in its broadest sense, delving into the nooks and crannies of human thought processes, and sometimes into the interactions taking place in the economy-society-state triad. Actually, the slogan *It’s economy, stupid*—this very popular phrase that was coined by chance during Bill Clinton’s presidential campaign of 1992—is a sort of neoMarxist claim that in fact, the socio-economic being determines the consciousness, and that the superstructure of the economy in the form of the state and its institutions depends on the material base of the society. This is true, but now we also know that it happens that consciousness shapes the socio-economic

being, and certainly has a huge impact on it, additionally with the participation of the state, and in the era of globalization, of international and global inter-state relations.

All this is no longer enough. The condition of the economy is so complex that it is necessary to push economic thought into new directions; its purpose, content, and method must be reformulated. It certainly needs to leave the current mainstream economics for good because the models it has produced have moved too far from the realities of economic life. What is included in textbooks does not cover what is happening in reality, and science cannot ignore and oversimplify it. There are common-sense limits to ‘Let us suppose that...’.

American academic circles speak of two schools of economics. The first one, known as ‘saltwater economics’ is practiced at the leading universities on the east and west coast (Columbia, Harvard, MIT, Princeton, Yale and Berkeley, Stanford, UCLA), the second, ‘freshwater economics’, at the universities located in the Great Lakes region (Carnegie Mellon, Chicago, Rochester, Michigan, Minnesota). I had the opportunity to participate directly in the debates taking place there, having lectured at the Yale School of Management, at the UCLA Department of Economics in Los Angeles, and the Department of Political Science at the University of Rochester. James Kenneth Galbraith, referring to the dominance of some of the economic theories they promote with some proper intellectual skepticism, writes of an alternative in the form of ‘backwater economics’ (Galbraith 2018), because indeed, many precious thoughts are born over other waters. Outside the US too (Csaba 2009; Grinberg and Rubinsztein, 2014; Lin 2013).

The world, inhabited by nearly eight billion people, producing a gross product (there is that GDP again...) of more than \$130 trillion (calculated according to the purchasing power parity, PPP) and creating plenty of economic and social problems, is structurally unbalanced and therefore conflict-triggering up to the limits of endurance. While there are authors who argue that the situation is not at all bad (Milanovic 2019; Ridley 2010; Rosling et al. 2018), others claim that the world and civilization are facing a meltdown. While some subsequently outline almost catastrophic visions and certainly do not see any sensible future for capitalism (Harvey 2015), others are convinced that it can be rectified by fundamental changes (Acemoglu and Robinson 2012; King 2013).

Over the next few years, we will hear more often—as we already do—about the end of the world as we know it, about the collapse of the market economy (Bremmer 2010), about post-capitalism, again about the third way and socialism. New terms will be coined such as sharing economy (Sundararajan 2017), the digital platform-based gig economy (Kessler 2018), or Chinism (Kolodko 2020). Old terms will also return with determiners such as ‘new’ or ‘neo’ preceding them, as in ‘new nationalism’ (Economist 2016) or ‘neoprogessivism’. Shortly after the outbreak of the financial crisis in 2008, *The Economist* sought opportunities to save the then unstable neoliberal capitalism in its evolution toward ‘true progressivism’ (Economist 2012).

Concepts known from the past, such as ‘ordoliberalism’ and ‘social market economy’, are being revived. Old theories, such as the once-popular Schumpeterian theory of creative destruction (Schumpeter 2008), are being ‘rediscovered’ and presented in a different package. The famous concepts of the knowledge-based

economy are promoted as if the half-century older concept of science as a direct productive force has been forgotten. The new-old categories will be preventively criticized, as is the case with collective capitalism, which is accused of being deprived of two of its indispensable attributes: responsibility for deciding what people need and dynamism or the welfare state, which is claimed to entail excessive fiscalism and an excessive—from the viewpoint of efficiency—redistribution of income.

As a result, the first to prevail will be—as it is already—conceptual noise and definitional clutter. In time, some sort of compact concept of a new socio-economic system, or rather new systems, may emerge out of this chaos because uniformity will no longer exist (in fact, it never existed in the past either) with all the consequences for the economic sciences. Hence, we are now living in an era when a new reality is being formed, a new system that is different from the previous ones, which has to be intellectually embraced, understood, and explained. Ways to influence its evolution have to be proposed to allow for the coformation of its desired shape. Obviously, there will be axiological disputes—they are already ongoing—concerning its shape, and its form will be a function of resolving the accumulating conflicts of interests.

Terminological rigor is very important in scientific debate, as many disputes arise because those presenting their arguments do not mean the same thing. How to resolve the dispute over whether there is state capitalism (Roland 2019) or, worse, crony capitalism (Pei 2016) in China or, as the Chinese leaders prefer, ‘socialism with Chinese characteristics’, if sticking to the definitions proposed by the authors, in one and the same reality, each of these systems is present there? Is democracy in Poland still liberal or no longer liberal? Because in Hungary, it is already illiberal (Csaba 2019). Does the market economy in Turkey and Russia operate in the political environment of a democratic or autocratic system? While some authors use different terms to describe the same reality, others refer to different realities using the same term. It therefore sometimes happens that after a thorough explanation of the definitions used, the subject of the substantive dispute or the source of a political conflict disappears. Thus, all the more, a continuous substantive dialog is needed.

Interestingly, in the US, as many young people aged 18–29 are in favor of capitalism as of socialism.⁴ This is around 45% in each of these cases.⁵ While in the US, 45% is in favor of socialism, in the countries of Central and Eastern Europe—there is hardly anyone?! This dispersion of opinions and preferences regarding the economic and social system stems primarily from the fact that the respondents, asked about the same thing, answer different questions, as they have different understandings of the terms used. In the US when they hear ‘socialism’, they think of universally accessible public health care, free universities, and progressive taxation on the richest parts of

⁴ ‘In favour of’ in this case means respondents having a ‘*very or somewhat positive impression of...*’.

⁵ The older people get, the more they prefer capitalism to socialism. While some 43% of the 30–49 age group are still in favour of socialism, some 62% are in favour of capitalism (the answers did not necessarily add up to 100%), and among people over 65 years of age these figures amounted to some 35% and some 77%, respectively. These relations are shaped differently among supporters of Democrats and Republicans; the former have significantly more supporters of ‘socialism’, the latter of ‘capitalism’ (Harting 2019).

the population, while in the countries of the post-socialist transition, their imagination is confronted with a system experienced one or two generations earlier, which after 1989 is painted by the politics of memory in black—even more so than it was in the West before 1989—as an oppressive political system and an economy of chronic shortages. Such mixing of terms is misleading in public assessments, dangerous in politics, and unacceptable in science.

So, what kind of economics are we talking about? What is it supposed to observe, analyze, describe, and interpret? Whether, and if so, what and how should it propose and change for the better? It is astonishing because even though it would seem that the economic knowledge accumulated over centuries should provide easy and consensual answers to these questions, it is often helpless when faced with accumulating challenges. This happens for at least two reasons. First, due to the enormous qualitative diversity of the reality studied, economics is increasingly becoming a contextual science, while universal laws apply to a lesser degree. Second, economic thought often fails to keep up with the rapidly changing reality. A Marxist would say that observations and generalizations are not keeping pace with evolving production relations, which are being overwhelmingly influenced by the quickly changing nature of production forces. An institutionalist would conclude that the rules of the market game remain in discord with the rapidly evolving changes in technology and the organization of production and exchange.

2.2 State of Affairs

Humanity is facing epochal challenges. Meeting them requires lifestyle changes, while the functioning of the economy, different than before, must be correlated with those changes. All this determines the need to redefine the objective of economic activity. These epochal challenges stem from seven overlapping megatrends which are symptomatic of contemporary times:

1. demographic changes, especially the aging of the population and huge variations in fertility rates;
2. environmental changes, especially the depletion of non-renewable resources and global warming;
3. the scientific and technological revolution, especially the digitization of the economy and culture, as well as automation;
4. non-inclusive globalization, especially increasing areas of exclusion and growing inequality;
5. the general crisis of neoliberal capitalism, especially the structural economic imbalances;
6. the crisis of liberal democracy, especially the accompanying polarization of societies;
7. the Second Cold War, especially the West-Russia tensions and the US-China conflict.

2.2.1 *Demographic Changes*

There are either too few or too many people; it depends on which part of the globe one is looking at. While the average fertility rate for the world is 2.42 births per woman, in extreme cases, it is as low as 0.84 in Singapore and as high as 6.35 in Niger. Both cases—leaving aside immigration in the former and emigration in the latter—lead to a demographic disaster. There are as many as 124 countries and dependent territories in the world,⁶ with fertility rates below the replacement level fertility rate of about 2.1 children per mother. The economic consequences of this situation, manifested at times in surpluses and at other times in labor shortages, are far-reaching.

Over time, this is followed by an increasing demographic imbalance, which further intensifies the pressure for human migration, getting out of control of the states and international agreements. More than 300 million people already live outside their countries of birth,⁷ and much more people express their will to leave; some irresistibly. And this is so not necessarily for economic reasons. There are places where it is possible to live in economic terms, but when it comes to culture—one does not want to be there. It is surprising, but even in North America—more so in the US than in Canada—as much as around 15% of people say they wish to leave their country. In the Middle East and Latin America, it is over 30% and in Europe a staggering 23% (Economist 2019c). It turns out that in a growing number of countries, the saying “there’s no place like home” is no longer true.

Another aspect of demographic changes is the aging of the population. Life expectancy, for obvious reasons, will never again rise as much as it did in the twentieth century, when the average life expectancy increased from around 47 years before the First World War to 70 years today. The decline in early childhood mortality was crucial to this rise. The contemporary average life expectancy ranges from 52 years in Afghanistan to 90 in Monaco. It is estimated that the life expectancy for every second child born in highly developed countries is now 100 years. This is of colossal importance to the economy. There is a breakthrough ahead in the way we will work and live.

A simple extrapolation of existing consumption patterns and lifestyles is out of the question. It is enough to realize that when the life of a woman who currently retires at the average age of 60 is extended by a few years to reach 90 years—and this will be the case in a growing number of societies—then, traditionally, she would have to spend a third of her life in retirement! This is an economic and social absurd, especially with a pay-as-you-go pension system in which payments of retirement benefits are financed by contributions paid by those in employment and with the structural scarcity of savings for old age. A society in which a third, or even just a

⁶ Comparative international statistics specify 224 states and territories (CIA 2021), while the United Nations counts 193 independent states. The Vatican, which does not belong to the UN, is also a state as defined by international law.

⁷ During just the first two months of the Russian invasion of Ukraine, as many as 5 million Ukrainians fled abroad, of which about half went to neighbouring Poland.

fourth, of its life would be spent in retirement is an imperfect society, and there can be no healthy economy under such circumstances.

Faced with the inevitable aging of the population—which, by the way, is a result of socio-economic development and a sign of civilizational progress—it will be necessary to produce different things in a different way as well as to share and consume them differently than before. Significant changes in the demand structure will entail corresponding shifts in the supply structure. People will also need to be employed differently; the ways they earn, save, and spend will change. Therefore, they will have to be educated and trained in a different manner. And finally, income and wealth will have to be differently taxed, while transfers and public spending differently structured. Thus, the role of the state will also change.

An increasing number of societies have already entered a phase of demographic transition. There are more and more elderly people in the post-working age in the world. While in 2021, one in 11 people was over 65; in 2050, one in six of us will be of that age... In turn, there are relatively fewer people in the preproductive age; children up to the age of 15 account for around 25% of the total population (15.1 for the European Union). The UN predicts that in the years before 2050, the population will begin to fall in a total of 55 countries, including China. At the same time, the demographic dependency ratio, i.e., the ratio of the population of preworking and post-working age to the population of working age, which currently stands at 53.3% globally, will significantly deteriorate.

The country that is most advanced in the demographic transition process is Japan, where the number of people aged over 65 accounts for almost 30% of the population, and the dependency ratio is as high as 69%. Their experience in adapting to such demographic changes needs to be watched with particular attention, and it is necessary to learn from the Japanese. They refer to the people aged 65–74 as ‘before-old’ or ‘not-yet-old’. Almost half of those aged 65–69 work, and of those aged 70–74, a third is employed.

The era of life in three phases: childhood-adulthood-old age, or in other words: preworking age-working age-post-working age is coming to an irretrievable end. Multiphase life has begun and continues, and the arrangement of its constituent phases is fluid, dynamic, and still far from being fully recognized (Gratton and Scott 2016). Not only do we not know many of the answers regarding these issues, but, worse still, we are not aware of all the questions that an increasing life expectancy will pose to the economy.

2.2.2 Environmental Changes

Increasing numbers of people, by producing and consuming more and more, are adding even more strain to Mother Earth—our natural environment. It is surprising that only half a century ago, an economics course at a university could begin with the claim that air and water are free goods and that economics does not deal with such matters. Well, it must take particular care of them because they are the basis of human

existence, which no one can lack. Tackling pollution and sensibly controlling the exploitation of the Earth's non-renewable resources is an imperative for economic activity in the twenty-first century onward. Using them all costs money, and it is necessary to learn to calculate these costs well, on the one hand, and to impose these costs fairly on the societies and their members managing these goods, on the other. How to do it efficiently and what it means to do it fairly are fundamental questions facing economics. However, the issue is not only strictly economic but also ethical.

The mode of production, subordinated to the criterion of market efficiency in the previous era, was very energy-intensive. At the same time, humankind, which has increased in size by more than seven times since the beginning of the first Industrial Revolution, has emitted n -times more carbon dioxide and other greenhouse gases, increasing the temperature at the Earth's surface by no less than 1.1 degrees Celsius (IPCC 2019). In general, this can be lived with, but a continuation of past trends could, by the end of the century, lead to such overheating of the climate that the existential foundations of humanity would be threatened (Wallace-Wells 2019).

Although the depletion of non-renewable resources, including energy resources, is somewhat different than it was a dozen or so years ago, the imperative to use them prudently has not disappeared. The otherwise disastrous warming of the climate indeed allows access to the rich deposits in the Arctic, and their exploitation is already gaining momentum. It is a fact that there has been a noticeable increase in identified, especially underwater, marine energy resources. Certainly, their supply has increased as a result of the application of shale gas and shale oil technologies. Yet, all of these do not eliminate the problem of depleting resources, but merely postpone the moment when they will dwindle. Moreover, in each of these circumstances—from the exploitation of Arctic deposits through drilling under the ocean floors to shale extraction—the natural environment is being devastated.⁸

Lifestyles must therefore change and the mode of production that is linked to them must be adjusted to a mode that is less or certainly differently energy-intensive. Differently, that is, based more on renewable sources. Lifestyles change slowly and laboriously, but it is important to realize the inevitability of this change. It requires comprehensive measures, ranging from the sphere of education and cultural influence on buyers and consumers through the support of the development of environmentally friendly technologies to appropriate regulation, including orders and prohibitions. Neither the involvement of the state and public finances alone nor the commercial activity of private enterprise will suffice. What is needed is a creative synergy between the power of the invisible hand of the market and the power of the visible hand of the state. Regulation will be decisive. A lot can be achieved with a well-established public–private partnership, and all this must be supported by non-governmental organizations (NGOs).

⁸ It is not entirely clear what will be the ecological effects of Western countries resigning from importing energy resources, especially oil, from Russia as a result of economic sanctions imposed on it in 2022–2023. Replacing Russian oil with imports from some African deposits, especially from Angola and Nigeria, may have mid-term negative consequences for the natural environment.

All inevitable costs must be borne, which calls for a fundamental reconstruction of tax systems by gradually shifting from charging taxes on income to charging expenditure, taking into account the impact of the production and consumption of the goods purchased on environmental exploitation and global warming. It is difficult but necessary. It must be done first by the highly developed countries that have contributed most to the environmental degradation and imbalance during the long-term process of economic growth. This imbalance is, after all, a product of history, not an incident of the present.

2.2.3 Scientific and Technological Revolution

The most visible, and certainly the most publicized, impact on changing lifestyles and the associated mode of economic activity is made by the contemporary phase of the scientific and technological revolution known as Revolution 4.0. There is a little less buzz about advances in nanotechnology, materials engineering, biotechnology, and—most importantly—medicine, which are also very significant for the processes of manufacture and for the consumers' needs satisfaction, while most discussions revolve around digitizing the economy. Here, the big five of the digital economy are of particular importance: big data, cloud computing, Internet of Things (IoT), artificial intelligence (AI), and the fifth-generation network, 5G.

Some add a sixth point here, namely blockchain technology and especially the cryptocurrencies associated with it. The demand for these currencies—alongside the risk of loss no less than the chance of gain—has been strongly fueled by the media narrative, taking advantage of the fairly widespread ignorance of how the mechanisms governing the prices of these currencies work. In extreme cases, some countries ban cryptocurrencies from being transacted on their territory at all, while others try to make them their official means of payment. I do not think the latter is the future of this innovation due to the accompanying risks and the lack of a specific entity responsible for the inevitable crises that go along with speculations in the cryptocurrency markets. Attempts are therefore being made to regulate and supervise them. Hence, first, financial authorities are trying to prevent the use of crypto assets for money-laundering; second, crypto investments are being taxed; and third, financial regulations to reduce systemic risks are being introduced, including rules fostering fair competition and protecting consumers from fraud.

Some countries treat deposits in cryptocurrencies similarly to investments in real estate, imposing capital gains taxes payable only when the assets are sold, while others treat them similarly to foreign currencies, in the case of trading in which, unrealized gains are also taxable. Capital market supervisors wonder whether digital assets count as securities, which require disclosure from issuers, or as commodities, where the burden to prevent market manipulation lies with exchanges. Presenting his opinion on this subject, Gary Gensler, the chairman of the SEC, the US Securities and Exchange Commission, referred to the Wild West (Harty 2021). What is more, the

cryptocurrency mining process itself, the energy-intensive creation of cryptocurrencies, is the subject of controversy. There are also such cases as a complete ban on this practice introduced at the beginning of 2022 in Kosovo, where there was cryptocurrency, but there was no electricity... Bitcoin mining platforms operate 24 h a day, consuming more electricity than the whole of Argentina. According to Cambridge University estimates, by consuming 121.36 terawatt-hours of electricity, cryptocurrency mining absorbs as much electricity as the countries at the bottom of the third ten of the world's largest economies (Gonzales 2021).

More and more of us are using products and services of the digital economy. Its share in the market supply of goods is growing and so does employment, but it is not easy to estimate this growth accurately. Almost everyone deals with digital mechanisms, albeit to varying degrees. In this context, there are quite common views that Revolution 4.0 is going to change the world and our lives incredibly and beyond recognition. Well, there will be changes—they are already taking place—but there is also great exaggeration in this uproar. Certainly, the digitization of the economy will not change lifestyles as much as fire, wheel, money, print, or electricity did, though perhaps more than the Internet, from which Revolution 4.0 stems.

So, why all the fuss, why all the exaggerated talk about how everything is going to be different now that the digital economy has arrived? It is so because there was a time when the necessity was the mother of invention. It was in this sequence that humans started to control fire, invented printing, and came up with the Internet. There have been accidental discoveries that have made our lives easier, but it was the desire to satisfy objectively perceived needs that have stimulated research, implementation, and production. It is largely different these days, as it is the invention that is the mother of necessities.

First, there is the discovery, the idea, the implementation, but since there is no need—and therefore no demand in the conditions of a market economy—it has to be created. This also applies to things and services that are completely useless from the point of view of improving quality of life, such as the whole bunch of various apps that are forced on users of computers and mobile digital devices, which often make these users addicted and dumb. The usefulness of various technical innovations such as eavesdropping on viewers' comments in their homes and then presenting them with successive 'favorite programs' loaded with a series of advertisements of other much 'needed' products and services is also questionable. Or sending a message from one's bank to the mobile phone that it is time to drive to the petrol station. Perhaps, the biggest missed initiative will be the overpublicized driverless cars, autonomous vehicles (AVs), not at all dreamt of by people. This project involves gigantic financial resources and attracts many talented professionals who could be more beneficial elsewhere. Possibly, AVs may have a good, economically viable future for trucks and passenger buses traveling on dedicated road lanes, but it is highly doubtful that this will apply to all vehicle transport, including passenger cars.

A great threat to human freedom and democracy is first the creation of technology and supply, and then forcing the demand and need on the state and its agencies for the various surveillance instruments that violate the privacy of individuals; this is

how the digital *Big Brother* appears... It is a fact that various useful inventions are made in the process—as is the case with pumping money into armaments—but these can be achieved without wasting a great deal of talent, time, and money.

Moderation is needed. It is necessary to take a deep breath and ponder what is needed, or more precisely, who really needs it and what for. Euphoria rarely leads to a good end, yet it is inflamed by debates about the future of the digital economy. Unfortunately, economists also tend to do this, sometimes succumbing to the pressure of fashion and at other times getting involved in lobbying activities. Without adequate reflection, another huge stock market overshoot may occur, similarly to what happened with the so-called new economy (Lowenstein 2004), when a speculative investment-driven surge in the valuations of listed high-tech companies led to the creation of the Internet bubble. And as it is known, bubbles tend to burst which is also severe for companies that have little to do with the speculators inflating these bubbles. The nominal value of the Nasdaq index quintupled between 1995 and 2000, rising from around 1,000 points to around 5000, before plummeting by over 77% from a peak level of 5049 in March 2000 to a meager 1140 at the beginning of October 2002. This shock has not spared the most renowned high-tech companies such as Intel, Cisco, and Oracle, whose stock prices retreated by more than 80%. It took 15 years for the Nasdaq index to return to its precrisis level. The same can happen to the speculatively inflated listings of the most famous so-called technology companies, starting with Meta (formerly Facebook) or Amazon.

This market needs to be better programmed and regulated, as it becomes a hodge-podge without it. Consumption styles change but not always for the better, not necessarily improving the quality of life and contributing to social cohesion, without which there will also be no broadly understood dynamic balance. The economy of moderation is supposed to consist not only in the fight against gluttony leading to obesity or overexploitation of non-renewable resources, whether inanimate or animate, not only against the abuse of alcohol and the ostentatious consumption of material goods but also in countering the expansion of lifestyles that consume time and resources but do not contribute to the well-being of the society. There are many, who thoughtlessly succumb to the high-tech fever and the accompanying glitz of digital trinkets and are willing to forego reading good books, a theater play, or a walk in the park in favor of brightly colored beads. However, this does not exempt others from having to make them aware of what really works for them, on the one hand, and to limit the abuse of traders in all those useless trinkets and beads employing appropriate regulations, on the other.

2.2.4 Non-inclusive Globalization

Globalization is irreversible, which is determined by the indissolubility of multinational supply chains, the strength of transnational corporations, the desire of economic operators to participate in borderless trade that brings them tangible benefits, but also by such non-economic factors as the internationalization of culture,

global social media, or mass foreign tourism. It is possible, though, but only up to some point, to limit the depth of the globalization process. This surely happens temporarily at a time of rising populism and new nationalism, at a time of renewed—as something similar has happened before—protectionism and reduced openness to external economic relations (Lemieux 2018). Yet, all this is not the greatest threat to taking advantage of globalization for socio-economic development, this time *pro publico mondiale bono*. The greatest threat lies in the non-inclusive nature of globalization, which does not run the course it did at the beginning of the century (World Bank 2002).

While the inevitability of globalization is determined by multiple factors, some authors claim that it is doomed to fail for at least two reasons. The first is the lack of political globalization consisting in that no effective global mechanism to coordinate economic policy has yet emerged. This is a serious argument that has become even more important following the political turbulences caused by the disgraceful Russian aggression against Ukraine. Now, the gap between the economic and political dimensions of globalization is the largest since the onset of the 1990s. International politics hampers the required adjustments of economic globalization. The second argument regards the microeconomic nature of globalization which comes down to the fact that many transnational corporations have gained such global impetus that neither nation states nor multilateral international agreements are powerful enough to effectively regulate, let alone supervise, their activities.

Yes, there are global markets, but there are no adequately efficient, common, and capable institutions to regulate them. This deficiency must be removed by appropriately re-institutionalizing globalization. In this respect, coordination of economic policy within a group of states that meet in the format known as the G20 and global economic organizations such as the World Trade Organization, the International Monetary Fund, the World Bank, and the economic agencies of the United Nations can be of considerable importance. New structures are needed such as the China-initiated Asian Infrastructure Investment Bank, AIIB, which has been joined by more than 100 countries AIIB (2021). There will be more new organizations established. Moreover, cooperation or regional integration groupings are gaining significance. Coordination of the regulatory activities of the two largest economies, the US and China, will also perform a major function. If these two start to communicate—as they ought to, and in time, once the irrational Cold War is abandoned, they will—others will follow (Wang et al. 2021).

It is a fact that powerful multinational companies frequently impose what to do and how to do it on governments rather than the other way around. However, this is not an immanent feature of the contemporary phase of globalization, but a characteristic resulting from the institutional weakness of globalization and the lack of political will and courage of politicians to oppose the mighty and powerful imposing regulations that are beneficial to them. With such a determination, followed by institutions of the inclusive economy being created, it is possible to succeed in subordinating the interests of companies to the general social good and not contrariwise. Not always, not fully, and certainly not everywhere, but nevertheless so, as is done especially in the Nordic social market economies and in China. Interestingly, it is done using

quite different methods, as in the former case, it happens in the political environment of liberal democracy and civil society, while in the latter, under conditions of an authoritarian state and limited civil liberties. Yet, in both cases, the state has not allowed itself to be subordinated to private capital and seeks to regulate its activities aiming at maximizing profits more or less in accordance with the public interest.

This observation has far-reaching implications giving rise to the question: what to do? When it comes to economies that are less advanced in their development, then certainly the solutions applied in China should not be followed, but the right conclusions should be drawn from the experience there that fit into the cultural and geopolitical context in which one functions. China is currently linking its development strategy with the massive infrastructure program—the Belt and Road Initiative (BRI), commonly referred to as the New Silk Road. While favoring this initiative, already addressed to more than 100 countries, one must be careful for this not to become an instrument of economic dependency, as some fear (Economy 2018) but a means to make globalization more inclusive, as others point out (Santos et al. 2019); *win–win*, as the Chinese say (Liu 2019).

It is certainly worth drawing on the experience of Scandinavian social democracies and trying to apply some of the institutional solutions tested there on a global scale. The world cannot be made into a Nordic-style social market economy or converted into a German-style ordoliberalism, but we do not need to throw the baby out with the bathwater and walk away from globalization just because it is unfair. Despite this, it has given much more to humanity than it has cost it. It needs to be made more inclusive by changing the burden of its costs borne by the countries and social groups and sharing its bountiful fruits fairer.

2.2.5 General Crisis of Neoliberal Capitalism

The fifth mega process, which implies the imperative to change lifestyles and reformulate the way the economy works which is to serve this change, is the general crisis of neoliberal capitalism and liberal democracy. The political system that triumphed together with the collapse of state socialism three decades ago to such an extent that it seemed to some that it was ‘the end of history’ (Fukuyama, 1989) and that only liberal democracy should prevail over the whole world is losing credibility in countries as significant as the US under the administration of President Donald Trump, which was damaging to both the US and the global economy, or the UK unable to sensibly solve the Brexit issue it created. Problems with inefficiencies of democracy and their negative impact on the functioning of the economy are also found in other countries, such as Italy and Spain or Australia and Canada, among the highly developed countries, Argentina and Chile among countries with incomes slightly above the world average, or poorer countries such as Indonesia and Georgia. For several years now, some authors have eagerly added Hungary and Poland to this group. While economic liberalism was the driving force behind the creation of a welfare economy

in the West, its neoliberal deviation, by plunging significant parts of societies into relative or even absolute poverty, has excessively differentiated them internally and consequently polarized and antagonized them.

Over the last few decades—especially after 1980, since the presidency of Ronald Reagan in the US and the premiership of Margaret Thatcher in the UK and their associated lines of economic policy based on the supply-side economics and monetarism, known as *Reaganomics* and *Thatcherism*—the financial sector has separated from the real economic sphere and the economy has become distinctly financialized. Some call the resultant state of affairs, the essence of which is not so much profitable production and provision of services desired by households and businesses, but rather redistribution that feeds on capturing values produced elsewhere, a kind of rent seeking, as casino capitalism (Stiglitz 2010). Keynes clairvoyantly warned against this as early as in 1936, just as the British economist Susan Strange (1986) did in the early heyday of neoliberalism.

The enrichment of a few at the expense of the majority—to which the essence of neoliberalism boils down—required specific policies to be implemented and the economy to be deregulated to weaken the controlling role of the state (Harvey 2005). This is accompanied by specific changes in the fiscal system—in taxation, public transfers, and spending—leading to capturing of the lion’s share of national income growth by the wealthiest strata of society (Milanovic 2011; Saez Zucman 2019). When it falls, they push the burden of the recession onto the poorer strata of the population. Some authors, while agreeing with the observation that a few have grown rich at the expense of the many, claim that this is not so much due to the nature of neoliberalism as its supposedly unintended consequence. Perhaps even a side effect; they meant well, but it just worked out that way... Well, no. This is the way they wanted, how it was supposed to be, and this is what distinguishes neoliberalism, which needs to be fought against, from liberalism, which needs to be honed with good state regulation.

These are serious challenges, all the more so because the economic conflicts that arise on this occasion become politicized and the internal conflicts of interests become internationalized. “Regular people everywhere are being deprived of purchasing power – and tricked by chauvinists and opportunists into believing that their interests are fundamentally at odds. A global conflict between economic classes *within* countries is being misinterpreted as a series of conflicts *between* countries with competing interests. The danger is a repetition of the 1930s when a breakdown of the international economic and financial order undermined democracy and encouraged virulent nationalism. Back then, the consequences were war, revolution, and genocide. Fortunately, things are not yet nearly as dire now as they were then. But that is no excuse for complacency” (Klein and Pettis 2020, p. 2; highlights by authors). This is exactly the case. The fact that it is not yet as bad as it once was does not mean that it cannot get worse than it is now. We need to be careful.

In the case of the US, when neoliberal policies prevailed, the incomes of three-quarters of the population hardly increased at all, and for many households, they fell in real terms, while those drawn by market notables—mainly high-level managers and

financiers—increased significantly. While the share of the salariat, 99% of wage-earners in the US economy, in total income from 1980 to 2010 decreased by 15 percentage points, from 75 to 60%, the share of income of the 1% of the best paid doubled and that of 1 per mille quadrupled (Kurz 2017). If all boats, including small ones, cannot rise with the tide, at least let it not be the case that many of them sink and only the yachts—the most luxurious ones—rise.⁹

There are also other dimensions to inequalities. Access to public services, especially education and health care, is important, while in the long term and strategically, inequality of opportunities, reinforced by the institutions and policies of neoliberal capitalism, is paramount. Instead of an egalitarian health service, which is a symptom of a social market economy, we more often have to deal with the *health industry*. Suffice to say that the private insurance market in the US is worth \$540 billion. One does not have to visit Afghanistan or Monaco to see the reality of short and long lives. It is enough to take a ride on a Red Line train (or run; it is only a distance of a marathon, 42 km) from Englewood in Chicago, where the average life span is 60 years, to the Streeterville neighborhood, where the life span is 90 years. Half as long in the same city, on the same street... One does not have to go to Calcutta or Rio to see the enormity of extreme poverty and a bit of a life of luxury. It is enough to walk around New York, where 60,000 homeless people live on the streets, and the most expensive flat there, with a good view of Central Park and all of Manhattan, costs \$98 million. And still, not just those destitute from the bottom 1% of the income ladder have to raise their heads up high to see the penthouse windows on the 90th floor, but also those from the top 1% likewise, because their average income is not enough either; it amounts to a modest \$2.9 million a year...

On a global scale, income inequalities and—consequently, in the long term—wealth inequalities are decreasing. This is predominantly due to the changes taking place in China. This is only an apparent paradox since inequalities within this country have sharply increased over the same time, but it has happened on the path of huge growth in the income of the population, which has meanwhile caught up with the world average (according to PPP). In other words, inequalities have increased in China^{10,11} but average incomes are less distant from the average incomes in the rich economies, such as Japan or Taiwan, than they used to be some years ago. Leaving

⁹ Yet, to the surprise of many, the bad time for the yachts has suddenly come; at least for the ones owned by the Russian corrupted oligarchs. They were not much of a public concern for couple of decades when they were built and lucratively sold for stolen money being in the meantime laundered mostly in the US and the UK. Only in 2022, when severe sanctions have been imposed on Russia in the aftermath of its attack against Ukraine sovereignty, people of the world learned that yachts of a value exceeding one billion dollars have been arrested. And, how interesting!, that on the average the Russian oligarch yachts are by 3 m longer than the ones owned by the American billionaires; 61 and 58 m, respectively.

¹⁰ The Gini coefficient in China is as high as 46.5, similar to that in the USA, where it is estimated to be 47. Currently, in the former case it is already falling, while in the latter, it is rising again.

¹¹ The Gini coefficient is the most widely used measure of inequality in the distribution of income. Theoretically, in extreme cases, it equals 0 when everyone earns an identical income, and 100 when one takes all the income and the others have nothing. In practice, the extremes fluctuate around 25 (e.g. Slovenia 24) and do not exceed 70 (e.g. South Africa 63).

China aside, income inequalities in relation to the rest of the population of around 5.4 billion people are growing. China's large population and its rapid economic growth also significantly affect the world data¹². When we include them and compare the incomes of all the inhabitants of the globe, the Gini coefficient has decreased from 68.7 in 2003 to 64.9 in 2013 and continues to decline; it is estimated to be 61.3 in 2033 (Hellebrandt and Mauro 2015). It is therefore still higher for the world as a whole than for countries with extremely high inequalities.

These inequalities also decrease when we confront the average incomes of the population of different countries (Atkinson 2018). The faster growth of labor productivity and its remuneration in Poland compared to Germany results in leveling the gap between average incomes in these countries; the faster growth of GDP per capita in Mexico than in the US reduces income inequalities between them; the higher wage dynamics in Vietnam than in South Korea reduces income differences between these countries. And this is actually a positive effect of globalization because the pursuit of right development policies by national economies fosters economic dynamism (Kolodko 2002). Countries as diverse as Poland and China (Huang 2017; Lin 2012a) are good examples of the skillful use of globalization to accelerate their own growth, where in the former, the scale of income inequalities is moderate and has been falling recently, to amount to 27.8 in 2020.

Neoliberalism is culpable of many things. It objectifies societies and treats the many countries they inhabit instrumentally. This is expressed by the term *emerging markets*, which made an extraordinary career and is widely used—too often uncritically and sometimes thoughtlessly. Initially, it was explicitly addressed to liberalizing and opening up domestic capital markets, which were accessed by speculative investors from economically more advanced countries. Over time, neoliberalism began to apply this concept to entire states, their economies, and societies. The term 'Third World' was quickly displaced by the essentially no less pejorative 'emerging markets' which also encompassed the earlier 'second world' countries, i.e., post-socialist economies (Kolodko and Rutkowski 1991). And so, India and China, Indonesia and Brazil, Egypt and Mexico, Russia and Nigeria, Ukraine and Pakistan have been emerging for many years. Meanwhile, these groups of countries deserve a more appropriate term, namely emancipating economies and societies.

2.2.6 *Crisis of Liberal Democracy*

How often are the words of the British statesman Winston Churchill quoted that "democracy is the worst form of government except for all those other forms that have been tried from time to time". He said this in a speech in the House of Commons

¹² With a population of 1.39 billion, China produces 18.6% of the gross world product, as measured by PPP, which is more than the USA (16.6%). During the 70 years of the People's Republic of China, between 1949 and 2019, GDP per capita, this time calculated at the exchange rate, grew at an average annual rate of 6.8%, increasing almost 14 times.

on November 11, 1947. Churchill himself later admitted that this was not his original thought, but he merely repeated a phrase he had heard (Churchill 2008, p. 547). Today, this democratic form of government is not doing very well. Not only is authoritarianism getting stronger in countries that have little in common with democracy, but democracy itself is getting weaker in countries that have been its mainstay for many years (EIU 2021; HF 2021). This also applies to democracy preceded by the adjective ‘liberal’, which is intended to emphasize its maturity, but which is currently in the phase of the crisis.

While democracy is supposed to support devising creative compromises that mitigate the inevitable conflicts of ideas as well as individual and group interests, in recent years, it has led to political tensions, making visible fractures in societies, and antagonizing them as can be clearly seen from Poland to Peru, from the UK to Chile, from Norway to South Africa. It is the liberal democracy that in 2016 has made it possible for an unable to govern, politically irresponsible Donald Trump to become president of the most powerful country, the US. It is the liberal democracy that has made it possible for illiberal parties such as Prawo i Sprawiedliwość, PiS (the Law and Justice) party in Poland and Fidesz (Hungarian Civic Alliance) in Hungary to come to power. Because of democracy, governments of many countries are unable to impose patterns of behavior on businesses and of consumption on households that would halt environmental devastation and global warming. Three-quarters of a century ago Churchill could not have known all this, but how fresh the maxim attributed to him sounds in the third decade of the twenty-first century...

Democracy is in crisis because, in many cases, leaders fail to convince the vast majority of their populations—as there is no way to convince entire populations—to the ideas promoted by their policies. Their ambitions are all too often limited to winning the majority, frequently not of the whole of the society, but of only the voting part—who votes less and less willingly and less often—or, worse still, only the parliamentary majority, which sometimes does not enjoy the support of the majority of the society immediately after the election. And so, now, these liberal democracies are sometimes ruled by presidents who have no more than a meager 20% support, or by party governments that would lose miserably if the elections were held this Sunday. They rule because they can gain a one-vote advantage in parliaments to push through their proposals, even when the vast majority of the society is against them. Is it any wonder, then, that people are genuinely disappointed by such liberal democracy and start looking for something else because they can no longer listen to Churchill’s wisdom?

The same Churchill, in the same speech, admitted that “Politics is not a game. It is an earnest business”. That is the point; for many of the democratically—obviously! How else?—elected representatives, democracy is seen not as a public service but as a way of earning an income, sometimes a substantial one. It should therefore not come as a surprise that people—who are additionally treated as objects, when they are all too often told that they are the electorate, understood in fact as a voting machine—lose confidence in the institutions of a democratic state and its political actors. Is it any wonder, then, that often almost half of the society feels ill at ease

when they are politically terrorized by a minimum majority—or more precisely by their leaders—and, in fact, deal with a kind of *democraship* instead of the declared liberal democracy?

This is how liberal democracy has led to the division of numerous societies in half, 50/50—from Canada to Australia, from Indonesia to Brazil, from Bolivia to Slovenia, from Colombia to the Czech Republic—and these are often sharp divisions. The societies are antagonized, their parts—in many cases those halves—instead of talking and discussing with each other, shout at each other and quarrel. It is difficult, and sometimes impossible, to act rationally in such circumstances, also in the economic sphere. The emotions generated by the pursuit of such a democracy distort the expectations of various economic actors, which spoil social relations, including economic interactions. At some point, liberal democracy starts disturbing instead of helping, which causes its crisis, being a serious challenge for the development strategy and policy.

For every action, there is a reaction. Donald Trump's economically irrational decisions—such as protectionism, directed in fact against globalization, and trade wars (not only with China, but also with political allies such as South Korea, Canada, Mexico, and the European Union), the spread of new nationalism and the resurgence of protectionism—are a populist response to the excesses of neoliberalism. There would be no contemporary phase of populism where it is not for the earlier wave of neoliberalism. It is true that as a result of globalization, with its inherent trade and outsourcing, the incomes of the mass of people in the emancipating countries have increased at the expense of stagnating or sometimes falling incomes for the middle classes and low-skilled workers in the rich countries. Consequently, inequalities in the latter countries widened, but the incomes of the poorer of the world have increased. All in all, it turned out pretty well, as the balance of these changes across the globe is positive. In the process, the incomes of high-tech professionals have risen everywhere, at the expense of the middle classes, but it is not globalization that is the cause of the injustices that are being felt more and more by the masses of people, which is triggering an onslaught of populism, but the bad policies pursued under the bad system. It is not the wave of great technological progress that contributes to unacceptable inequalities; here, non-inclusive institutions and conscious policies play a fundamental role.

An insufficiency of fair competition, poor regulation, corruption of politicians and bureaucracy, the pursuit of self-interests by business and financial elites, greed, and avarice to the extent that the best business schools taught that greed is good, and Silicon Valley developed a culture of fake-it-till-you-make-it—fear of speculative investors that some another 'big thing' will escape them, even though it may be another big scam—frauds of manufacturers, distributors and service providers from the banking through the automotive to the pharmaceutical sector (Akerlof and Shiller 2015), stimulating consumerism driving up capitalist profits, corrupt media and their manipulations of public opinion, cynicism of political elites—all this was bound to

bear its rotten fruit. After all, a mistake should not be rectified with another mistake, and that is what the populist response to the sins of neoliberalism is. If capitalism, contaminated with market fundamentalism, does not understand this, it will not survive.

Highly developed capitalism both smells good and stinks bad. Two things stand out in business in America today. One of them is the success of American companies: There are 57 of them among the 100 most valuable listed companies in the world. The second is "...the bad smell hanging over a number of powerful companies (...) Boeing faces claims that it sold 737 max planes with dangerous software. (...) Criminal charges have been filed against Goldman Sachs in Malaysia for its role in arranging \$6.5bn of debt for a state-run fund that engaged in fraud. (...) A jury in California has just found that Monsanto failed to warn a customer that its weedkiller could, allegedly, cause cancer. (...) Wells Fargo, one of America's biggest banks, has admitted creating 3.5 m unauthorized bank accounts. (...) Facebook is ensnared in scandals; its data practices have come under scrutiny in several countries. (...) Some 146 m customers of Equifax, a credit-scoring firm, had their personal details stolen in 2017. (...) Then there is the opioid epidemic, which involves not only Purdue Pharma, the maker of OxyContin, but also, according to a lawsuit by New York's attorney-general, other firms including McKesson and Johnson & Johnson". And further: "It is tempting to view these cases as unrelated events caused by factors ranging from bad luck and human error to negligence and criminality. That would be a mistake. American firms seem to be more scandal-prone than their peers across the pond. The total market value of American firms involved in big incidents that have become public since 2016 is \$1.54trn. At least 200 m consumers have been affected. The figures are only \$600bn and under 30 m for European firms, including carmakers that faked emissions tests and Nordic banks involved in money-laundering" (Economist 2019a). Indeed, these are not so much incidental scandals as immanent systemic features. This seems to be not so much organized entrepreneurship as organized crime, when "...as many as 20 companies have been involved in fixing prices for over 100 drugs, including treatments for diabetes and cancer. (...) The legal action, which follows a five-year investigation, accuses drugs companies of involvement in a scheme to boost prices – in some cases by more than 1000%". (BBC 2019). These are not malicious reports of some agencies such as RT, Russia Today, or the Beijing-based television network, CGTN. These are the facts quoted by the most reliable sources.

This proves that capitalism is not doing well. Even such a prominent supporter of capitalism as the British-American opinion-leading weekly *The Economist* had to notice that "Across the West, capitalism is not working as well as it should" (Economist 2019b). It does not work because it cannot, as it is experiencing a structural crisis (Bremmer 2010; Galbraith 2014; Stiglitz 2019b). Without changing its essence, so its system of values and fundamental principles of operation, it may not survive the current historical turn. This is as interesting as it is difficult and dangerous because a pile of questions immediately emerges. What is next? What is instead? If indeed post-capitalism, then what kind of post-capitalism? What are the desired changes supposed to consist of, when all that remains is to run forward? There is

nothing to go back to. It is not possible to use old technologies to erect a new building on a new planet. And the Earth of the twenty-first century is a very different planet from that of previous centuries. Unless... Unless the new Cold War will serve the failing capitalism well by driving the public attention elsewhere, far away from its political, institutional, and structural woes?

2.2.7 Second Cold War

It comes as an unpleasant surprise to many supporters of multinational economic cooperation, rightly seen as a vital development factor that the new Cold War has ensued at the end of the second decade of the twenty-first century, instead of the energy being focused on an appropriate re-institutionalization of globalization aimed at making it more inclusive. This greatly complicates the further course of globalization. In fact, it is the Second Cold War, given that we can now refer to the previous one, which ended in the early 1990s, as the first. This time, for various reasons, the US has declared it on China and Russia. The common grounds, if not of open hostility, then at least of unfriendly dislike, stem from fundamentally different ideological foundations of the political systems and varying value systems. But, that is not the point. If that were the case, instead of being friends, the US should have long ago declared Cold War relations with, for example, Saudi Arabia, an authoritarian state that does not respect human rights valued in the West. Certain other similar countries could be identified, too.

In this game, Russia and China are not equal either. While Russia is interested in weakening the West because it improves its relative position on the world stage, which is why this country does not avoid actions that undermine the processes of political integration of the states of advanced capitalism, when these give it the opportunity to do so, this is not the case with China. Economically, Russia poses no threat whatsoever to the rich West, and from the economic point of view, it matters only because of its inexhaustible reserves of natural resources. The weaker the West, the relatively stronger Russia becomes. This doctrine guides the Kremlin, as they are aware that they have no promising prospects in the economic race to the top. That is why Russia, under President Vladimir Putin, undertakes various actions—including military ones, from Syria and Libya, from Georgia to Kazakhstan—that are supposed to improve their position on the international stage; not only in regional but also in global affairs. And this, to Moscow's satisfaction, was effective. Up to a point. Russia's despicable aggression against Ukraine changes everything. Instead of improving its relative international position, Russia is losing tremendously to such a degree that it will take more than a generation's time just to regain its pre 2022 position. No other country in the contemporary world has committed such an ill-advised blunder as Russia.

China is different; it becomes stronger—absolutely and relatively—when the West flourishes. To continue its rapid development—and this is Beijing's overriding policy objective—China needs the dynamic market of rich Western Europe and North

America as well as Japan and Australia, instead of creating economic problems for them. So, the faster the development in the West, the better it is for China. Therefore, it has no interest whatsoever in an unhealthy rivalry with the West headed by the US and is very uncomfortable with the trade war declared during Donald Trump's presidency. This pernicious act on the US side of the economic establishment was motivated by the illusory belief that the US would emerge victorious from this war. Well, no; this is not going to happen. Neither side will win the trade war, but the Chinese will lose relatively less, as, in the long run, their centralized political system and the economic policy practiced under it will restructure their economy accordingly and make it even more—not less, as the Americans wish—competitive.

The fundamental error that led Washington to initiate the Cold War with China is rooted in thinking that is specific to the previous era. Some American politicians believe that by provoking the Cold War and involving China in it, they will fuel an arms race so much that the Chinese economy will not withstand it, just as the Soviet economy did not withstand the previous race. This is misguided reasoning. It is true that the Soviet Union would have collapsed much later if it had not been for the devastating arms race, the burden of which could not be carried by the inefficient economy of bureaucratic socialism. However, the efficient economy of the Chinese hybrid system will not only manage to finance military expenditure—in any case on a much smaller scale in relation to GDP than it was in the USSR—but is also able to use arms programs to develop the civilian sector of the economy. The fundamental difference between the USSR then and China now is that, in the former case, the military sector, in a manner typical of a centralized state economy, was sucking the civilian economy out of its most valuable personnel and material assets, while in the latter case, the civilian sector, subject to the rigors of the consumer market, sometimes acquires valuable assets from the military sector, if only in the form of technological innovations that quickly reach the consumer market. The USSR was an economy of deep market shortages and insufficient production capacities. China is an economy with a well-stocked market and surplus production capacities.

The Cold War strategy could therefore bring the effects intended by its supporters—which is to stop China's long march forward by destabilizing the economy—only if there were massive increases in military spending beyond the strength of public finances. The Cold War will not lead to that. It would first have to turn into a hot war, but that most likely is not going to happen, because today—unlike in previous eras—no one has a strategic economic interest in it. Eventually, therefore, there will be no winners in this cold war, as in the trade war. Everyone—except for the industrial-military lobby and the political and media circles corrupted by it—will lose to some extent. It is not yet clear, though, who will lose how much. Third countries will also lose, but hopefully as few of them as possible will be drawn directly into this conflict.

Obviously, this Second Cold War is spoiling bilateral and multilateral economic relations—in the sphere of trade and capital flows, in the field of technology transfer and foreign direct investments, in relation to the movement of labor and scientific

cooperation. However, the healthy core of these relationships—the common interests on the one hand, and the common ideas that unite people on the other—is strong enough to prevail over time. Before that time comes, there will again be many years that could be better spent.

2.3 Objectives and Method of Economics

While assessing various economic systems and determining their efficiency characteristics, a conclusion is drawn that economic systems are not equivalent in an axiological sense. Moreover, there are better and worse economies within the same economic system. A good economy is capable of long-term and harmonious development that maintains the proper relationship between the present and the future. What people need is not an economy in general, but a good economy. There is no economic activity in isolation from the values it is supposed to serve. Let me repeat what I already said in the first volume of the trilogy: Economy without values is like life without sense. Along the path of history, the notions of good and bad in the economy, and—as they are not the same thing—good and bad economy, have changed profoundly (Sedlacek 2011). Today, we are closer not only to categories such as profitability and justice, but also to categories such as social cohesion and solidarity, generational responsibility, and environmental sensitivity.

A good economy must be efficient and competitive, but these are only the means, not to be confused with the ends which is meeting social needs. A good economy calls for a good policy, which involves giving people not what they want but what they need. This is the imperative of the economy of moderation, which the economics of moderation describes and is intended to serve (Kolodko 2014). This is not about usurpers imposing their invented consumption patterns and lifestyles, but about shaping and affecting those patterns and lifestyles in a public, democratic discourse. Such discourse must be responsible and based on scientific findings that say what is objectively healthy and beneficial individually and socially. Thus, a policy is not only supposed to capture social preferences accurately but also to stimulate them sensibly.

Proper upbringing and education, as well as the social influence on desirable consumption patterns from the viewpoint of sustainable development and improved welfare, must consist in shaping consumption preferences in such a way that people want what serves them well as often as possible. The point, then, is to reduce the dissonance between what we want—often under the influence of mind-numbing advertising storms—and what is really good for us. The vast amount of knowledge provided by behavioral economics (Kahneman 2011; Thaler 2016; Thaler and Sunstein 2009) facilitates work in this field. Unfortunately, this knowledge is fairly effectively used for the opposing purpose (Kuenzler 2017). What is missing is sufficient political determination to go in the right direction (Krugman 2020).

Neoliberal economics makes several illusory assumptions. According to the first, the market operates under competitive conditions. This is always the case to some extent, but the competition is never perfect, as markets are profoundly oligopolistic—from large retail chains and airlines through banks and insurance agencies to pharmaceutical companies and social media. The pressures for deregulation from neoliberal circles have, in fact, consisted in demanding—and often obtaining—the deregulation they wanted not so much deepening the competitive environment as facilitating their profit maximization. More than once, deregulation has come down to making it easier to cut out relatively weaker competitors which are inconvenient for stronger companies. In many cases, this is fostered by a cynical policy that preaches one thing and does another. This must be changed, and the way to do this is through regulations towards a social market economy and taking account of the interests of medium-sized and small enterprises and their stakeholders.

There is not enough of rationality of economic entities, both businesses and households, either. A rational entity is the one who acts for its own benefit, taking account of the information they have. Assuming for a moment that people know what is beneficial for them in their various economic roles—and if they do not, then they know where and from whom they can find it out (Sloman and Fernbach 2017)—ultimately their behavior is determined by information. An asymmetry often occurs here—an imbalance in favor of the generally better-informed producers and sellers. Buyers and consumers *sensu largo* are in a weaker position (Stiglitz 2001). It is deliberately further aggravated by the forces manipulating buyers and misinforming them through marketing and advertising so that while buyers think they are acting for their own benefit, they are actually providing income and generating profits for someone else. Then, they harm themselves when compared to a hypothetical optimization of behavior if they were provided with full and balanced information.

The commanding forces of the power-capital-information triad or, in other words, politics-money-media, often have the effect of making people irrational in the market. It is the power of the civil state—through market regulation—to counteract this. Even if the market were fully competitive, it could never solve this problem by itself. Here, educational and institutional state intervention is needed. That is its duty. Freedom is indeed about the ability to make choices, but genuine freedom only exists if the voters—here buyers and consumers—are fairly informed about what they are buying and consuming.

Reliable sources of information are extremely important for the behavior—of all kinds, not just economic behavior—to be rational. It is comprehensible that the vast majority of participants of socio-economic life do not reach out to them because they do not know how to find them, and even if they do, it is not very clear what to do about it. In the search for sources, many are either unable to look into the original ones or they simply do not care. It is natural that a throng of people—even professionals, although they should not do so—rely on secondary information or—even more often—on their interpretations, giving credence to those who make these interpretations. Nowadays, in an overwhelming number of cases, these are not universities or research institutes, nor undisputed authorities, of which there seem to be much less and less lately, but the media. That is, those who publish, express their

opinions, and broadcast there. Of course, there is always some part guided by the criterion of reliability when it comes to verifying source information—although even with the best will, this is often extremely difficult or simply impossible—as well as interpreting that information objectively and professionally. It is a shame, but way too many times this is not the case; the fake news syndrome rears its ugly head. Then, in the media turmoil, people get lost and have conflicting opinions on the same matters, including seemingly obvious ones¹³. Debatable issues will never be in short supply, but 2×2 must equal 4, whether you watch CNN or FOX NEWS. Yet, it happens that it does not, which becomes the cause of social frustrations and conflicts and which hinders rational behavior in individual and collective interpersonal contacts. In other words, if social behavior were more likely to rely on sound information and be able to benefit from conscientious interpretations of that information, the level of economic efficiency would be higher and social welfare would be greater.

A huge effort needs to be made to create the right institutional framework to bring the reality of the modern market economy as close as possible to the ideal of full competition with economic entities being well informed. Without progress in this area, consumer sovereignty will also be illusory. Its *sine qua non* condition is the awareness of the options to choose from and their associated marginal utility. Directions of structural reforms needed in these fields require a fundamental systemic and political strengthening of state authorities overseeing fair competition and protecting consumer interests. The US and the European Union are right to act in this direction, although it is less right that their authorities seem to be more willing to impose fines, sometimes running into billions, on companies not at home but on the other side of the Atlantic Ocean.

Given that we are in a beyond-GDP economy that operates in an environment that is different from before, the purpose of economic activity needs to be redefined. At the macroeconomic level, this is well-being, which is determined not only by the traditional level of consumption of goods and services, but also by the quality of the natural, cultural, and political environment in which this consumption takes place. It is becoming increasingly important not to have, but to be. A high level of consumption—which is still a long way off for the vast majority of humanity—does not guarantee satisfaction from economic activity if it is not accompanied by social

¹³ An interesting comment has been made *vis-à-vis* the media presentation of the Russia-Ukraine conflict: "...there is clearly some truth and much exaggeration in both the American and Russian positions. All of which raise questions about the media's performance in such a polarised and militarised environment. After all, only a free press is able to interrogate state power and propagate the facts about the war. I am in no way surprised that in authoritarian Russia, the government has intimidated and silenced critics of its war, but I am rather shocked by the venomous attacks on critics of US foreign policies by their fellow journalists and citizens, accusing them of acting as a "fifth column" on "Putin's payroll". I am not sure which is worse, journalists forced to toe the official line, or doing it voluntarily, even enthusiastically, in order to get ahead in Washington or London. Unfortunately, we are witnessing a repeat of the disastrous Gulf War coverage of two decades ago, where much of the influential Anglo-Saxon mainstream media sided rather blindly and foolishly with the official line. For some reason, many of the same gung-ho armchair journalists and chickenhawk pundits, who got it all wrong about the disastrous Iraq War, feel the need, yet again, to incite Western establishments and enlighten them with military insights." (Bishara 2022).

cohesion and proper moral space. People go where they aim. Thus, the metrics of development need to be changed so that following them serves the purpose of progress in terms of well-being (Stiglitz et al. 2019).

There is no global economy without national economies; there are no national economies without a microeconomic sphere. There is no macroeconomics without microeconomics. What, then, are the microeconomic foundations for innovative economics that would meet the upcoming challenges? Clearly, some serious changes are brought here by transformations in the functioning of the economy resulting from technological and organizational advances, including the development of the digital economy and the sharing economy. It remains true that the economy must continue to rely on the dominance of private companies, except that their operation and expansion must be regulated by the state in the general public interest. Through a proper market regulation and concern for the circulation of information and fight against disinformation, the state should encourage entrepreneurship to flourish and stimulate private investment, but still influence economic activity so that it is consistent with the macroeconomic objective of improving the welfare of the society. Good practices in this respect are brought about by ordoliberalism as well as the social market economy, whereby in the era of globalization, this also requires transnational institutions and policies, which is much more difficult. The aim of an entrepreneur remains to maximize the rate of return on the capital employed, which the state is supposed to encourage with a proper institutional framework. Meanwhile, the state is supposed to make it more difficult for an entrepreneur to drive up its own profits through rent seeking—exploiting stakeholders and passing on to them of some of the costs incurred, as well as capturing of income earned by someone else in the various phases and channels of distribution.

The social market economy must be based on the dominance, but not the omnipotence, of private ownership of the means of production. The guiding principle must be to maximize profits from this ownership, but with entrepreneurship regulated by the state so that the pursuit of private capital for these profits is positively linked to the pursuit of sustainable development, maximizing the welfare of the society. In the social market economy, private ownership reigns not so that capital can maximize profits at its will by exploiting labor forces, but so that the state can tax its profits, earned in synergy with the workers involved in the production processes, to finance collective needs. In other words, it is a system that in practice reconciles the imperative of efficiency of the private economy with the imperative of social justice.

It is good that a great initiative has been born in the European Union, known by the acronym ESG: ecology, society, governance. Unlike the equally popular but insufficiently effective Corporate Social Responsibility initiative, CSR, which is not a command, but only an appeal for pro-social behavior and sensitivity addressed to entrepreneurs by intellectual and scientific circles, ESG has an institutional dimension. There are directives introduced requiring—for the time being only the largest companies—to report non-financial information. These are legal regulations, in force since 2023, which are supposed to oblige profit-chasing companies to act appropriately in the environmental and social spheres. From 2024 onward, they will be required to submit relevant reports to public authorities. It is an EU law, but as it

also applies to companies listed on stock exchanges operating within the EU, it will also apply to foreign companies, including American and Chinese ones. It is safe to say that this is an experiment of historic proportions. If successful, it will contribute significantly to the modification of objectives of economic activity on a microeconomic scale, with all the attendant consequences at the macroeconomic and global levels, because the still meager arsenal of microeconomic tools for the pursuit of macroeconomic objectives will be enriched.

Specific solutions are still *in statu nascendi*, but it is clear that companies will have to present many parameters to relevant authorities and their shareholders in order to monitor their situation. First, information on carbon emissions, water consumption, and the condition of thermal insulation of buildings will be required. Second, the practices regarding employment and gender equality issues will have to be reported. Third, based on the compulsory information provided, opinions may be given on the matters relating to the quality of management. The aim of these reforms, which will undoubtedly be controversial but will also certainly prove to inspire good practices, is to encourage companies to reduce their greenhouse gas emissions and energy consumption and to be more concerned about human capital. This is important, all the more so because businesses cannot ignore these issues, not only because they will be bound by the new legislation, but also because their behavior will be brought to the attention of investors, particularly institutional investors. But, as the proverb says, a hit dog will holler... And so it happened, when the suggestions appeared that “Its adherents hope for prosperity, fairness, and security. They are more likely to end up with inefficiency, vested interests, and insularity”. (Economist 2022).

Capital must temper its pursuit of profits. It is possible to believe that there are capitalists and owners, and even more so managers, who have broader horizons and are motivated by something more than the pursuit of profit, treating that profit as secondary, but it is not reasonable to believe that a wonderful new economic system is being born in which empathy and solidarity, the constant prevention of exclusion, and the promotion of inclusivity will prevail (Polman and Winston 2021). It is true that—according to some studies, in as many as one-third of cases—companies providing material goods and services are genuinely concerned about meeting consumers’ expectations, but they do not do so primarily for humanistic reasons or out of real social concern, not out of self-interested concern for the clean environment or the humane treatment of animals, but primarily for instrumental reasons. Otherwise, they will find it increasingly difficult to sell their products and services because consumer awareness is evolving to such an extent that more and more people, out of genuine concern for the environment and global warming, will no longer buy diesel cars, will not eat not only a meat meal made from slaughtered animals but even an egg laid by a hen tortured on a factory farm, will not buy mobile phones with batteries that use rare metals extracted in disgraceful conditions by children in the Congo, and will not pick up products in a pointless non-recyclable packaging. Entrepreneurs adapt their market offers not because they want to but because they have to. And if, in the process, the values guiding them change in the right direction—and this is slowly but surely happening—the better for everyone: for people and for the entire biosphere, without which they cannot exist.

Today, an important new component of economic activity is that access to reliable information is sometimes more meaningful for the formation and allocation of capital than ownership. This issue has both a technical and a moral dimension. This makes it all the more necessary to strive for fairness in economic activity and high ethical standards in business and economic policy. For the economy to be good, it must be fair, which once again raises the issues of healthy market competition and good state regulation.

It is not possible to completely eliminate the aforementioned misconstructions, but they can be mitigated as much on the micro–macrolevel (enterprises and the national economy) as on the macro–megalevel (national economies and the global economy). Again, without the state in the first case as well as transnational agreements and actions, in the second case, little can be achieved here. Not only does the market itself fail to solve these problems, but it intensifies them. However, to move things forward, one must not be fooled by the seeming readiness of the private sector to be almost charitable. This is not its purpose. Milton Friedman (1970) was right when he said that corporate social responsibility was about maximizing shareholder value. Yet, Joseph Stiglitz is also right when he says that corporations have a social responsibility to pay taxes (Stiglitz 2019c). In a fair, well-regulated economy, one does not exclude the other.

Having been frightened by the wave of populism, the chaotic reactions of some politicians, and various anti-establishment sentiments, capitalists are declaring their willingness to look after the interests of other people, not just their own. We should not be easily deceived, for it is nothing more than a peculiar tactic arising from the fears of losing their own powerful position. When at America's Business Roundtable more than 180 top managers of large companies stated that their main objective was not the maximization of shareholder value but the satisfaction of all stakeholders, this was just an attempt to pull the wool over people's eyes intended to weaken the determination of politicians to change regulations to take more account of social objectives. Whoever wishes can believe in the assertions that "It is right to judge economic progress by the purchasing power of median wages, not profits or share prices". (Economist 2021).

When the big business—especially the one that has neither clean hands nor a clear conscience—heard announcements of the planned systemic changes and revaluations of economic policies by the democratic contenders for the US presidency, Bernie Sanders and Elizabeth Warren, or Jeremy Corbyn, the left-wing leader of the British Labor Party—it was willing to declare almost a transition to quasi-socialist positions. Elizabeth Warren has accurately diagnosed the fundamental vices of American capitalism (Warren 2018). In her view, the system is corrupt and fails ordinary people. In her pursuit of the democratic nomination to run for the White House, she had a detailed plan for its transformation and, among others, wanted companies with revenues of more than a billion dollars to be required to obtain a special operating license obliging their executives not only to serve shareholders but also to consider the consequences of their activities for employees, suppliers and customers, neighbors, and the environment. If the standards set in this regard were to be breached, the US Commerce Department could revoke the permission to operate. However, it can

be assumed that the big business's declared desire to change to take greater account of employees' needs and its calls for a more balanced relationship between capital and labor are just declarations on paper and in the air. Unless...

Unless, indeed, there is another great change coming. Perhaps, there will be a real breakthrough, and things will get better under the influence of the combination of the growing grassroots pressure of significant parts of the society dissatisfied with the state of affairs and the determination of certain enlightened political leaders that things should and can be different? History knows such cases. Under the growing pressure from an increasingly organized labor movement and the specter of communism that circulated in Europe—"A specter is haunting Europe – the specter of communism", wrote Marx and Engels in the *Manifesto of the Communist Party*, which was first published in 1848 (Marks and Engels) (2000)—the capitalism of the late nineteenth century became less nasty than it had been at its beginning, although it was still necessary to fight for a ban on child labor or an eight-hour working day. Later, in the 1960s, President Lyndon B. Johnson's Great Society program made a considerable push for capitalism to new and better tracks (Zelizer 2015). This was a result of a combination of mass protests against the flagrant injustice, expressed among others in the presence of huge areas of social exclusion, poverty, and racial discrimination on the one hand, and on the other, the pressure resulting from the perception of positive examples from a socialist economy characterized by full employment, free health care, universal education, state promotion of culture, and safety on the streets. The progressive changes that were then introduced in the US, and which were followed in some other countries as well, became permanent over time.

Will it be the same this time too? There are enough protests going on against the unacceptable state of affairs, but the Occupy Wall Street and Occupy London movements, which were widely reported on a few years ago, seem already to have been forgotten. Are there enough enlightened leaders striving for genuine changes *pro publico bono*? Do they have anything to rely on? Are there political ideas and programs originating from the new socio-economic thinking that are sufficiently attractive but at the same time, and most importantly, pragmatic? Will it be possible to force them through, within the scope of prerogatives held, breaking the conservatism and resistance of particular interest groups? Will the leaders determined to act be able to successfully break through the constraints—informational, political, cultural, ethical, motivational, and emotional—that limit the possibilities of their actions? This is a crucial time, and we must be very careful not to be deceived by the hypocrisy of some parts of the business and political elites, nor to go astray into the trap of populism. If it succeeds, capitalism will survive, although perhaps over time it will be of such a new quality that a new term will have to be invented for it. We need to be very careful because even though no one can step in the same river twice, it is possible to step twice in the same swamp.

To achieve the redefined objective of economic activity, it is required to follow the path of triple-balanced development—economically, socially, and environmentally. There are specific feedback loops between these three spheres. Now, none of these balances can be maintained in the long run without the other two. The state of a classic dynamic economic balance—between production and sales, income and spending,

public revenue and expenditure, savings and investments, imports and exports—even if achieved is no longer sufficient. What is needed is a social balance expressed by a high degree of social cohesion, satisfactory outlays on social capital, and a limit on income inequality. This limit must be impassable in both directions, both upwards and downwards. It should favor the formation of capital, on the one hand, and should not be contested by people as being unfair, on the other. What is needed is an ecological balance that enables people to live their everyday lives where the water is clean and the grass is green, and that does not deplete natural resources in the long term and does not deprive future generations of access to them. The balance between today and tomorrow is even more difficult to achieve than that between the two sides of traditional equilibria.

A growing number of metrics are being proposed, some general guiding, such as the Integrated Index of Progress (in Polish, Zintegrowany Indeks Rozwoju, ZIP) (Kolodko 2011), and some operational, such as the human development index, HDI, estimated by the United Nations Development Program, UNDP (UNDP 2021a), or the better life index, BLI, calculated by the Organization for Economic Co-operation and Development, OECD (OECD 2021a). Composite indices additionally take into account people's subjective feelings not only about their material status but also about their cultural and political situation. The Legatum prosperity index is an example of such a metric (Legatum 2021). It may happen that with real incomes rising but pessimistic moods, the situation deteriorates, which is the case when the authorities claim that the situation is improving, but the working and non-working people of cities, towns, and villages think it is getting worse. As a result, people first get angry and then take to the streets. People also take to the streets for other, non-economic reasons, for example, to emphasize that "Black Lives Matter" to shout '*Konstytucja!*' all over Poland, to appeal for fully democratic elections to be held in the '*Московского городского совета*', to demonstrate against the unfortunate idea of being tried in the People Republic of China for crimes committed in Hong Kong, to sing '*Hai Tanahku Papua*' during protests in the courtyard of Cenderawasih University in Jayapura, to demand '*Catalunya Lliure*' at La Rambla in Barcelona, or to march through Avenida 18 de Julio in Montevideo and demand to '*Vivir Sin Miedo*'.

This happens in rich countries, as demonstrated by the French case of the wave of 'yellow vest' demonstrations (*gilets jaunes* in French) in response to an increase in excise duty on diesel fuel. It happens in moderately developed countries, such as Santiago, Chile, where vigorous demonstrations were provoked by an increase in the price of metro tickets. It also happens in poor countries such as Ecuador, where the eruption of protests was triggered by a reduction in state subsidies for energy prices. It is interesting and important that in each of these cases, there was an economic and sometimes ecological justification for the price rises, while the social consequences were ignored. In an economic equation, perhaps everything made sense, but not in an integrated equation of the economic, social, and environmental balance—by no means.

This is a wider problem inherent in the essence of the triple balance. Or—more often—the imbalance. It is entangled in the contradiction between minimizing costs and risks in one sphere—economic, social, or environmental—and increasing costs and risks in another or both (risk-risk trade-off). Traditional economics cannot accurately weigh and compare these costs and estimate, so accurately confront, these risks. There is much that needs to be done to examine and interpret these relations, not only in terms of occurring interdependencies but above all with reference to economic policy measures and development strategies that promote a comprehensive balance.

Relevant indices show how much the narrative is changing, and they show even more how much economic policy would change if it were subordinated to more accurately formulated objectives. While in the ranking by income (GDP per capita according to PPP), the US is fifth in the OECD (after Luxembourg, Ireland, Norway, and Switzerland); in BLI comparisons, it falls to tenth position (OECD 2021a). According to the first criterion, Poland is ranked 28th in this group (between Slovakia and Portugal) and 27th according to the second metric (between Slovakia and Lithuania) (OECD 2021b). In terms of the HDI, which is equally affected by the size of the GNI per capita, the state of society's education, and health—one-third of each (while constructing the HDI, Gross National Income, GNI, rather than Gross Domestic Product, GDP, is taken into account), and the inequality-adjusted human development index, IHDI, which is further adjusted for inequalities in income distribution and non-equal access to the public goods, the specific charm of countries compared to their traditional image sometimes looks quite different. Already knowing that the US, in terms of a simple metric of income per capita, ranks fifth and Poland 30th, using the HDI as an assessment criterion, they are ranked 16th and 33rd, respectively, and according to the IHDI—27th and 26th. (UNDP 2021b).

There are numerous metrics proposed, often complex with composite indicators being difficult to estimate, that take into account changes in many areas that determine the quality of life. Interesting studies are developed in Poland, such as the balanced development index, BDI, (Kozminski et al. 2020) calculated at Kozminski University. It is worth emphasizing that in the twelve-year 2008–2019 period, when GDP in absolute terms did not fall even once, the BDI fell to varying degrees as many as six times: in 2008, 2009, 2011, 2012, 2015, and 2016.

The objective of economic activity, to which sustainable development is supposed to lead, stems from the nature of a good economy. This objective determines the further subject of economic research and its method. A special feature of good economics is its comprehensiveness (Arthur 2015) because there is always a bundle of conditions, causative reasons, and secondary mechanisms related to the phenomena and processes being analyzed and explained. After all, a comprehensive approach is far from universalism, yet the awareness that things happen as they do because many things happen at the same time lies at the heart of its research method. The imperative of comprehensiveness of economics does not signify that everything close to the subject must be encompassed, but anything relevant to the shape of a given phenomenon and process cannot be overlooked. Nor does this comprehensiveness

require a formalized account of the enormity of all relationships and dependencies, as such an approach leads astray which is symptomatic of overformulated approaches of the complexity theory (Johnson 2017).

Today, due to the irreversibility of globalization, the worldwide aspects of economic relations in the broadest sense are particularly important. The quality and efficiency of economic activity derive from the mutual relations not only between the market and the state but also between the three fundamental elements of this process: market, state, and world, or viewed from a slightly different angle: business, national economy, and global economy. Economic research cannot, therefore, be dissociated from the global aspects of economic activity. These aspects make their presence felt both at the megaeconomic level, when we study the conditions, course, and effects of a trade war; at the macrolevel, when we analyze the development of the balance of payments; and at the microlevel, when we look at changes in fuel prices at a gas station.

A fascination with this beautiful science derives from the fact that economics is intellectually enriching. One needs to reach out to other social sciences—to philosophy and sociology, psychology and political science, history and anthropology. Good economics requires both the application of sophisticated, hard tools of mathematics, and the recourse to soft categories of humanities. A good economist must be able to count because economics is the knowledge of efficient economic activity. Properly calculated outcomes should exceed properly calculated costs, which is why money is so important in economics. But, a good economist must also feel what is good and what is evil, what is progress and what is regress, what is honesty, and what is iniquity. Economics cannot distract from formulating objectives of economic activity, and this is associated with valuation. That is why people are so important in economic considerations.

Economics derived from philosophy and sort of lost itself a bit when it moved far away from it, getting drawn far too much into mathematics, when many economists focused more on how to count rather than what and why to count. Hence, in its essence, economics should be treated as one of the humanities, although it is most often placed outside of them, typically among social sciences. However, it cannot abandon mathematics and have its head in the clouds of philosophical abstraction. It is a great art to reconcile these two very different domains—the hard one and the soft one. It is the art of combining various points which at first sight might seem to be chaotically scattered in time and space. There is a method to this chaos.

However, what economics needs more is definitely not chaos but an order of thought. From a methodological point of view, inductive reasoning is just as useful as deduction. Logical induction, that is, the formulation of theoretical generalizations based on the observation of phenomena and processes as well as accumulated experience, is particularly applicable. The problem is that, unlike in other branches of science, such as physics and chemistry, the chance for economists to conduct experiments, especially on a macro- and megascale, is extremely limited. Not laboratories but history provides us with experiences.

Deduction, which is a type of logical reasoning aimed at reaching a particular conclusion based on a set of assumed premises, offers plenty of opportunities but also poses great risks. Economists almost constantly make assumptions. The problem is that these assumptions are often questionable, illusory, biased, too abstract, detached from reality, or simply wrong. A very dangerous logical fallacy from an intellectual point of view is the claim: post hoc *ergo propter hoc*, meaning ‘after this, therefore because of this’. President Trump ascribes the economic growth in the US between 2016 and 2019 to his decisions behind what others have called *Trumponomics*, although that growth happened largely due to other factors, especially the positive inertia of the previous period, the good external situation, and favorable energy prices. In Europe, for example, the post hoc *ergo propter hoc* thinking is evident when opponents of the introduction of the European Union’s common currency, the euro, in countries such as Poland or Sweden, the Czech Republic or Hungary, use the false argument that elsewhere it had increased inflation. The fact is that Lithuania and Slovakia did experience a slight acceleration in the rate of price increases after joining the eurozone. However, this was not due to the introduction of the euro but occurred because of the cost-push inflation mechanisms—mainly driven by rising labor costs and energy prices. A glaring example of the logical fallacy of the post hoc *ergo propter hoc* type is the false thesis that the accumulation of income and wealth inequalities is essentially a consequence of globalization and advancement in cutting-edge technologies.

Good economics must make frequent use of comparative studies. Whoever makes more comparisons, knows more. It is a method that is as intellectually fertile as it is complex. The question arises: what should be compared with what? The answer is always linked to the purpose of the research. It is easier to compare what is happening in our own vicinity with what is happening somewhere else; for example, the competitiveness of the economies of Thailand and the Philippines, the standard of living in Finland and Romania, or the impact of the interest rate on inflation in Egypt and Turkey. It is also not difficult to consider the current state of affairs against the background of the past; of course, as long as the hypocrisy of the politics of memory does not interfere, as happens in countries from Poland and Hungary to Australia and Japan. It is more problematic to compare the facts with what could have happened in the event of other options if the analysis is retrospective, and the hardest thing to do is to compare what will happen as a result of suggested or taken actions with what could have happened in the future if some other option had been chosen. This last field of economic comparative studies is fundamental for rational behavior.

One needs to know how to compare (Rosser and Rosser 2018). Comparisons are meant to encourage versatility of thought and provoke additional questions, which first complicate the matter being studied but later lead to a better explanation of it. When different points are compared, even those that are distant in time and space, new dilemmas emerge and additional doubts appear. A study does not stop at the surface of the phenomena but looks further, reaches deeper, senses better. The results of some comparisons—sometimes surprising or even shocking—lead us to subsequent ones that bring us closer to drawing the right conclusions and formulating correct theoretical concepts.

One example of such a shocking result of comparative studies is the conclusion that the regions of the former Soviet Union, where forced labor camps, gulags, were concentrated during the Stalinist period are now relatively better off economically. This is because, in some camps, educated people, often with high qualifications, were incarcerated in overaverage numbers. While in 1939 only about 1% of adult citizens of the USSR had a university degree, this was twice as much among the prisoners of the gulags. In total, it is estimated that between 1927 and 1953 as many as 15% of the ‘enemies of the people’ had higher education. Many of them did not return to their own homes after abandoning these infamous practices, but settled permanently in the vicinity of the gulag, already as free people. They also took particular care to educate their children. Thus, paradoxically, the former Stalinist persecution has contributed to contemporary advantages in terms of local human capital with all the positive consequences for the level of development achieved (Toews and Vézina 2021).

If life satisfaction comparisons suggest that Poland ranks between Chile and Kazakhstan, at 44th, against 43rd and 45th, respectively, and Singapore is 32nd, between Uruguay at 31st and Kosovo at 33rd (WHR 2021), this cannot go unchallenged, especially for someone who knows all these countries from first-hand experience. This makes us take a closer look at the assumptions in the construction of the rankings, think about the selection of observation fields, and critically verify the methods of estimating the values of parameters and their weighting. If such a thought process leads to a mere rejection of these results, without anything better being suggested in exchange, then it has still been a creative process, because more questions are known and, perhaps, more answers.

For the research method of economics, it should also matter that economics has grown out of general social interests typical of moral philosophy. This is how Adam Smith created it when he published *The Theory of Moral Sentiments* in 1759 Smith, Adam (2010). Even earlier, analogies were sought between economic reality and the functioning of living organisms, especially humans. The precursors of economics, William Petty (1623–1687) and François Quesnay (1694–1774), were physicians. None of the great economists before the twentieth century was a mathematician. Economics, with all its differences, is by its nature methodologically close to medicine. It tells us how and why things happen the way they do and immediately afterward what to do to make things better and how to do it. Just as one medical scientist may deal only with the identification of the condition and diagnosis, while another only with therapy, similarly, one economic scientist may deal only with the analysis and explanation of the state of affairs, while some other only with theoretical proposals for making the desired changes. As far as medicine as a science and the science of economics are concerned, they must deal with both—diagnosis as well as prevention and therapy. When medics and economists leave their ivory towers—leave their research institutes or university lecture theaters, they do not bother to write yet another textbook or a paper for a scientific conference, but to make concrete decisions—then we are dealing with a practice, not a theory, with applications and implementations, not a science.

In the economy, which is the domain of economics, just as in the human body, which is examined by doctors, there are sometimes hopeless cases, where nothing can be done... Prevention is thus all the more important in medicine, and in economics, too; it is of paramount importance to recognize in advance that a problem is growing and to prevent it from escalating. A human being passes away, but society and humankind persist. So do the diseases that affect humankind. That is why practical and useful economics is so necessary. What is needed is pragmatism. A new pragmatism¹⁴.

2.4 In Search of a New Paradigm

The unique interconnection of megatrends shaping reality in all its dimensions—technological, economic, cultural, social, political, and ecological—provokes statements that are more and more frequently repeated both in everyday conversations and in scientific works, that we are now living in the times of epochal changes. The world has come to a crossroads, and we have to answer the question of how to intellectually embrace the deeply and rapidly changing reality. Something like this happens not for the first time. It had happened several times in our lifetime, for instance, over half a century ago when civilization reached a turning point (Richta 1966). Back then, however, we did not experience as many changes as we do today. This is not the first time we have heard that this is the ‘end of the world as we know it’. Some think it has already ended. Such a claim is additionally augmented by the narrative following the shocking Russian aggression against Ukraine. Not at all, the world continues to last, it is just more complicated today than it ever has been in human history. One must therefore seek to understand the new quality in which elements of continuity and change dialectically intermingle.

Having reached the next crossroads, one cannot stand there for too long wondering which way to go. Surely, it is known that there is nowhere to retreat, but it is not clear what direction to take next. Generally speaking, it should be set by the imperative of integrated development that is triple-balanced: economically, socially, and ecologically. At this level of generalization, it is easy to reach consensus, but when it is made more specific and operational—the task gets complicated. In the search for a new paradigm for economics, several fundamental premises must be adopted.

First, let us repeat, the objectives of economic development need to be reflected upon and redefined. The natural objective at the microeconomic level is still profit maximization, but this must be done while taking account of the needs of other stakeholders: employees and consumers, suppliers and customers, tax authorities and the natural environment, the state and the local community. Therefore, the economy must

¹⁴ I use the term ‘new pragmatism’ without any relation to the philosophical current also known as ‘new pragmatism’ (Gunn 1992) formed in the late nineteenth century. I introduced this term not as something in opposition to ‘old pragmatism’ but using ‘new’ in the sense of different, distinct from what used to be.

be properly regulated; free-market capitalism is a utopia. Corporate social responsibility cannot be left to the intentions of capital owners and marketing statements of managers, but, instead, it must be secured with relevant legal regulations enforcing the desired behavior.

Second, on the macroeconomic scale, the overriding objective of maximizing Gross Domestic Product, GDP, should be abandoned. This objective now should be to optimize satisfaction of the population's needs by improving its well-being, and the primary means to achieve that is by ensuring the right synergy between spontaneity and vitality of the market and the regulatory and strategic state policy.

Third, good economics cannot remain merely a discipline, but must increasingly become an interdisciplinary knowledge and science. Much of what economics has to deal with happens at the interfaces with other spheres—technology, culture, society, state, security, environment—which are the domains that other social sciences examine.

Fourth, although the historical moment is exceptional, it is not the time of the Copernican turn or the Keynesian one, much closer to us—economists. The moribund liberal capitalism, which led to the Great Crisis of 1929–1933, forced the intellectual revolution in economics brought about by Keynes. Keynes, John Maynard (2018). The prominent Polish economist Michał Kalecki also made an original contribution to the theory. The greatness of the Keynesian revolution lies in that it demonstrated both the actual causes and mechanisms governing the business cycle and periodic crises, as well as the ways to prevent them or at least mitigate their severity. Nowadays, with the neoliberalism falling, having led to an Even Greater Crisis, EGC, as I call it, the era of, if not heterodoxy, then at least pluralism has come—the era of coexistence of different schools of economic thought, where no trend will rule supreme or even clearly dominate over the others.

The beginning of the third decade of the twenty-first century is a difficult time. In such episodes of history, creative innovations in economic thought emerge but also many kinds of irrational ideas abound. All this is combined with the escalation of the Cold War and the coronavirus pandemic, the widespread effects of which are taking their toll on the economy, exacerbating social and income inequalities in many countries, while reducing them between wealthy and less developed countries, as the recession was shallower in 2020. Globalization is weakened (temporarily), digitalization is strengthened (permanently), and production and supply chains are reconstructed (constantly). On a microeconomic scale, as more and more business activities move online, business is increasingly influenced by companies that are particularly advanced in terms of intellectual property and have large datasets at their disposal. Although, not without serious challenges for its zero-COVID-19 attempts, China is emerging from the pandemic relatively better than the US, as it has managed to avoid recession and seems to be returning to the path of above-average economic growth. While in the autumn of 2020, President Xi Jinping was outlining a development plan for the next five years, emphasizing the importance of expanding high-tech sectors and reducing dependence on the external world, the cardinal errors of President Donald Trump's economic policies, especially resorting to protectionism and unilateralism, were casting a long shadow over the US.

In such difficult circumstances, all sorts of *idée fixe* come to life. When it comes to political and security matters, militarism is gaining momentum. When it comes to economic and social matters, what can prove particularly risky is the coupling of the doctrine of the Modern Monetary Theory, MMT, with the concept of the Universal Basic Income, UBI. The former allows for the possibility of a far-reaching monetary expansion, which can supposedly finance numerous expenses easily. The latter calls for public income close to the minimum subsistence level to be paid to all citizens, regardless of circumstances. These two theories converge beautifully: The UBI requires significant additional public spending from the national budget, while the MMT is willing to provide the necessary funds scot-free... Well, no.

Security depends much more on the quality of diplomacy rather than on rising armaments and increasing the strength of the military muscle. Prosperity is still determined by the value of goods produced and services rendered—which in turn is determined by labor productivity and the efficiency of capital—and not by the amount of money issued ('printed'). The requirement to stabilize, maintain liquidity, and prevent speculation justifies unorthodox interventions of central banks in money markets. It is wise to periodically increase the fiscal deficit to finance emergency spending in times of crisis and the consequent increase in public debt, which is easier to handle with record low interest rates. However, they are already increasing and will continue to do so for some time. Thus, it is all the more important not to be tempted by illusory concepts like the MMT or the UBI. A correct economic theory is needed as a foundation for a responsible policy of optimizing the circulation of money, which in turn is a factor fostering economic dynamism and balance.

Complex economics, let us recall, has two faces: descriptive and postulative. The first is the theory of the functioning of the economy, which analyzes economic mechanisms, explaining the nature of cause and effect relationships and feedback loops. The second is the theory of economic policy, which formulates courses of action and defines instruments for changing socio-economic reality for the better. But then, the big problem is what this means and who gets to decide what is better. Here, the two faces of economics meet, just as theory with practice or science with policy do. It is important to distinguish between these points of contact and their implications.

Sometimes politicians say that they know what to do and how to do it in the economy, but they do not know how to win elections (or—when there is not enough democracy—how to keep the people in a humble discipline under an authoritarian burden). Well, they often do not know. In the times when there is so much talk of the knowledge-based economy, there is a need to intensify efforts to pursue knowledge-based policies. However, they are all too often based on ignorance or unsystematic crumbs of knowledge at most.

Theoretical economists, on the other hand, sometimes think they know what policy, understood as resolving contentious issues and taking responsibility for decisions, is all about, when in fact they have a vague idea of it. This makes it all the more desirable to apply a consolidated approach to economics. Otherwise, policy decisions can be misguided, just as can happen in medicine if therapy is lacking the diagnosis. Presidents, prime ministers, ministers, and central bank governors do not

need to complete postgraduate studies in economics. They are supposed to change the reality, not to explain it, but they should certainly be required to have high ethical values, professional competence, and the ability to surround themselves with expert advisers. By the way, when Keynes was leaving the Oval Office after a meeting with President Franklin D. Roosevelt, to whom he explained the essence of his theory of employment and money, he made a remark about the American President that he had never met such an economic ignoramus. And yet, this ‘ignoramus’ was able to apply the good advice of the English theoretical economist to his practical New Deal policy.

In the long run, the economic policy is only successful if current decisions are consistent with the pursuit of long-term objectives and if it is oriented towards a coherent, far-reaching vision, rather than being driven by the illusions to which politicians like to succumb. Such a vision must underpin a long-term strategy for sustainable development and policies based on knowledge rather than driven by emotions. Making it real, in turn, requires high-level leadership, which is in particular demand in hard times. In the age of globalization, this leadership must also be able to coordinate policies on a transnational scale. Unfortunately, that is what is missing so much... In the age when internationalism is very much needed, nationalisms prevail.

Nevertheless, we should stay optimistic. With the human genius and the great achievements of modern civilization in science, technology, and culture, many of the problems we experience are solvable. In theory, the problem is that, although the economic theory can explain (not so much everything, but quite a lot and quite satisfactorily) what and why things happen the way they do, policies all too often fail to put the conclusions of science into practice. At the heart of the matter, there is the shift from theoretical economics to practical policies (or to business management at the microlevel), from explanatory science to decisive practice. It is crucial to connect these approaches, to find a sort of interface between them (Kolodko 2021). If one wants to, one can practice purely descriptive economics, limiting their research, just as medical scientists, only to aspects of analysis and diagnosis. The social sense of their efforts lies in the fact that there are others beside them—a medical doctor who knows how to take care of health, and an economist who suggests how to improve the economy.

Therefore, there are no and will be no ‘new Keynes’. Although some think—or even more than that, because one can come across the view that economics needs to be revolutionized along the lines of what William Harvey (1578–1657) did in medicine, explaining the nature and mechanism of the bloodstream in the human body, or Charles Darwin (1809–1882), formulating the groundbreaking theory of evolution (Cooper 2014)—that this is neither possible nor necessary. This is not the time for a major breakthrough in economics along the lines of what Enrico Fermi (1901–1954) did in physics or, even closer to our times, what Jennifer Doudna did in genetics. Just as in the case of contemporary artificial intelligence, this is a time of tinkering; a time of small improvements and implementations. But, it is also a time of grasping complexity, a time of connecting the mass of interlocking points on this unique map of processes, not only economic, including commercial, financial, and

logistical, but also political, social, cultural, demographic, and—which is particularly important today—technological. What is needed is a multifaceted unorthodox economic thought that can be useful for the economic policy and governance in countries as different as the US and China, Poland and Bangladesh, France and Egypt, or Japan and Brazil. We do not need two hundred economic theories for two hundred national economies, but still, the one and only right theory cannot be imposed on everyone. There is no theory of everything. Therefore, the search for it is illusory; let us leave that to alchemists. It is useful to formulate practically oriented theories, bearing in mind that economics and economic policies are contextual. Something may work well in one place and time but produce harmful effects somewhere else and at another time.

With such an approach, it is worthwhile to mention inspiring threads of modern economic thought relevant to development challenges. These include the concept of ‘mass flourishing’ (Phelps 2013), highlighting the significance of innovations, the ‘new structural economics’ (Lin 2012b), the ‘economics of the common good’ (Tirole 2017), or the economics of ‘progressive capitalism’ (Stiglitz 2019a). Here, the new pragmatism, being a proposal to integrate descriptive and postulative approaches to economics, which takes into account the imperative of an economy of moderation and comprehensively sustainable development, is coming to the fore, too.

2.5 Useful Economics

New pragmatism is an outline of a theoretical concept within the postulative trend of the science of economics based on the desire for a good economy corresponding to the challenges of contemporaneity. It is an original, heterodox profile of the economic theory, of a pragmatic nature, created as an answer to the challenges of civilization and the transformations of economic systems. A key element of the economic paradigm shift is to move away from the diktat of profit maximization and production growth as the objective of economic activity and to reformulate it, taking into account the imperative of subordinating short-term private capital interests to long-term public interests. An important principle governing the economy of the future should be moderation, that is, the conscious adjustment of the size of human, material, and financial flows and resources to the requirement of maintaining a long-term dynamic balance.

Under new pragmatism, economics is seen as a science, which is:

1. *descriptive*—the analysis and description of the state of affairs constitute a foundation for the diagnosis and a starting point for further considerations;
2. *explanatory*—the interpretation of the observed phenomena and processes facilitates the understanding of why they manifest themselves and occur as they do and not otherwise;

3. *evaluative*—the evaluation of alternative *ex post* situations and expected *ex ante* results forces us to seek answers to the question of whether it could have been better and whether it can be better in the future;
4. *normative*—postulating directions and methods of change for the better, following the judgment as to what appears to be better and why;
5. *comprehensive*—observing the whole of economic relations in the broadest sense, without succumbing to reductionism and attempting to build comprehensive theories from fragmentary research results;
6. *eclectic*—connecting lines of analysis and synthesis of various economic schools: from classical economics through neoKeynesian, institutional, and behavioral economics to development economics and political economy, as well as microeconomics with macroeconomics and global economics;
7. *contextual*—in which the analyses and syntheses are not detached from reality, in models of ‘pure’ economics, but refer to specific, dynamic, and variable complex circumstances, conditions, constraints, and opportunities;
8. *multidisciplinary*—in which the analysis of economic reality takes into account the findings and methods of other social science disciplines, primarily philosophy, sociology, psychology, law, political science, and anthropology, as well as history and geography;
9. *comparative*—in which the comparison of economic, cultural, political, geographical, and environmental realities in time and space is treated as a basic research method. The scientific process largely consists of comparing and drawing conclusions based on the comparisons made.

Descriptively, new pragmatism explains the historical development process, highlighting not only the importance of the individual drivers but also their cooccurrence (coincidence). Normatively, on the other hand, new pragmatism indicates prosperity in its broadest sense as an objective of economic activity. Pursuing it requires:

- *economically sustainable development*, i.e., relating to commodity and capital markets, investment and finance markets, as well as the workforce;
- *socially sustainable development*, i.e., relating to a distribution of income that is accepted by the population as being both fair and conducive to the accumulation of capital, with adequate access to public services;
- *environmentally and spatially sustainable development*, i.e., relating to the maintenance of appropriate relations between human business activity and nature, both on an ongoing basis and in a forward-looking manner. The spatial aspect is also important, as without proper consideration of it, there is no natural, architectural, or urban harmony.

The normative (postulative) trend of new pragmatism is, in other words, applied economics. It is not a real economic policy pursued at the macrolevel, and it is also not practical management at the microlevel, but it is a theoretical knowledge of how to effectively implement a good economic policy and how to manage a company, whether a family company or a transnational corporation, based on the knowledge acquired through the descriptive trend. New pragmatism in a sense links economic

theory with proposals for economic practice, both at the company and household levels, as well as at the level of the state and the national economy. In this context, it is also worth repeating the statement of an eminent British economist, Joan Robinson, that an economist's answer is a question to a politician. This was the exact heading—'Answers and questions'—under which my weekly essays were published between 1994 and 1997, which I wrote when I was a professor of economics and at the same time Deputy Prime Minister and Minister of Finance in the Polish government. The answers I received to the theoretical questions posed in the first role immediately became questions of another generation, which I had to answer practically, appearing in the second role in the realm of real economic policy.

The methodological phenomenon of the science of economics is manifested in the fact that it involves a different cognitive process than applied in other social sciences. First, there is:

1. describing (descriptive analysis);
2. comparing (comparative analysis);
3. evaluating (axiological analysis);
4. recommending (normative analysis).

James Kenneth Galbraith (2019a) sees new pragmatism as the continuation of the economic thought of his eminent father, John Kenneth Galbraith (1958). While visiting Poland, he gave a lecture on *Old and New Pragmatism: Challenges and Opportunities for Economics* (Galbraith 2019b), and in an interview entitled *The key to creating an egalitarian society* stated: "I was talking about pragmatism in economics. This is the approach that my father, John Kenneth Galbraith, promoted, and which is continued by Professor Grzegorz Kolodko. Contemporary economics is a much ideologized, abstract field of science, full of theoretical concepts, which are difficult to relate to reality not only for a layman. Nothing like perfect competition or overall balance really exists. I believe that an economist should be useful above all" (Galbraith 2019c).

Yes, new pragmatism is useful and helpful because it is an economic thought that responds to the challenges of the present and does not run away from them. It is useful because it is heterodox in nature and is not stuck in the straitjacket of the remnants of orthodox economics. Finally, it is helpful because, based on comprehensive and comparative research, it proposes inclusive institutions and state regulations of the private sector in such a way that economic activity best serves the individual and collective

References

- Acemoglu, Daron, James A. Robinson (2012), *Why Nations Fail. The Origins of Power, Prosperity, and Poverty*, Crown Business, New York.
- Akerlof, George A., Robert J. Shiller (2015), *Phishing for Phools: The Economics of Manipulation and Deception*, Princeton University Press, Princeton, NY.
- Arthur, W. Brian (2015), *Complexity of the Economy*, Oxford University Press, Oxford – New York.

- Atkinson, Anthony B. (2018), *Inequality: What Can Be Done?*, Harvard University Press, Cambridge, Mass.
- Aumann, Robert J. (2009), *Game Engineering*, „Distinguished Lectures Series”, No. 20, Kozminski University, Warsaw (http://www.tiger.edu.pl/publikacje/distinguished_20.pdf; access: 27.01.2022).
- BBC (2019), *US states file lawsuit accusing drugs firms of inflating costs*, “BBC News”, May 12 (<https://www.bbc.com/news/world-us-canada-48241663>; access: 10.01.2022).
- Bishara, Marwan (2022), *Debating the debate over the Russian war in Ukraine*, “Al Jazeera”, May 4, 2022 (<https://www.aljazeera.com/opinions/2022/5/4/debating-the-debate-over-the-russian-war-in-ukraine>; access: May 7, 2022).
- Bremmer, Ian (2010), *The End of the Free Market: Who Wins the War between States and Corporations?*, Portfolio, New York.
- Brunnermeier, Markus K., Harold James, Jean-Pierre Landau (2016), *The Euro and the Battles of Ideas*, Princeton University Press, Princeton – Oxford.
- Churchill, Winston (2008), *Churchill by Himself: The Definitive Collection of Quotations*, Ebury Press, London.
- CIA (2021), *The World Factbook*, Central Intelligence Agency, Washington, D.C. (<https://www.cia.gov/the-world-factbook/>; access: 25.12.2021).
- Cooper, George (2014), *Money, Blood and Revolution: How Darwin and the doctor of King Charles I could turn economics into a science*, Harriman House, Hampshire.
- Csaba, László (2009), *Crisis in Economics?*, Akadémiai Kiadó, Budapest.
- Csaba, László (2019), *Unorthodoxy in Hungary: an illiberal success story?*, „Post-Communist Economies”, DOI: <https://doi.org/10.1080/14631377.2019.1641949> (<https://www.tandfonline.com/doi/pdf/10.1080/14631377.2019.1641949?needAccess=true>; access: 13.12.2019).
- Economist (2019a), *Corporate crises. Scandals suggest standards have slipped in corporate America*, “The Economist”, April 6 (<https://www.economist.com/business/2019/04/06/scandals-suggest-standards-have-slipped-in-corporate-america>; access 10.01.2022).
- Economist (2019b), *What companies are for*, „The Economist”, August 24 (<https://www.economist.com/leaders/2019/08/22/what-companies-are-for>; access 25.12.2021).
- Economist (2019c), *Continent of discontent*, „The Economist”, September 7 (<https://www.economist.com/graphic-detail/2019/09/07/nearly-a-third-of-latin-americans-want-to-emigrate>; access 25.12.2021).
- Economist (2021), *Labour markets are working, but also changing*, „The Economist”, April 10 (<https://www.economist.com/special-report/2021/04/08/labour-markets-are-working-but-also-changing>; access: 13.12.2021).
- Economist (2022), *Welcome to the era of the bossy state*, “The Economist”, January 15 (<https://www.economist.com/leaders/2022/01/15/welcome-to-the-era-of-the-bossy-state>; access 22.01.2022).
- Economist (2012), *True progressivism*, „The Economist”, October 13 (<https://www.economist.com/leaders/2012/10/13/true-progressivism>; access 25.12.2021).
- Economist (2016), *The new nationalism*, „The Economist”, November 19 (<https://www.economist.com/leaders/2016/11/19/the-new-nationalism>; access 25.12.2021).
- Economy, Elizabeth C. (2018), *The Third World Revolution: Xi Jinping and the New Chinese State*, Oxford University Press, New York.
- EIU (2021), *Democracy Index 2020 In sickness and in health? A report by The Economist Intelligence Unit*, London, The Economist Intelligence Unit Limited (<https://www.eiu.com/n/campaigns/democracy-index-2020/>; access: 13.12.2021).
- Friedman, Milton (1970), *The Social Responsibility of Business is to Increase its Profits*, „The New York Times Magazine”, September 13 (<http://websites.umich.edu/~thecore/doc/Friedman.pdf>; access: 13.12.2021).
- Fukuyama, Francis (1989), *The End of History?*, “The National Interest”, No. 16, Summer, p. 3–18.
- Galbraith, John K. (1958), *The Affluent Society*, Houghton Mifflin, Boston. GFP (2021), *Defense Spending by Country (2021)*, www.GlobalForepower.com (<https://www.globalfirepower.com/defense-spending-budget.php>; access: 13.12.2021).

- Galbraith, James K. (2014), *The End of Normal: The Great Crisis and the Future of Growth*, Simon and Schuster, New York.
- Galbraith, James K. (2018), *Backwater Economics and New Pragmatism: Institutions and Evolution in the Search for a Sustainable Economics*, „TIGER Working Papers Series”, No. 138, Kozminski University, Warsaw (<http://www.tiger.edu.pl/TWP%20No.%20138%20--%20Galbraith.pdf>; access: 13.12.2021).
- Galbraith, James K. (2019a), *The Pragmatism of John Kenneth Galbraith*, „Acta Oeconomica”, Vol. 69, Special Issue 1, p. 195–213.
- Galbraith, James K. (2019b), *Old and New Pragmatism: Challenges and Opportunities for Economics*. Lecture delivered at the inauguration of the academic year at the Faculty of Economics of the University of Gdańsk, September 30 (https://www.youtube.com/watch?v=YwMbra5XWlk&ab_channel=Wydzia%C5%82Ekonomiczny; access: 13.12.2021).
- Galbraith, James K. (2019c), *Klucz do stworzenia egalitarnego społeczeństwa [The key to creating an egalitarian society]*, „Rzeczpospolita”, November 23–24, p. 14–16 [in Polish].
- Gonzales, Oscar (2021), *Here's how much electricity it takes to mine Bitcoin and why people are worried*, C/Net Money, August 31 (<https://www.cnet.com/personal-finance/crypto/heres-how-much-electricity-it-takes-to-mine-bitcoin-and-why-people-are-worried/>; access 6.01.2022).
- Gostomski, Anzelm (1951), *Gospodarstwo [Possessions]*, Zakład Narodowy im. Ossolińskich, Wrocław [in Polish].
- Gratton, Lynda, Andrew Scott (2016), *The 100-Year Life: Living and Working in the Age of Longevity*, Bloomsbury, London
- Grinberg, Ruslan S., Aleksandr J. Rubinsztein (2014), *Individuum i gospodarstwo: ekonomiczeskaja dilemma [Individuum and household: ekonomiczeskaja dilemma]*. Wies Mir, Moskwa [in Russian].
- Gunn, Giles (1992), *Thinking Across the American Grain: Ideology, Intellect, and the New Pragmatism*, The University of Chicago Press, London.
- Harting, Hannah (2019), *Stark partisan divisions in Americans' views of 'socialism', 'capitalism', 'Factank'*, Pew Research Center (<https://www.pewresearch.org/fact-tank/2019/06/25/stark-partisan-divisions-in-americans-views-of-socialism-capitalism/>; access: 13.12.2021).
- Harty, Declan (2021), *SEC Chair Gary Gensler slams crypto as the 'Wild West'*, “Fortune”, August 3, 2021 (<https://fortune.com/2021/08/03/crypto-defi-sec-chair-gary-gensler-regulation-wild-west/>; access 20.12.2021).
- Harvey, David (2005), *A Brief History of Neoliberalism*, Oxford University Press, Oxford – New York.
- Harvey, David (2015), *Seventeen Contradictions and the End of Capitalism*, Profile Books, London.
- Hellebrandt, Tomáš, Paolo Mauro (2015), *The Future of Worldwide Income Distribution*, „Working Paper”, WP 15–17, Peterson Institute for International Economics, April (<https://www.piie.com/sites/default/files/publications/wp/wp15-7.pdf>; access: 13.12.2021).
- HF (2021), *2021 Index of Economic Freedom*, Heritage Foundation, Washington, D.C. (<https://www.heritage.org/index/ranking>; access: 13.12.2021).
- Huang, Yukon (2017), *Cracking the China Conundrum: Why Conventional Economic Wisdom Is Wrong*, Oxford University Press, New York.
- Marx, Karl, Friedrich Engels (2000), *The Communist Manifesto*, Martino Fine Books, Eastford, CT.
- IPCC (2019), *Global Warming of 1.5°C, The Intergovernmental Panel on Climate Change* (<https://www.ipcc.ch/sr15/>; access: 13.12.2021).
- Johnson, Neil F. (2017), *Simply Complexity. A Clear Guide to Complexity Theory*, Oneworld Publications, London.
- Kahneman, Daniel (2011), *Thinking, fast and slow*, Farrar, Strauss and Giroux, New York.
- Kessler, Sarah (2018), *Gigged: The Gig Economy, the End of the Job and the Future of Work*, St. Martin Press, New York.
- King, Stephen D. (2013), *When the Money Runs Out. The End of Western Affluence*, Yale University Press, New Haven – London.

- Klein, Matthew C., Michael Pettis (2020). *Trade Wars Are Class Wars: How Rising Inequality Distorts the Global Economy and Threatens International Peace*, Yale University Press, New Haven.
- Kolodko, Grzegorz W., Michal Rutkowski (1991), *The Problem of Transition from a Socialist to a Free Market Economy: The Case of Poland*, „The Journal of Social, Political and Economic Studies”, Vol. 16, No. 2, p. 159–176.
- Kolodko, Grzegorz W. (2002), *Globalization and Catching-up in Transition Economies*, University of Rochester Press, Rochester, NY – Woodbridge, Suffolk, UK.
- Kolodko, Grzegorz W. (2011), *Truth, Errors and Lies. Politics and Economics in a Volatile World*, Columbia University Press, New York.
- Kolodko, Grzegorz W. (2014), *The New Pragmatism, or Economics and Policy for the Future*, „Acta Oeconomica”, Vol. 64, No. 2, p. 139–160.
- Kolodko, Grzegorz W. (2020), *China and the Future of Globalization: The Political Economy of China's Rise*, Bloomsbury I.B. Tauris, London – New York.
- Kolodko, Grzegorz W. (2021), *The Quest for Development Success: Bridging Theoretical Reasoning with Economic Practice*, Lexington Books – Rowman & Littlefield, Lanham – Boulder – New York – London.
- Koźmiński, Andrzej K., Adam Noga, Katarzyna Piotrowska, Krzysztof Zagórski (2020), *The Balanced Development Index for Europe's OECD Countries, 1999–2017*, „Springer Briefs in Economics”, Springer, Cham, Switzerland.
- Krugman, Paul (2020), *Arguing with Zombies: Economics, Politics, and the Fight for a Better Future*, W.W. Norton & Company, New York.
- Kuenzler, Adrian (2017), *Restoring Consumer Sovereignty: How Markets Manipulate Us and What the Law Can Do About It*, Oxford University Press, New York.
- Kurz, Mordecai (2017), *On the Formation of Capital and Wealth: IT, Monopoly Power and Rising Inequality*, „Research Paper”, 17–016, Stanford Institute for Economic Policy Research (https://siepr.stanford.edu/sites/default/files/publications/17-016_0.pdf; access: 13.12.2021).
- Legatum (2021), *The Legatum Prosperity Index 2021*, Legatum Institute, London (<https://www.prosperity.com/>; access: 22.12.2021).
- Lemieux, Pierre (2018), *What's Wrong with Protectionism: Answering Common Objections to Free Trade*, Rowman & Littlefield, Lanham, Maryland.
- Lin, Justin Yifu (2012a), *Demystifying the Chinese Economy*, Cambridge University Press, Cambridge.
- Lin, Justin Yifu (2012b), *New Structural Economics: A Framework for Rethinking Development and Policy*, The World Bank, Washington, D.C.
- Lin, Justin Yifu (2013), *Against the Consensus: Reflections on the Great Recession*, Cambridge University Press, New York.
- Liu, Weidong (2019), *The Belt and Road Initiative: A Pathway towards Inclusive Globalization*, Routledge, Abingdon, Oxon.
- Lowenstein, Roger (2004), *Origins of the Crash: The Great Bubble and Its Undoing*, Penguin Books, New York.
- Milanovic, Branko (2011), *The Haves and the Have-Nots: A Brief and Idiosyncratic History of Global Inequality*, Basic Books, New York.
- Milanovic, Branko (2019), *Capitalism, Alone: The Future of the System That Rules the World*, Harvard University Press, Cambridge, Mass.
- OECD (2021a), *Better Life Index*, Paris: OECD (<https://www.oecdbetterlifeindex.org/#/0000000000>; access: 13.12.2021).
- OECD (2021b), *Level of GDP per capita and productivity*, OECD.Stat (https://stats.oecd.org/Index.aspx?DataSetCode=PDB_LV; access: 11.12.2021).
- Our World in Data (2021a), *GDP per capita in England*, (<https://ourworldindata.org/grapher/gdp-per-capita-in-the-uk-since-1270?time=1270..2016>); access: 14.12.2021).
- Our World in Data (2021b), *Coronavirus (COVID-19) Vaccinations*, „Our World in Data: Statistics and Research” (<https://ourworldindata.org/covid-vaccinations>; access: 13.12.2021).

- Pei, Minxin (2016), *China's Crony Capitalism: The Dynamics of Regime Decay*, Harvard University Press, Cambridge, Massachusetts, London, England.
- Phelps, Edmund S. (2013), *Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge, and Change*, Princeton University Press, New York.
- Polman, Paul, Andrew Winston (2021), *Net Positive: How Courageous Companies Thrive by Giving More Than They Take*, Harvard Business Review Press, Cambridge, Mass.
- Richta, Radovan (1966), *Civilizace na rozcestí: společenské a lidské souvislosti vědeckotechnické revoluce [Civilization at a crossroads: the social and human context of the scientific and technological revolution]*, Svoboda, Praha [in Czech].
- Ridley, Matt (2010), *The Rational Optimist: How Prosperity Evolves*, Harper-Collins, New York.
- Roland, Gerard (2019), *Coexisting with China in the 21st Century*, „Acta Oeconomica”, Vol. 69, Special Issue 1, p. 49–70.
- Rosling, Hans, Ola Rosling i Anna Rosling Ronnlund (2018), *Factfulness: Ten Reasons We're Wrong About the World – and Why Things Are Better than You Think*, Flatiron Book, New York
- Rosser, J. Barkley Jr., Marina V. Rosser (2018), *Comparative Economics in a Transforming World Economy*, MIT Press, Cambridge, Massachusetts, London, England.
- Saez, Emmanuel, Gabriel Zucman (2019), *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*, W.W. Norton & Company, New York.
- Santos, Alvaro, Chantal Thomas, David Trubek (2019), *World Trade and Investment Law Reimagined: A Progressive Agenda for an Inclusive Globalization*, Anthem Press, London and New York.
- Schumpeter, Joseph A. (2008), *Capitalism, Socialism, and Democracy*, Harper Collins, New York.
- Sedlacek, Tomas (2011), *Economics of Good and Evil: The Quest for Economic Meaning from Gilgamesh to Wall Street*, Oxford University Press, Oxford – New York.
- Skidelsky, Robert (2020), *What's Wrong with Economics? A Primer for the Perplexed*, Yale University Press, New Haven – London.
- Sloman, Steven, Philip Fernbach (2017), *The Knowledge Illusion: Why We Never Think Alone*, Riverhead Books, New York.
- Stedman Jones, Gareth (2016), *Karl Marx: Greatness and Illusion*, Allen Lane, Cambridge, Mass.
- Stiglitz, Joseph E., Jean-Paul Fitoussi, Martine Durand (2019), *Beyond GDP: Measuring What Counts for Economic and Social Performance*, Organization for Economic Cooperation and Development, Paris
- Stiglitz, Joseph E. (2001), *Asymmetries of Information and Economic Policy*, „Project Syndicate”, December 4 (<https://www.project-syndicate.org/commentary/asymmetries-of-information-and-economic-policy-2001-12>; access 24.01.2022).
- Stiglitz, Joseph E. (2010), *Freefall: America, Free Markets, and the Sinking of the World Economy*, W.W. Norton & Company, New York.
- Stiglitz, Joseph E. (2019a), *People, Power, and Profits: Progressive Capitalism for an Age of Discontent*, W.W. Norton & Company, New York – London.
- Stiglitz, Joseph E. (2019b), *Progressive Capitalism Is Not an Oxymoron*, „The New York Times”, April 19 (<https://www.nytimes.com/2019/04/19/opinion/sunday/progressive-capitalism.html>; access 13.12.2021).
- Stiglitz, Joseph E. (2019c), *Can we trust CEOs' shock conversion to corporate benevolence?*, „The Guardian”, August 29 (<https://www.theguardian.com/business/2019/aug/29/can-we-trust-ceos-shock-conversion-to-corporate-benevolence>; access: 13.12.2019).
- Strange, Susan (1986), *Casino Capitalism*, Basil Blackwell, Oxford.
- Sundararajan, Arun (2017), *The Sharing Economy: The End of Employment and the Rise of Crowd-Based Capitalism*, MIT Press, Cambridge, Mass.
- Thaler, Richard H., Cass R. Sunstein (2009), *Nudge: Improving Decisions about Health, Wealth, and Happiness*, Penguin Books, London.
- Thaler, Richard H. (2016), *Misbehaving: The Making of Behavioral Economics*, W.W. Norton & Company, New York.

- Tirole, Jean (2017), *Economics of the Common Good*, Princeton University Press, Princeton, New Jersey.
- Toews, **Gerhard, Pierre-Louis Vézina** (2021), *Enemies of the people*, “NES Working Paper”, w0279, New Economic School (NES), Moscow (<https://drive.google.com/file/d/12S539Kia7kEtFY7Y5xRU6pFTFyMQeVCs/view>; access 22.12.2021).
- UNDP (2021a), *Human Development Index*, United Nations Development Programme, New York (http://hdr.undp.org/sites/default/files/2020_statistical_annex_table_3.pdf; access: 13.12.2021).
- UNDP (2021b), *Inequality Adjusted Human Development Index* (<http://hdr.undp.org/en/content/inequality-adjusted-human-development-index-ihdi>; access: 22.12.2021).
- Wallace-Wells, David (2019), *The Uninhabitable Earth: Life After Warming*, Tim Duggan Books, New York.
- Wang, Huiyao, Alistair Michie (eds.), *Consensus or Conflict: China and Globalization in the 21st Century*, Springer, Singapore.
- Warren, Elizabeth (2018), *This Fight Is Our Fight: The Battle to Save America’s Middle Class*, Metropolitan Books, New York.
- WHR (2021), *World Happiness Report*, Sustainable Development Solutions Network (<https://happiness-report.s3.amazonaws.com/2021/WHR+21.pdf>; access: 22.12.2021).
- World Bank (2002), *Globalization, Growth and Poverty: Building an Inclusive World Economy*, World Bank, Washington, D.C.
- Zelizer Julian E. (2015), *The Fierce Urgency of Now: Lyndon Johnson, Congress, and the Battle for the Great Society*, Penguin Books, New York.

Chapter 3

Political System and Socio-economic Development



Civilization is a limitless multiplication of unnecessary necessities.

Mark Twain (1835–1910)

3.1 Ideas and Interests

We are constantly entangled in resolving multiple conflicts of ideas and interests. Oftentimes, when it seems we are discussing contradictory ideas, we are actually dealing with conflicting interests. It is rarely the other way around, but it happens, too. A lot of misunderstandings stem from the fact that in the human-society-humanity triangle, the objectives of individual and collective activities are often confused with the means to achieve these objectives. The same can be said when analyzing the economy-state-world triangle. Things get even more complicated because, despite the greatest resources of knowledge in history, we live in a time of great uncertainty. Many decisions are taken not under deterministic conditions, but in the context of an unpredictable future and difficulties with estimating risks. Hence, the dynamics and shape of the highly complex world are rarely in line with the assumptions made at the time of preparing and making decisions. They are judged to be wrong *post factum* but often could not have been better, given the unstable conditions and wobbly expectations.

It is symptomatic that, in the economy, means are confused with ends. Is maximum profit already the objective or still a means to profitable economic activity? Is the highest income already an overriding objective or just a way to a loftier goal of prosperity? And is this prosperity an end in itself, or merely a means to a contented life? Furthermore, is contentment the ultimate goal or just a means to fulfillment in a multifaceted life process? Is the rapid socio-economic development an objective of the policy or merely an indispensable means to satisfy human aspirations to meet social needs? Well, it is the latter—it is a means to an end.

Socio-economic development here implies a balanced upward movement of the whole system in which the economy and society function, whereby material and cultural needs are created in moderation and are increasingly better satisfied with the widest possible participation of the population in the consumption of the fruits of the national income shared. Sustainable development requires inclusiveness, care for the natural human environment, and concern for the living conditions of future generations. Unlike economic growth, mainly treated in quantitative terms, development is essentially a qualitative process. In certain situations and periods, development can occur without growth, but in the long term, the material basis of socio-economic development is the increase in the production of goods and the provision of services. The point is that the growth should be harmonious. Thus, the postulate of zero economic growth (Jackson 2009) is utopian, while the imperative to moderate its pace, especially in affluent societies, taking into account ecological and cultural-social constraints, is appropriate in its entirety.

Confusing the means of economic policies, such as the desired balance of public finances (budget balance), with its objective of maximizing long-term prosperity has already proved to be quite expensive on more than one occasion. Some societies have paid even more for treating specific forms of ownership of the means of production—important, after all, in the long-term socio-economic development strategy—as its overriding objective. Once, in the Soviet type of socialism (called communism by others), this was expressed in the doctrine of the priority of state ownership of the means of production, followed by the practice of forceful, sometimes brutal implementation of this form of ownership. Nowadays, the neoliberal doctrine professes the undisputed superiority of private ownership because this is supposedly a necessary and sufficient condition for high efficiency and dynamic development.

Dogmatism and doctrinarism of various kinds have never served civilizations well in the long run. Taking a closer look at their evolution from antiquity to modern times (Morris 2010), rethinking the sense and nonsense of democratic regimes from ancient Greece (Everitt 2016) and Rome (Everitt 2012) to modern times (Deneen 2018; Krastev et al. 2020), it may seem that their creators and supporters, many of whom, especially in remote times, were ready to sacrifice their own lives in defense of the system, were concerned about the effectiveness of those systems. The problem is that, all too often, the desired effectiveness was not the same as rationality. It would be inconsiderate to say that the course of history is based on stupidity, but it would be no less of a misunderstanding to claim that it is based on rationality.

Rationality has many faces, as well. The one based on the knowledge of experts, specialists, and technocrats is different from that based on the knowledge of politicians, who, if they are indeed keen to solve social and economic problems, must first ensure that they gain and retain power. From this point of view, coming to power is a means to an end, but sometimes it becomes an end in itself—power for power's sake.

Being able not to confuse the ends with the means is only one of the conditions of rationality. There are more of them—more intricate ones. What is fundamental to maintaining a dynamic socio-economic and political harmony is the relationship

between political democracy and economic growth. In extreme and contradictory approaches, two viewpoints are sometimes being confronted.

On the one hand, the view was promoted that the less democracy there is, the better for economic growth because the authorities knew best how to make people happy without recourse to their opinions. I say that it was promoted, because nowadays, if we want to find such a classic example of this, we need to look at North Korea with its Juche system. To be more precise, such power did not proclaim *expressis verbis* the uselessness of democracy. On the contrary, it called its totalitarian or authoritarian system a democracy—a people’s democracy, for example. This continues to be done by China’s leaders, who maintain the view that the system they lead is democratic. More specifically, that it is a ‘consultative democracy’ that serves the people who express their own opinions on their own matters.

On the other hand, the view of the unconditional superiority of democracy and its particular utilitarianism for economic growth and social development is now widespread in much of the world. It turns out, however, that the matter is complicated, especially when the coupling of democracy-economy and, within this framework, the interrelationships between the state and the private sector, politics and the force of nature, regulation and the market, human and the environment are subjected to deeper and more comprehensive research. It is therefore worth, once again, devoting some attention to at least some aspects of this fundamental issue.

3.2 Between Democracy and Authoritarianism

To hold a professional discussion—and the same applies to politically responsible debate—it is necessary to define the terms and categories used. The term ‘democracy’ first appeared in ancient Greece, where it was used to describe the system of direct rule prevailing in numerous poleis. The most famous was the Athenian democracy, which flourished from 507 to 321 BC. In the following discussion, democracy will be understood as a political system in which the fundamental decisions regarding the functioning of the state and the economy, as well as the regulation and protection of civil rights, are taken by authorities periodically appointed in universal and equal elections, with the electorate being reliably informed of the existing situation and the conditions of the social and economic development. It is true that it is a restrictive definition of democracy, the literal application of which must lead to the conclusion that there is no democracy anywhere in the world. But the ideal can be pursued, even when it is known to be fully unattainable. An ideal democracy presupposes a genuine interest on the part of the electorate in public affairs about which they also have adequate knowledge. Meanwhile, the majority of the electorate is economically ignorant and easily swayed by fraudulent propaganda and spin. Elections based on lies, deliberate preaching and bargaining illusions, and empty promises do not deserve to be called democratic, and certainly, this is not a full democracy.

Authoritarianism, in turn, is a strong, centralized political power, unverified by electoral procedures, which rules by making decisions in a narrow circle. Authoritarian power may be either oriented towards the concern for the public interest, or it may be indifferent to it. This statement alone shows that authoritarianism can have different shades.

Democratic and authoritarian governments, although having very different legitimacy, have an apparatus of force to maintain public order, whereby in a democracy, the courts are independent of the executive, and in authoritarianism, they are de facto subordinate to it. Similarly, in a democracy, the core of the media—apart from the media associated with political parties and various pressure groups—is independent, whereas in an authoritarian regime, their freedom is limited and sometimes excluded, and then they are fully controlled by the authorities.

In academic treatises, and even more willingly in media disputes, there are many terms and categories used such as ‘democracy’ (recently, with the particularly fashionable designation of ‘liberal’ or its opposite—‘illiberal’), ‘authoritarian system’, ‘dictatorship’, ‘totalitarianism’. Terms known from history appear, such as ‘despotism’ and ‘tyranny’, but they are not necessarily used in the sense which they were once given. Not only newspapers but also serious social science periodicals describe the US under President Donald Trump as a ‘liberal democracy’ and Belarus with President Alexander Lukashenko as ‘the last dictatorship in Europe’. It turns out that such a harsh, but still diplomatic term is no longer enough for everyone, as some go even further, stating that this is “... a regime whose old sobriquet of «Europe’s last dictatorship» does not fully convey its slide towards full-blown gangsterism” (Economist 2021). Well, neither ‘liberal democracy’ nor ‘dictatorship’, because neither of these terms corresponds to the truth, which is much more complicated.

Similarly promoted are simplifications about the free market economy as a positive, only valid model, confronting it with the supposedly evil economy of state interventionism and, in particular, the social market economy. The apologetics of the free market essentially amounts to the promotion of the neoliberal economy in which the postulated ‘small state’, ‘fewer regulations’, and ‘low taxes’ are not objectives but means to a tacit end, which is the enrichment of the elites at the expense of the masses. This is, in fact, fostered by the selective deregulation of the economy, being pushed through under the pretty slogans of economic freedom, but in practice being biased towards group interests. If the ‘small state’, ‘fewer regulations’, and ‘low taxes’ serve the welfare of the majority that is fine, but apart from exceptional cases such as Switzerland and Singapore, that is not the reality.

Nowadays, few would dispute the thesis that democracy is conducive to achieving objectives most generally understood as justice and progress. Interpretations of the term ‘democracy’ have been and are very diverse and often misleading. In the Athenian democracy, as in the US for several decades after the American Revolution that ushered in a true modern democracy, only adult men had the right to vote, while women, slaves, and foreigners were deprived of it. The notion of electoral censorship has undergone a historical evolution. The long-standing deprivation of voting rights of significant segments of the population—women, people of color, the uneducated, the poor, ethnic minorities, immigrants—stemmed from the fear of privileged

groups, those with the right to vote, of the potential radicalism of those excluded. In extreme cases, it still happens today that attempts are being made to eliminate certain population groups from electoral procedures. In general, however, voting rights have been gradually extended in the twentieth century, when those in power noticed that disadvantaged classes were not guided in their choices by common sense and their own economic interests, but by emotions, frustrations, phobias, and customs, where religious traditions tended to be important. In democratic Switzerland, which so often decides matters by appealing to the *vox populi* through direct voting, women won the right to vote in elections and referendums in the last of the cantons previously disallowing such whims only in 1971.

When the mighty of this world saw that people could be effectively controlled not by hard force and discrimination but by soft manipulation, formal voting rights began to spread. There are those who vote and those who govern. Similar changes occurred internationally. The previous support provided to authoritarian regimes holding power in the so-called Third World countries that favored the interests of the rich countries has been replaced by the latter's concern for democracy in the former, now seen as 'emerging markets'. It turns out that nominal democracy can sometimes be used even better than authoritarianism for one's own ends. The scale of exploitation of democratic 'emerging markets' is often greater than that of dependent states under colonialism and neocolonialism (Easterly 2006).

An emanation of democracy is observed in the US, where the issue of electing the country's president is being played out at a cost of \$15 billion between two party cliques, where legislation is being overwhelmingly influenced by the lobbies of the financial and arms, pharmaceutical and energy sectors, where the anachronistic law allowing people to keep and bear firearms as in the Wild West cannot be changed. Nearly 39,000 people per year die there from gunshot wounds, including more than 14,000 deaths from homicide (Brady 2021). Out of the 860 million firearms in civilian possession, as many as 46% are in the hands of Americans, who make up only 4.2% of the world's population. There are more than 120 guns per hundred Americans, more than six times the number in Germany (Karp 2018). Under the influence of spectacular incidents in which dozens of innocent people are killed by gunfire, attempts are sometimes made to introduce legislation to control gun ownership, but these are quickly torpedoed by the powerful gun lobby, especially the National Rifle Association, NRA, which wields considerable influence on Capitol Hill. The NRA advertises itself as "the longest running civil rights organization in America". The democracy there is so protective of these rights that every five minutes, a bullet is fired, and every fifteen minutes, someone is killed by a bullet through murder, suicide, and accidents.

Naturally, all voters are free and equal. Knowing what they want and why they want it, they are well informed about everything, so they do not confuse means with ends and they behave rationally... Because of the first-past-the-post system or electoral voting system, it is possible to win democratically without winning a majority of the votes. In 2000, Al Gore lost the race for the White House to George W. Bush, although he received over half a million more votes. In 2016, Hillary Clinton lost the election despite nearly three million more people voting for her than for her rival. If France had the same electoral system as the US, it would not be the

pragmatic Emmanuel Macron but the right-wing populist Marine Le Pen who would become president in the 2017 elections Economist (2017). In 2020, in turn, Joe Biden beat Donald Trump by a difference of 7 million votes, receiving as many as 9.5% more. Despite this, the defeated contender falsely maintains that he won and that the election result was manipulated. While spreading such lies by him is not surprising, it is astonishing that more than half, 53%, of the Republican Party's supporters believe this falsehood. What is even more stunning is that as many as 25% of American adults in total believe the same, as even among supporters of the Democratic Party, there were 3% who believed that Trump was the true president (Reuters 2021).

This is somewhat reminiscent of Belarus, where it is also possible—although, in fact, through very different political mechanisms—to win the presidency without gaining the support of the majority of voters. Sviatlana Tsikhanouskaya, an activist in opposition to President Lukashenko, claims that she won the 2020 election with as much as around 70% of the votes (officially, she received only 10.1% and Lukashenko 80.1%). The difference, however, between ‘the world’s largest liberal democracy’, where, for all its faults, the election results were not falsified, and the ‘Europe’s last dictatorship’, where they certainly were falsified, is that Donald Trump, despite his persistent claims of electoral victory, had to leave the White House, but can safely attend rallies and play golf in his own country, while Sviatlana Tsikhanouskaya, who also claims to have won, preferred to flee abroad, just in case.

She is not the only one, as in the US, there are also people escaping, but across state borders. If one were to read the information quoted below without the names of the places from where and to where the democratically elected men of the people fled (incidentally on two private jets), one would treat it as a cabaret event in some country of ‘emerging markets’ rather than as serious information coming from one of the largest American states. Well, the legislature there is pushing to amend the electoral laws in a way that clearly restricts, in specific cases, the possibility to vote of certain groups of the population, especially people of color, who are more likely to support socially oriented Democratic Party politicians. Thus, we learn that “More than 50 Democrats flew to Washington DC on Monday, in a move intended to paralyze the state’s House of Representatives ahead of the vote. At least two-thirds of the chamber’s 150 members must be present for a vote. On Tuesday, Republican Governor Greg Abbott threatened the missing politicians with arrest. He said they would be detained «as soon as they come back» to Texas. «They will be cabined inside the Texas Capitol until they get their job done,» he said in an interview with the local television station KVUE ABC. In Austin, where the Texas State Capitol sits, House Republicans authorized state police to find and bring back the Democrats «under warrant of arrest if necessary». State police, however, have no jurisdiction outside of Texas” (BBC 2021a). Under the current Texas law, senators and representatives, whenever they are healthy, are required to attend meetings of the legislature. If they evade this, they can be arrested, yet, Texas police can only operate within the state of Texas, as their jurisdiction does not extend beyond its borders. The federal police, FBI, cannot be involved in this democratic procedure...

In both, very different, cases, in the democratic US and in authoritarian Belarus, societies are deeply divided, even fractured, which makes it difficult to pursue rational policies with all the negative consequences this entails in the economic sphere. In a variety of ways, this can paralyze the various decision-making procedures that predetermine the accumulation and allocation of capital by both the state and the private sector. An attentive observer has many opportunities to see how democracy or the lack of it contributes to delaying decisions, to irrationality in economic activity, to hindering development processes, and to aggravating conflicts.

Ideas of democracy can be preached. It is the easiest part. It is also possible, without being asked, to barge in and lecture others on how they should organize their political and economic systems. Naturally, in the interests of their own people... This does not prevent undignified behavior, many examples of which are provided by modern history:

- in 1953, in reaction to the nationalization of the British Petroleum's oil monopoly in Iran with the help of the CIA and MI6, the British intelligence agency, the democratically elected government of Mohammad Mosaddegh was overthrown and the pro-American Shah Reza Pahlavi was installed;
- in 1954, the CIA overthrew the democratically formed government of Jacobo Árbenz in Guatemala, which resulted in a brutal 40-year civil war;
- in 1956, the US backed the regime of Ngô Đình Diệm, who rejected national elections in Vietnam, the holding of which had previously been agreed upon in the Geneva Accords, which led to a 19-year war that killed 2.5 million people, including almost 2 million civilians;
- in 1960, the CIA supported the coup in the Congo and the assassination of President Patrice Lumumba, who was replaced for 37 years by the corrupt dictator Mobutu Sese Seko;
- in 1964, the democratically elected President of Brazil, João Goulart, was removed in a CIA-backed coup d'état, ushering in 20 years of military junta rule;
- in 1966, on the other side of the Atlantic, in Ghana, the government of President Kwame Nkrumah was overthrown with the involvement of the CIA, and replaced by the pro-Western General Emmanuel Kwasi Kotoka;
- in 1967, the American love of democracy made its presence felt in Europe, where the CIA successfully supported the overthrow of Andreas Papandreu, the liberal Prime Minister of Greece, and the seizure of power for seven years by a military dictatorship (the so-called Regime of the Colonels);
- in 1973 in Chile, the CIA successfully assisted General Augusto Pinochet in overthrowing the democratically elected President Salvador Allende, making two decades of dictatorial neoliberal rule possible;
- in 1976, in neighboring Argentina, the US supported a coup that overthrew the democratic President Isabela Perón and helped bring to power the right-wing military dictatorship of General Jorge Videla;
- between 1984 and 1986 in Nicaragua, despite the Sandinista victory in the democratic elections, the Americans under the Republican presidency of Ronald Reagan

actively supported the right-wing Contras rebels, the funds for which came from illegal arms sales to the Iranian regime¹;

- in 1991 and again in 2004, the US was involved in coups in Haiti against the rule of President Jean-Bertrand Aristide;
- in 2009, the US became involved, again in Central America, in removing the President of Honduras—José Manuel Zelaya from office and forcing him to leave the country;
- in 2013, the US quietly supported General Abd al-Fattah as-Sisi's coup in Egypt, which overthrew democratically elected President Muhammad Mursi, and is keen to support the authoritarian rule in Cairo with billions in military aid.

Many similar examples—except that this time the acts were carried out not for the sake of ‘democracy’ but for the sake of ‘justice’ or some other great ideas—could be cited with reference to the Soviet Union, from its armed intervention in Hungary in 1956 through its ‘brotherly help’ in Czechoslovakia in 1968 to its absurd invasion of Afghanistan in 1979. There were many more covert operations and activities inspired and coexecuted by the USSR, to the extent that many apparatchiks in Moscow felt that “the world was going our way” (Christopher and Mitrokhin 2005).

Examples could be multiplied and evidence cited. Since the secret services were (and are) involved in every case of this type, and since official sources of information generally (and willingly) depart from the truth, there are many things we do not know about. They, albeit not all, will be discovered by history. We know that there is a great deal of hypocrisy and deception, self-interest, and cynicism among the proponents and propagators of the fine ideas of democracy, and we must therefore judge them by their actions. Above all, it is necessary to look carefully at the facts, to carry out interdisciplinary, comprehensive, and comparative studies of the problems, in order to draw conclusions that are correct not politically but substantively, so that the theoretical interpretations formulated are conducive to good practice in the sphere of socio-economic development policy.

The two-facedness of the Western powers, especially the US and the UK—those most ardent supporters of freedom and democracy—is striking. It is manifested in simultaneous criticism of some countries with authoritarian regimes and sparing others with which they maintain active contacts. Sometimes this criticism is aggressive, even hostile, as in the case of the anti-Russian and anti-Chinese rhetoric and practice of the previous and current US administrations. Western politicians and media do not spare the authoritarian Belarus harsh remarks and strong words, but they refrain from them when it comes to the equally authoritarian Azerbaijan. Cuba is under verbal fire all the time, although the United Arab Emirates is more authoritarian. Venezuela has been unusually severely criticized, much more so than Eritrea, which is far ahead of it in terms of authoritarianism. Let us make no mistake; the criterion for taking a stance either for or against, for intrusive criticism or discreet tolerance, for discrimination or cooperation, is not democracy or the lack of it, but

¹ Half a century earlier, when it was pointed out to him that it was a shame to associate with the bloody Nicaraguan dictator Anastasio Somoza, because he was a “son of a bitch”, President Franklin Delano Roosevelt replied: “He may be a son of a bitch, but he’s our son of a bitch.”.

political and economic self-interest. If Mr. Lukashenko, the President of Belarus, were anti-Russian or at least pro-American, he would receive the same welcome in Washington as Saparmurat Niyazov, the President of Turkmenistan—one of the most authoritarian countries, but rich in gas and located in a strategically important region on the world map—who had the honor of receiving a red carpet welcome at the White House. If Iran were pro-American, the authoritarianism of its regime would be as unimportant as that of neighboring Saudi Arabia, where it is even worse.

The political acceptance of countries is therefore determined by their usefulness in achieving Western geopolitical and economic goals, rather than whether they honor human rights and what is the condition of democracy there. It is a pity that so little has changed in this respect over the century. In 1917, when the British sent troops to occupy Baghdad, Lord Charles Hardinge, a high-ranking diplomat and politician, wrote with disarming candor (and totally undiplomatically) to Gertrude Bell, a distinguished researcher then traveling in the area: “It really would not matter if we choose three of the fattest men from Baghdad or three of the men with the longest beards who would be put up as the emblems of Arab rule”. The historian citing these words aptly comments that “The British just needed any leader on whom they could effectively impress the benefits of co-operation with the occupying force; naturally, this would involve bribing them handsomely” (Frankopan 2015, p. 330).

The language and political rhetoric have changed profoundly since those imperial times, but in geopolitics, the protection of self-interests still dominates over the verbally declared ideology and concern for the needs of others. While in the times of the US-Soviet rivalry—so of the democratic-authoritarian rivalry—both sides nagged at or reprimanded others, nowadays, it is mainly the US and the UK that are guilty of zealotry. They severely scold countries as diverse as China and Turkey, Russia and Venezuela, Nicaragua and Rwanda, Pakistan and Kenya, and spare a great many others that do not like democracy either. The Americans and the British are eagerly joined by some EU politicians and bureaucrats as well as Western European leaders in criticizing specific systemic solutions and political behavior, sparing no comment for Poland or Hungary on the issues such as the organization of the national judiciary or the control of foreign ownership of the media, or for Italy or Greece on some of their contacts with certain countries in the East. It happens that the condemned solutions are applied in the countries that regard the same solutions at least as flaws, if not as reprehensible misdemeanors in others. The famous American saying comes to mind: Do what we say, not what we do.

3.3 Political System—An End or a Means to an End?

So, what is democracy? The end or the means? If the former, then the end of what? If the latter, then the means to what? I believe that the fundamental question about the nature of democracy will be answered differently by an economist and a sociologist; the answer of a political scientist will be different from that of a psychologist, while we will learn yet something else from a philosopher or a historian. The ambiguity of

the essence of democracy stems also from the fact that it is not a point but a spectrum; it is not a static state but a dynamic process; it is not something devoid of values but a phenomenon deeply rooted in axiology; it is not something understood in the same way by a layman and a luminary of social sciences; it is not something equally appreciated by voters and candidates.

For the economist, it is crucial to answer the question of what democracy is—or should be—from an economic point of view. Is democracy the ultimate objective and is economic activity to serve or directly submit to its requirements? Or perhaps vice versa? Maybe efficient economic activity enhancing prosperity is the ultimate objective, and it is to this end that the political regime—more or less democratic—is to be subordinated? These are big questions that are not easy to answer unequivocally, fully, and completely, as long as one remains stuck in the straightjacket of an overly narrow view of the problem of what is better: democracy or autocracy?

Yet another important question—asked infrequently by economists and more frequently from the point of view of sociology and political science—is the issue of democracy in the economy. Is it possible to speak of democracy in the economy at all, or does it only refer to politics? Well, it is the latter. Incorporating the category of democracy into economic activity—although it is a social process in which people and their various groups interact—is incompatible with the imperative of business activity, namely—efficiency. This is undoubtedly the case at the microeconomic level, where no sensible person demands democracy in corporate management, which does not mean that the voice of employees should not be taken into account in decision-making by the leaders (this is particularly the case in cooperative enterprises). At the macroeconomic level, democracy is an attribute of making fundamental decisions about the directions of economic policy, while making specific decisions is a matter of technocracy and macroeconomic management, not democracy. In exceptional cases, it is possible to appeal to public opinion, even in the form of a referendum, on some fundamental economic issues—for example, whether or not to build nuclear power plants—but this can result in errors that are difficult, if not impossible, to reverse. I dread to think what would happen, for example, if it were a direct democracy that had to decide on the level of taxes... It is therefore left to a representative democracy to decide on fundamental economic issues, while it is debatable what is fundamental and what is not.

Hence, we are confronted not so much with a simple dilemma as a kind of multilemma with an elaborate structure. First, this multilevel economic-social-political equation must be supplemented with another category: meritocracy. Then, we are faced with the obvious acceptance of democratic meritocracy (as in New Zealand or Canada, for example) and the negation of autocratic non-meritocracy (as in Uzbekistan or Myanmar, for example). But, we also have to deal with a multifaceted choice: democratic non-meritocracy (as in India, Brazil, or Bangladesh) or meritocratic autocracy (as in China, the United Arab Emirates, or Vietnam)? Reality is a complex mosaic, and there are more possible variations. The system is not the same in countries that qualify as having the same type of political system, say Poland and Denmark or Tanzania and Senegal. The reality characteristic of Turkey will be described differently than that of Mexico; the realities of Eritrea and Cuba are

perceived yet in another way. In each case, one needs to be aware of what is at stake: what is the objective, and what is the means to achieve that objective? What is superior and what is inferior? What is ‘sacred’ and what is common²? Before we get into an argument, it is indeed good to know what we are fighting for and where we are going...

The literature on democracy is overwhelming, but despite this—or perhaps because of it—there is no clear consensus on the essence and thus the definition of democracy (Ikenberry 2020; Przeworski 1995; Reykowski, 2020). At the ends of a rich and multicolored spectrum, it is easy to identify what certainly democracy is in socio-economic and political practice, for example, Scandinavian states, and what it undoubtedly is not, for example, the Central Asian post-Soviet republics. The analyses, conclusions, and assessments moving away from these good and bad extremes, closer to the middle, are more complicated. When it comes to them, the opinions of both academic or analytical professionals and political or media dilettantes differ radically, for example, with regard to the Philippines or Hungary, Bangladesh, or Algeria.

Democracy has many forms, as does its opposite, autocracy. There are, after all, boundary criteria for democracy specified. Hence, in democracy, as a result of its inalienable periodic elections, those in power change—individuals as well as parties or other political formations aspiring to govern. This automatically means that the results of the vote are respected by the losers. When such a mechanism does not work—even when the previously ruling and now losing party enjoyed massive, almost majority support—there is no democracy, or at least it is neither full nor true (Wind 2021).

There are several examples in recent history where this fundamental mechanism has been called into question. At the end of 2016, Yahya Jammeh—who has ruled in the Gambia since 1994, when he seized power in a military coup—with 39.6% of the vote, lost to Adama Barrow, who won 43.3% of them. He refused to acknowledge his defeat, which in early 2017 led to an armed intervention of ECOWAS states, a regional integration grouping.³ It was only under the threat of force that he accepted his political defeat and resigned, emigrating, or rather fleeing, to Guinea. In 2021, democratic elections were held in another distant country, Peru. The cultural, political, and socio-economic realities have so deeply divided the society of this country that the voting population has also split into almost two equal parts. The presidential candidate Keiko Fujimori, not the first time running for office, won 49.82% of the vote, only about 44,000 (out of 17.3 million voters) less than the winner Pedro Castillo, who was supported by 50.18% of the voters. Keiko Fujimori is the

² Until recently, the property of Russian oligarchs held abroad was “sacred” because it was private, although a mass of it was simply stolen from the Russian society, and it was protected by Western democratic institutions. Now it is being confiscated according to the same (?) values of the free world; it is not “sacred” anymore.

³ ECOWAS, the Economic Community of West African States, is a loose economic and political grouping of 15 West African countries: Benin, Burkina Faso, Cape Verde, the Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

daughter of Alberto Fujimori, President of Peru from 1990 to 2000, who in 2009 was sentenced to 25 years in prison for corruption and human rights violations. It was no great surprise that the losing candidate did not recognize this fact, accusing the winning camp of trickery, although according to independent observers, the election was fair and conscientiously conducted.

The 2020 US presidential election, which brought Joe Biden to power, certainly had these attributes. His losing rival was not able to honor this result. The only consolation is that the defects of lame democracy are smaller in this great American country than in a small African state and that the change of occupant of the White House took place without the armed intervention of the troops of a regional integration organization, in this case, the Organization of American States, OAS...

The varying extent of democracy is difficult to assess because it is not easy to measure. What some consider an attribute of freedom, like being able to walk the streets with a visible weapon, as in Texas, would be treated as dangerous stupidity in Denmark. What is considered an expression of economic freedom somewhere in the world, such as the street sale of all kinds of food in Thailand, is strictly limited elsewhere, such as in the Czech Republic, and requires the approval of the health administration. During the coronavirus pandemic, the Chinese take drastic government-imposed restrictions on movement for granted and accept them with few reservations, while the Dutch clash with the police because the authorities have closed their favored beer pubs. Despite numerous such dilemmas, many of which are culturally conditioned and embedded in historical contexts, it is worth attempting to measure the extent of democracy.

The American organization Freedom House, FH, functioning for over 80 years now, estimates not so much democracy as freedom and declares, in defining its identity and mission, that "...it is founded on the core conviction that freedom flourishes in democratic nations where governments are accountable to their people; the rule of law prevails; and freedoms of expression, association, and belief, as well as respect for the rights of women, minority communities, and historically marginalized groups, are guaranteed" (FH 2021). While sympathizing with such values, it is worth mentioning the gradation of countries from the point of view of freedom, as Freedom House understands it, rating countries as free, partly free, and not free. The score is made up of the sum of two indicators: political rights, where the estimate can reach the maximum of 40, and civil liberties, where the maximum is 60. Thus, the summary score is between 0 and 100, while the scale of 0–35 includes countries that are not free, 36–70 partially free, and 71–100 free.

This time the surrounding world has almost filled this framework from one extreme to the other. At the bottom end of the table is Syria with just 1 point ($-3 + 4$),⁴ and at the top with 100 points are the Scandinavian three: Finland, Norway, and Sweden.

⁴ The political rights rating of a country or territory may be less than zero (-1 to -4) when a majority of zeros is obtained for the 10 questions concerning political rights. For more information on the specific questions asked during the survey and more broadly the methodology for constructing the economic freedom index, see FH (2021).

The US scores 83 points (32 + 51), putting it in 65th place in a very good company—just ahead of Poland, 82 points (34 + 48) and on a par with Romania, 83 points (35 + 48), and behind Argentina, 84 points (35 + 49) and Mongolia, also 84 (36 + 48) (the first numbers in brackets are the points in the ‘political rights’ category and the second in the ‘civil liberties’ category). It is worth emphasizing that in the FH assessment, the situation has been deteriorating over the last several years. While in 2005, there were 89 free countries and 45 not free countries, in 2020, there were fewer of the former—82, and more of the latter—54. This is not yet a slide into the abyss, but it is already a serious sign that things are going wrong.

Table 3.1 presents relevant indicators for 11 selected countries with large populations (except for the Republic of South Africa, with over 100 million inhabitants, while Vietnam exceeds 100 million inhabitants in 2023) classified under different types of political systems. For comparison, the data illustrating the situation in Poland and the highest-ranked country, Norway, is also quoted.

Freedom House assessments appear to be contaminated with Russophobia and anti-communism based on the uncritically (and erroneously) accepted assumption that China and Vietnam are communist states and that Russia is the almost total enemy of all decency. It is difficult to regard the opinions as reliable when South Africa is given a score nine times (*sic!*) higher than China in terms of freedom, or which see three times more freedom in Indonesia than in Russia, placing it (the evaluation was done before the invasion of Ukraine) at the bottom of the list, between Eswatini, Africa’s only absolute monarchy, and Rwanda.

Table 3.1 Freedom indexes in selected countries

	Political rights	Civil liberties	Freedom scores	Status	Place in the world
South Africa	33	46	79	Free	70
Brazil	31	43	74	Free	79
India	34	33	67	Partly free	89
Mexico	27	34	61	Partly free	103
Indonesia	30	29	59	Partly free	111
Nigeria	21	24	45	Partly free	127
Bangladesh	15	24	39	Partly free	138
Pakistan	9	19	28	Not free	141
Russia	5	15	20	Not free	172
Vietnam	3	16	19	Not free	177
China	−2	11	9	Not free	195
Poland	34	48	82	Free	63
Norway	40	60	100	Free	1

Source FH (2021)

An interesting estimate, useful for further studies on the subject, is provided by the Economist Intelligence Unit, EIU, which estimates the democracy index based on five categories:

- electoral process and pluralism;
- functioning of government;
- political participation;
- political culture;
- civil liberties.

Based on the scores obtained using a number of indicators within these categories, each country, depending on the sum of the scores obtained between 0 and 10, is then classified as one of four regime types: full democracy, flawed democracy, hybrid regime, or authoritarian regime (EIU 2021). Full democracies include countries scoring 8.01–10.00 (there are only 23), flawed democracies 6.01–8.00 (52 countries), hybrid regimes 4.01–6.00 (35 countries), and authoritarian regimes 4.00 and below (as many as 57 countries). In addition, each category includes subcategories highlighting the severity of the characteristics. For example, the Norwegian full democracy is more mature than German, or the Russian authoritarianism is less harsh than Belarusian.

Poland, with the index of 6.85, is in 50th place in the democracy ranking, after Slovakia, Argentina, and Brazil, and before Suriname, Bulgaria, and India, in the group of flawed democracies, and it is little consolation that this group of countries is opened by such major economies as France in 24th place and, immediately afterward, the US. Overall, it is getting worse. The EIU democracy index has been successively declining since 2015. The global score, the average for the whole world, is 5.37, which is the lowest since the index was compiled in 2006. Today, only 8.4% of the world's population lives in a full democracy, while more than a third have to get along under authoritarian rules.

In this ranking, the two countries clearly leading the way in terms of economic growth when assessing the state of democracy have been placed in distant positions, closer to the end than to the beginning of the list of 167 countries. China, with the annual average growth rate of GDP per capita of 8.5% between 1991 and 2020, ranked 151st, between Sudan and Bahrain, and Iran and Eritrea, while Vietnam, with the average growth rate of 5.4% over the same period, ranked 137th, just behind Myanmar and Oman, and just ahead of Egypt and Afghanistan (Table 3.2).

Could it be that the more authoritarian the policy, the faster economic growth? Nonsense. In the past three decades, China has enjoyed six times the economic growth rate of Norway, the most democratic country, not because it is authoritarian. Or vice versa: Norway has recorded barely one-sixth of China's dynamism, not because it is an exemplary democracy. It is worth pointing out that over a long period of 30 years—so there are no happy coincidences here, but rather an objective trend—the economic dynamics in the two Asian authoritarian states of China and Vietnam are significantly higher than in the two flawed democracies of India and Indonesia. The power of compound interest sets in. Compared to 1990, after three decades, in

Table 3.2 Economic growth rate in countries with different political systems

						Political system	
		Population (in millions)	Average growth 1991–2020	Rate of GDP 2011–2020	2020 GDP indicator (1990 = 100)	Democracy index	Ranking position
China	A	1439	8.5	6.3	1153	2.21	148
Vietnam	A	97	5.4	4.9	490	2.94	131
India	FD	1380	4.2	3.9	337	6.91	46
Bangladesh	H	165	3.9	5.3	317	5.99	75
Indonesia	FD	274	3.2	3.3	253	6.71	52
Pakistan	H	221	1.6	1.7	159	4.31	104
Nigeria	H	212	1.5	0.0	151	4.11	107
Brazil	FD	214	1.0	-0.5	134	6.86	47
Russia	A	146	0.9	1.0	123	3.24	124
Mexico	FD	130	0.7	0.1	120	5.57	86
South Africa	FD	59	0.4	-0.8	111	7.05	44

A authoritarian, H hybrid, FD flawed democracy

Source Population: Worldometer (2021); GDP growth: WB (2021a); Political system: EIU (2022)

2020, it raises the per capita GDP growth rate in India and Indonesia to 337 and 317, respectively, while in Vietnam to 490 and an impressive 1153 in China (Chart 3.1).

It would be fundamentally wrong to conclude that authoritarianism favors economic dynamism, but it would be no less false to think that there is no relationship between the two domains. Well, there is, except that the issue of their interconnection is multidimensional. The problem needs to be addressed in a comprehensive manner, not in a general way that skims the surface of the issue. Authoritarianism—like democracy—is as much a political as a cultural, as much an immediate as a historical phenomenon. Both regimes are always embedded in a specific institutional set-up and geopolitical environment. Authoritarianism in the oil-abundant United Arab Emirates (ranked 145th according to the democracy index) is not the same as in also oil-rich Azerbaijan (ranking next, 146th). Democracy in Taiwan (11th place) is not the same as in Switzerland (12th place).

Not only in relation to the political regime but more broadly, institutions—not in the organizational but behavioral sense, i.e., understood as rules of the game, rules of conduct (North 2005)—do not act on their own as specific independent variables in an equation (Csaba 2021). They affect the course of affairs in the context of social values, which are the product of clashing views on what is worthy of recognition. Therefore, the same institutional solution may work in one place but fail elsewhere. Institutions do not operate in an empty field. They are always surrounded by values,

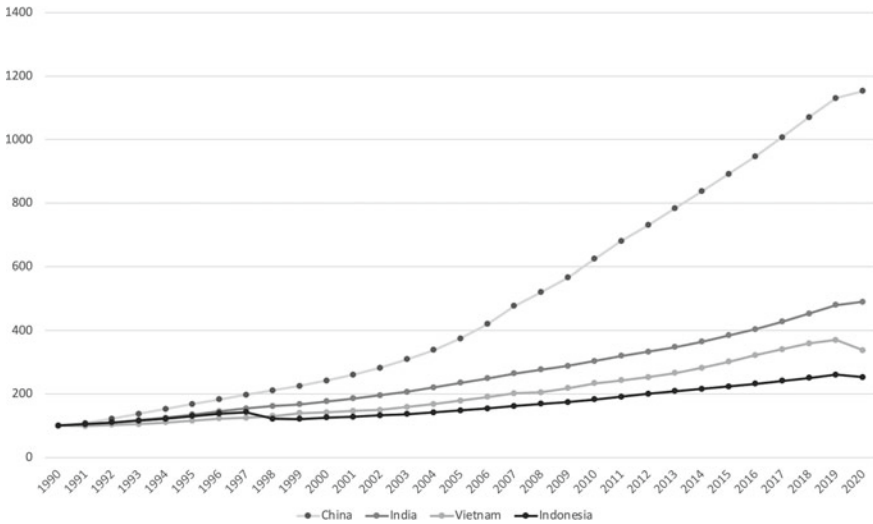


Chart 3.1 Economic growth in authoritarian and democratic countries in 1991–2020 (GDP per capita 1990 = 100). *Source* Own calculations based on data from WB (2021a)

political, social, and natural environments that can either favor or hinder the functioning of institutions. Institutions, therefore, are like people: They can be good or evil. Institutions are like politics: They can be economically and politically inclusive and therefore conducive to democracy and development, or they can be extractive and exclude from economic and political participation and foster authoritarianism.

3.4 Political System and Economic Development

While for some democracy is a value in its own right, for others, it is primarily a condition or an instrument for achieving other goals. Democracy is worth striving for, and once gained, it must be nurtured so that it flourishes and does not become distorted. Its axiological aspect is the defense of citizens' rights and freedoms, and its practical aspect is the protection against the radicalization of conflicts and their escalation into a violent, sometimes bloody confrontation. Where there is not enough democracy, conflicts are brutalized, as is the case today in Ethiopia and Yemen, for example. Democracy is a great thing that activates people, but at the same time, it is there to serve them. It is something that happens by the people and for the people. The people are its core, but they must also be its beneficiaries, both culturally and economically, in its immaterial and material dimensions. Democracy must please the spirit, but it must also be profitable for the body.

Bearing in mind that it is a value in itself and for this reason alone it is worth extolling, the issue of the coupling of democracy with socio-economic development processes is of particular interest. Various attempts have been made to show that democracy promotes production growth and increasing level of need satisfaction (Acemoglu and Robinson 2019; Halperin et al. 2005; Iversen and Soskice 2019), but this has neither been theoretically proven nor positively verified statistically. Reality turns out to be nasty and does not want to make it too easy to confirm the politically correct but unfortunately scientifically questionable theses. It is a fact that over the course of two generations—between 1960 and 2000—the average growth rate was higher in democratic countries than in authoritarian ones, being 2.3% and 1.6%, respectively, but by the next two decades, which brought us to the present, this difference has already been erased, largely due to China's economic situation (Brown 2019). History proves that there is no simple cause-and-effect relationship such as: the more democracy, the faster economic growth, or the better democracy, the higher efficiency. This can happen if other conditions of various natures are met (North 2005), often having little to do with democracy.

There is certainly a link between freedom of economic activity and long-term development dynamics, assuming that freedom of economic activity—or, as others want to call it, economic freedom—is accompanied by appropriate knowledge and culture. Some believe that the positive cause-and-effect relationship of freedom > development is automatic, unconditional, and go even further by making freedom the ultimate objective: freedom for freedom's sake.

The Heritage Foundation is an American organization whose mission, as it states, is to “formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense”. It is about “building an America where freedom, opportunity, prosperity, and civil society flourish”. Apart from the fact that it openly declares that it is not about the world, but about ‘building an America’, i.e., the US—for which a weak government and a strong army are supposedly necessary—it states that: “economic freedom is everyone's fundamental right to control their own work and property. In an economically free society, people can work, produce, consume, and invest any way they like. In economically free societies, governments allow the free movement of labor, capital, and goods, and refrain from coercing or restricting freedom beyond what is necessary to protect and maintain freedom itself” (HF 2021). Not a word here about responsibility for oneself and the community in which one functions. It is a libertarian point of view, soaked more with right-wing ideology than with the balanced pragmatism so much needed today, in these difficult times.

The point is that economic freedom should not be unbridled, but should be embedded in a regulation that limits the excesses of free enterprise. Unlimited freedom makes it easier to capture the profits made by the economically weaker partners and to pass on part of the costs incurred to stakeholders—to employees and partners, to customers and suppliers, to tax authorities, and to the environment. That is why libertarianism and neoliberalism call for a limited, i.e., weak in its essence, state. The weaker it is, the less intervention, but that does not mean that there is automatically more development. The statement that a condition is desired in which

governments “refrain from coercing or restricting freedom beyond what is necessary to protect and maintain freedom itself” is precisely confusing the end (development) with the means to the end (economic freedom). Unless one is ready to sacrifice development and the well-being to which it leads over time on the altar of economic freedom for the sake of economic freedom.

Nevertheless, it is worth looking at the results of the comparisons made annually by the Heritage Foundation. It compiles an economic freedom index, EFI, which is worth confronting with democracy on the one hand, and with many years of economic growth on the other. In this ranking, the aggregate economic freedom index is an unweighted average (which is a significant methodological simplification) of twelve subindicators included in four categories:

- rule of law (property rights, government integrity, judicial effectiveness);
- government size (government spending, tax burden, fiscal health);
- regulatory efficiency (business freedom, labor freedom, monetary freedom);
- market openness (trade freedom, investment freedom, financial freedom) (HF 2021) (Table 3.3).

This interesting compilation belies consensual wisdom and politically correct assertions. The two countries in this comparison qualified in terms of democracy in the last two places, China and Vietnam, grew economically the fastest during the thirty years from 1991 to 2020, while the politically top-ranked democracies, South

Table 3.3 Economic freedom—economic growth—democracy

	Economic freedom index	Average GDP growth rate per capita in 1991–2020 (according to PPP)	Democracy index
(5) Indonesia (4)	66.9	3.2	6.71
(10) Mexico (9)	65.5	0.7	5.57
(2) Vietnam (10)	61.7	5.4	2.94
(9) Russia (8)	61.5	1.0	3.24
(11) South Africa (1)	59.7	0.4	7.05
(7) Nigeria (7)	58.7	1.5	4.11
(1) China (11)	58.4	8.5	2.21
(3) India (3)	56.5	4.2	6.91
(4) Bangladesh (5)	56.5	3.9	5.99
(8) Brazil (2)	53.4	1.0	6.86
(6) Pakistan (6)	51.7	1.6	4.31
Poland	69.7	3.6	6.80
Singapore	89.7	3.2	6.23

Note The number in () before the name of the country indicates its place in terms of growth rate; the number in () after the name of the country indicates its place in terms of the democracy index
Source Economic Freedom: HF (2021); GDP Growth: WB (2021a); Democracy index: EIU (2022)

Africa and Brazil, had the lowest and very low growth rates during this period. The highly authoritarian Vietnam (democracy index of 2.94) is among the top countries enjoying relatively considerable economic freedom, and China assessed politically worse (democracy index of 2.27) turns out to be more advanced in economic freedom than democratic India. There is also no correlation between economic freedom and growth rates in the Heritage Foundation's presentation; Mexico and South Africa, highly ranked in terms of economic freedom, come last in terms of production dynamics.

Rationality is conducive to both narrowly conceived economic growth, commonly measured through the prism of changes in GDP per capita, as well as more broadly conceived socio-economic development, which is more difficult to measure. Therefore, in this regard, we rely on various composite metrics that also take into account qualitative changes in the standard of living of the population. A useful measure is the human development index, HDI, which the UN has been calculating for many years, comparing numerous countries. The latest estimates put Norway first in the world with the index of 0.957 (the theoretical maximum is 1.000) and Niger last with the HDI of just 0.394. Poland is 35th with the index of 0.880. The previously compared eleven countries rank from 52nd to 161st (Table 3.4).

In terms of the two categories being compared, these countries rank similarly. Essentially, given the construction of the HDI—which, as we already know, in one-third depends directly on income and in two-thirds indirectly, because the level of income affects the amount of outlays on education and health care, and these outlays, in turn, determine the condition of education and health care—there is a clear correlation between the condition of human capital and the income produced by and for it. Both presented development categories are a product of history and an

Table 3.4 Human capital index, HDI, and national income per capita, GDP (PPP)

	HDI	Place in the world in terms of HDI	GDP per capita (PPP)	Place in the world in terms of GDP per capita
Russia	0.824	52	26,456	55
Mexico	0.779	74	17,888	75
Brazil	0.765	84	14,064	89
China	0.761	85	16,411	81
Indonesia	0.718	107	11,445	108
South Africa	0.709	114	11,466	107
Vietnam	0.704	117	8200	124
India	0.645	131	6118	135
Bangladesh	0.632	133	4818	144
Pakistan	0.557	154	4623	146
Nigeria	0.539	161	4917	143

Source HDI: UNDP (2021a); GDP: WB (2021b)

effect of the political-economic system, which is why they vary so much between countries with different regimes and within countries with the same regimes. What is important, therefore, are both the current differences in the indices and the rate at which they improve over time.

Moreover, it needs to be explained why the differences between authoritarian countries are somewhat smaller in relation to the HDI rather than to GDP. This is due to the positive legacy of socialism (communism), where, because of its values, education and health were much more cared about than in other countries with similar income levels. This can be seen in Vietnam, which, although its income is lower, has a better health service than South Africa, or China, which has a higher level of education than Mexico, which is richer.

Substantively and methodologically, important progress is the modification of the human capital index additionally taking into account inequalities in income and in access to social services, especially education and health care—the inequality-adjusted human development index, IHDI. Including this qualitative aspect changes the picture somewhat (Table 3.5).

In this compilation—once income inequality and the extent of social exclusion are taken into account—it is striking how significantly the social situation as reflected by the indicators worsens in three democratic countries, namely Brazil, Mexico, and South Africa. The situation of the population there is much less favorable than it might seem without considering the issue of inequality. At the same time, autocratic Vietnam looks markedly better after widening the area of observation and evaluation.

Table 3.5 Estimates of the value of human capital taking into account inequalities in various political systems

	IHDI		IHDI position difference to HDI ranking position	Regime
	Index	Ranking		
Russia	0.740	50	2	A
Mexico	0.613	87	−13	FD
Brazil	0.570	104	−20	FD
China	0.639	83	2	A
Indonesia	0.590	105	2	FD
South Africa	0.468	132	−18	FD
Vietnam	0.588	107	10	A
India	0.475	132	−1	FD
Bangladesh	0.478	130	3	H
Pakistan	0.384	158	−4	H
Nigeria	0.348	163	−2	H
Poland	0.813	28	7	FD
Norway	0.889	1	0	D

A authoritarian; *H* hybrid; *FD* flawed democracy; *D* full democracy

Source UNDP (2021b)

The IHDI is a better, more adequate measure of the reality we are interested in than the HDI, which is why it is a good idea to refer to it more often. This time, too, the issue is more complicated than simplistic generalizations claim. The truth is that a flawed democracy can foster the growth of social inequalities, which is against the essence of development, while progressive authoritarianism can reduce them and thus reinforce developmental tendencies. Both may or may not occur. Let us add here that neither one nor the other in itself prejudices the need to opt for either of these options. Much more needs to be perceived.

3.5 Entrepreneurship and Competitiveness

Following this line of reasoning, one can say that the business activity of human beings and societies, population groups and nations, individuals and their leaders, boils down to constant decision-making. These in turn are based on the available information and the ability to interpret it intelligently. In such a logical sequence, one must look at the links that exist between democracy (or its deficit) and the functioning of the economy. Are economically correct decisions easier to make in democracy or in autocracy? What sort of democracy? What sort of autocracy? What other conditions accompanying these megaconcepts must be met for the decisions that determine the functioning of the economy and its development to be rational?

If we formulate the dilemmas in such a simple way, then—also simplifying—we can assume that the better entrepreneurship is, the better economies develop. Entrepreneurship likes neither rampant bureaucracy nor unstable rules with which the state tries to regulate its activities. Predictability of the institutional setting requires the rule of law to stabilize the expectations of economic entities, which facilitates rational investment, production, and distribution decisions, resulting in higher efficiency and faster growth rates.

Again, the question emerges: how to measure? How to measure a climate that favors or hinders entrepreneurship? Let us assume that a fair approximation of the assessment of the state of affairs in this respect are the ‘Doing Business’ reports prepared by World Bank experts. The index they present “measures the processes for business incorporation, getting a building permit, obtaining an electricity connection, transferring property, getting access to credit, protecting minority investors, paying taxes, engaging in international trade, enforcing contracts, and resolving insolvency. «Doing Business» also collects and publishes data on employment regulation, and government contracting” (WB 2020, p. 2).

On the one hand, the observations made in these reports and the conclusions drawn therefrom may provoke optimistic assessments; on the other hand, they should encourage further improvement of the institutional framework of private entrepreneurship and enhancement of the state’s regulatory policy. The «Doing Business 2020» study shows that developing economies are catching up with developed economies in terms of ease of doing business. “Still, the gap remains wide. An entrepreneur in a low-income economy typically spends around 50% of the country’s

per capita income to launch a company, compared with just 4.2% for an entrepreneur in a high-income economy. It takes nearly six times as long on average to start a business in the economies ranked in the bottom 50 as in the top 20” (*op. cit.*, p. VII).

According to the World Bank, the economies with the greatest improvement in the business climate in the years leading up to the coronavirus pandemic were (democracy ranking positions according to the EIU in brackets): Saudi Arabia (156), Jordan (119), Togo (141), Bahrain (150), Tajikistan (159), Pakistan (105), Kuwait (114), China (151), India (53), and Nigeria (110). Is it not striking that out of the dozen countries scattered across three continents that are creating ever better conditions for businesses to expand—with all the implications for improving competitiveness and economic growth, and hence, as a result, the living standards of people—only India is counted as a—albeit flawed, but nevertheless—democracy? Of the remaining eleven, two, Pakistan and Nigeria, are countries with hybrid systems and as many as nine are authoritarian regimes.

Although insignificant on a global scale, the case of Georgia is specific. In the assessment of systemic and political conditions for business expansion, it quickly moved up to the seventh place, squeezing in between the powerful US and the UK. This has happened as a result of radical structural reforms and legislative adjustments focused on the areas of World Bank observation, which were administered by the democratically elected, but inclined towards authoritarian rule, former President, Mikheil Saakashvili. It turns out that it can be simpler to politically force progress in creating an entrepreneurial environment than to strengthen democracy. In this respect, Georgia is ranked only 91st, and given its shortcomings in other areas, such as lack of tolerance towards people from the LGBT community, it can be expected to do even worse in the next edition of the report on democracy.

In terms of ease of doing business, only two African countries made it to the top 50—Mauritius, which is ranked 13th ahead of Australia, and Rwanda, which is ranked 38th ahead of Portugal and Poland. The top 50 does not include a single Latin economy; the earliest to appear is Chile classified as 59th (WB 2020). In contrast, four African countries were ranked in the top 50 by the Economist Intelligence Unit in terms of the advancement of democracy (EIU democracy rankings in brackets): Mauritius (20), Cape Verde (32), Botswana (33), and South Africa (45), and six Latin American countries: Uruguay (15), Chile (17), Costa Rica (19), Panama (40), Colombia (46), and Argentina (48). It is impossible not to stress that in such a comparative context—in terms of the maturity of democratic institutions and practices—Africa’s Mauritius does better than the US, which is only ranked 25th, and Latin America’s Uruguay, ranked just behind Germany at 15th, looks better than the UK ranked 16th, also very actively expressing its verbal concern for democracy far beyond its borders.

The ability of economies to develop is always determined by their competitiveness. Various measures are used in its analyses, also because competitiveness can relate to both individual companies and their industries, as well as entire national economies and, in the supranational system, to global production and supply chains. In a comparative international setting, which we are particularly interested in here,

competitiveness is determined by the degree of technological advancement of enterprises operating in the country, the education and professionalism of the personnel, the level of professionalism in management at the microeconomic level, and the quality of macroeconomic policy and institutions, i.e., the regulatory rules of the economic game (Kolodko 2004). The obvious observation is that the more competitive the economy is, the easier it finds it to adapt to development challenges, to get through and emerge unscathed from periodic crises, and to thrive in the context of fierce global competition.

Competitiveness is therefore one of the determinants of economic development, and it is worth looking at how it is correlated with the advancement of democracy. Is it really the case that the more mature the democracy, the more competitive the economy? The comparative research from the World Economic Forum (WEF 2019) may be useful in answering the question thus posed. What is significant is that the global competitiveness index, GCI, estimated for 141 countries on a scale of 0 to 100, refers to the long-term determinants of growth, as it measures competitiveness defined as a vector of features of institutions, policies, and factors that determine a country's level of productivity. In this compilation, highly developed democratic countries regularly occupy leading positions in terms of competitiveness. Only with two exceptions, they occupy the first 35 places. These two exceptions are Malaysia (flawed democracy) in 27th place, immediately followed by authoritarian China with the index of 73.9 (on a scale of 0–100). What is interesting, they are more competitive than as many as 16 European Union countries, including all the member states from Central and Eastern Europe, including Poland, which—with the index of 68.9—was ranked 37th, between authoritarian Saudi Arabia and democratic Malta.

The World Economic Forum recognizes Singapore as the world's leading competitive economy. A similar view on economic freedom is presented by Freedom House. According to the Economist Intelligence Unit's ranking of democracies with the index of 6.03, it deserved only 74th place, placing it at the very end of the group of flawed democracies, at a minimum distance from hybrid regimes. The fact that Singapore is not criticized for its limited democracy—as other countries similarly rated in this respect are—is because it is politically pro-Western, and this counts more than the love of democracy declared by the West.

In general, countries are competitive not because they are rich, but vice versa. Since they have been competitive for many years, they have become richer, although undoubtedly affluence promotes competitiveness; wealthier economies can spend more on supporting investment in research and deployment. Is democracy helpful? If it is accompanied by good practices in terms of entrepreneurship and an institutional environment that encourages healthy competition, it certainly does help. Perhaps also the spirit of competition inherent in democracy in the political sphere stimulates competition in the economic sphere.

In turn, does authoritarianism hinder competitiveness? Apart from the unique case of China, only Qatar (GCI 72.9) and Saudi Arabia (70.0) follow, and to a lesser extent Vietnam, which with the index of 61.5 squeezed into the middle of the list in 67th place between Panama and India. This is the very interpretation

that the discussed assessments seem to suggest. The authoritarian and also non-meritocratic Saudi Arabia, supposedly as competitive as Poland and Slovenia, must be treated individually here. The wealthy Saudis (owing to oil exploitation) can afford to generously pay highly skilled foreign professionals and managers, which boosts their economy's international competitiveness records.

While it may seem to someone that corruption helps entrepreneurship because it speeds up bureaucratic decision-making without which companies cannot operate, which in some individual cases does happen, on a macroeconomic scale corruption distorts the processes of capital accumulation and allocation, thereby reducing economic efficiency. In the long term, corruption erodes competitiveness and damages development, and for this reason, and not just because of its morally reprehensible face, corruption must be fought, above all by ensuring that the institutions regulating entrepreneurship are of an appropriate quality and that business ethics are as high as possible.

A fairly popular view is that the scale of corruption is generally greater in non-democratic regimes, where it is not uncommon to treat bribes given to politicians and officials as an element of production costs, as a factor that speeds up decision-making (so-called speed money). Meanwhile, the state of affairs is more complex. Periodic comparative surveys conducted by the non-governmental organization, Transparency International, systematically show Scandinavian social democracies at the top of the economies that are least tainted by corruption; after that, the picture becomes muddled (TI 2021). It transpires that many countries of flawed democracies are more heavily steeped in corruption than some meritocratic autocracies. A corruption perceptions index, CPI, in India and Brazil is worse than in China, where it is 42, while in Vietnam, being 36, it is better than in Mexico. The CPI ranges on a scale from 100 to 0. The more corruption there is, the lower the index. According to Transparency International, the least corrupt countries are *ex aequo* Denmark and New Zealand (CPI 88), and the most, also *ex aequo* at 178th and 179th places, Somalia and South Sudan (CPI 12).

It is widely believed that it is easier to reduce the scale of corruption in democratic countries, but this is not a rule. Other conditions, especially cultural ones, and the determination of leaders also count. Good institutions must be backed by political will, and this may be insufficient in various political regimes, whereas it is far worse in autocracies than in democracies.

It is worth making an important digression at this point. The ranking discussed, as well as other results of comparative research, referred to here, present conventional measures and estimates. They are always burdened with a certain degree of subjectivity. They are encumbered with simplifications and sometimes questionable assumptions making it easier for analysts to register and interpret phenomena and processes. Methods of constructing composite indices are debatable, especially as to the weights assigned to the various component parts. The global competitiveness index, GCI, is not as robust as the Gini coefficient ; the human development index, HDI, is indisputably more reliable than the corruption perceptions index, CPI; the

Gross Domestic Product estimate, GDP, according to PPP, is a more sturdy measure, albeit also subject to assumptions made, than the democracy index. Being aware of the imperfections of these measures, we use them, reaching for those among many that give us the relatively best picture of the true state of affairs.

3.6 G7—Between Megalomania and Responsibility

Confusion in politics and dysfunctionality in the economy make it difficult to accurately assess the forum of the leaders of the seven significant capitalist countries, who met in June 2021 for another G7 summit, this time in Cornwall, UK. Significant countries in terms of the size of their economies, but over the last two generations, since the mid-1970s, when their annual meetings began,⁵ something has changed. For several years now, it is no longer the seven largest economies in the world. Billions of people have already broken free from the legacy of colonialism and imperialism, and they need to be looked at and spoken to differently from before. It is time to acknowledge this also among the leaders of the states that continue to usurp the leadership role in the world.

It is already the third decade of the twenty-first century, but some seem to have forgotten this, still living in the delusion of their indomitable greatness. Well, it is passing, and it is worth getting rid of megalomania because it does no good in politics. Counting by PPP, China alone produces a quarter more than all six of the G7, excluding the US, put together. With GDP of \$26.7 trillion (17.5% more than the US), China is the world's first economy. India is third, Russia, Indonesia, and Brazil are ranked sixth, seventh, and eighth, respectively. The G7 economies produce a total of 30% of the world's output, which is less than the BRIC countries—Brazil, Russia, India, and China—and this share is dropping year on year. Each, Turkey and Mexico produce more than Italy, and South Korea more than Canada, which is only the 15th largest economy. Is it any wonder, then, that the Chinese respond to the political and ideological reprehensions of the G7 by saying that a small group of countries cannot tell the whole world how to arrange things? The population of the G7 countries is less than 10% of the inhabitants of Earth but their political and opinion-forming magnates think that this is enough to instruct others on what to do and how to do it. And this is supposed to be democracy?

At one point, we learn that the leaders of the seven richest countries in the world met at the G7 summit. This is contradicted by the facts: Singaporeans and UAE citizens are richer than Italians and Canadians, Austrians are wealthier than Germans, and Belgians are more affluent than Japanese. At another time, we hear that the leaders of leading democracies have gathered in Cornwall, as if that democracy was more advanced in the UK than in Holland, or better off in France than in New Zealand.

⁵ The G7 group of countries, listing from the largest to the smallest economy, includes the United States, Japan, Germany, the United Kingdom, France, Italy, and Canada. Their first meeting—the G6, without Canada back then—was held in 1975. Canada joined a year later.

According to the EIU ranking, in the top ten democracies, opened by the Nordic countries—Norway, Iceland, and Sweden, there is only one G7 member—Canada. Two of them—Germany and the UK—are outside the top ten. The third ten is opened by Japan, with the US in the middle and closed by Italy, as 30th.

To reinforce the importance of this ‘alliance for democracy’, the summit host, British Prime Minister Boris Johnson, invited the Prime Minister of Australia, indeed, a truly mature democracy, and the presidents of already less exemplary democracies such as South Korea and South Africa, and the Prime Minister of India, which score worse than Poland in the EIU ranking. The three invitees accepted the offer and turned up in person, while Indian Prime Minister Narendra Modi did not come, not because he does not like that his country is included among the ‘leading democracies’, but because he does not want to be used as a card in the American-British game against China. It was this aspect of geopolitics that President Joe Biden emphasized most when he spoke of the need to counter China’s global expansion. Naturally, India does not support it, but it wants to play its geopolitical card on its own, and not in the third row of the anti-China alliance headed by the US. Similarly, other G7 countries, especially pragmatic France with President Emmanuel Macron and Germany with Chancellor Angela Merkel and her successor, Chancellor Olaf Scholz, are not so easily placed in the second row. Canadians, Japanese, and Italians are not eager to join the anti-Chinese crusade either.

This also illustrates how the US is becoming relatively weaker and is unwillingly admitting that they are no longer able to stand up to China on its own; they are looking for allies. Unfortunately, they draw fundamentally wrong conclusions from their own weakness. American Sinophobia is astonishing. While during Donald Trump’s presidency, it could still be understood—understood, not accepted—as the result of his economic incompetence because he failed to grasp the dynamics of irreversible globalization, the mechanisms of international competition, and the essence of the trade balance, a rational approach could be expected from Joe Biden’s administration. Well, it turns out that, as a result of the anti-Chinese atmosphere created in the US, it is impossible to publicly advocate for the normalization of relations with China and the expansion of paths of substantive cooperation.

The intention to block China’s growing global prominence by halting its incredible economic expansion is an extreme manifestation of a lack of realism and political sense. Hypothetically, there are only two ways to block this: one sick, the other morbid. The sick one is war—why not provoked by getting Taiwan to declare independence, which would inevitably involve a Chinese invasion, and which would destroy much more than their growing power, also far away from the borders. The second, morbid, is the internal destabilization of China, which is clearly the thing many Western declared fighters for freedom, democracy, and human rights care about. Expecting that such a destabilization would happen is a proof of the failure to grasp the nature of China’s rapidly growing power.

The escape forward cannot consist in the change of emphasis in the new Cold War suggested by the current American President, who wants to be better in his confrontation with China than his infamous predecessor and is trying to draw others

into this foolish game. The only healthy way to a better future for the world population of almost eight billion people is through new pragmatism, cultural and economic cooperation across divides, which will never be in short supply. Exacerbating international political tensions is conducive neither to fostering democracy at home, nor to promoting it in others, or to spreading it in international relations.

What is needed is a reinterpretation of globalization, which must indeed become more inclusive. In this respect, the British G7 summit in 2021 brought some wise insight into the matter, although it is nothing new. Seeing the eruption of declarations: how it is going to be more equal and fairer, more efficient and safer, more honest and cleaner, one could get the impression that this was a congress of a new socialist international, not of the rich countries where money corules. It is very good that there is a desire to support education in poor countries, so that more children and young people, especially girls, are educated. It is great that the mighty of this world are recognizing that excessive income inequality must be tackled. It is excellent that they finally want to put an end to the excesses of tax avoidance that have been tolerated for years. It is even better that they have understood that it is necessary to fight poverty effectively and to reduce social exclusion. Yet, are they preaching all this out of deep conviction or rather seeing *gilets jaunes* and learning that Black Lives Matter, neoliberals and conservatives have just become frightened of their own shadow and are beginning to understand that the situation is becoming dangerous? Do they declare their willingness to financially support the education of girls in Africa and Asia out of genuine concern for soul mates, or because, in the long run, this is the best way to reduce their reproduction rates and thus the otherwise unstoppable pressure to emigrate to the rich countries of the West? Is it not because their so-called liberal democracy, which they love so much, is in a serious crisis, not only within the G7 but also in all Latin American countries, as a result of which no one could be invited to the summit from there? Well, maybe it would be a good idea to invite a fairly decent Uruguay, but it is too small a country: only 3.5 million inhabitants.

The situation has become dangerous because China, so disliked by the West, is pursuing its gigantic transnational Belt and Road Initiative with great vigor and determination. President Biden's call for Western democracies committed to 'our shared values' to oppose this initiative is staggering. If the real issue is to seriously increase the rich countries' commitment to investing in human capital and infrastructure fostering growth in developing countries, this should not be done with anti-Chinese intentions, but the existing network of global and regional structures—from the World Bank to the continental development banks—should be recapitalized and their governance improved. China must not be nonsensically treated as an enemy in cofinancing the development of the world economy but must be cooperated with. The world is big enough to accommodate everyone.

Yes, developing countries, by signing up to participate in various infrastructure programs cofinanced by China, may fall into excessive dependence on China—first financial, then political dependence, but it does not have to be that way. The borrowers should simply conform to the necessary prudential standards and should not over-indebt themselves. This has happened several times before, only that poor countries, sometimes extremely poor ones, have fallen into unpayable debt to the rich countries

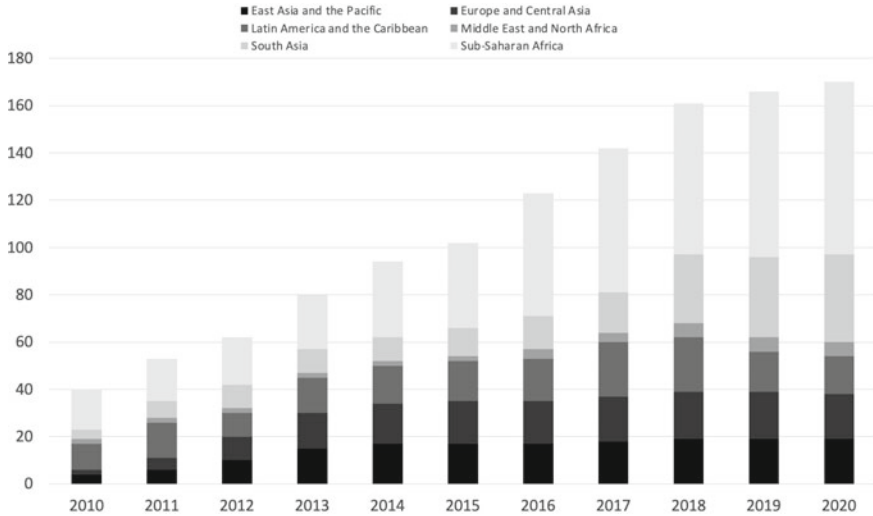


Chart 3.2 Liabilities of low and middle-income countries towards China in 2010–2020 (in USD billion). *Source* World Bank International Department Statistics

in the West,⁶ which are now warning of this risk coming from the other direction. The fact that in recent years China has been cofinancing more and more investments in poor countries along the New Silk Road is neither a sophisticated neocolonial idea nor some kind of generous charity, but a well-calculated economic strategy plan to facilitate access to the raw materials required for production, on the one hand, and to the markets where these raw materials will be extracted and purchased and, what is important, transported from, on the other (Chart 3.2).

Similarly, there should be no rivalry with China in helping to vaccinate the populations of the less developed countries against COVID-19. The G7’s intention to give them a billion vaccines is commendable, but it would be even more commendable if the aid they are declaring could be combined with actions by others, especially China. It was Xi Jinping who, back in the autumn of 2020, called on others to make vaccines a global public good. This, like nothing else, requires sound global coordination, and no one is better equipped to handle that than the World Health Organization. Unfortunately, the G7 did not call for global cooperation regarding this humanitarian issue, but instead relied on harmful competition to demonstrate who is ‘better’.

Rather than providing financial assistance to help the world’s poor, the US has been more effective in increasing wasteful arms spending and putting pressure on others to follow this path, also during the NATO summit taking place the day after

⁶ The group of the Highly Indebted Poor Countries, HIPC, includes 41 states: Angola, Benin, Bolivia, Burkina Faso, Burundi, Chad, Cameroon, Central African Republic, Congo, Democratic Republic of the Congo, Ethiopia, the Gambia, Ghana, Guinea, Guinea-Bissau, Guyana, Honduras, Ivory Coast, Kenya, Laos, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nicaragua, Niger, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Vietnam, Yemen, and Zambia.

the G7 meeting. Certain NATO members are very zealous in this respect, as if their prosperity depended on it. What if this zeal was transferred to the decarbonization of the economy? In this matter, the G7 summit went far, at least in terms of promises.

There are also examples unworthy of imitation coming from the countries of ‘exemplary democracies’ invited to the G7 summit 2021. Shortly after the G7 summit, “President Cyril Ramaphosa has said the violence that has rocked the country was pre-planned, describing it as an assault on democracy. Riots were sparked by the jailing of former President Jacob Zuma [accused of corruption and sentenced to 15 months in prison for disregarding the court]. (...) Police officers have been protecting deliveries of food to supermarkets after days of widespread looting led to shortages. An estimated \$1bn (£720 m) worth of stock was stolen in KwaZulu-Natal with at least 800 retail shops looted” (BBC 2021b). In South Korea, former President Park Geun-hye was sentenced in 2017 to 22 years in prison for abuse of power and extortion. In 2021, after an appeal, the sentence was upheld, as was the accompanying hefty financial penalty—₩18 billion, or about \$17 million.⁷ In Australia, the people are not listening to their democratically elected government and are taking to the streets of Sydney and Melbourne in defiance of its lockdown decisions, protesting against the rightly imposed pandemic restrictions; they are behaving both undemocratically and irrationally. India, the world’s most populous democracy, has been unable to cope with the pandemic whose tragic spread was facilitated by the inept policies of the Bharatiya Janata Party (Indian People’s Party).⁸

There is also disheartening news coming from the G7 countries, which so pompously proclaim the superiority of their supposed liberal democracy over other political regimes, although some of them are more accurately described as neoliberal democracies. Naturally, the US is leading the way. They cannot quite cure themselves of racism and part of the population still needs to be reminded that Black Lives Matter. In countries where democracy is generally decent, reprehensible things also happen that greatly tarnish their reputation in the world, weakening their power of persuasion for democracy. How can Japan put pressure on the Myanmar authorities to stop persecuting the Rohingya Muslim population when it is gradually culturally destroying the Ainu ethnic minority on the island of Hokkaido? How can Canada speak up for the defense of human rights in other countries when the not-so-distant, lasting almost until the end of the twentieth century, practices bordering on genocide are coming to light, where state-sanctioned Catholic educational institutions, where thousands of children of native people, First Nation, taken from their parents, died out while forcibly assimilating, which affected hundreds of Tk’emlúps te Secwépemc children (BBC 2021c; Honderich 2021)? How dare Australia lecture others on respecting civil rights when its government had to admit that the 2015 Community Development Program, which discriminated against Aboriginal people, had a racist tinge

⁷ After serving less than four years, Park Geun-hye was pardoned by President Moon Jae-in and was released at the end of December 2021.

⁸ According to official figures, about half a million people have died in India due to the COVID-19 virus infection by the end of 2021. During the same time, there were more victims only in the USA—around 850,000.

and eventually agreed to pay them millions in compensation (BBC 2021d)? How can France enjoy prestige and promote democracy in the Maghreb countries when it is unable to maintain public order at home, which has been disrupted for several years now by demonstrations by the *gilets jaunes* movement provoked by the errors of the democratic government's policy? How can Italy's voice in defense of the Tigrayan people persecuted on the borders of its former colonies, Ethiopia and Eritrea, count on the international stage if it does not allow the unfortunate refugees who did not drown while crossing the Mediterranean to disembark?

3.7 Disappointment with Democracy

The great achievements of Western democracies look less impressive against the backdrop of information about these kinds of events. It is spread all over the world and makes us reflect on the real state of democracy in those who take such pride in this democracy and put pressure on others to follow their ways. These ways are also sometimes nasty, and this is probably one of the factors of the loud propaganda. On the one hand, it praises its own system, while on the other, it roundly condemns some others, above all, understandably, authoritarian ones, and especially the Chinese one because of its economic attractiveness to numerous so-called emerging markets. They are to emerge, but not in the Chinese fashion. It turns out that in this group of countries, attitudes towards the political system are largely determined by its economic effectiveness. In many countries, mainly those which are still developing, people prefer development to democracy.

Democracy consists in that it is the people, through specific modes and procedures, who take the decisions that affect them. True democracy—neither 'people's' nor 'liberal'; true democracy—only makes deeper social sense when it serves those who make the decisions. When this is not the case, even if formally things are as democratic as possible, it is a nominal democracy in name and not a real democracy in substance. The problem is that people increasingly and seriously doubt its feasibility, seeing that formal democracy is coming to an end and real democracy is not enough. This is reflected in civic passivity manifested, *inter alia*, in low voter turnout, which, for example, in Poland in the 2020 presidential election was 64.51% in the first round and 68.18% in the second round, and in the 2014 EU parliamentary election was only 42.6% (merely 23.83% in Poland), but already just over half, 50.66%, in 2019.

Democracy is disappointing. This is not only because during the pre-election frenzy there are announcements made of faster economic growth than is subsequently achieved, but also because it is becoming increasingly clear that the realities experienced by people are giving the lie to the slogans and pledges made by politicians promising to improve various aspects of socio-economic conditions and living standards. Some people associate democracy with the hypocrisy of the political class and its inability to solve the problems that pile up, which is why it is so common nowadays in different parts of the world for people to take to the streets not to support the right policies of their democratically elected representatives, but to condemn them.

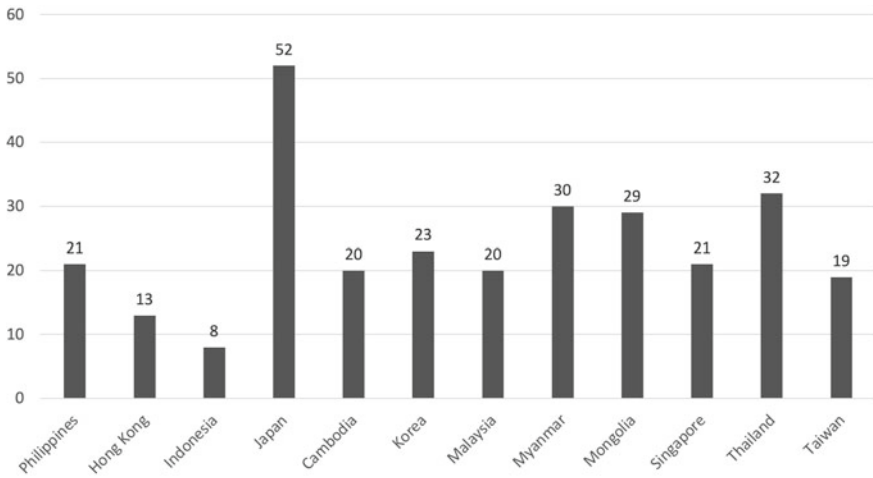


Chart 3.3 What is more important—democracy or economic development? (Percentage saying that democracy is more important than economic development). *Source* ABS (2021)

They protest, sometimes vehemently, sometimes on the edge of the law or against it, because the institutions of a democratic state are not working well. If the calm voice of the people is not listened to in parliamentary and government cabinets, the *vox populi* on the streets gets louder. Sometimes, this is accompanied by the sound of gunfire—whether in Durban or Istanbul, Lima or Bangkok.

It is surprising to someone stuck in a Euro-Atlantic culture (and enjoying a Euro-Atlantic level of development) that out of the dozen or so countries and territories in Southeast Asia, only in Japan—which, being in the Far East, is most often regarded as the West—does a majority consider democracy to be far or slightly more important than economic development. In the remaining eleven, the percentage claiming the same ranges from a very low 8% in Indonesia and 13% in Hong Kong to 32% in Thailand and 30% in Myanmar (Chart 3.3).

If people are confronted with a stark alternative—democracy or development—rather than piecemeal choices, they are more likely to opt for economic development because they assume that it guarantees that their standard of living will improve, while democracy may or may not improve it. The differences in opinion are due to a number of factors, the most important of which is the point of reference: how, at the time the question is asked, is the current situation assessed in relation to the level of income already achieved and the state of democracy? Thus, for example, what is surprising, is that the very poor Cambodians want a little more democracy than the relatively affluent Taiwanese and citizens of Hong Kong. In contrast, the rich South Koreans (GDP per capita of \$47,000 according to PPP), enjoying full democracy (ranked 23rd in democracy with the index of 8.01) have similar preferences to the poor (income of \$12,400) Mongolians (flawed democracy, ranked 61st with the index of 6.48). Hence, there are no clear correlations between income levels and political aspirations (Chu et al. 2016; Chu and Zheng 2021).

Just as in ancient times, power—democratic in a few places only, more often and more densely totalitarian, even despotic—had to provide bread and circuses for the people, so today we need both: development and democracy. How much of one, how much of the other, what are their proportions, how they evolve in time and space—it all depends. Preferences are codetermined by heterogeneous factors, with cultural and demographic ones gaining importance. It is all the more important to act prudently and not to push others one way or the other. They themselves know best what they want and why, although it is always worth talking and explaining to ourselves and others what really depends on what. It is worth explaining that it is sometimes the case that the greater measure of democracy being promoted in others will not increase their income, but that it will increase the income of those who are striving for this democracy.

Equally noteworthy is the research on basic policy preferences and income distribution. Well, once again—to the surprise of many—the desire for moderate income inequality clearly prevails over the longing for political freedom. In none of the twelve countries analyzed is the political freedom identified as more important than reducing income inequality. They are high in the countries presented here. For example, the Gini coefficient is 43.7 in Thailand and 42.3 in the Philippines, and both countries have similar proportions of responses to the alternative posed, while in Malaysia, with a similar Gini coefficient of 41.1, the proponents of less inequality, even at the expense of a more modest scope of political freedom, are clearly more numerous (Chart 3.4).

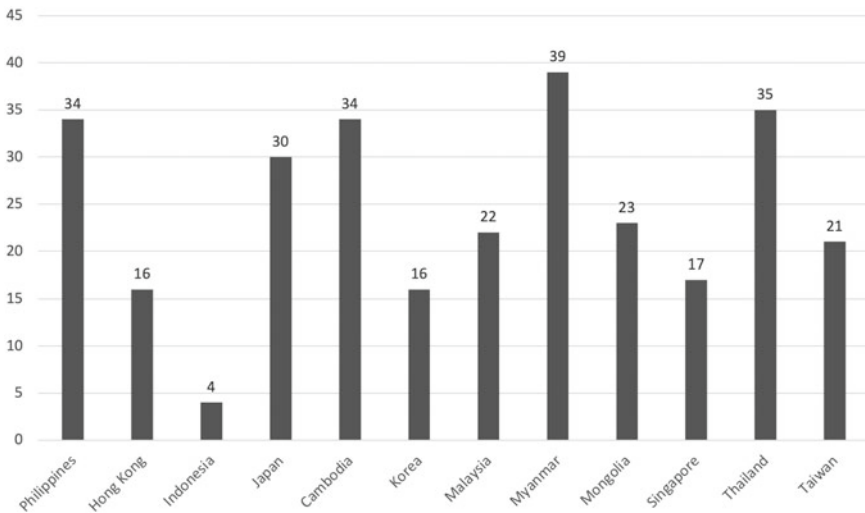


Chart 3.4 What is more important—political freedom or reduction of income inequalities? (Percentage of supporters of political freedom). *Source* ABS (2021)

Table 3.6 Socio-economic and political characteristics of a dozen Southeast Asian countries

	GDP per capita (in dollars, PPP)	Average GDP growth rate in 2011–2020	Gini coefficient	Regime	Political system	
					Democracy index	Ranking
Philippines	7 954	3.1	42.3	FD	6.62	54
Hong Kong	56 154	0.9	53.9	H	5.60	85
Indonesia	11 445	3.3	38.2	FD	6.71	52
Japan	39 394	0.5	32.9	FD	8.15	17
Cambodia	4 192	4.5	37.9	A	2.90	133
South Korea	42 251	2.1	31.4	D	8.16	16
Malaysia	26 435	2.6	41.1	FD	7.24	39
Myanmar	4 544	3.9	30.7	A	1.02	166
Mongolia	11 471	4.5	32.7	FD	6.42	62
Singapore	93 397	1.8	37.5	FD	6.23	66
Thailand	17 287	1.9	34.9	FD	6.04	72
Taiwan	52 823	2.7	33.6	D	8.99	8

Source GDP per capita and GDP growth: WB (2021b), for Taiwan—IMF World Economic Outlook Database, April 2021; Gini index: WB (2021a), Hong Kong, Taiwan, and Cambodia—WPR (2021), Singapore—CNA (2021); Political system: EIU (2022)

This pattern of preferences is determined by a wide range of factors, including religious ones. The issues of economic inequality and social justice are not approached in the same way by Buddhists, Catholics, and Muslims. What matters, however, are hard economic facts and the perception of political realities. Respondents answer the same question but find themselves in different—sometimes very different—situations. The answers are contextualized and, in trying to give them some meaning, it is necessary to see them against a specific economic, social, and political background (Table 3.6).

Undoubtedly, the people of all these countries are watching China with great attention. Wealthy Japan, South Korea, Singapore, and especially Taiwan, are doing this in their own way; emancipating economies, which are hugely impressed by the Chinese economic expansion and under its growing regional influence, are taking a yet different approach. China does not instruct them on how to act. This is something it tends to shy away from, but it is clear that its experiences are important for the systemic solutions applied and the development strategies chosen. The demonstration effect is working.

This great country needs, above all, to be understood. Some Sinologists stress that it is not so much a state as a civilization; a civilization with the longest continuous history spanning several millennia. Unfortunately, few people looking for answers to the question of what China really is and what it is all about, turn to good, factual, and balanced literature; those concerned often limit themselves to following the media. Some of them are definitely more influential than even the best books. But,

there is never enough criticism, even towards the best. After all, things are not as bad with China as someone who only follows the narrative of *The Economist* must imagine, neither as good as someone who *a priori* rejects this narrative might think. I once heard an interesting comment, while attending a serious academic conference in Shanghai, when a professor from Fudan University said that if anyone wants to know what is really happening in China, they should read *The Economist*, only in reverse; they should reverse the content presented. This is very bad advice because then one would find out, for example, that the Uighurs are sending Han Chinese to closed centers to re-educate them, that Taiwanese politicians are declaring the imminent annexation of mainland China to their island, that only ‘unpatriotic’ candidates (that is those criticizing the ruling party in Beijing) were allowed to stand in the elections to LegCo, the Legislative Council of the Hong Kong Special Administrative Region, and that the Filipinos and Vietnamese, in defiance of China, are installing militaries on islets and reefs in the South China Sea. Well, probably serious press reports should not be read in reverse, but they should be sometimes read not directly, or preferably best, they should be read between the lines.

3.8 Influence of Democracy, Authoritarianism and Meritocracy on Social and Economic Development

We already know that democracy in itself is not a guarantee of economic development. Some countries are indeed rich because they have been democratic for many years; others are democratic because they are rich. We also know that this best political system is not automatically given once and for all to the countries that are currently rich and democratic. The failure of neoliberal capitalism, which produced a global financial, economic, and political crisis, has provoked protectionist, nationalist, and populist tendencies. Their escalation is a threat of anarchy, the symptoms of which can already be seen in countries as advanced in development and democracy as the US and France. If this smoldering anarchy is not nipped in the bud by removing the flaws of neoliberal democracy and adapting it to the cultural, technological, demographic, and environmental conditions of economic activity in the era of globalization, states will resort to centralizing power and restricting civil liberties. This is already happening. More democracy is by no means inevitable; there is no determinism here. There may be less of it.

What is intriguing—and what is worse—some ‘old democracies’ are also doing badly, even those whose apologists present them to others as exemplary models. It turns out that not only external observers but also the “Americans are concerned about the stability of their democracy. About 40% of the politically active (i.e., those who vote in elections) say that members of the other tribe (i.e., those who vote for the other party) are bad; 60% believe they pose a threat to the country. More than 80% think the system needs ‘major changes’ or ‘a complete reform’ (...) Some scholars have gone so far as to warn of the risk of a civil war” (Economist 2022a). While

talking of such risks is a huge exaggeration on the part of sometimes panicky social scientists, since the proven mechanisms of checks and balances are nevertheless working effectively, the crisis in the American democracy is very serious indeed (Marche 2022). According to a YouGov survey, "...sixty percent of Democrats regard the opposing party as 'a serious threat to the United States'. For Republicans, that figure approaches seventy percent. A Pew survey found that more than half of all Republicans and nearly half of all Democrats believe their political opponents to be 'immoral'. Another Pew survey, taken a few months before the 2020 election, found that seven out of ten Democrats who were looking for a relationship wouldn't date a Donald Trump voter, and almost five out of ten Republicans wouldn't date someone who supported Hilary Clinton" (Kolbert 2022, p. 69).

We also know that authoritarianism is not a recipe for economic development. Only a handful of countries with such a system can be proud of their significant economic successes. This time, too, the conditions for the functioning of the economy are multiple and need to be examined comprehensively. China and Saudi Arabia, Vietnam and Egypt, the United Arab Emirates and Eritrea are authoritarian, but only the first countries of these pairs have impressed with their development. Well, it happened—and the process of their above-average development is continuing—because it is enlightened authoritarianism combined with meritocracy. China is a special case. Here, economic policy is managed by experts, not dilettantes. Politicians from the lowest to the highest levels are not elected, as in democracies, but selected according to competence criteria. These are the competencies that are frequently insufficient to those who determine the institutional and political environment in which economic affairs take place in democratic countries. They are democratic, but not necessarily meritocratic. Only the juxtaposition of these characteristics explains the sources of the success of one and the failure of the other. Let us now review how the various advantages of authoritarian meritocracies over democratic non-meritocracies are shaped (Table 3.7).

It is difficult to provide an unequivocal answer to the question of where (and therefore why?) it is better. It is certainly better in Switzerland than in Burundi or in New Zealand than in Bolivia, but is it better in Slovakia than in Latvia or in Austria than in Germany? And among the compared countries, Indonesia is certainly better than Nigeria, but is Mexico better than Brazil? In terms of living standards, Russia is better than China, but from the point of view of the rate and scale of improvement, China is several classes better than Russia, which comes out badly in these comparisons because it is a clear example of an authoritarian and non-meritocratic state in which economic regulation and policy are influenced more by interest groups that corrupt the oligarchic authorities than by competent technocrats.

When dynamics and changes over time are compared rather than the current conditions, the answer is not the same. At this point, a methodological problem immediately emerges: which criterion should be used in comparative studies, which is the most appropriate in a given case? There are also quite a few criteria in the field of our interest, and choosing a particular one gives a slightly different, sometimes clear, at other times nuanced answer. Thus, when examining the impact of a political regime on socio-economic development, it is necessary, first, to choose a sufficiently

Table 3.7 Comparison of socio-economic and political characteristics of selected democratic and authoritarian countries (the order of countries according to the scale of HDI improvement in the decade 2011–2020)

Regime	Life expectancy	Percentage of adult population who can read and write	Percentage of the population living in extreme poverty	Human development index (HDI)		Democracy index		Ease of doing business index		Corruption perceptions index		World competitiveness index		
				Value	Ranking	Value	Ranking	Value	Ranking	Value	Ranking	Value	Ranking	Value
Bangladesh	H	72.6	73.9	17.9	0.632	133	5.99	75	45.0	168	26	146	52.1	105
Nigeria	H	54.7	62.0	43.2	0.539	161	4.11	107	56.9	131	25	149	48.3	116
India	FD	69.7	74.4	22.5	0.645	131	6.91	46	71.0	63	40	86	61.4	68
China	A	76.9	96.8	0.2	0.761	85	2.21	148	77.9	31	42	78	73.9	28
Pakistan	H	67.3	59.1	5.6	0.557	154	4.31	104	61.0	108	31	124	51.4	110
Indonesia	FD	71.7	95.7	2.6	0.718	107	6.71	52	69.6	73	37	102	64.6	50
South Africa	FD	64.1	87.1	21.4	0.709	114	7.05	44	67.0	84	44	69	62.4	60
Vietnam	A	75.4	95.0	1.8	0.704	117	2.94	131	69.8	70	36	104	61.5	67
Russia	A	73.1	99.7	0.1	0.824	52	3.24	124	78.2	28	30	129	66.7	43
Brazil	FD	75.9	93.2	5.0	0.765	84	6.86	47	59.1	124	38	94	60.9	71
Mexico	FD	75.1	95.4	1.8	0.779	74	5.57	86	72.4	60	31	124	64.9	48
Poland	FD	78.7	99.8	0.2	0.870	35	6.80	51	76.4	40	56	45	68.9	37

Source: Life expectancy, percentage of adult population who can read and write: WB (2021a); Percentage of the population living in extreme poverty (for Poland and Vietnam data for 2018, for India data for 2011): WB (2021c); Democracy index: EIU (2021); Ease of doing business index: WB (2020); Corruption Perceptions Index: TI (2021); World Competitiveness Index: WEF (2019)

long period of observation and analysis and, second, to use an evaluation criterion that brings us, adequately and comprehensively, closer to a correct answer to the question of what is better.

The problem is that there is no clear answer to this question. To make the search for the answer even more difficult, let us further confuse the scope of observation by broadening it to look at the circumstances of employment and unemployment or, as others prefer, the labor market. It can be assumed that the information on unemployment is implicitly contained in the information on the dynamics of national income, which is greater and grows faster, the relatively more people work, and on human capital, which increases in quality the more educated people find employment. Work is so important in human life that it is good to have a clear view of who does not have it because they cannot find it. Apart from the instances of forced labor that still occur, work characterized by a high level of exploitation and the use of children for various jobs, who, above all, for this reason, do not attend school and remain illiterate as adults, work is also a good in itself. Masses of free people work not only because of economic coercion (yes, economic coercion does not exclude civil and political freedom), but also for the satisfaction of the work they perform—for self-realization. No wonder neoclassical economics treats a full employment economy as a good economy, considering such a state as the goal of macroeconomic policy, while socialism has made full employment one of its flagship features. In our field of observation from the perspective of the size of unemployment in countries with various political regimes, the picture is diversified, yet, authoritarian Vietnam with the lowest unemployment rate definitely stands out, and non-democratic China fares better than democratic India and not much worse than Indonesia and Mexico (Table 3.8).

One needs to be careful while assessing and drawing conclusions because, although we rely on the formally comparable, best data from the International Labor Organization, ILO, and the World Bank, these data is subject to a considerable margin of error, especially in relation to countries with a large share of the informal economy, unrecorded in official statistical reporting, whose scope is certainly relatively smaller in the post-socialist countries. Therefore, unemployment figures for China, Russia, and Vietnam may be less flawed than for other countries.

3.9 What, Why, and How to Compare?

Let us, therefore, look again at the reviewed countries and, more specifically, at their ranking according to four criteria: the average growth rate of GDP per capita according to PPP over a very long term, the same indicator over a long term, the level of the human capital index, HDI, and the same index adjusted for inequalities, IHDI (Table 3.9).

For comparison, let us add that Poland improved its human development index, HDI, by 4.8% in the decade from 2011 to 2020, while the value of the inequality-adjusted IHDI rose by 8.4%. During this period, or more precisely until prepandemic

Table 3.8 Unemployment rate in selected countries with different regimes in 2018–2020

	Regime	2018	2019	2020	Mean 2018–2020
Vietnam	A	1.2	2.0	2.3	1.8
Mexico	FD	3.3	3.5	4.7	3.8
Indonesia	FD	4.4	3.6	4.1	4.0
Pakistan	H	4.1	4.0	4.7	4.3
Bangladesh	H	4.3	4.2	5.3	4.6
China	A	4.3	4.6	5.0	4.6
Russia	A	4.9	4.6	5.7	5.1
India	FD	5.3	5.3	7.1	5.9
Nigeria	H	8.5	8.5	9.0	8.7
Brazil	FD	12.3	11.9	13.7	12.6
South Africa	FD	26.9	28.5	28.7	28.0
Poland	FD	3.9	3.3	3.6	3.6
Norway	D	3.8	3.7	4.6	4.0

Data by the end of the year
 Source WB (2021c)

Table 3.9 Rankings of selected countries with different political systems from the point of view of GDP dynamics and changes in human capital

Average GDP growth rate in years		IHDI 2020		HDI 2020	
1991–2020	2011–2020	2010 = 100		2010 = 100	
China	China	Nigeria	123.8	Bangladesh	113.5
Vietnam	Bangladesh	Bangladesh	121.6	Nigeria	111.8
India	Vietnam	China	118.8	India	111.4
Bangladesh	India	India	116.7	China	108.9
Indonesia	Indonesia	Pakistan	109.4	Pakistan	108.8
Pakistan	Pakistan	Indonesia	107.9	Indonesia	108.0
Nigeria	Russia	Brazil	107.8	South Africa	106.8
Brazil	Mexico	Russia	107.1	Vietnam	106.5
Russia	Nigeria	Vietnam	106.3	Russia	105.5
Mexico	Brazil	Mexico	103.7	Brazil	105.2
South Africa	South Africa	South Africa	102.4	Mexico	104.1

Source GDP Growth: WB (2021a); HDI and IHDI dynamics indices: own calculations based on UNDP (2021a)

2019, life expectancy in Poland increased by 1.7 years, from 76.2 to 77.9 years, and in poor Nigeria by as much as 3.8 years, from 50.9 to 54.7. This explains, to some extent, the surprisingly large improvement in both indicators in the case of Nigeria, a country with a hybrid political system. It turns out that such a regime has helped to implement policies to reduce income inequalities; during this time, the Gini coefficient has fallen significantly by 8 points—from about 43 to about 35. It should be emphasized again that what is compared is not the quality of life but the dynamics of its change. If one starts from a very low level, relatively large changes are possible, such as in the case of Nigeria increasing life expectancy during the past decade by an average of 7.5% or reducing income inequality by almost 19%. In countries at a medium and high level of development, changes of this size are impossible.

The values of such a measure as the human development index, HDI, also need to be relativized. In the society and in the economy, things happen in a similar way to the way they happen in people's lives. There are things that bring joy, but can also be troublesome. What then is the balance, the resultant of these contradictions? In the case of the HDI, this applies to one of its components, namely life expectancy, which is treated as an approximation of information about the health status of the population. It is assumed that people are healthier when they live longer. Or, more accurately, the healthier they are, the longer they live. For estimating the HDI, age 85 is taken as the upper reference point (this has already become a reality in Japan) and this component of the index then reaches its maximum, i.e., 3.333. But, we also know that such aging of an increasing proportion of the population may—from a certain point onward—create more problems (economic, social, cultural, and political) than it solves. Oftentimes the last, extended years of life are not a carefree period.

Objective mechanisms of development operate in such a way that an inclusive political system favors them, but at the same time, the scale of change for the better is the smaller the higher the level of development already achieved. In Mexico and Vietnam, for example, where people already lived a quarter of a century longer than in Nigeria in 2010, 75.1 and 74.8 years, respectively, life expectancy did not increase at all during the decade under review, being exactly the same in Mexico and marginally, 0.8% more (7 months longer), in Vietnam. In other words, nominally the same scale of improvement, say 10%, does not necessarily mean the same thing under all conditions. If someone runs a marathon in four hours, they can improve that result by, say, 20%; if a champion covers that distance in two hours, they may not be able to improve their time by even a second. If somewhere in the world half the population lives in extreme poverty, this proportion can be radically reduced. If there are only 5% of such have-nots in another country, achieving every fraction of an improvement is much more difficult. In a rich country where there are none of them at all, the state of affairs in this respect cannot be improved at all.

If long-term economic dynamics, which determine the material basis of satisfying the needs, are used as a criterion for evaluation, authoritarian and meritocratic states fare much better, while when we look from the perspective of changes in human capital, the picture becomes less clear. Overall, we are better informed about the desired scale of change by the IHDI. However, it should be borne in mind that the IHDI, compared to the 'hard', fact-based GDP, is a 'soft' indicator that is to

some extent dependent on the assumptions made about the method of its estimation, in particular, the weights attributed to the enrollment of the population and the conventional treatment of life expectancy as a measure of its healthiness.

Although apart from specified cases it is not justified to compare China with the US, many analysts and researchers are inclined to confront one with the other. They are comparatively assessed on a variety of levels, especially in the economic, technological, military, and environmental spheres, a little less so in science, and surprisingly little in an otherwise very rich culture, probably because the language is not very well known. However, the magnitude of China—especially in terms of population and territory, and now also economy and increasing military scale—provokes comparisons. The Polish Bard, Stanislaw Wyspiański, at the beginning of the twentieth century, in *The Wedding* inquired whether the then still imperial “Chinese are holding on tight!?” And when already for a generation they were no longer an empire, the French novelist Louis Aragon in *Les cloches de Bâle* (‘The bells of Basel’) (1934) rolled out these visions: “China. A huge empire, the most backward in the world, and here are the principles of 1889 paving the way as they cross the Great Wall. The Empress herself agrees to a republic. What a prospect for the whole world! And above all for a democratic France. These vast territories open to progress...” Indeed, what a prospect for the whole world!

It is genuinely useful to compare societies and economies belonging to the same qualitative class of countries, to similar historical, geopolitical, or demographic realities; sometimes neighboring, sometimes distant, but having something essential in common, such as Indonesia, Nigeria, and Brazil. When looking at China, the first thing to do is to compare it with India. What is striking is the confrontation between these two countries: in terms of the population numbers, the largest autocracy, and the largest democracy.

While 30 years ago India had income per capita higher than China, today the Chinese enjoy income more than two and a half times that of Indians. Although three decades ago in both countries more than half of the population lived in extreme poverty, today in China, no one vegetates with an income of less than \$1.90 a day (the conventional threshold of extreme poverty as defined by the World Bank), while in India, it is more than 100 million people. While as much as 27.2% of the population in India suffers from hunger and is malnourished, in China, it is three times less, 9.4%. China has 3.2% illiterates (people aged 15 or over who cannot read and write), India as many as 25.6%.

In terms of particulate matter, PM2.5, the primary measure used by ecologists to assess the state of air pollution, India with the index of 51.90 $\mu\text{g}/\text{m}^3$ (the concentration of air pollution is given in micrograms, one-millionth of a gram, per cubic meter of air, or $\mu\text{g}/\text{m}^3$) is among the countries described as ‘unhealthy for sensitive groups’, while China with PM2.5 of 34.7 qualifies to the ‘moderate’ group. Overall, the scale of massive environmental pollution in China and India is similar, with the pollution

index calculated for them (estimated on a scale of 0–100; the higher, the greater the pollution), at 81.17 and 79.89, respectively.⁹

It is estimated that massive air pollution can reduce the life expectancy of Indians by as much as nine years (Tripathi 2021). In northern India, 480 million people face extreme levels of air pollution. According to the assessments by the Energy Policy Institute at the University of Chicago, EPIC, a strong clean air policy could extend human life by five years. The institute highlights that, contrary to popular belief, China is a good example of how effective policies can lead to ‘sharp reductions in air pollution in a relatively short time’ (BBC 2021e). They have reduced air-polluting dust emissions by 29% since 2013, yet they remain at excessively high levels that are harmful to health, whereas these levels vary regionally, similarly to India. According to expert assessments, China’s clean air policy in the decade of the 2010s increased life expectancy by 2.6 years compared to a hypothetical situation, where PM2.5 emissions would have remained at 2011 levels (Lee and Greenstone 2021).

In India, tens of millions of people live in slums deprived of basic comforts. Some treat the Chinese *chéngzhōngcūn*, literally ‘villages in the city’, as a kind of slum with Chinese characteristics, similarly, even though the difference in standards in their favor—although still miserable—is clearly visible. If one was to choose the place to live, *chéngzhōngcūn* Baishizhou in Shenzhen would be definitely better than the Dharavi slum in Mumbai. While nearly 40 infants die per thousand live births in India, the figure for China is 11. And those who do not die, on average, live more than six years longer in China than in India—76.3 and 70 years, respectively.

India’s underdeveloped transport and communications infrastructure limits the scale of entrepreneurial expansion, while China has a well-developed network of roads, high-speed railways, functional airports, and state-of-the-art broadband Internet.¹⁰ More of these advantages can be identified in relation to technology, human capital, company competitiveness, and financial resources. Let us compare Hebei with Uttar Pradesh and not with California, Chengdu with Calcutta and not with Chicago. In India, “a shocking 43% of those who won seats in the national parliament at the most recent general election, in 2019, had been charged with crimes of some sort. For 29% the charges involved grave offenses such as rape or murder”. For some, it is just ‘another worrying aspect of the selection of candidates’ that ‘many of them are criminals’, though such alarmingly high rates are hard to believe. “India is the planet’s most populous democracy. By upholding political freedoms for 75 years, bar a two-year hiatus under Congress in the 1970s, it has set a heartening precedent for the developing world. But these days it is looking less and less like a model. In a world where authoritarian China seems to grow stronger by the day, it has never been

⁹ The Nordic countries are the cleanest, with Finland leading the way with the index of 11.99 (IQAir 2021; NUMBEO 2021a).

¹⁰ By comparison, there are no high-speed railways at all in the USA. In India, the first 500 km line is only in the construction phase. In the European Union, Spain has the longest network of high-speed AVE trains, which reach speeds of up to 310 km/h: more than 3200 km. With an area 19 times the size of Spain, China has a high-speed rail network (with trains reaching 350 km/h, not counting the short Maglev line taking passengers to Shanghai airport at a maximum speed of 431 km/h) approaching 40,000 km.

more important for India not just to hold elections, but to repair the underpinnings of its democracy, too” (Economist 2022b). For sure, there are no democratically elected deputies in the Chinese parliament but obedient activists appointed by the ruling monopoly, but at least it is not a rally of criminals...

The right question, then, is this: if China had democratized 30 years ago in the fashion promoted by the West, would it have achieved similar economic results? Well, it certainly would not, as the case of both India and Russia, which at the same time, like China, was moving away from a centrally planned economy, proves. Reversing the issue, one may ask: what if India had assumed an authoritarian regime similar to that of China a generation ago, would the alternative path have led it to a similar level of development and standard of living as in China? Absolutely not: perhaps it would be even lower than it is today—representing only 37% of China’s GDP per capita. And this is because, just to remind, development is contextual, like political systems. The legacy of the past, culture, and geopolitics also matter. Hence, it is fortunate that India has gone down the democratic road, but it is a pity that there is not enough meritocracy there. Thus, it is also a good thing that China has taken the authoritarian path, but with a meritocracy that is indispensable to dynamic development.

Similarly, Vietnam should not be compared with Japan or France, but with economies that were at equally miserable levels of development a few decades ago, or with other Southeast Asian countries, as among this group, it has been the clear leader in terms of economic growth over the past thirty years (Chart 3.5).

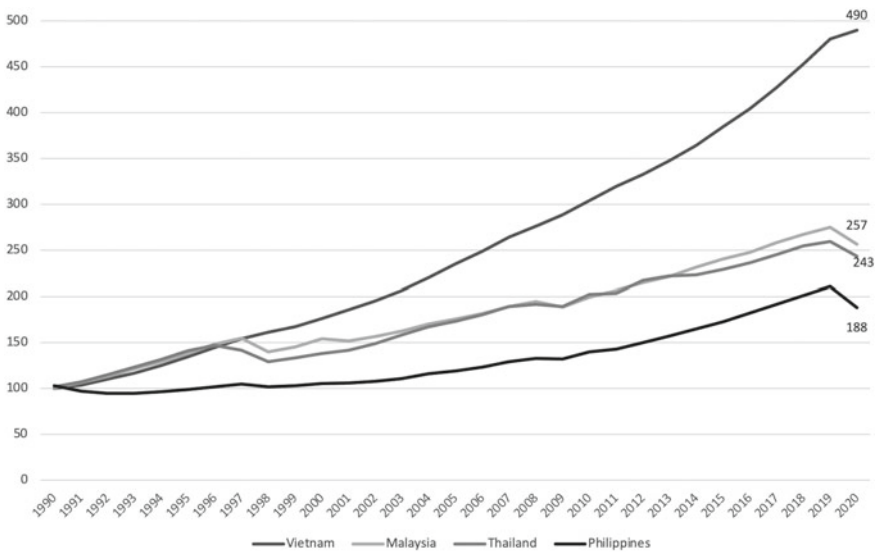


Chart 3.5 Growth rate of GDP per capita (PPP) in Vietnam, Malaysia, Thailand, and the Philippines in 1991–2020. *Source* WB (2021a)

Maybe these comparative efforts are pointless? Perhaps the matter is clear and, without going into details, there is no difference between these two population behemoths because the quality of life in both is identical? Such is the result of the NUMBEO estimates, which, taking into account nine subindicators—from income purchasing power and security through health care and cost of living to relative property prices and environmental pollution—show almost identical overall quality of life indicators for China and India: 103.16 and 103.00, respectively, ranking them 64th and 65th among the 81 countries assessed. For comparison, the highest quality of life, according to the method used, is enjoyed in Switzerland with the index of 188.60 (on a scale of 0–200), the worst being Nigeria, with 54.71 (NUMBEO 2021b).

For 2.8 billion Chinese and Indians, i.e., 36% of the world's population, it matters little what the West thinks of them. What is important is that a huge number of Indians would prefer China's authoritarian system and standard of living to their own fate, while very few Chinese would choose India's democratic system and its attendant poverty and misery. According to representative opinion polls, 55% of the Indians prefer autocracy and even more, 65%, would prefer the rule by appointed experts rather than elected politicians (Wike et al. 2017). The alternative formulated in the question was: "Would a system where a strong leader makes decisions without interference from the parliament or courts be a good or bad way to govern a country?" In other words, sometimes people are tired of democracy that, on the waves of irrational emotions, brings to power politicians and bureaucrats skilled in social engineering used to manipulate public opinion but incapable of solving the problems of their electorate. Then, they prefer expert technocracy rather than unreliable democracy. Well, there is still the problem of who should nominate such experts to govern and how should it be done.

China, following the path of the Western democratization, would become neither a second US nor a second Japan, but a second India, only that its population would be even more numerous. And this would happen because of the decision-making mechanisms, which in democracies stretch over time and can reduce the level of economic rationality. Moreover, looking ahead, China, with its undemocratic meritocracy and enlightened leadership, is far more likely to accomplish the tasks set by the ruling monopoly and its leader, President Xi Jinping, than the US under President Joe Biden. This is because decision-making processes will be faster and more efficient in authoritarian China than in the democratic US. In simple terms, Xi must have the consensus of the seven-member Standing Committee of the CCP Politburo, and Biden the majority of the US Senate, which is literally split 50/50, and this Republican half will be fond of blocking many of the democratic president's numerous initiatives simply because he is from a different political camp. As a result, in the coming years, the Chinese will realize the vast majority of their ambitious domestic and global economic intentions, including in relation to technological advances and the great Belt and Road Initiative, while the Americans will realize only a modest part of Biden's multibillion dollar announcements in relation to investment in the infrastructure of the economy and social programs that narrow income inequalities and reduce areas of social exclusion.

An even more difficult question is: was it worth it, given that China's epochal economic success comes at a cost in the form of a lack of democracy? Is it not better to be poor, perhaps undernourished and illiterate, but be able to put a cross next to some name every few years, often without understanding why it is this name and not the other? Well, this question is best answered by the Chinese themselves, because even there, faced with the alternative of democracy or development, a vast majority is in favor of the latter, also because they are well aware of what development is and what benefits it brings, although they may not be entirely sure what this democracy should come down to and why it would be useful. Especially because a huge mass of the Chinese people is perfectly content with the existing civil and political freedoms in their own country; still, this is an authoritarian system, not a totalitarian one as in the days of Mao Zedong.

3.10 Threats to Meritocracy

There are also threats to meritocracy, which are different in democratic systems than in authoritarian ones. In democracy, the main threat to meritocracy is... democracy. Many political and administrative decisions must appeal to the population voting in periodic elections for all levels of government—from a municipality to the state and, in the case of the EU, to the European parliament. To govern well in the public interest, it is not enough to be substantively right—one still needs to have the majority. It is not uncommon for the policymakers to do not what is right, but what gives them the support of the majority of the electorate. It also happens that weighty decisions are taken not by elected parliaments and governments, but by appointed officials; that famous non-elected administration or bureaucracy. While some see this as almost a tyranny of meritocracy (Sandel 2020), it can also be seen—assuming it is competent, as is generally the case with the European Union and many other institutionally strong states, from Australia and New Zealand through Japan and South Korea to the UK and Canada—as a good side of the reality increasing the dose of rationality in politics.

In authoritarianism, the main threat to meritocracy is... authoritarianism. Autocrats rule not only because they think they know what is good for their people and that already legitimizes them, but above all, because they want to rule and want to stay in power. They get accustomed to it, they like it, and they do not want to leave their positions. Rarely do autocrats leave of their own accord, having done what they had previously intended. They prefer to persist, and this often proves easier when the straightjacket of centralized power is tightened, when civil liberties are increasingly restricted, when economic liberalism is curtailed, when laws imposed by the bureaucracy replace the operation of objective economic laws, when those who dare to hold and express views different from those of the authorities are repressed.

There is a general consensus among professional analysts that authoritarianism in China has been intensifying in recent years. Critical observers of the Chinese political scene believe that the decision of the parliament, the National People's Congress, which repealed the constitutional provision allowing the head of state to serve only

two terms, is a sign of growing authoritarianism. That remains to be seen, although the world's media immediately announced that Xi Jinping wants to and now can rule for life. Equally legitimate is the argument that it is merely a matter of emphasizing and communicating to its own citizens and to the outside world that China's peculiar regime will continue and that the political and economic line to date will last beyond 2022 after the authorities have been reappointed for another term in office.

In democratic systems, meritocracy can be paralyzed by an excess of freedom in the form of endless discussions and an inability to work out pragmatic compromises in time. Reaching such agreements is further hampered by lobbying, which is inherently tolerated in a democratic system. The lobby, by imposing vested interests as serving the general public, moves governments away from meritocracy, spoils macroeconomic rationality, and disrupts social harmony. It is also possible to be fooled by voters' expectations even when they are irrational. Populism is particularly dangerous. Its essential features are short-term oriented public policies—commonly speaking, 'to please the public'—and the focus on the distribution of national income (fair, how else?) rather than on its efficient creation. The pressure exerted on the authorities—sometimes almost psychological terror reinforced by the irresponsible narrative of TV channels, radio stations, press networks, and Internet platforms—pushes them towards decisions that are socially popular but wrong or economically harmful. Examples of such decisions include the withdrawal, in France, Poland, and Russia, from the reforms already undertaken or the abandonment of planned reforms raising the retirement age, which is deeply justified in the face of negative demographic trends—the aging of societies, on the one hand, and the weak labor supply of the younger generation, who pay contributions to finance benefits for the older, non-working generation under the pay-as-you-go system, on the other. French President Emmanuel Macron was re-elected in the spring of 2022, despite boldly and honestly announcing his ambitious plans to raise the retirement age from 62 to 65 years for both men and women. Wrong decisions can happen in non-democratic systems, too, when, contrary to appearances, power is not strong enough to fulfill its economically right intentions. This was the case in Russia, where lively public protests—including street demonstrations—forced President Vladimir Putin to withdraw his decision to raise the retirement age.

Power is becoming more and more impressive publicly, but less and less effective economically. Paradoxically, this is additionally fostered by, characteristic of democracies, the constant confrontation between those in power and opposition parties, over which it is necessary to demonstrate superiority to the voting public.

The very complex matter to be resolved by the economic practice—although the theory still does not provide it with a satisfactory hint as to how to do it—is the question of when does the welfare state policy turn first into paternalism and then into populism? In general, it can be stated that this happens when the concern for a socially just distribution results in a deterioration of economic efficiency—above all, weaker capital formation and its less productive allocation—which in the long run relatively worsens overall welfare and weakens social cohesion. This is a very

theoretical statement and one that is also axiologically loaded with concern for a fair distribution, which is also quite a capacious concept that can be interpreted in various ways.

In practice, it is extremely difficult to resolve this dilemma *ex ante*, in advance, and often *ex post*, many years later, there is no clarity either, especially because we then already get embroiled in ideological disputes. Things get even more complicated when democracy advocates populist politics rather than rational pragmatism. What is then? Without limiting democracy, there is nothing left to do but trust that in the long run, the reasonable voices of intellectuals, technocrats, and professionals will find a wider audience and politics will move away from populism. If not, the reality will be corrected at much higher costs by economic crises and social upheavals, which are not at all alien to democracy.

In autocratic regimes, meritocracy can fall into a kind of atrophy, or devolve into kleptocracy and oligarchization. The power elite, especially the leadership elite, may place the loyalty of cadres above their competence, which is the well-known 'mediocre but faithful' syndrome. In both regimes, it is threatened by bureaucratization and corruption. There is no clear answer on how to avoid these risks. The political culture and the quality of institutions, but also the excellence of political leadership, are decisive. From such a point of view, there were better and worse periods on the path of history. Some nations are clearly fortunate, others less so, and some not at all.

Apart from long-term historical processes, in which a great deal can change fundamentally, or turbulent revolutionary alterations that happen occasionally, autocracy is not in danger of turning into democracy during short periods. Historically, something like this has happened in unique circumstances, as in the case of the imposition of democratic institutions by the Allies after the Second World War on the defeated Axis States: Japan, Germany, and Italy, or in very different circumstances in the post-socialist transformation countries, where after 1989, the transition into a market-oriented economy went hand in hand with democratization. Closer to the present day, a few years after the explosion of the Arab Spring, it seemed that Tunisia would become a good example. According to the EIU, it is a flawed democracy with the index of 6.59, ranked in 2021 just after India, in 54th place in the world. But public riots and protests against the ineptitude of the democratically elected authorities in the fight against the pandemic, economic stagnation, and massive unemployment, especially among the younger generation, in the summer of 2021, led President Kais Saïed to apply authoritarian emergency measures—to dismiss the government and suspend the parliament. The young democracy has been challenged even before it could fully spread its wings.

In today's political reality, regression in the form of a retreat from democracy is more likely than progress towards democracy. The threat of authoritarianism seems negligible, but it should not be underestimated. The sequence: neoliberalism > crisis of liberal democracy > populism > anarchization > centralization of power > authoritarian pressures can also arise in some economies of highly developed capitalism. If social disorder develops and there is no success in bringing the situation under control

and in establishing public order by democratic means—through dialog and compromise, by applying the law and by appealing to culture and reason—the authorities will resort to force and will restrict civil liberties. Hong Kong is a unique case, but that is largely what happened there. Some symptoms of such approaches are visible in some Western countries. They are sometimes justified by the requirements of the fight against the pandemic and facilitated by modern technologies of surveillance of people and control of their behavior, especially their communication. It is noteworthy that in Australia, a wealthy and modern country, the army had to be deployed on the streets of Sydney, and in the Netherlands, reinforced police forces had to be used on the streets of Amsterdam in order to aggressively enforce the restrictions imposed by the law in the light of the spread of the coronavirus. There may be more similar cases, they may happen more frequently and last longer.

There were more revolts against the restrictions imposed in order to combat the pandemic, especially in the big cities of democratic countries—in Paris and Hamburg, Madrid and Berlin. There are occasions when government restrictions on freedom of movement and contact are considered contrary to the existing law. This was the case, for example, in Spain, where in July 2021, the Constitutional Court declared the proclamation of the state of emergency in March 2020, following the surge in COVID-19 infections, unconstitutional. People that were fined for not complying with the rules introduced at that time can claim their money back. It is very interesting when decisions taken in accordance with common sense in the public interest are incompatible with the constitution of a democratic state, which was undoubtedly adopted in accordance with common sense and is valid in the same public interest.

Ultimately, the fight against global warming will be critical. Although in recent years harbingers of a turnaround in the economic policy towards limiting this existential threat to civilization have appeared, a massive effort, coordinated on a global scale, is still needed. If democratic methods fail to stop this moth flying to the flame, liberal values will recede into the background and authoritarian methods will be resorted to in order to face this greatest challenge in the history of humanity. It will be meaningful, if Chinese authoritarianism proves to be more effective (so far this is not the case) in curbing consumerism and the drive to blindly maximize consumption without looking at the social costs, especially in relation to the devastation of the natural human environment, and in curbing the scale of greenhouse gas emissions and combating climate warming than Western democracies, starting with the US and Europe. Should democracies fail in the fight against global warming, this will be the grist to the mill for authoritarian regimes, provided they are willing and able to confront this challenge effectively.

The context of counteracting climate warming is changing as a result of disturbances in world economic and political relations caused by Russia's attack on Ukraine. Following this vile aggression, many Western countries noticeably increase the share of military spending in their budgets, thus absorbing funds that will be necessary in the future for the successful energy transformation. It may turn out that in the face of absorbing more and more public expenditures by the booming arms race, it will not be possible to effectively prevent global warming in a democratic and peaceful manner. This is a colossal challenge. It is not without reason, therefore,

António Guterres, UN Secretary-General, used strong words, saying that “the rush to use fossil fuels because of the war in Ukraine is «madness» and threatens global climate targets” (McGrath 2022).

If we tackle the climate challenge democratically—and there is a serious chance of this, although it is not certain—then in the very long term, not in years or decades but in generations, the evolution of authoritarian regimes towards mixed systems and flawed democracies seems more likely than democracy moving in the wrong direction. The fact that the opposite has happened in the last ten years or so does not mean that this negative trend will continue.

In the sphere of evolutionary regime changes, what is particularly noteworthy is the risk—or according to another point of view, the developmental opportunity—of the spread of Chinism, a particular system that is neither socialism nor capitalism, but a new quality that combines the power of the state and the market within an authoritarian political framework, and state and private ownership in the economic sphere in a creative and development-supporting way. This time, as well, the definitions and metrics used are crucial, because with regard to China, it is possible to speak of as many as ten types of ownership, so it is debatable in many cases how to categorically assign a particular company to either their state or private form; there is no such sharp alternative. Officially, the authorities there claim that the private sector accounts for more than 50% of tax revenues, generates more than 60% of GDP, is responsible for over 70% of technological innovation, and provides more than 80% of employment in urban areas.

China does not think that the rest of the world should imitate it. It rejects the ideological one-size-fits-all approach both in relation to Western liberalism as well as to its specific economic and political system. Although it is accused of this by its Western critics, Beijing does not seek to export its own model and does not force anyone either directly or indirectly to follow it, as it used to do in relation to Maoism (Lovell 2020). Maoism did not solve any social or economic problems; on the contrary, it created a whole host of them. That is why it has not taken deep roots and has not stayed for long anywhere, although in Nepal it held power until recently, and in Bengal and some neighboring states of India armed groups of Naxalite–Maoists continue to afflict the rural population in the false belief that they are serving them.

The point is that the Chinese model—so impressive to others in the economic sphere—by itself, without external imposition, seems attractive and worthy of imitation in many countries seeking their own development paths. When the neoliberal model of the free market economy with a weak state and limited interventionism has not worked effectively enough in emancipating countries—neither post-colonial nor post-socialist ones—some of them themselves, without being pushed by China, may try to emulate their ways. The problem is that it is quite easy to borrow the model of a one-party state, with strong centralized power, but very difficult to ensure its meritocracy and orientation towards the public good, which is why there are so few examples of development successes in authoritarian states. Perhaps someone somewhere in Central or South Asia, in the Middle East or Africa, in the Caribbean or the Pacific islands, or perhaps even in parts of Eastern Europe, naively thinks that authoritarianism, if it is not already there, would be enough to ensure development,

but it is not true. It would certainly not be enough merely to emulate the Chinese authoritarianism, which works well in the economic field, as it is embedded in a unique institutional and cultural environment based on the centuries-old legacy of Confucianism, on the one hand, and in its leadership role of the one-century-old Communist Party (Communist in its name only), on the other, which wants to and is able to govern on the basis of meritocracy, engaging competent and responsible cadres.

Interventionism in economic policy is not devoid of its risks of making mistakes. While its opponents focus exclusively on the bad side—for example, by pointing out the misguided decisions of Japan’s famous Ministry of International Trade and Industry, MITI, regarding the preference of certain segments of the automobile industry—its apologists see only the good side, referring to, for example, the South Korean Government’s correct decisions to support the shipbuilding industry. Wise interventionism must be based on a thorough knowledge of the objective regularities governing the sequence of processes of investment, production, and distribution and on a good recognition of the trends in the market sectors in which the state intervenes. Thus, the neoliberal rejection of state interventionism as a useless instrument of economic policy is a result not of rationality but of dogmatism.

Drawing attention to economic and non-economic reasons, the warnings against the risk of the expansion of authoritarianism, especially its new iteration, are right. “New authoritarianism appeals to the real or imagined worries of the less privileged strata. Populist campaigns against the better-off serve very well in the struggle against the liberal elites, which mostly come from and are supported by the better educated and more affluent sectors of the population. New authoritarianism is not a passing phenomenon. While things may change in individual countries, there is no reason to believe that the contemporary authoritarian regimes will disappear in the nearest future” (Wiatr 2019, p. 177). By the new authoritarianism the author understands the “...emergence of hybrid regimes which combine electorally expressed will of the people with the centralization of state power in the hands of supreme leader and/or in the hands of the ruling oligarchy and with the destruction of the rule of law, the cornerstone of which are independent courts.” The new authoritarianism is to “...underline both the continuity with the older forms of authoritarianism and the novelty of the current phenomenon, which—unlike «old» authoritarianism—is not based on naked power but successfully seeks public support expressed in contested elections” (*op. cit.*, pp. 7–8).

While these already existing new authoritarian regimes may not disappear, further new authoritarianisms may emerge; both soft ones, similar to those existing in Jordan or Tajikistan, and hard ones, as in Iran or Uzbekistan. The essence of the new authoritarianism is therefore not to deprive citizens of the power to decide who has the right to rule, but to create a centralized system in which power is concentrated in one circle, usually the leadership of the ruling party or its leader and his associates. Unfortunately, the evolution of political systems over the past decade or so in numerous countries scattered across all continents and, interestingly, at different levels of economic development—from the very poor to the very rich—shows that the emergence of the new authoritarianism is not an isolated incident Wiatr, Jerzy J. (2022). To ensure

that this does not happen, we need to move forward, towards new pragmatism and a social market economy. Otherwise, over time, this new authoritarianism may get older...

The belief in the power of democracy may be great and add wings, but it frequently turns out that even greater is the power of large companies that govern their actions—and more and more often the actions of others, including national governments—in an undemocratic manner. Transnational corporations and media decide who is right and who is wrong, whose opinion is to be popularized and publicized and whose is to be silenced or suppressed, who should be opened the gates of prosperity and whose efforts should be undermined. In authoritarian states, there is state censorship; in democratic states, what is censorable and what is not is decided by the notables of Facebook or Twitter, or sometimes by the bosses of media networks. By the way, in *Truth, Errors, and Lies...* I wrote: "...each and every one of the 247 newspapers in Rupert Murdoch's media empire supported the invasion and occupation of Iraq" (Kolodko 2011, p. 15).

Democracies are not all the same, but none has succeeded in effectively taming the capital of large transnational corporations that tell politicians what to do and how to behave, rather than the other way around. In many nominally democratic countries, those in power neither know enough about what is really going on in their country nor have enough power to make it go well. Democratically elected and formed authorities constantly have to make arrangements with others, with forces that do not necessarily have anything to do with democracy, as to the ways of governing. Democratic systems are sometimes constructed in such a way that stronger states can easily affect and exert influence on weaker ones, but by no means in their interests. Some do so completely openly and even boast about it.

A politician who—whether alone or together with a party—wins a parliamentary majority through democratic procedures still has to deal with the president, and in some cases the monarch, with the constitutional tribunal or the supreme court, with auditors and independent institutions controlling the management of public finances, with security and intelligence services. They are merely constitutional actors who are supposed to strengthen democracy, but who sometimes weaken it by complicating the governance.

In real politics, this is sometimes accompanied by informal interest groups much stronger than constitutional authorities, sometimes operating in an almost mafia-like manner, and powerful mass media transmitting information (and often disinformation), with which one has to coexist as in a forced marriage, which, willingly or unwillingly, lives under the same roof. Powerful, influential interest groups that operate under the guise of foundations, associations, and various think tanks sometimes have abundant sources of funding, even greater than government research centers and the media. If this funding comes from abroad, which is often the case, in non-democratic regimes, they are given the official label of a 'foreign agent'. This is not the way in democracy, especially as this foreign country may not agree with it. Under such conditions, governments can choose either a policy of soft measures, of not hurting anyone by not reforming anything, or of bending the law to subjugate formally independent state institutions and non-governmental social organizations.

This is exactly what is happening in countries like Poland and Hungary, and on a much larger scale in Turkey and Russia, not to mention South Africa or the Philippines; examples are plenty. This is insanely dangerous, but not entirely pointless, especially from the perspective of those in power who are trying to solve the problems facing them somehow; even if they are only doing so to keep themselves in power.

The essence of the Western democracy—an institutionally embedded and legally guaranteed system of checks and balances—is sometimes rendered non-functional, tempting some politicians, who are generally in favor of democracy, to manipulate its rules to their advantage. They face a dilemma: the rule of law or governability? If everything is done lawfully, it will not be possible to introduce the desired changes, justified by economic and socio-political logic, because the system has already become so entangled that it paralyzes decision-making processes. The rule of law was supposed to democratize governance, but it makes it inefficient; politics becomes ungovernable. This leads some politicians to conclude that if the system is to be governable it cannot be democratic, and certainly not fully democratic, and at that moment the power may be abused. This is very dangerous for a democracy that is weakening, while it is very favorable for an autocracy that can strengthen itself.

3.11 A Good Prince and a Bad Dictator

President Joe Biden’s decision, controversial for some, wrong for others, but certainly courageous, to withdraw from Afghanistan after two decades of military and political presence there—described as occupation or euphemistically as engagement—and make way for the local Taliban is noteworthy. Although it should have been obvious in advance that for historical and geopolitical reasons, and above all for cultural reasons, it was impossible to radically rebuild Afghanistan’s institutions and politics into a Western liberal model, or at least close to it, many believed this until the end of the American occupation, and some still believe so today. It took a whole generation for the decision-makers in the US to realize that this is not the right path. In fact, on August 31, 2021, the American President announced a new, this time right, doctrine that can go down in history under his name as the Biden Doctrine. He said that turning the page on the American foreign policy, the US must learn from its mistakes and, above all, “set missions with clear, achievable goals, not ones that will never be achieved” (NYT 2021). And added: “This decision about Afghanistan is not just about Afghanistan. It is about ending the era of great military operations to transform other countries” (ibidem). This non-interference by military force in the ‘building’ of statehood of other countries and nations is the ‘Biden Doctrine’.

The future will show how sustainable it will prove to be and to what extent and whether it will be applied everywhere. Good advice and wise support for well-targeted reforms are all appreciated, but imposing one’s vision by force is not. This

phrase applies to everyone, not just the US, but also other countries that tend to intervene beyond their borders, such as Russia, which also uses military force. Unfortunately, shortly thereafter, President Putin did the exact opposite. In the case of his Ukrainian adventure he definitely does not ‘set missions with clear, achievable goals’, but ‘ones that will never be achieved’. Well, it turns out that if not here, then elsewhere political stupidity can be overwhelming...

It is not possible to turn Libya into Finland or Sri Lanka into Denmark, although the Scandinavian social democracies, not the liberal democracies of the G7, are the ones that have the most substantive arguments and moral right to advise others on how they can organize their own systems and what kind of pro-development policies they should pursue. Then perhaps gradually some states will move in the right direction—from authoritarian regimes to hybrid regimes, perhaps Oman or Mozambique, or from hybrids to flawed democracies, perhaps Bangladesh or Colombia. It has to be kept in mind that this will only make economic sense when democratization is accompanied by political decency and fairness, and by the wisdom and competence inherent in a meritocracy.

Half a millennium ago, in 1513, Machiavelli claimed in *The Prince* that it is better for a ruler to be feared. Erasmus in *The Education of a Christian Prince* (1516) argued with that, saying that it is better for a prince to be loved. After all, to be loved—he deduced—he must be provided with a good education in humanities (Massing 2018). Erasmus was right. Fear can be used—yet, not always, as violence is additionally needed—to keep people obedient, but knowledge and wisdom are needed for the people to flourish. Always, and certainly in the twenty-first century, and everywhere, and certainly in large countries that influence the destinies of others. Hardly anyone cares about the enlightened advice of Erasmus these days; Machiavelli is far more often cited. Modern princes usurping power are rarely humanists; most often they are lawyers and economists, unless we treat law and economics as humanities. In authoritarian systems, these are most often the military.

In the twentieth century, when dictators appeared—Stalin and Mao Zedong, Hitler and Mussolini, Franco and Salazar, Duvalier and Ceaușescu—people loved them out of fear (Dikötter 2019). Only up to some point. If there happens to be an enlightened and caring modern ‘autocratic prince’, if the people love him for his wisdom, which he uses *pro publico bono* (this may be the case, for example, in Azerbaijan with President Ilham Aliyev), this may prove more beneficial to development than a divided and emotional democracy with its governing circles that are not always the wisest, that are partisan and hate each other, involved in a constant political struggle for power (as is the case, for example, in Chile, where an electoral battle had to be fought between the left-wing Gabriel Boric—who won—and the right-wing Jose Antonio Kast). In most places of this wandering world, people simply want to be governed well, not to cogovern others in line with grand ideas, which are not necessarily supported by the ability to look after the interests of the public called the electorate. It would be even better if it happened to be a humanist democracy, accountable and based on the professionalism of the bureaucracy and administrative staff and the political integrity of the ruling elite.

Narrow-minded economism is no longer enough; it is not about having more and more, but about making things better. Both pragmatism and humanism are needed to overcome the current political crisis and the global disorder caused by the overlapping economic, social, environmental, demographic, pandemic, and Cold War crises. Intellectuals, who have much to say in these efforts, and politicians, who have much to do, should not confuse the means with the ends. For this to be the case, it is worth delving a little deeper into the essence of the complex interrelationships between the political system and socio-economic development. The future depends on it.

References

- ABS (2021), *Asian Barometer Survey*, Hu Fu Center for East Asia Democratic Studies, Taiwan National University, Taipei (<https://datascience.shanghai.nyu.edu/datasets/asian-barometer-survey-abs>; access: 18.07.2021).
- Acemoglu, Daron, James A. Robinson (2019), *The Narrow Corridor: States, Societies, and the Fate of Liberty*, Penguin Books, New York.
- BBC (2021a), *Texas Democrats defy arrest threats after fleeing to block voting law*, „BBC News”, July 14 (<https://www.bbc.com/news/world-us-canada-57831860>; access: 13.12.2021).
- BBC (2021b), *South Africa riots over Zuma jailing pre-planned – Cyril Ramaphosa*, „BBC News”, July 16 (<https://www.bbc.com/news/world-africa-57863558>; access: 13.12.2021).
- BBC (2021c), *Statues of Queen Victoria and Queen Elizabeth II torn down in Canada*, „BBC News”, July 3 (<https://www.bbc.com/news/world-us-canada-57693683>; access: 13.12.2021).
- BBC (2021d), *Australia settles lawsuit over welfare scheme criticised as racist*, „BBC News”, December 23, 2021 (<https://www.bbc.com/news/world-australia-59765371>; access: 25.12.2021).
- BBC (2021e), *Air pollution may reduce life expectancy of Indians by nine years, says study*, „BBC News”, September 1 (<https://www.bbc.com/news/world-asia-india-58405479>; access: 13.12.2021).
- Brady (2021), *The Facts that Make Us Act*, The Brady Plan (<https://www.bradyunited.org/key-statistics>; access: 13.12.2021).
- Brown, Kerry (2019), *What Does China Want? China's World*, I.B. Tauris, London – New York.
- Christopher, Andrew, Vasili Mitrokhin (2005), *The World Was Going Our Way: The KGB and the Battle for the Third World*, Basic Books, New York.
- Chu, Yun-han, Yu-Tzung Chang, Min-Hua Huang, Mark Weatherall (2016), *Re-assessing the Popular Foundation of Asian Democracies: Findings from Four Waves of the Asian Barometer Survey*, „Working Paper Series”, No. 120, Taiwan National University, Taipei.
- Chu, Yun-han, Yongnian Zheng (eds.) (2021), *The Decline of the Western-Centric World and the Emerging New Global Order*, Routledge, New York.
- Csaba, László (2021), *Institutions and Change: New Horizons in Economic Theory*, in: Judit Ricz, Tamás Geröcs (eds.), *The Post-Crisis Developmental State. Perspectives from the Global Periphery*, Palgrave Macmillan, Cham, Switzerland, p. 13–31.
- Deneen, Patrick J. (2018), *Why Liberalism Failed*, Yale University Press, New Haven – London.
- Dikötter, Frank (2019), *How to Be a Dictator: The Cult of Personality in the Twentieth Century*, Bloomsbury Publishing, New York.
- Easterly, William (2006). *White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good*, The Penguin Press, New York.
- Economist (2021), *Belarus is making the rest of Europe nervous*, August 7 (<https://www.economist.com/europe/2021/08/05/belarus-is-making-the-rest-of-europe-nervous>; access: 13.12.2021).

- Economist (2022a), *How to think about the threat to American democracy*, “The Economist”, January 2 (<https://www.economist.com/leaders/2022/01/01/how-to-think-about-the-threat-to-american-democracy>; access 4.01.2022).
- Economist (2022b), *India’s democracy is not as healthy as this month’s elections make it seem*, “The Economist”, February 12 (<https://www.economist.com/leaders/indias-democracy-is-not-as-healthy-as-this-months-elections-make-it-seem/21807621>; access 11.02.2022).
- EIU (2021), *Democracy Index 2020 In sickness and in health? A report by The Economist Intelligence Unit*, London, The Economist Intelligence Unit Limited (<https://www.eiu.com/n/campaigns/democracy-index-2020/>; access: 13.12.2021).
- EIU (2022), *What does the Ukraine crisis mean for the US?*, The Economist Intelligence Unit, April 12th, 2022.
- Everitt, Anthony (2012), *The Rise of Rome: The Making of the World’s Greatest Empire*, Random House, New York.
- Everitt, Anthony (2016), *The Rise of Athens: The Story of the World’s Greatest Civilization*, Random House, New York.
- FH (2021), *About Us*, Freedom House, Washington, D.C. (<https://freedomhouse.org/countries/freedom-world/scores>; access: 22.01.2022).
- Frankopan, Peter (2015), *Silk Roads: A New History of the World*, Bloomsbury Publishing, London – Oxford – New York – New Delhi – Sydney.
- Halperin, Morton, H., Joseph T. Siegle, Michael M. Weinstein (2005), *The Democracy Advantage: How Democracies Promote Prosperity and Peace*, Routledge, New York.
- HF (2021), *2021 Index of Economic Freedom*, Heritage Foundation, Washington, D.C. (<https://www.heritage.org/index/ranking>; access: 13.12.2021).
- Honderich, Holly (2021), *Why Canada is mourning the deaths of hundreds of children*, „BBC News”, July 17 (<https://www.bbc.com/news/world-us-canada-57325653>; access: 13.12.2021).
- Ikenberry, John G. (2020), *A World Safe for Democracy: Liberal Internationalism and the Crisis of Global Order*, Yale University Press, New Haven – London.
- IQAir (2021), *World’s most polluted countries 2020 (PM2.5)*, IQAir (<https://www.iqair.com/world-most-polluted-countries>; access: 13.12.2021).
- Iversen, Torben, David Soskice (2019), *Democracy and Prosperity: Reinventing Capitalism through a Turbulent Century*, Princeton University Press, Princeton – Oxford.
- Jackson, Tim (2009), *Prosperity without Growth: Economics for a Finite Planet*, Earthscan, London.
- Karp, Aron (2018). *Estimating Global Civilian Held Firearms Numbers*, “Briefing Paper”, Small Arms Survey (<https://www.smallarmssurvey.org/sites/default/files/resources/SAS-BP-Civilian-Firearms-Numbers.pdf>; access 13.12.2021).
- Kolbert, Elizabeth (2022). *Poles apart: Can American politics survive an era of hyperpartisanship?*, “The New Yorker”, January 3 & 10.
- Kolodko, Grzegorz W. (2004), *Institutions, Policies and Growth*, “Rivista di Politica Economica”, No. 2, p. 45–79.
- Kolodko, Grzegorz W. (2011), *Truth, Errors and Lies. Politics and Economics in a Volatile World*, Columbia University Press, New York.
- Krastev, Ivan, Stephen Holmes (2020), *The Light That Failed: Why the West Is Losing the Fight for Democracy*, Pegasus Books, New York – London.
- Lee, Ken, Michael Greenstone (2021), *Air Quality Life Index. Annual Update*, September, The Energy Policy Institute at the University of Chicago, Chicago (https://aqli.epic.uchicago.edu/wp-content/uploads/2021/08/AQLI_2021_Report_English.IndiaVersion.pdf; access 5.01.2022).
- Lovell, Julia (2020), *Maoism: A Global History*, Vintage Books, New York.
- Marche, Stephen (2022), *The Next Civil War: Dispatches from American Future*, Avid Reader Press, New York.
- Massing, Michael (2018), *Fatal Discord: Erasmus, Luther, and the Fight for the Western Mind*, Harper, New York.

- McGrath, Matt (2022). *Climate change: 'Madness' to turn to fossil fuels because of Ukraine war*, "BBC World", March 21, 2022 (<https://www.bbc.com/news/science-environment-60815547>; access: 08.05.2022).
- Morris, Ian (2010), *Why the West Rules – for Now: The Patterns of History and What They Reveal about the Future*, Profile Books, London.
- North, Douglass C. (2005), *Understanding the Process of Economic Change*, Princeton University Press, Princeton – Oxford.
- NUMBEO (2021a), *Pollution Index by Country 2021a Mid-Year*, NUMBEO (https://www.numbeo.com/pollution/rankings_by_country.jsp; access: 13.12.2021).
- NUMBEO (2021b), *Quality of Live Index by Country 2021b Mid-Year*, NUMBEO (https://www.numbeo.com/quality-of-life/rankings_by_country.jsp; access: 13.12.2021).
- NYT (2021), *Transcript of Biden's Speech on the U.S. Withdrawal From Afghanistan*, „The New York Times”, August 31 (<https://www.nytimes.com/2021/08/31/us/politics/transcript-biden-speech-afghanistan.html>; access: 13.12.2021).
- Przeworski, Adam (1995), *Sustainable Democracy*, Cambridge University Press, Cambridge.
- Reuters (2021), *53% of Republicans view Trump as true U.S. president*, Reuters/Ipsos, <https://www.reuters.com/world/us/53-republicans-view-trump-true-us-president-reutersipsos%E2%80%93932021-05-24/>; access: 15.07.2021).
- Reykowski, Janusz (2020), *Disenchantment with Democracy: A Psychological Perspective*, Oxford University Press, New York.
- Sandel, Michael J. (2020), *The Tyranny of Merit: Can We Find the Common Good?*, Farrar, Straus and Giroux, New York.
- TI (2021), *Corruption Perception Index 2020*, Transparency International. The global coalition against corruption (<https://www.transparency.org/en/cpi/2020/index/som>; access: 25.01.2022).
- Tripathi, Basker (2021), *660 Million Indians Could Live Longer If India Follows These 5 Recommendations*, Energy Policy Institute of the University of Chicago, Chicago (<https://epic.uchicago.edu/news/660-million-indians-could-live-longer-if-india-follows-these-5-recommendations/>; access 5.01.2022).
- UNDP (2021a), *Human Development Index*, United Nations Development Programme, New York (http://hdr.undp.org/sites/default/files/2020_statistical_annex_table_3.pdf; access: 13.12.2021).
- UNDP (2021b), *Inequality Adjusted Human Development Index* (<http://hdr.undp.org/en/content/inequality-adjusted-human-development-index-ihdi>; access: 22.12.2021).
- WB (2020), *Doing Business 2020: Comparing Business Regulation in 190 Economies*, World Bank Group, Washington, D.C. (<https://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>; access: 13.12.2021).
- WB (2021a), *World Development Indicators*, The World Bank, Washington, D.C. (<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=B8-PL>; access: 12.12.2021).
- WB (2021b), *World Development Database: GDP per capita, PPP (current international \$)*, The World Bank, Washington, D.C. (<https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD> access: 12.12.2021).
- WB (2021c), *Macro Poverty Outlook*, The World Bank, Washington, D.C. (<https://www.worldbank.org/en/publication/macro-poverty-outlook>; access 11.12.2021).
- WEF (2019), *The Global Competitiveness Report*, World Economic Forum, Geneva (https://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf; access: 13.12.2021).
- Wiatr, Jerzy J. (ed.) (2019), *New Authoritarianism: Challenges to Democracy in the 21st Century*, Verlag Barbara Budrich, Opladen – Berlin – Toronto.
- Wike, Richard, Kate Simmons, Bruce Stokes, Janell Fetterolf (2017), *Democracy widely supported, little backing for rule by strong leader or military*, Pew Research Center (<https://www.pewresearch.org/global/2017/10/16/democracy-widely-supported-little-backing-for-rule-by-strong-leader-or-military/>; access: 10.01.2022).

Worldometer (2021), *Countries in the world by population (2021)* (<https://www.worldometers.info/world-population/population-by-country/>; access: 13.12.2021).

WPR (2021), *Gini Coefficient by Country 2021, World Population Review* (<https://worldpopulationreview.com/country-rankings/gini-coefficient-by-country>; access: 23.12.2021).

Chapter 4

People's Planet



It's never too late to do as much as we can.
Greta Thunberg

4.1 From the G20 to COP26

It is good that G20 summits have been held for many years.¹ It is a forum that is far more representative of the world economy than meetings between the leaders of the rich G7 countries, who claim to care about the whole of humanity but are mainly concerned with their own interests, or the BRICS group, whose member countries—Brazil, Russia, India, China, and South Africa—have little in common and who by far do not represent the less-rich rest of the world. The G20, whose countries account for more than 64% of the world's population and together account for about 85% of world output, is an important mechanism for coordinating global policies, which is particularly needed in an unstable world. As always on similar occasions, expectations were high towards the summit, which was held in Rome in 2021, a year after the world was attacked by the coronavirus pandemic. As always, it delivered less than expected. Yet, also what was decided there matters.

It is said that the world is facing many difficult challenges today, which it “is intensely working to address, by identifying – and implementing – shared, coordinated and equitable responses. This requires vision, dialogue, mutual understanding, and a profound awareness of our common global responsibilities”. One can get the impression that this is a vague declaration by some left-wing party or socially oriented NGO. Having read that “We are also looking beyond the crisis, towards ensuring a rapid recovery that addresses people's needs. This implies a focus on

¹ The G20 de facto comprises 43 countries: 19 national economies—Argentina, Australia, Brazil, Canada, China, France, Germany, Great Britain, India, Indonesia, Italy, Japan, Mexico, Saudi Arabia, South Africa, South Korea, Russia, Turkey, and the US—and the 27-member European Union, which includes three of these 19 economies, namely France, Germany, and Italy.

reducing inequalities, on women's empowerment, on the younger generations, and on protecting the most vulnerable. It means promoting the creation of new jobs, social protection, and food security", there is a feeling that this is an announcement following a meeting of some social democratic government. Meanwhile, these are the opening paragraphs of the website of the G20 summit in 2021 (G20 2021). A mission formulated in this way can only be applauded, but it is then necessary to take a critical look at the decisions and actions that follow these beautiful words.

Italy was the rotating host of the meeting, which is significant because its agenda was suggested and later the meeting was chaired by Prime Minister Mario Draghi, an effective politician and a competent economist with vast international experience. It was on his initiative that the summit was held under the 3Ps priorities: People, Planet, and Prosperity. This triad of words shows that for the human well-being to improve, a prosperous economy is essential, which in turn requires concern for the ecological sustainability of the planet Earth. Against the background of this imperative, a not-so-minor decision to apply a minimum tax of 15% on corporate profits and the long-term implications of the proposed change raised little attention. Much more important were the decisions on the quantities and mechanisms for the free provision of COVID-19 vaccines to the less developed countries, especially to the poorest ones. Something has already been done in this regard, but much more still needs to happen. And it needs to be done quickly. A large number of vaccines—donated and sold at prices covering only production costs, as well as through making the production technology available free of charge—have been given to other countries by China, which is itself still a long way from being rich. With the growing involvement of rich countries in the system of free distribution, the provision of vaccines is becoming a global public good, although it is a pity that this action, which needs to be well coordinated at the world level, did not start earlier and proceed more smoothly (Chart 4.1).

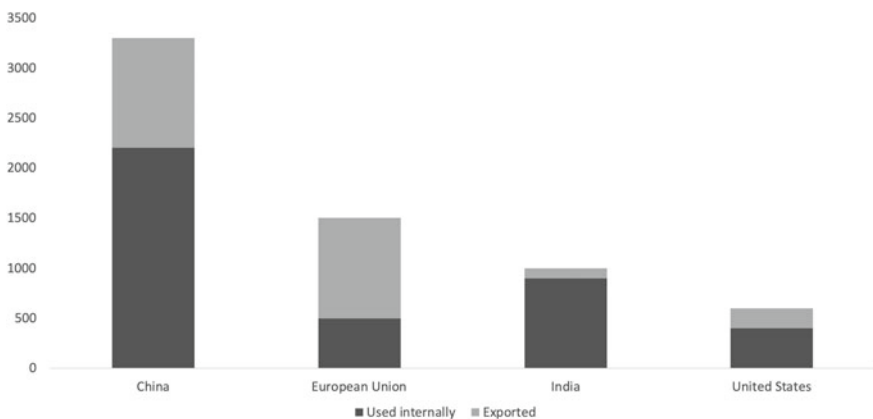


Chart 4.1 Production and export of anti-COVID vaccines (in millions of doses as of October 2021). *Source* Our World In Data (2021a, b)

However, the greatest threat to humanity and civilization as a whole is climate change. The Rome meeting was therefore watched with great interest, all the more so as the participants immediately afterward traveled to Glasgow for the UN climate conference, COP26, and postponed their important announcements to this global summit. In this context, it should be noted that both the Presidents of China and Russia did not appear in person in Rome or Glasgow. This was a mistake on their part, given the importance of both countries in resolving issues that are the subject of sometimes very tough negotiations. Online presence and plenipotentiary delegates are not the same as showing up on the spot.

Several years ago, in the first part of the trilogy about the world, I wrote: “Bringing about this specific public good is one of the most significant and difficult tasks facing humanity in the twenty-first century, and afterward. It is a global problem *sui generis*.” (Kolodko 2011, p. 366). It is difficult to estimate whether we have solved or created more problems with regard to climate change since then. It is probably the latter. To properly target projects to counteract the continuation of the disastrous trends in respect of the heating up of the climate, devastating to life and economic activity, it is necessary not only to have an ever-increasing knowledge of what can be done technologically—as a lot can be done, given that for several years now the cost of generating a kilowatt hour of electricity from solar batteries and wind has been lower than that from coal, but also to clarify the issue of who and to what extent is most responsible for the current state of affairs. This is the one that should bear the relatively greatest burden in the fight against global warming. A misleading—and highly politicized—response is that the worst contributor to the climate syndrome is whoever is currently emitting the most greenhouse gases, especially carbon dioxide. It is well known that China is currently the leader in CO₂ emissions, so attempts are being made, quite successfully, to direct the wrath of the world’s public opinion towards it.

It is a fact that China currently releases about 28% of global carbon dioxide emissions into the atmosphere, twice as much as the US, which emits about 15% of this amount. India is third with about 7% of total emissions and Russia fourth with about 5%. By contrast, per capita, which is a more appropriate measure, the Chinese released into the atmosphere only half as much as the Americans, 8.1 and 15.5 tons per year, respectively (the average per capita worldwide is about 4.8 tons). Moreover, China’s carbon dioxide emissions are largely the result of production for exports to Europe and North America. These continents emit relatively less CO₂ compared with a hypothetical situation in which, in the absence of imports from China, they would have to produce many energy-intensive goods themselves. Hence, to a large extent, consumers in the rich Western countries are complicit in China’s high emissions. This line of considerations can also be applied to other Asian countries that export a lot of energy-intensive products, especially to heavily industrialized Japan and South Korea. No wonder then, that introducing a new customs instrument is being considered, the so-called Carbon Border Adjustment Mechanism, CBAM, which, by raising the final prices for buyers, would induce them to reduce consumption in importing countries in order to limit CO₂ emissions in countries exporting such ‘contaminated’ products.

To be fair, an answer is required to the question of who has emitted how much CO₂ in 2021, but above all, who has emitted how much in total so far, in all the past years—since the first Industrial Revolution, when the economy began to be mechanized on the basis of energy sources that emit greenhouse gases when burned. Only this would provide information as to who, and to what extent, is the culprit behind the global environmental catastrophe that is unfolding before our eyes. It is not difficult to guess that the main culprits are the richest economies of the West, led by the US. Starting from 1750, of the total mass of carbon dioxide released, of which there are vast deposits in the atmosphere surrounding Earth, contributing to its heating, China's share is 13.7%. The US contribution to this global heating is twice as large, reaching 25.5%. The countries of the current European Union, including the UK, account for 22.7%, India 3.2%, Africa 2.9%, and South America 2.6%, while sinking Oceania islands only 1.2%.

From this perspective, it is hardly surprising that the poorer countries participating in the climate crusade are demanding greater sacrifices from the rich ones. Bills of history have to be paid, instead of demanding to tighten the belts of the skinny ones on the same scale as the fat ones who, in the past, with no thought of constraint, consumed the energy from burning fossil fuels—coal, oil, and gas. It is no wonder that India's Prime Minister Narendra Modi has declared his country's intention to achieve the so-called net zero only in 2070, while China has already announced that it will do so in 2060. Rich countries declare such plans in the 2050 perspective, but they should achieve this earlier. Net zero means a state of balance between the amount of greenhouse gas produced and the amount removed from the atmosphere. Political pressures should be exerted not so much to shorten the time to reach net zero in 2050 by the world's two most populous countries—China, being at a medium development level, and poor India—but to accelerate the time for the richest countries to reach that desired state. In the end, they are the ones who have contributed most to bringing us all to the edge of cataclysm. At the same time, the overall problem of environmental protection must not be forgotten for a moment, as efforts to halt the process of negative climate change are far from sufficient. In particular, the imperative of feeding the population in an ecologically sustainable manner and ensuring its continued access to water must be borne in mind.

4.2 The Scent of Flowers and the Singing of Birds

In the book *Truth, Errors and Lies: Economics and Politics in a Volatile World*, I dreamt of a distant future when the value of singing birds and the scent of flowers would be added to the valuation of national income. Those days will come, but later than it might have seemed some time ago. Now, already longing for bird trills and the scent of flowers in the future, it is necessary to block the increase in the temperature of the surface of Earth and oceans so that it does not rise by more than 2 °C compared with the period 200 years ago. It would be better if it were a maximum of 1.5°, but according to a report by the International Panel on Climate Change,

IPCC, this seems increasingly difficult to achieve (IPCC 2021). According to UN experts investigating this process, it is already warmer by at least 1.1°, or perhaps even by that intentional threshold of 1.5°. Hopefully, the problem is solvable through the use of our knowledge and, above all, the enormous technological advances in the transition to less harmful (especially renewable) energy sources, but there is less and less time for a practical solution.

Not only the inventions of a man, creating ever more sophisticated technologies, but also what the self-regulating nature created (before man messed up its mechanism) are of paramount importance. Nature removes huge amounts of carbon dioxide from the atmosphere by photosynthesis, as long as sufficiently large areas of Earth are forested and covered with vegetation. Unfortunately—and in this respect, economic activity does more harm than good—more trees disappear than appear, and more are cut down than planted (Chart 4.2).

This is a picture of the depletion and devastation of the Earth’s green face in just the past thirty years, while in the previous decades the balance was even worse. This affects the current situation, where only 31% of the Earth’s surface is covered in forests; and yet, a newly planted tree is no match for an old tree that has been felled, often—especially in tropical forests—with a broad and spreading crown. Although half of the world’s forests, 2 billion hectares, grow in four countries (Russia, Brazil, Canada, and the US) and another 17% in six (China, Australia, the Democratic Republic of the Congo, Indonesia, Peru, and India), every copse and every tree counts. In Poland, forests cover 9.2 million hectares, which is almost 30% of the area, so only marginally less than the world average. The good thing about this reality is that despite industrialization and urbanization, the country’s area of afforestation has increased

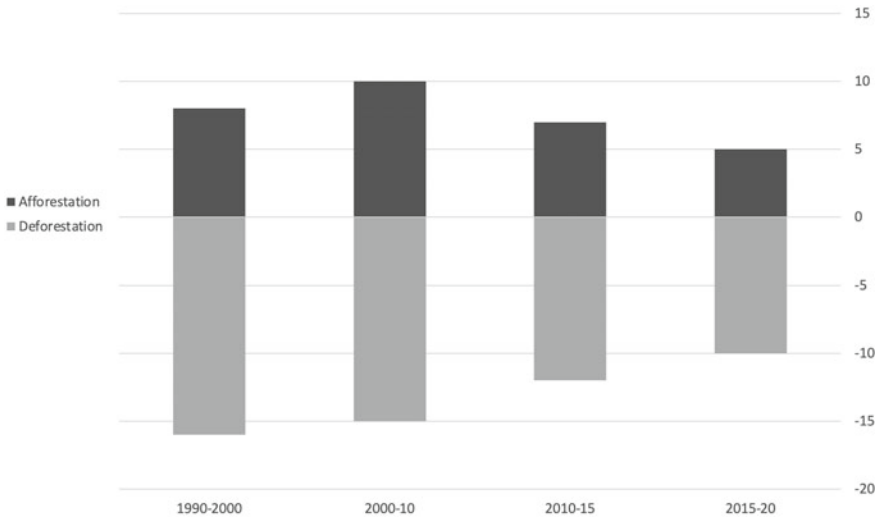


Chart 4.2 Afforestation and deforestation in 1990–2020 (global change of land areas, million ha). Source FAO (2020)

from 21% in 1945 to about 30% today. This was only possible by maintaining their dominant state status. The privatization of forests—which has been avoided despite the efforts of a neoliberal motivation—would have resulted in a noticeable reduction in their acreage with all the negative consequences.

It is estimated that if the world economy continues to follow the ruts set by past trends and no further actions are taken beyond that previously declared by individual countries, the planet will warm up by as much as 2.7 °C by the end of the century, leading to an existential catastrophe for humanity. It is also important to realize that this apparently minimal difference—just half a degree Celsius, which we do not feel at all when the temperature rises from, say, 29.5–30°, but we do notice when it rises from minus 0.25 to plus 0.25°—is vital in the context of climate change. We are talking about the average temperature of Earth measured near its surface. We know very well how frequent deviations *in plus* and *in minus* from this average are and in how many places of this very heterogeneous world, deviations of varying magnitude can be felt. The IPCC report emphasizes that: “Many changes in the climate system become larger in direct relation to increasing global warming. They include increases in the frequency and intensity of hot extremes, marine heatwaves, and heavy precipitation, agricultural and ecological droughts in some regions, and proportion of intense tropical cyclones, as well as reductions in Arctic sea ice, snow cover, and permafrost. Continued global warming is projected to further intensify the global water cycle, including its variability, global monsoon precipitation, and the severity of wet and dry events.” (IPCC 2021).

And now, *voilà*, it turns out that under enormous public pressure, which has had more influence on decision-makers than the rational, science-based arguments of environmentalists, climate scientists, and social economists, the directional findings of the first five days of COP26 and the promises made in Glasgow by the leaders of many countries of our volatile world are correcting the previous scenario. It is not yet salutary, but it is no longer catastrophic. Now the Earth's temperature, according to experts of the International Energy Agency, IEA, is expected to rise by just 1.8°, if (only!) in the next few decades countries keep the promises made by their prominent politicians: presidents, prime ministers, ministers, special envoys on decarbonization, on reducing methane emissions, on making radical savings in the energy intensity of production, or on reducing deforestation and planting new trees. And, let us add, provided that these are followed by far-reaching changes to existing consumption patterns, the need for which is not fully recognized by many people, including the hottest heads fighting to save the climate that makes it possible to live.

Is it only going to be 1.8° warmer? That would be excellent since it means as much as 0.9° less than was announced a week earlier and, at the same time, only 0.7° more than has already happened as a result of economic activities of people conducted so far and their pursuit of ever-greater consumption of goods and services. The precision with which experts are able to calculate overnight what awaits us over the next few generations is astonishing. This is the most complex algorithm in history instantly answering the fundamental question of our time. It is enough to change the assumptions, adjust the computer model, and fill it with a mountain of data based on numerous political declarations—and it can be better straight away! However,

we must be careful of both the fine words of politicians, whose magic we should not succumb to, and the elegant models of experts, which are not always positively verified by life.

The young campaigner, Greta Thunberg, was not fooled by the words of miraculous politicians and experts who, in just a few days, were able to lower the forecast for long-term climate warming from 2.7 to 1.8 °C. The very day after these calculations were announced, brave activists decided that COP26 was a fiasco and marched through the streets of Glasgow in a massive protest of young people who intend to live long lives and want the present to provide them with the right conditions for the future. Along with the British senior citizen, David Attenborough, a great ambassador of the beauty of nature and the need to protect it, the young have turned their protests into an unstoppable global social movement that no politician can ignore anymore. The *Fridays for Future* youth-led social protest movement and mass demonstrations, however, are far from sufficient. To say—although rightly—that we cannot go on like this is not enough. We still need to know how it should be.

The final decisions taken at COP26, enshrined in an agreement negotiated with great difficulty by all participating countries COP (2021), lead to an increase in the Earth's temperature in total, taking into account what has already happened, of 2.4°. If these estimates are correct, this would be just under the forecasts before the Scottish climate summit. Credence must be given to expert climatologists and forecasters, although it is surprising that a substantial 20% reduction in greenhouse gas emissions, CO₂ and CH₄, is to result in a reduction of a temperature rise of only 0.3° (2.4 instead of 2.7°). According to these forecasts, halting its increase at the 1.5-degree level would require greenhouse gas emissions to be cut by as much as half by 2030 compared to a pathway set along with the trends before the COP26. It is already clear that this is not going to happen... (Chart 4.3)

The choice of one of the words, *out* or *down*, proved critical. A coalition of countries led by India and China, in which coal burning still plays a major role in the energy sector, did not agree to include a provision in the final communication on the complete phasing out of coal. The relevant wording has been replaced by a statement on withdrawal in a durative aspect—*phase down* instead of *phase out*. Some are now saying that it was a success that the provision on coal was included in the negotiated position at all, while others are saying that it was a failure because they are not satisfied with the compromise provision. This will be one of the more controversial issues in the next few years.

So, what is it supposed to be? What will it be like? When it comes to the epochal issue of climate change, environmentalists seem to know most, economists less, while politicians least. They are all discussing, disagreeing on many details of the matter, and are far from reaching a consensus. We know how much the Earth's temperature can rise to avoid a cataclysm, we know that the water has to be clean and the grass green, we know what kind of air we want to breathe and how dense it has to be around us in order to move around freely. We also know more and more—not all of us, of course, as there are many ignorant people who deny the hard facts, claiming that global warming has nothing to do with economic activity—what the pursuit of these desires implies for the way we conduct economic activities and the way we

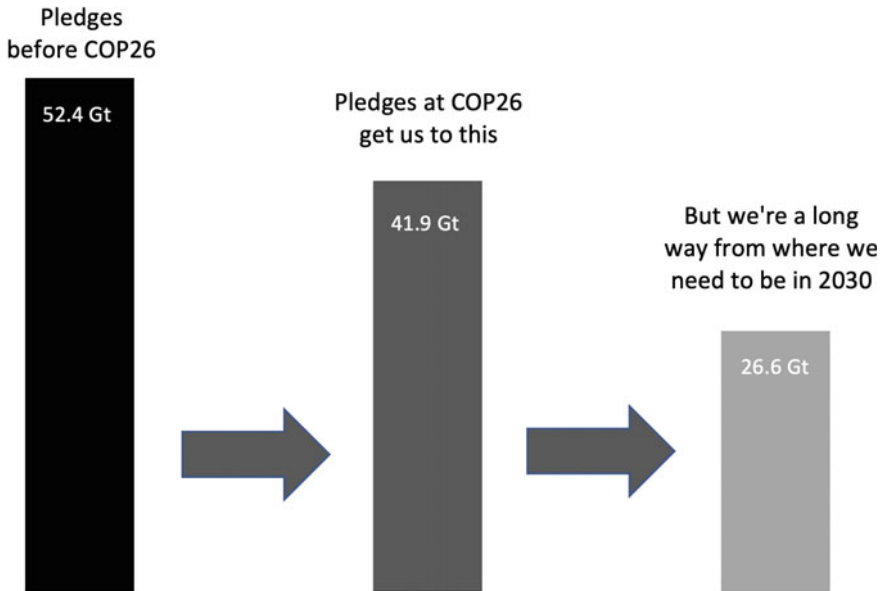


Chart 4.3 Forecast of greenhouse gas emissions in the world until 2030, gigatons. *Source* ETC (2021)

live. And if we know too little, in order to intellectually grasp the enormity of the challenge before us, we learn quickly. Even very quickly regarding some aspects because thanks to a nasty thing like COVID-19, we have learned more in two years on various matters than in the previous twelve. For example, how greenhouse gas emissions fall when production in certain sectors of the economy decreases and when passenger and freight transport slows down.

We know that in the energy sector we need to move away from coal and turn to gas on a larger scale. Yet we know too that sanctions being imposed on Russia and cutting-off certain countries for importing the Russian gas may slow down this process. We also know that renewable sources of energy need to be developed in order to switch relatively quickly from all energy sources based on greenhouse gas-emitting combustion to energy supplies that do not harm the atmosphere, including nuclear power stations, something that not everyone, including the Japanese and the Germans, wants to accept. We also understand that we will more and more often have to leave our SUVs, which burn several liters of petrol per 100 km and which, in a crowded city, require us to spend several hours a week in traffic jams, and switch to public transport. We are aware that we will often have to turn on the heating later than it is convenient for us and turn off the air conditioning earlier than we would like to. We realize that not once, not even twice, we will have to give up lighting a fire in our home fireplaces. We also know that we will have to relatively reduce the consumption of meat, especially beef, and shift towards a vegetarian, or better still a vegan diet.

After all, what politicians say must be given special consideration. It is not they, but their successors who will be responsible in a few, a dozen, or several dozen years, for the scale of implementation of the postulates that are currently being put forward. It may be suspected that some of them have changed the public narrative, driven by a politically malicious motivation, and now willingly sign up to declarations about deep reductions in methane, CH₄ emissions, about abandoning coal mining in the long term, because one day others, including their current opponents, will be responsible for the state of affairs in these matters. They are therefore eagerly promising what their country will achieve in 2030, 2040, or 2050. And if the announced levels are not achieved, future political luminaries, not the current ones, will be blamed.

4.3 Who Will Pay for It?

In a serious and responsible debate on saving the environment and, above all, on combating adverse climate change, there is still no clear answer to the question of how and by whom the implementation of the intended plans is to be financed. It is excellent that, under the enormous pressure of protests, we already know a lot about what to do and how to do it, and thanks to the great advances in technology, every day we will learn even more. Millions of enlightened minds are working on this. It is great that, at the same time, others are working to ensure that we do not fall for the new illusions that we will all switch relatively quickly to environmentally friendly electric vehicles, ignoring facts such as the one that the battery driving the engine of the vehicle can be recharged by electricity generated in a power station that pollutes the atmosphere by burning lignite, or that batteries containing rare metals, lithium, and cobalt, which are difficult to dispose of once they have been scrapped, are very harmful to the environment. We also know quite a lot about what will be the cost of saving our place to live on the planet. Well, it will be a lot.

The illusion that the matter will be dealt with by the private sector at its expense should not be created. The sense of existence and intention of the private sector is and will remain the desire to maximize profits from the capital employed and to look after the interests of the owners rather than the well-being of the population. While always striving for the greatest possible degree of honest corporate social responsibility, private capital must be heavily involved in the historic undertaking of combating global warming, bearing in mind that it must be profitable for this private capital. For the time being, it still pays off to do lucrative business using traditional energy. Thus, it is not surprising that business seeks to continue the *status quo* even where it does not seem to belong. “There are more delegates at COP26 associated with the fossil fuel industry than from any single country, an analysis shared with the BBC shows. Campaigners led by Global Witness assessed the participant list published by the UN at the start of this meeting. They found that 503 people with links to fossil fuel interests had been accredited for the climate summit. These delegates are said to lobby for oil and gas industries”. (BBC 2021a). Well, they have the right to lobby,

especially if they prove that the industry is not standing still either and has done a little something to become partly 'green'.

Joint projects based on the public–private partnership formula will probably multiply; care must be taken not to let them become another opportunity to privatize profits and socialize losses. There will certainly be a fierce competitive struggle among private companies for government and local authority as well as international contracts to carry out certain environmental projects; we just have to be careful that this does not become another grist for the mill of corruption. Business understands perfectly well that there is a great prospect opening up before it, a little new Sesame. Paradoxically, the case was similar two centuries ago, when huge opportunities for economic expansion were brought about by the Industrial Revolution of the time, launching the release of millions of tons of carbon dioxide into the air. Entrepreneurs are eager to take up the current challenge because it is another chance to do good business and many companies will make heaps of money.

With the extensive experience of the past, above all of the successive phases of industrialization, attention must be paid to the way the cards are dealt in the changing international division of labor at the very dawn of the great technological overhaul awaiting the globalized economy. Things come down to the use of modern, environmentally friendly technologies all over the world. Not only in rich North America which is at the height of development and has a population of around 380 million, but also in underdeveloped Africa, which will soon be inhabited by four times more people; not only in Japan, which has over 100 million people and sophisticated energy technologies, but also in the Philippines, with 100 million people as well but without such technologies; not only in affluent and technologically highly advanced Germany, but also in Poland, which is catching up in terms of development.

Such differentiation requires an appropriate reconstruction of the global investment financing system. Its current model is incapable of fulfilling the tasks associated with the need for an ecological reconstruction of the global economy. Attempts to solve the problem within the existing geopolitical alignments and institutions regulating the flow of capital and technology in a globalized economy may result in weaker countries becoming dependent on stronger ones, poorer countries becoming dependent on richer ones, and smaller economies becoming dependent on larger ones and becoming dependent, either anew or in a neocolonial manner, where such dependency existed for years and sometimes centuries. Here, the issue of inclusive globalization becomes crucial, starting with the annual financial assistance of the rich countries to the poor to the level of at least \$100 billion, and such an amount is only a quarter of a percent—one four-hundredth—of the national income of developed countries. The World Bank qualifies economies where Gross National Income per capita, GNI, exceeds \$12,056 (calculated at market exchange rates) to the group of high-income countries—there are now more than 50 of them. The readiness to provide such assistance was reiterated at the G20 summit in Rome; reiterated because such an intention had already been announced at the COP15 climate summit held in Copenhagen in 2009. Now this objective, which was to be fully accomplished in 2020, is to be accomplished in 2023, yet it is questionable whether it will happen, considering the appetite of the rich countries, especially the NATO members, to

spend more on military buildup. This also includes the free transfer of technically uncomplicated equipment² or the funding of scholarships for foreign students and their free education at universities with knowledgeable staff. The Organisation for Economic Co-operation and Development, OECD should urgently take the initiative to overhaul the global investment financing system.

Particularly important in this context is to ensure that the rich countries do not drive the poor into excessive foreign debt, as they have done (and continue to do) on more than one occasion of credit sales of arms. In the long term, from an economic point of view, the exports of green technology can play a similar role to that of arms exports, except that they will serve a good cause. The issue of financing such transactions must be raised again, although a considerable proportion of supplies will this time be made in the form of genuine economic aid rather than a fraud of calling the supplies of lethal weapons an aid. For example, the US financial aid to Egypt is worth a total of around \$2 billion a year, of which \$1.3 billion in military support. It would now be worthwhile, if not immediately, then gradually, to convert them into help on the climate front. Similar demands should be put forward to other permanent members of the UN Security Council—China, the UK, France, and Russia—as well as to smaller but important countries in regional geopolitical alignments, such as India, Turkey, and Saudi Arabia, which also allocate a relatively large amount of resources to military aid to others.

Although business is not a charitable activity, it sometimes happens that one or another of the mighty of this world, as a gesture of genuine goodwill, contributes funds from their own coffers to the projects implemented. Just as Jeff Bezos, the founder and major shareholder of Amazon, did with his *Bezos Earth Fund*, having 10 billion dollars at its disposal, who has promised to donate an additional 2 billion, over the amounts already pledged, to save the environment. Someone will say: that's great! But someone else will soon say that, although it is a huge amount from a perspective of an individual, it is a drop in the ocean of needs. But let us remember that a penny saved is a penny earned.

Ten billion dollars is a pretty penny. Such an amount is impressive when you hear about it. However, when one sees how many tens of trillions of dollars—a trillion is a thousand billion—are needed to implement the environmental projects announced in Rome at the G20 summit and in Glasgow at the COP26 convention, the question must be asked: Can we afford it? Who will pay for it? Where will such a huge amount of money come from? The lion's share of this has to be public money, and in almost all countries, public finances are heavily in deficit, to which the extraordinary expenditure associated with the fight against the coronavirus pandemic has contributed. In the European Union, public debt has stepped up to 90% of GDP, exceeding by half the reference level of 60% of gross product that applies under the 1997 'Stability and Growth Pact'. In 2020, in several rich countries, public debt

² While visiting East Timor, I met a World Bank envoy, a Belgian woman who had flown to Dili from Bangkok. Interested in her mission, I learned that the bank was financing the supply of several thousand small cookers to the island's rural population. Her task was to educate future users on how to safely and cheaply operate this technical smoke-reducing blessing in their huts, where it is indeed difficult to breathe.

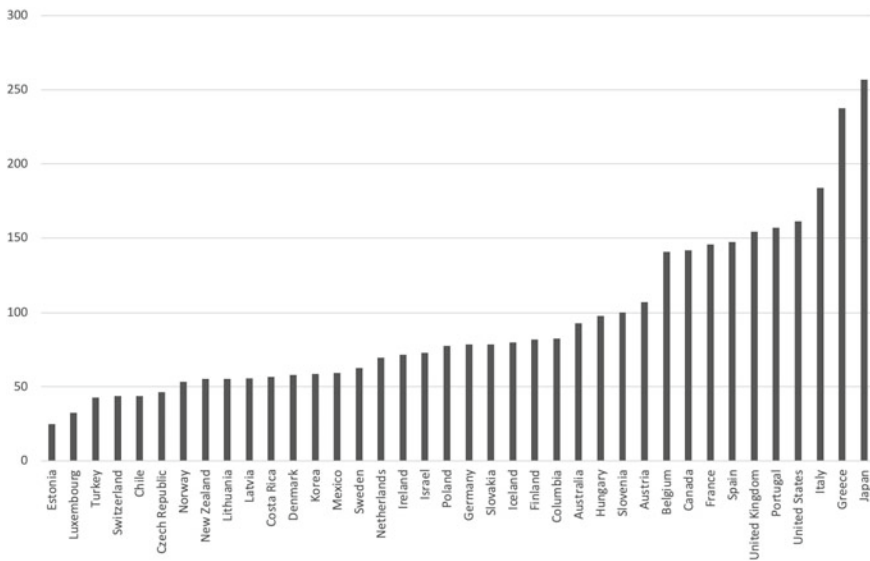


Chart 4.4 Public debt of OECD countries in 2021 (in percent of GDP) Data for Israel, Columbia, Costa Rica, Mexico, and New Zealand is for 2019. *Source* OECD (2021)

exceeded national income. In the US, it was significant, at around 150% of GDP, and in Japan, traditionally heavily indebted, at over 250%. In OECD countries, average debt exceeded 80% of their aggregate gross product (Chart 4.4).

What is worse, the cost of servicing this debt will rise over the next few years at least, as the interest charged on it increases due to tightened anti-inflationary policies. There is, therefore, no point in counting that the huge outlays on the great green energy transition can be financed from the deficit and an increase in public debt with impunity. In the current situation, this is feasible only to a limited extent, and in some countries even impossible. Less developed countries, especially the poorest ones, are in a particularly difficult position. The International Monetary Fund's projections for low-income countries (according to the IMF's nomenclature—*Low-Income Developing Countries*) predict that in many of them the ratio of debt service costs to tax revenues will exceed 30% (IMF 2021). This is a huge burden that many countries would not be able to carry on their own, even if they did not have to bear the additional expenditure associated with the climate campaign.

In that case, perhaps public spending for other purposes should be reduced, so that the savings thus made can be used to finance the fight against smog, to invest in energy-saving technologies, to pay for the development of renewable energy sources, and to spend on reforestation. But then, which other objectives should be discriminated against? Education or health care? How about science and supporting innovative implementations? Or maybe culture and sports? It is precisely these spheres of social public services that suffer most during the periods of expansion of military

spending, often pushed through by political blackmail claiming that this is a necessity in the national interest. This is what the US did, for example, during Donald Trump's presidency, increasing the share of war spending in the federal budget at the expense of, among others, cutting foreign aid to poor countries. This is what several Western countries eagerly do in the aftermath of the Russian invasion of Ukraine.

This is not the way, even for such a laudable objective as the fight for a clean and safe environment, because in many countries, the aforementioned areas of public services are underfunded and are themselves asking for an increased share in the total expenditure. And let us remember that the shares always add up to one hundred percent. All types of expenditure can be increased when the revenue from which they are financed increases, but the share of one category cannot be increased without a corresponding decrease in another. It is true that with good management and meticulousness, savings can be made everywhere, but this will only generate modest resources at best.

Perhaps, then, the revenues of the public finance system should be increased accordingly, by imposing additional taxes both on the household sector, i.e., the population, and on the enterprise sector, i.e., business. It is impossible to get away from this anyway. What is more, the sooner special environmental taxes are implemented, the better. They will be targeted, address specific issues, and may consist, for example, of an increase in fuel excise duty in order to use this economic instrument to force a reduction in the use of passenger cars while, at the same time, improving the quality of public transport subsidized from the proceeds of this excise duty. Let us add that this is a contextual issue; it is different in the US, where a lot can be achieved in this area because the consumption model there is based on cheap mass motorization, it is not the same in Japan, where public transport is already very well developed; it will vary in densely populated Denmark and in uncrowded Kazakhstan.

One may hope that it is enough to raise direct income taxes, CIT and PIT, or indirect expenditure taxes, VAT, or, in countries where this does not exist, taxes on sales-purchase transactions, such as the American GST (General Sales Tax). However, that is not the way. It may happen that direct taxes, CIT and PIT, will have to be relatively reduced in order to compensate consumers and producers for the increased expenditure due to the introduction of new eco-taxes, which are indirect by their very nature. The problem is again contextual. There is room to increase overall taxes in Japan, Switzerland, or the US, but I do not think there is in France, Poland, or Italy. In the latter—and in many other countries with similar high ratios of budget to national income—in principle, the scale of fiscal redistribution should not be increased. Instead, the structure of taxes needs to be clearly altered in favor of a growing share of eco-taxes forcing environmentally desirable changes in production methods and consumption behavior.

All in all, we do not have to contribute more in the form of taxes to achieve climate-desired objectives as a whole society, but different groups of producers and consumers will be burdened with different types of taxes, unlike it used to be. Some will pay more, others less, with the variation over time depending less on income levels and more on the environmental impact of specific economic actors. Someone driving an SUV and eating beef will pay more in taxes than someone with a higher

income than them but using public transport and following a vegan diet. There is therefore a major overhaul of the system of income redistribution and its secondary division ahead, and from now on it is worth looking at all the changes from the point of view of how they correspond with the environmental and climate imperative.

Consequently, given that the necessary resources are not to be found either in additional debt and pushing the financing of the undertaken measures into the future or in an absolute increase in the taxation of people and businesses on an ongoing basis,³ where will the money come from? Are central banks to ‘print’ them, as they boldly—and rightly—did in the fight against the pandemic crisis? No, especially as the costs of fighting COVID-19 dwarf compared to the financial dimension of the long-term, decades- and generations-long fight against climate change. But there is money for it. We have them, and all we have to do is put them from one pocket to another.

4.4 Every Cloud has a Silver Lining?

As a proverb goes: every cloud has a silver lining. The cloud casting its shadow is the gigantic waste of public funds on armaments and other military expenditures. Of course, in countries behaving aggressively, it is described as a national defense worthy of a good cause. The world spends about \$2 trillion a year on military purposes, which is 2.35% of gross world product. Even in 2020, when it fell by 4.4%, military spending rose by 2.6%. (SIPRI 2021). The US spend the most, with \$778 billion (3.7% of GDP) in 2020, accounting for 39% of the global spending for that purpose. This is three times as much as China, which spent 252 billion (1.8% of GDP). They stood out as the only country among the most significant ones, as they did not increase their relative military burden, keeping it at the same level in relation to GDP as the year before. In the third place is India with the expenditure of 72.9 billion (2.9% of GDP), followed by Russia, which spends as much in a year as the Americans do in a month, at 61.7 billion (4.3% of GDP), and in the fifth place—the UK with 59.2 billion (2.2% of GDP) (Chart 4.5).

According to Global Firepower, China spends less than a quarter of the amount spent by the US—\$740.5bn and \$178.2bn in 2021, respectively. They are followed by India, Germany, and the UK with the military expenditure of 73.7 billion, 57.4 billion, and 56 billion, respectively. Russia is only in 11th place with the expenditure of just 42.1 billion—which is hard to believe, since it is a third less than estimated by

³ Based on IPCC calculations, I have already written in *Truth, Errors, and Lies...* about the need to charge business for additional greenhouse gas emissions volumes, namely that “a fee of \$20 to \$50 per ton of carbon dioxide emissions, levied from 2020 to 2030 on, should bring about a stabilization at the level of 550 parts per million, or p.p.m., which is the measure of gas concentration, by the end of the century. This is regarded as a safe level” Kolodko (2011, p. 364). The 2020s are already here; the implementation of the postulated instrument is closer than it was over a decade ago, but there is nevertheless still a long way to go.

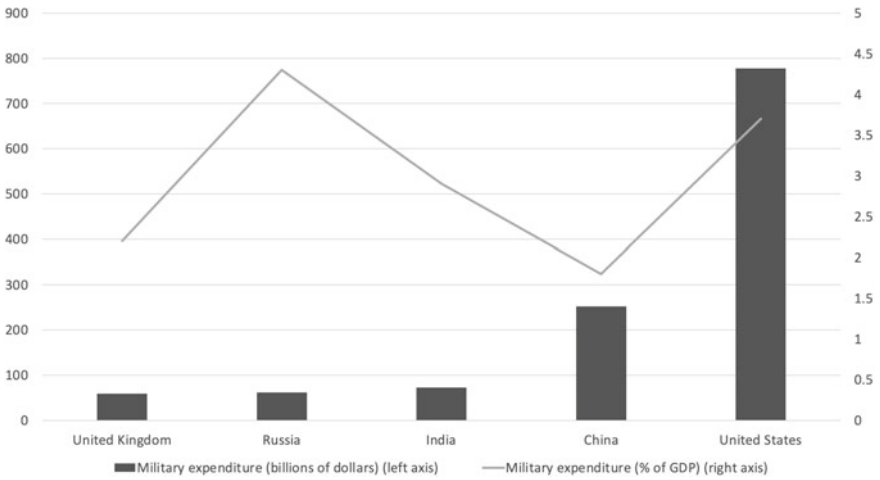


Chart 4.5 Countries with the highest level of military expenditure. *Source* SIPRI (2021)

SIPR—followed by Japan, Saudi Arabia, South Korea, France, and Australia. (GFP 2021).

Taken together, the expenditure of the five countries that spend most on the military amounts to 62% of the world’s military spending. Looking a bit back, according to the World Bank, over the last five years the share of military expenditure in GDP has increased in India and in NATO member countries—the US and the UK, and especially in Poland, by more than 0.3 percentage points—it has not changed in China (has remained relatively unchanged as a proportion of GDP over this period). In absolute terms, China’s military spending has increased continuously for 27 years) and has fallen in Russia (WB 2021). These estimates should be treated with caution as they may be overstated in some cases and understated in others. Some, while calculating the expenditure on ‘national defense’, take into account the costs of scientific research for the needs of the army or the expenditure on pension provision for former employees of the broadly defined military sector, while others do not.

Two trillion dollars—that is a lot. There are areas from which the necessary resources for the fight against the truly deadly enemy, namely global warming, can be drawn. Two important issues—from the political and economic perspective—need to be clarified here immediately. First, a great part of arms spending (the vast majority) does not strengthen international security but, on the contrary, weakens it. In the past quarter of a century, since 1996, military expenditure has almost doubled, and yet people do not feel any safer because of it. The relationship is just that the more money goes into the military, the less safe it gets; there have been many local armed conflicts provoked with a view to testing further lethal deployments. There have also been many clashes that were not prevented in time, although it could have been done with the use of politics and diplomacy but was not convenient to the powerful, influential military–industrial lobby and their political supporters, against which US

President Dwight Eisenhower, an experienced general, warned long ago. Political tensions, sometimes threatening to escalate into a military conflict, with increased military spending more often exacerbate rather than alleviate. This is politics.

Second, proponents of high levels of military spending argue that it fuels economic prosperity and provides employment for those working in the military sector, its supply and service environment, as well as increases government fiscal revenues. This is true, but spending public money on environmental protection has similar effects. In this case, too, the demand mechanisms that increase employment and production and the Keynesian investment multiplier work, except that nobody dies as a result and many lives are saved. If one has a billion to spend—dollars or yuan, euros or rubles, zlotys or pounds—one can spend it on combating global warming with similar macroeconomic results to spending it on the military. This is economics.

Greta Thunberg and the millions of young people who follow her footsteps may not yet know this, but the politicians who make decisions on behalf of these millions should. But where are the courageous politicians who are openly calling for a reversal of the ever-increasing spiral of arms? Now it is no longer important who started it and why; let that be decided by analysts and historians. What matters now is who will stop it and turn things around, just as they managed to do a generation ago, after the end of the First Cold War. Military spending between 1990 and 1996 fell by about half a trillion dollars—from over one and a half to just over a trillion. Back then, it was possible because there were statesmen like Mikhail S. Gorbachev and Helmut Kohl, politicians of the caliber of George H.W. Bush and François Mitterrand who, in the name of the public interest, development, and peace, had the courage to stand up to the military and industrial lobby in their countries and on the international stage by blocking the arms race.

If it was possible then, it is possible now, as well. First of all, now it is necessary. There is no other sensible way to finance the gigantic expenditure on environmental protection and climate stabilization than to shift the trillions wasted on the military to these useful purposes. Initially, nominal military expenditure should be frozen. Two trillion dollars for these purposes are more than enough. Maintaining the current nominal level, the burden on taxpayers will fall appreciably both in real terms due to the high inflation rate and in relative terms with reference to the increasing value of production and rising incomes. When sensible actions are followed by an improved political climate, it will be possible, as it was after the political breakthroughs of the 1980s and 1990s, to cut absolute military expenditure as to have the funds to finance what will undoubtedly improve the climate.

It is not possible to cut military spending by a whole 1 percentage point year by year, but it is conceivable to do so within a decade. If the real growth rate of the world economy in the third decade of the twenty-first century is assumed to be a modest 2.5% per annum, then starting from a GDP level of around \$85 trillion in 2020 (at market exchange rates), it would reach \$109 trillion in 2030 (at constant 2020 prices). If, by then, military spending was to be reduced by 1 percentage point, cutting it by one-tenth of a point each year from the current 2.35 to 1.35% of gross world product, more than a trillion dollars a year could be unleashed from this alone. In other words, if the share of military spending in 2030 was 2.35% of the value of

world output, this would yield \$2.56 trillion, whereas, in the scenario of a reverse spiral of arms outlined here, with the share of only 1.35% of gross output, it is \$1.46 trillion (Chart 4.6).

In total, the military spending reduction scenario would unleash as much as \$5.54 trillion over the entire decade of the 2020s. An intelligent reallocation of such a large amount of money to control climate change would be salutary. It is still not too late. This needs to be advocated loudly. It is not enough just to criticize politicians for doing nothing. The public opinion must hear that what is necessary is also possible, but possible in this particular way. Without any indication of the hard sources of funding the battle, protests motivated by genuine ecological concern start to look like populism.

Slogans against arms financing and concern for the climate must be uttered in one breath during demonstrations. Otherwise, it is a sin of one-sidedness. When manifesting for clean water and fresh air, one must be aware that this means demanding to close smoking power stations that heat up the climate and to shut down factories that pollute the environment with their fumes, but it also means demanding a lifestyle change. What percentage of 100,000-strong protest in Glasgow was fully aware of this? How many participants in the spectacular colorful processions moving through other cities are genuinely prepared to make concessions on their part? If they are not, it smacks of populism. What proportion of the green party electorate is willing to pay higher eco-taxes or give up goods or services that are in contradiction to the ‘green’ environment? If it is only a marginal part, then its nature is populist. We all need pragmatism, even when—or perhaps precisely when—it requires personal sacrifice.

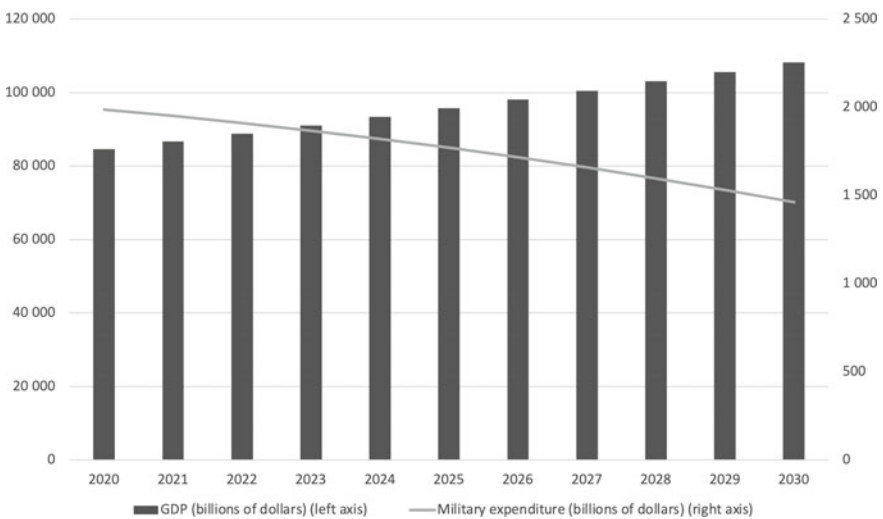


Chart 4.6 Hypothetical savings in military expenditures to be shifted to environmental protection and counteracting global warming in 2021–2030. *Source* Own calculations

It is a pity that Barack Obama, in a fiery speech at COP26 also appeared one-sided and said nothing about the sources of funding the climate battle, articulating “I want you to stay frustrated, but channel that anger, harness that frustration, keep pushing harder and harder, for more and more because that’s what’s required to meet this challenge. Gird yourself for a marathon, not a sprint, for solving a problem this big, this complex, and this important has never happened all at once”. (BBC 2021b). Yes, there is a very long distance to cover, and in addition, unlike in a marathon, once you have run the distance, the finish line will be moved further away. While moving forward—though perhaps never reaching the end of the road—it is important to realize that a certain amount of anger about the status quo must also be directed at ourselves. Enlightened and progressive politicians and activists from social organizations should have the courage to speak out about this.

4.5 Ethical Dimension of Environmental Protection

Politicians want to shape people’s views in order to gain the widest possible support among them. Yet, it cannot be left to politicians to persuade how voters should behave on environmental issues. The entire public education system has a huge role to play, from nursery through doctoral studies to universities of the third age. It is a good thing that various non-governmental organizations are becoming more active, from social movements at local levels to those spreading their wings on the global stage. Much can be done by the media. Unfortunately, not everything they do regarding this great cause is positive, as sometimes they resort to demagoguery, serve interest groups or cynical (or simply stupid) politicians. The power of media (including social media) is enormous, as they influence what people think the most. Without the involvement of the most opinion-forming media on the right side—which gets more complicated as the dispersed online media become more important than large media groups—the environmental battle may not be democratically winnable.

There is a great mission for religions that must revise their sin codes for transgressions against nature and Mother Earth. Too little and too seldom are words about the iniquities committed by man against the environment heard from the pulpits in churches. Too little can be heard about it in mosques and synagogues. There are verses and paintings calling for restraint in the use of nature missing from the walls of Hindu and Buddhist temples. And the words spoken and heard there, the pictures drawn and seen there have meaning.

The ecological issue was raised two generations ago by Pope Paul VI, speaking of the dramatic consequences of human activity which “by an ill-considered exploitation of nature he risks destroying it and becoming in his turn the victim of this degradation.” (Paul VI 1971). A little earlier, on the occasion of the twenty-fifth anniversary of the Food and Agriculture Organization of the United Nations, FAO, he had warned of the possibility of bringing about “ecological catastrophe under the effective explosion of industrial civilization” stressing “the urgent need for a radical change in the conduct of humanity”. If such a change does not take place, then “the

most extraordinary scientific advances, the most amazing technical abilities, the most astonishing economic growth, unless they are accompanied by authentic social and moral progress, will definitively turn against man". The Pope then concluded that if "the carrying out of these technical possibilities at an accelerated pace is not accomplished without dangerous repercussions on the balance of our natural surroundings. The progressive deterioration of that, which has generally come to be called the environment, risks provoking a veritable ecological catastrophe." (Paul VI 1970). Half a century has passed and this change cannot be seen.

The words of his earlier predecessor were referred to by Pope Francis, who addressed climate change and environmental protection in his encyclical *Laudato si'*. He addressed it to Catholics but also proposed "to enter into dialogue with all people about our common home" (Francis 2015, p. 4). He cites earlier calls of Pope John Paul II for an 'ecological conversion' and his statements from the encyclical *Centesimus Annus* (John Paul II 1991) that the quest to improve the world requires a thorough change in "lifestyles, models of production, and consumption, and the established structures of power which today govern societies." (Francis 2015, pp. 5–6). Three decades have passed, and these changes cannot be seen.

Pope Francis made the most explicit reference to the thought of a prominent Orthodox cleric, Bartholomew I, Patriarch of Constantinople. He recalled his words that we all degenerate the environment to some extent, since "for human beings to destroy the biological diversity of God's creation; for human beings to degrade the integrity of the earth by causing changes in its climate, by stripping the earth of its natural forests or destroying its wetlands; for human beings to contaminate the earth's waters, its land, its air, and its life – these are sins". The Patriarch concluded his address by declaring that "to commit a crime against the natural world is a sin against ourselves and a sin against God". (Bartholomew I 2012). I had the opportunity to convince myself of the sincerity of these views of Bartholomew I on the occasion of our unofficial talks at the 2019 Eurasian Economic Forum in Istanbul.

The problem is that these sinners do not confess their transgressions, and they do not do so because they do not treat acts that harm the environment in the category of sin.⁴ Neither the extremely poor peasant felling the tropical jungle in Borneo in order to pick up a piece of land to grow vegetables to sell at the nearby market to feed his family nor the super-rich Wall Street financier flying to Chicago for a business lunch on his private jet on a whim thinks that way. This makes it all the more important to strive for appropriate cultural changes, a socially sensitive mentality, and a pro-environmental morality. Everywhere. Continuously.

Honest politicians—and there are many of them—need help to tackle the climate challenge, but at the same time care must be taken so that the new big coffer is not given access to the margins in the form of political impostors and cynical players of finance and business, because such people will always be found where there is a

⁴ Twenty years ago, in a somewhat similar context, I asked the Primate of Poland, Cardinal Józef Glemp, whether the faithful confess to not paying taxes owed to the state. Do they treat it as a sin? After all, *quae sunt caesaris, caesari; et quae sunt Dei, Deo*. After a moment's reflection, the Primate replied: "I don't think so".

lot of other people's money to spend—in this case, ours, because it is public money. Before great statesmen capable of shaping the consciousness of the masses reappear, it is necessary to exert every possible pressure on politics to acknowledge the evident harmfulness of armament and to abandon it. It is not talked about, there is silence in this regard. What is worse, there are calls for increased military spending (Economist 2021). Nothing was decided regarding this matter at the G20 summit in Rome, and in this time of chaos, it was the best forum to come up with such initiatives on the global stage. It would be best if Presidents of the US and China were to present them, and even better if the leaders of the European Union and Russia as well as India and the UK would stand in line with them. But it might as well start somewhere else and with someone else. Poland can decide and communicate—loudly, to the whole world, starting with its NATO partners—that instead of increasing its military spending in the face of the financial consequences of the pandemic and the need for a green energy transition, it is freezing it at the nominal 2021 level, and urge others to halt the arms race devastating to the economy and morale by setting a good example of stopping its participation in it because there are more important things to do. Regrettably, it did the opposite; the parliament, without a single vote of defiance, decided to raise from 2023 onwards the military budget to 3.0% of GDP, one of the highest among NATO members.

Utopia? Before the First Cold War ended a generation ago, it also seemed that calling for an end to it was a cry in the wilderness. A breakthrough will also come in modern times and someone somewhere will start to break the arms spiral. And then, already in the partnership of many, the trend will reverse. Now the battles for peace without growing armaments and against adverse climate change must go hand in hand. They may prove to be the only way to save democracy that cannot be sustained faced with the ecological disaster threatening humanity.

References

- Bartholomew I (2012), *Speech in Santa Barbara, California, November 8, 1997*, in: John Chrysavgis (ed.), *On Earth as It Is in Heaven: Ecological Vision and Initiatives of Ecumenical Patriarch Bartholomew*, Fordham University Press, New York.
- BBC (2021a), *COP26: Fossil fuel industry has largest delegation at climate summit*, „BBC World”, November 8, 2021 (<https://www.bbc.com/news/science-environment-59199484>; access: 23.01.2022).
- BBC (2021b), *Obama speaks at COP26 climate summit*, “BBC News”, November 8, 2021 (<https://www.bbc.com/news/live/world-59192126>; access: 13.12.2021).
- Economist (2021), *What would America fight for?*, “The Economist”, December 11 (<https://www.economist.com/leaders/2021/12/11/if-the-united-states-pulls-back-the-world-will-become-more-dangerous>; access: 25.12.2021).
- ETC (2021), *News & events*, Energy Transitions Commission (<https://www.energy-transitions.org/news/>; access: 13.12.2021).
- Franciszek (2015), *Laudato si'*, Dicastero per la Comunicazione – Libreria Editrice Vaticana (https://www.vatican.va/content/francesco/pl/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html; access: 13.12.2021).

- FAO (2020), *The State of the World's Forests 2020*, United Nations Organization for Food and Agriculture and United Nation Environment Programme, Rome (<https://www.fao.org/documents/card/en/c/ca8642en>; 13.12.2021).
- G20 (2021), *G20 Italy* (<https://www.groupofnations.com/summit/g20-italy-2021>; access 23.01.2022).
- IMF (2021), *World Economic Outlook: Managing Diverging Recoveries*, April. International Monetary Fund, Washington, D.C. (<https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>; access: 13.12.2021).
- John Paul II (1991), *Centesimus Annus*, Dicastero per la Comunicazione – Libreria Editrice Vaticana (https://www.vatican.va/content/john-paul-ii/pl/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus.html; access: 13.12.2021).
- IPCC (2021), *Sixth Assessment Report: Headline Statements from the Summary for Policymakers* (https://report.ipcc.ch/ar6wg1/pdf/IPCC_AR6_WGI_Headline_Statements.pdf; access: 13.12.2021).
- Kolodko, Grzegorz W. (2011), *Truth, Errors and Lies. Politics and Economics in a Volatile World*, Columbia University Press, New York.
- OECD (2021), *Level of GDP per capita and productivity*, OECD.Stat (https://stats.oecd.org/Index.aspx?DataSetCode=PDB_LV; access: 11.12.2021).
- Our World in Data (2021a), *GDP per capita in England*, „Our World in Data: Statistics and Research” (<https://ourworldindata.org/grapher/gdp-per-capita-in-the-uk-since-1270?time=1270..2016>); access: 14.12.2021).
- Our World in Data (2021b), *Coronavirus (COVID-19) Vaccinations*, „Our World in Data: Statistics and Research” (<https://ourworldindata.org/covid-vaccinations>; access: 13.12.2021).
- Paweł VI (1971), Apostolic letter: Octogesima adveniens, May 14, 1971, 21: Libreria Editrice Vaticana, AAS 63, p.416–417.
- SIPRI (2021), *World military spending rises to almost \$2 trillion in 2020*, Stockholm International Peace Research Institute (<https://www.sipri.org/media/press-release/2021/world-military-spending-rises-almost-2-trillion-2020>; access: 13.12.2021).
- WB (2021), *World Bank Open Data. Military Expenditure*, The World Bank, Washington, D.C. (https://data.worldbank.org/indicator/MS.MIL.XPND.GD.ZS?most_recent_value_desc=false&locations=CN-IN-RU-GB-US; access: 12.11.2021).

Chapter 5

Leadership: Economics and Politics of Great Change



It doesn't matter if a cat is black or white, so long as it catches mice.

Deng Xiaoping (1904–1997)

5.1 Perestroika and Glasnost

There has never been a case in history where, during a short episode such as the life of one generation, mutual economic relations have changed so much for so many people as happened in China and Russia between 1989 and 2021. Both countries are undergoing profound structural and institutional changes, except that in the former, remarkable results have been achieved in terms of development and narrowing the gap with the developed economies, while in the latter the results are rather unimpressive. This is due to a combination of various circumstances—from cultural heritage to geopolitical conditions, from the legacy of the centrally planned economy to the diversity of natural resources. The essence and duration of the political leadership of Deng Xiaoping in China and Mikhail S. Gorbachev in Russia were also fundamental. Without considering the impact of the thoughts and deeds of these two statesmen, it is impossible to understand the nature of the tectonic shifts that have occurred in the world economy in recent decades.

The Union of Soviet Socialist Republics, the USSR, was still, in the mid-1980s, based on the Bolshevik principle of eliminating from the economic, social, and political reality almost everything that had preceded the communist revolution at the turn of the second and third decades of that century. The economy, society, and state were to function not on the basis of a rational modification of *the ancien régime*, but on the basis of its total contestation—as the antithesis of capitalism. Private ownership was to be completely supplanted by state ownership, central planning was to replace market mechanisms, and money was to play an ever-diminishing role, while administrative orders an ever-increasing one. Attempts at tentative reforms to move away from this orthodoxy made in the USSR in the thirty years between 1956 and 1985 made little difference. While the dogmatists were stuck in the fundamentally

mistaken belief that such a situation could continue *ad calendas sovieticas*, Mikhail S. Gorbachev, the new Soviet leader, understood that this was nonsense. The time for qualitative political and economic change inevitably arrived.

Rarely has a politician made such a distinctive mark on history as Mikhail S. Gorbachev did. For obvious reasons, he was not destined to follow immediately after Stalin—he was only 22 and studying when the Soviet dictator died in 1953—so he could not then undertake the effort of radical political reforms, as was the case with Deng Xiaoping, the Chinese leader to whom history gave such an opportunity after 1976, shortly after the departure of Mao Zedong, the dictator in power from 1949 to 1976. While in China even then—in 1985—it was not important whether the cat was black or white, as long as it caught mice, as Deng memorably and understandably said to the masses, in the Soviet Union and Russia, in its core, it was still far from communist doctrinairism to socialist pragmatism (Gaidar 2007).

It is also important to realize that the economic and geopolitical realities of the 1960s, 1970s, and 1980s were greatly influenced by the Cold War and the hostility of the West, especially the US, towards both socialist powers. Powers not in the economic sense, but in the political and military meaning, given the military strength of Russia and the size of the Chinese army. In fact, the West wanted the collapse of the Soviet and Chinese socialism, which it described as communism, and the leaders of these countries were fully aware that no matter what the reforms were, they would be perceived in the West not as a way of improving the living conditions of the people of these countries, but as an opportunity to destroy the prevailing system perceived as an enemy of world capitalism.

In the Soviet Union, before Gorbachev took power, no one from the leading political circles had thought about profound changes to the political system. Even the relatively more progressive and reform-oriented minds—whether in the Politburo of the Central Committee of the Communist Party of the Soviet Union or in its government—at most considered partial changes and improvements to the reality that was essentially in line with the prevailing and unquestioned Leninist ideology. Nevertheless, the time for fundamental change had to come, and it happened with Gorbachev taking over key positions in the party and state in 1985.

Have I myself learned anything from him, given that I had not only the opportunity to observe his activities from afar but also the privilege of exchanging ideas directly during several face-to-face meetings—the first time over a quarter of a century ago, in 1996? They certainly confirmed my conviction, with which I myself came into politics a little earlier, at the beginning of the 1990s, that political activity requires courage and great determination—something Gorbachev certainly did not lack—as well as imagination as to the possible directions of evolution of the processes triggered and launched, which may get out of control and take a quite different route than intentionally assumed. This imagination is something that this great statesman did not have enough. Gorbachev wanted to neither move away from socialism nor liquidate the Soviet Union. He wanted to save socialism and strengthen the USSR.

He intended to give the Soviet system a 'human face' so that the system would be based on public support rather than on the strength of the state and its violence against its own citizens. These objectives were to be served by both political reforms, in the form of *glasnost*, and economic reforms, known as *perestroika*. They were so groundbreaking that since the launch of the first artificial Earth satellite, *sputnik*, only these two words have taken full rights in many languages of the world, starting with English. Although we do know that they mean, respectively, transparency and restructuring, we do not translate them, because thanks to Gorbachev, they speak for themselves.

For some, these reforms went too far because they limited the privileges associated with the held functions and occupied positions, and so they hindered the implementation of the intentions of the initiator of these reforms. For others, Gorbachev's proposals were insufficient, too shallow, did not create a new quality, and therefore, they were criticized. The former group took the upper hand, blocking the chosen course. Sharing the conviction that this reformist approach was fundamentally correct, some years later I asked Gorbachev why he had not gone further, at least as far as Poland or Hungary. He answered me with a question: Do you have any idea how many people belonged to the nomenklatura in the USSR? And it was the interests of the nomenklatura that were violated by *glasnost* and *perestroika*. It included 20 million positions in the party and administration, in the economy and the army, in science and culture; from truly unimportant ones, at the lowest levels of the monstrously expanded structures of power, up to the most important ones at the Soviet hierarchal tops in Moscow and in the capitals of all other fourteen Soviet socialist republics. At that time, it was still impossible to break up this system. The Soviet apparatus of power, institutionally and politically associated with the nomenklatura, instead of taking care of the public interest, vigorously defended its own gains. Only some of its more enlightened representatives understood that the reforms could change their situation for the better for them as well.

In the spring of 1989, the Soviet-Chinese summit was held, the only one during the time of the Gorbachev administration. From May 15 to 18 of that year—that is, during the short two-month period between the Polish Round Table negotiations that ended with a creative compromise and the first democratic elections in the postwar years—the Soviet leader met with the Chinese leader. Undoubtedly, they both observed the Polish transformation with great attention, trying to draw useful conclusions for themselves. What is also very important is that, on the days of Gorbachev's visit to Beijing, there were major student demonstrations in Tiananmen Square against the political state of affairs in China. Shortly afterward, just two weeks after the Soviet-Chinese summit, by an incredible coincidence, on exactly the same day, June 4, 1989, when the Polish people peacefully voted for a major systemic change by electing their parliament, the Chinese army brutally suppressed a student revolt.

On the occasion of the Beijing summit, Henry Kissinger—another statesman with an abundance of geopolitical experience of his own—published an essay in a weekly magazine, *Newsweek*, in which he asked the fundamental question: Who is right? Mikhail Gorbachev, who, considering the Soviet reality, went quite far in terms of political reforms, in *glasnost*, but did not go too far in economic changes,

in *perestroika*? Or Deng Xiaoping, who boldly strode in economic changes that gradually made the economy more market oriented but has done little, in fact almost nothing, regarding liberal political reforms (Kissinger 1989)?

When I first met Kissinger, in the summer of 1996 in Paris, I referred to this dilemma. I said then that it was an incorrect question to ask, as both—Gorbachev and Deng—were wrong, but we—the Poles—were right taking simultaneously the path of political and economic liberalization to democracy and to the market. This is what I also believe today, however, I am surprised that we have achieved more in terms of economic transition. Although we are still far away from a mature social market economy, we are even further away from full democracy in the sphere of political transformation. Back then, a quarter of a century ago, I did not expect that after so many years of transformational efforts, the dysfunctionality of the political sphere would raise more concern and provoke more criticism than the institutional shortcomings and imperfections of the market economy. I returned to the dilemma of choosing the path during subsequent meetings with Gorbachev in Moscow and during conversations with Kissinger in New York and—where else?—in Beijing. Even though this paramount question, if at all, can be answered completely and satisfactorily only by history, it is worth exploring the subject, including also the conclusions drawn from direct conversations with the people who made this history.

5.2 The Round Table and the Berlin Wall

From an *ex post* perspective, one has to agree with Gorbachev that he did much of what was possible in the political realities of those times. Unfortunately, he has not avoided serious mistakes with regard to the economy either. Leaving the Soviet and Russian transformations aside for a moment, it is impossible not to emphasize that he did magnificent work in the geopolitical arena, ending the harmful Cold War with the West. The Berlin Wall would have stood a little longer if it had not been for the Polish Round Table, but it would certainly have stood much longer if it had not been for the bold decisions of the then Soviet leader. When I told Gorbachev that if it had not been for his policies, it would not have been possible to make a political breakthrough that had enabled Poland to change the economic system in the way we had managed to do it in 1989 (Kolodko 1998a, b), he reacted: Write it, will you? Here I am writing it because I believe it was the case. And for that, he deserves credit and praise.

In the context of the Soviet-Chinese summit of 1989, it is worth returning to Kissinger's bluntly worded alternative—free market or liberal democracy. If not immediately during the Paris meeting in 1996, then at each subsequent occasion, none of us doubted that Deng Xiaoping was right, not Mikhail Gorbachev. What happened in the field of economy since these two titans of politics met are tectonic changes? Neither the incredible development of the Chinese economy, nor such economic stagnation of Russia, and consequently such a huge difference in the growth dynamics of these two countries, were expected by anyone. The dynamics of Poland look

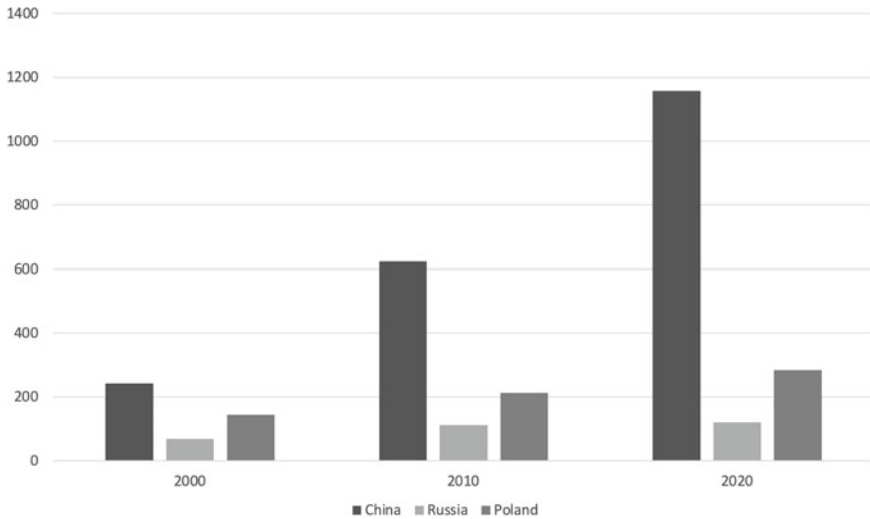


Chart 5.1 GDP per capita in China, Poland, and Russia (1990 = 100) (PPP, constant 2017 international \$). *Source* For years 1989–2019: WB (2021); for 2020 China and Russia: WEO (2021), for Poland: GUS (2021)

relatively well compared to Russia’s misery, but it is completely different compared to China (Chart 5.1).

While China’s subsequent economic successes must be attributed to Deng’s policy, it was certainly not Gorbachev, but his successors, who caused the subsequent embarrassment to the Russian economy, whose national income dropped by more than a half in the last decade of the twentieth century. Suffice it to mention that while in 1989, GDP of Russia, calculated according to PPP, was about 50% higher than that of China, today GDP of China is almost nine times greater than that of Russia (Chart 5.2).

While in 1989 Chinese GDP at current USD prices amounted to \$347.8 billion, Russian GDP was 506.5 billion (in the last years of the Soviet Union, Russia’s GDP was about 70% of GDP of the entire Union). Comparing the values calculated according to PPP (in constant 2017 USD prices; the data is available since 1990), when Russia’s GDP was \$3.19 trillion, in China it was estimated to be half as much—around 1.62 trillion. Although the confrontation between these indicators is very telling, we know very well that comparisons must not be reduced solely to their dynamics and level. Close attention must also be paid to other aspects of the economic and political conditions that determine the level of development achieved and the functionality of political and economic systems. Hence, it is understandable that in the vast academic literature on the Russian and Chinese transformations, the opinions are manifold, as for Russia, from quite apologetic (Åslund 1995) to very critical (Ostrovsky 2015), and as for China, from balanced (Maçães 2018) to extremely negative (Kornai 2019).

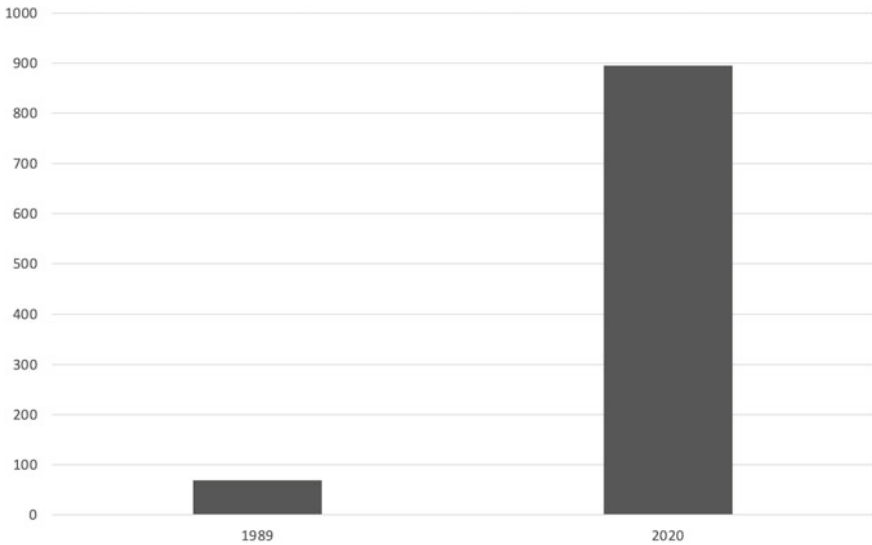


Chart 5.2 China's GDP as a percentage of Russia's GDP in 1989 and 2020 (by PPP). *Source* For years 1989–2019: WDI (2021); For 2020: WEO 2021

We must do justice to Gorbachev that he was looking for a way to improve the economic situation in conjunction with political changes that were right in terms of their fundamental directions. For a number of reasons, especially because of the collapse of the Russian economy in the 1990s, the former has not yet happened, as GDP per capita in Russia in 2020 was only 140% of the 1990 figure, while in China it was as much as around 1870%.

Although the political changes in Russia have not been impressive, it has still moved away from its previous Soviet authoritarian system. Unfortunately, it has stopped somewhere along the way and is stuck there (Medvedev 2020), which impedes its economic progress (Mau 2018). It is of no solace that in some other post-Soviet republics, with varying maturity of the market economy institutions (Dabrowski 2020), there is even less democracy or no democracy at all. What is especially worrying is that this great country has bogged down in a corrupt system of oligarchic capitalism (Wedel 1998a, b; Sater 2003). China, on the other hand, has done a great deal to combat corruption over the last decade, but its economy is by no means free of it. Some authors argue that there is a kind of crony capitalism (Pei 2016). Out of 180 countries assessed in the Transparency International's Corruption Perceptions Index, China was classified 78th with 42 points (on a scale from 0 to 100; the lower the worse). Denmark and New Zealand top the list as the least corrupt economies with 88 points; the worst were *ex equo* Somalia and South Sudan with just 12 points. Russia fares much worse than China, taking the 129th place with 30 points. Compared to 2012, China and Russia advanced, respectively, by three and two positions (TI 2021).

Table 5.1 Democracy index in selected countries with different political systems

	Norway	Germany	Poland	Russia	Belarus	China	North Korea
Ranking	1	15	51	124	146	148	165
Index	9.75	8.67	6.80	3.24	2.41	2.21	1.08

Source EIU (2021)

China, in turn, has not distanced itself sufficiently from authoritarianism. What is worse, after several years of limited liberalization following the demise of the Maoist regime, it has tightened such a political course since 1989 (Halper 2010) and later on after 2012 (McGregor 2012) strengthened this trend even more. It is certainly not a democracy but neither is it a totalitarian regime as was the case under Mao Zedong.

It is more difficult to assess the state of democracy than to measure the economic situation; however, various attempts are made in this regard. With all necessary caveats, it is worth looking at comparative analyses performed by the Economist Intelligence Unit. It is not surprising that both China and Russia are listed among the countries with authoritarian regimes. But how do they look compared to other countries? The most democratic country in the world is Norway and the least democratic is North Korea. Poland—a flawed democracy—ranks quite far behind its Western neighbor, democratic Germany, but even further behind are its Eastern neighbors, Russia, and Belarus, perceived even worse. The three post-Soviet republics: Uzbekistan, Tajikistan, and Turkmenistan, scored 2.12, 1.94, and 1.72, respectively, and were ranked even lower than Belarus (Table 5.1).

While taking a closer look at this ranking, many doubts must arise, especially if one knows all these countries from personal experience. Russia is placed between Mozambique and Ethiopia, on the one hand, and Niger and Qatar on the other. China is ranked only between Sudan and Bahrain, on the one hand, and Iran and Eritrea, on the other. These are highly debatable assessments.

It is also interesting to observe the dynamics of change over the years. For Russia, the best result, 5.02, was recorded in 2006. It has since fallen to 2.94 in 2018 and risen again to 3.31 in 2020. And in the case of China, after rising from 2.97 in 2006 to 3.14 in 2010, it fell to a meager 3.00 in 2014 before bouncing back up to 3.32 in 2018, only to fall again to just 2.27 in 2020. And it is no consolation—quite the contrary—that democracy, in general, has been doing worse in the world recently. For all countries for which baseline data is available, the average democracy index fell to 5.37 in 2020—the lowest level since 2006, when such comparative studies were launched.

With all this, the important thing is that China is a meritocracy, although it is far from perfect. Unfortunately, this cannot be said about several other authoritarian states, such as Myanmar and Saudi Arabia, or Egypt and the Congo, ironically officially named the Democratic Republic of the Congo. Inspired by Deng Xiaoping, the specific system of a creative synergy between state and market and the accompanying intelligent policies that take advantage of globalization are the reasons for China's great economic success. There is no doubt that during the past three decades, they

have coordinated policies of systemic reforms and socio-economic development far better than Russia. Deng's legacy is significant because he was able to pursue reforms for many years. This was not the case with Gorbachev. He had too little time.

5.3 Retrospection

On the occasion of the 30th anniversary of the coup d'état and the attempt to overthrow Gorbachev as a Soviet leader, he has made a retrospective of his achievements during his time at the top of Soviet power. He attaches far more importance to the political than to economic threads, which is not surprising since, in the former field, his achievements have been far greater and, in some respects, downright memorable, while in the economic sphere, the achievements of the reforms have been decidedly unsatisfactory. The initiator of *perestroika* paints a dismal picture of the socio-economic situation at the time of taking power in this country of a 'developed socialist society': "Our country was sinking ever more deeply into stagnation. The economy was, for all intents and purposes, at a standstill. (...) We were fully aware that the economy of "real socialism," as the system was labelled in Leonid Brezhnev's time, was in shambles and that the country was moving inexorably into a crisis. In the early 1980s, economic growth was at a standstill and the standard of living was frozen at an already low point. In terms of real income per capita, the USSR was far behind the developed countries of the West. The country's finances were in disarray. The economy was plagued with imbalances and shortages. Not only food products and manufactured goods, but even commodities like metals and fuel, which we produced in enormous quantities, were in short supply." (Gorbachev 2021, p. 7).

Unfortunately, in 1991, when this great reformer was removed from power, the state of the economy was no better, and in many ways, it was worse. The modest effects of the reforms that were emerging were eaten up by ever accelerating inflation, with shortages far from being fully eliminated, which required price liberalization but also inevitably resulted in strong inflationary impulses. According to the European Commission's estimates, with the disposable income of the population in 1985 amounting to 371.1 billion old rubles, the savings enforced by shortages of goods amounted to 4.1 billion, i.e., only 1.1% of all savings, to reach as much as 20.4% of these stocks in 1990 (EC 1990). Famous at the time was a liberalization and stabilization program called "500 days to a market economy" by Grigory Yavlinsky, later also published in English (Yavlinsky et al. 1991). He visited me at the Warsaw-based Institute of Finance, of which I was a director, for consultations in the spring of 1990, when he was preparing his program. It was also a special period in Poland, marking the beginning of the so-called shock therapy, whose erroneous assumptions were of particular interest to this Russian reformist economist. It is clear in his later works that he tried to draw conclusions from this, but unfortunately, he was not consequent enough. When I returned from a study visit to Moscow in November 1990, I

organized a seminar entitled ‘500 days to hyperinflation’. So it happened. Prices in January 1992 were 245% higher than in January 1991, and the inflation rate for all of 1992 exceeded 2500%. (Russia 1992).

Gorbachev justifies the de facto failure of economic *perestroika* by the enormous resistance of the matter. Indeed, this resistance was greater in the Soviet Union than in the countries of Central and Eastern Europe, but it was not insignificant in China either. The Soviet leader’s reforms, unlike the changes pushed through by Deng Xiaoping, were too shallow to switch arms to civilian production and heavy to light industry quickly and effectively enough. They have not gone far enough to radically increase the production and supply of consumer goods to the market, which the Chinese have managed to do while effectively controlling price increases.

It seems that the Soviet leaders in the final years of their empire attached insufficient importance to the economic threads of the changes they were making. This probably happened also due to the challenges posed by the weakening, and soon collapsing, union of republics of different nationalities. No other country—not even Yugoslavia—had to deal with the scale of the problem that existed in this matter in the USSR. Chinese reforms in those years could focus on economic changes, which does not mean that there were no national and ethnic problems. They were and they are still there.

Ex post justifying the imperfections of *perestroika*, some authors legitimately resent the West for not creating an international environment more conducive to comprehensive economic reforms on time (Sakwa 2019). Gorbachev himself has also justified grievances in this regard. It is true that the West should and could have done more, but deliberately did not. It wanted neither a strong Soviet Union nor a strong Russia, and it still does not want it. Others, on the other hand, rightly point out that the reason for the failures was the lack of comprehensiveness of *perestroika*, which, in fact, was to save the regime through gradual changes in the policy and through limited, still, institutional reforms. The Soviet Union under Gorbachev did not go as far as its contemporary China, although the ways of thinking were basically the same: to combine the one-party rule with a limited transformation into a market-oriented economy (Åslund 1991). In retrospect, we can see that this idea in itself was not a bad one, as it has worked well in China and Vietnam for over 30 years now (Csaba 2021).

There is no doubt that the disappointment experienced by many people because of *perestroika* and *glasnost*, without overcoming the negative trends in the economy and in the relations between the nationalities of the Soviet Union, would have been much smaller—or perhaps there would have been no disappointment at all—were it not for the coincidence of bipartisan opposition: party conservatives and neoliberal fundamentalists. Gorbachev rightly states that “the processes of disintegration outpaced the shaping of new institutions of government and administration. At the same time, the radical opposition was gaining strength. In and of itself, the appearance of the opposition was logical and necessary. But in propounding populist slogans, fighting the central authorities and centrist policies, and supporting separatists, the radicals undermined the foundations of governance and in effect linked up destructively with the hardline conservative opposition. These two extremes are responsible for making

the transition to democracy in our country so dramatic and painful. This reality predetermined many of the difficulties and problems we are still facing.” (Gorbachev, *op. cit.*, p. 15).

It is the nature of things that political breakthroughs are easier to make than economic ones. At least that is the case in the short term. In the long run, it may turn out that more progress than in terms of political liberalization and the creation of a truly democratic system is being made in the field of building a market economy. This is confirmed by the experiences of more than three decades of the post-socialist countries such as the Czech Republic, Poland, Hungary, and Slovenia. Not even one decade was given to Gorbachev and his reformist course. Yet, in politics—especially in the absence of democratic institutions, and that was the Soviet and Russian reality back then, in the case of major reform undertakings, such as *perestroika* and *glasnost*—one had to assume that there would be enough time to implement them. Well, there is often not enough time: either because the term of office ends too soon or because some reformers forcibly remove others, as with coinage, when bad money drives out good.

It is thus understandable that the former Soviet leader admits his mistakes, explaining that “We did not know then, nor could we know, that history gave us too little time. Radical economic reforms and the transition to a market economy required a kind of revolution in the minds of both leaders and ordinary people. Those who came after us thought that they would succeed in two or three years at most. Hence their belief in «shock therapy» and hence its destructive consequences. That, too, should be borne in mind when evaluating the mistakes of economic policy during *perestroika*” (*ibid.*). This time, as well, I have to agree with Gorbachev, adding that the so-called shock therapy in his country had even more detrimental effects than it had in mine.

A prominent Russian economist Ruslan Grinberg asked 30 years after the dissolution of the USSR whether we could learn anything from all this, replied: “It was impossible to convince people not to indulge in utopian expectations. How many people used to berate M. Gorbachev for allegedly stifling the noble attempts to carry out the «right» reforms of B. Yeltsin and his team? And just a few months later the same people began to scold M. Gorbachev for letting them lead the country. And here I am talking about scientists, professors, not simple plumbers. For some reason, it was thought that we should just believe the young reformers and they would lead us to paradise. We just have to be patient until the autumn. Well, it is not such a long time—from January 2nd to autumn... Of course, no one thought that inflation would reach 2600%... But still, we must be patient. And then it turned out that it was the way it was, but everything had already happened. The result is capitalism in its primitive form. And that means: survive on your own if you can and how you can.” (Grinberg 2022, p. 7). Unfortunately, three decades later “(...) we are reenacting, again and again, already in the twenty-first century, the everlasting uncompromising confrontation between Westerners and natives. Today this is manifested with full force: 20% of the people in the country are for the European way of development, while 80% are for the country’s ‘own way’, for isolation from the rest of the world. And what is the result? A world that is almost back to the times of the Cold War

and, most importantly, there is no clear understanding of the path to be followed. And once again, new thinking and the restoration of democratic values are required. In general, we have to grow up..." (*ibid.*). Well, one has to agree with the observation that Russia has de facto gone astray on the path of the post-socialist systemic transformation, and the political and economic formation that has been created in this country over the past 30 years is both highly imperfect and far from the social expectations of the vast majority of the population.

Gorbachev rightly stresses the great importance of ending the Cold War. While many experts give him credit for this significant achievement, he humbly claims only a fair share of the credit for it with his American partners. But very quickly "(...) the American political establishment changed its tune. That was a major error in judgment and a failure to meet their responsibility to history. Instead of recognizing our common victory over the Cold War, they decided to declare themselves the sole winners. Within just a few weeks, «victory in the Cold War» became the buzzword of the election campaign. It was picked up by the US media and even quoted approvingly by quite a few people in our country. That about-turn set the course of world events on the wrong track. It is the root of many mistakes and failures that undermined the foundations of new international politics. In politics, triumphalism gives bad advice." (Gorbachev, *op. cit.*, p. 27). This 'change of tune' continues, except that now, in the eyes of some Western leaders, the supposed great threat to world peace is no longer the nonexistent Soviet Union or even Russia, still seen as a foe, but China.

The American initiatives such as QUAD and AUKUS are aimed exactly at China. The Quadrilateral Security Dialogue, QUAD, is a geostrategic political agreement of the US, India, Japan, and Australia, which almost encircles China, alongside with Russia. AUKUS, in turn, is a military agreement between the US, the UK, and Australia aiming at equipping the latter with at least eight nuclear-powered submarines. According to official declarations "AUKUS's true significance is as a step towards a new balance of power in the Pacific" (Economist 2021a, b, c, d, e, f, g), but it is clear that the real significance is to push the spiral of arms in the spirit of the Cold War further, which does not ensure the desirable balance of power and actually weakens international security. Surprising is the fact that such a usually sensible and pragmatic weekly as *The Economist* states in passing that "For this the Biden administration deserves credit." (*ibidem*). Not at all, it does not deserve it. It is also this administration that makes the world less safe.

The great achievement of the last Soviet leader was also the fact that a group of scientists was able to turn back the hand on their Doomsday Clock, moving it as far as 17 min away from the symbolic catastrophic midnight. The Doomsday Clock is set at the beginning of each year by the Science and Safety Council of the Bulletin of the Atomic Scientists in consultation with the Board of Sponsors, which includes, among others, 13 Nobel Prize winners. The Clock has become an observed indicator of the world's vulnerability to catastrophe from nuclear weapons, climate change, and disruptive technologies and recently also the pandemic (Doomsday Clock 2022). According to the scientists that set the Clock, 1991 was the safest year after the Second World War in terms of preserving peace (Chart 5.3).

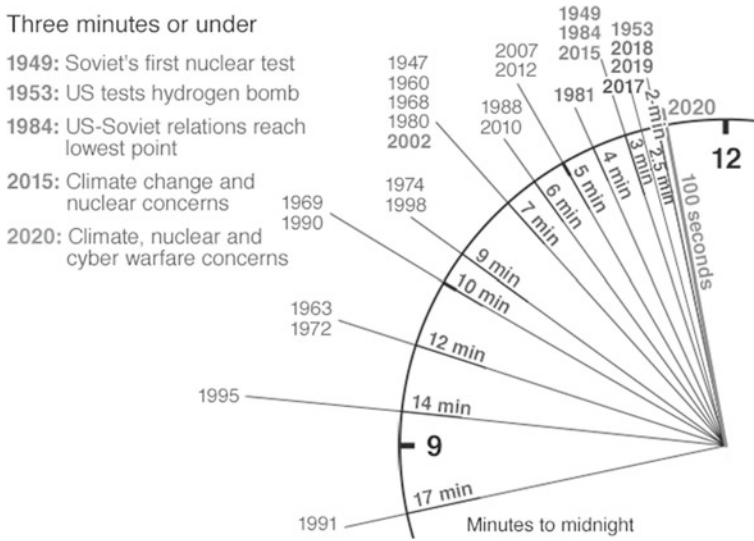


Chart 5.3 Doomsday Clock—minutes to midnight. *Source* Doomsday Clock (2022)

The last few years have been the most dangerous, with 2021 rated as bad as 2020. They have been more dangerous than 1949 when the USSR carried out its first atomic bomb test, and more dangerous than 1953 when the US detonated its first hydrogen bomb, and more dangerous than the Orwellian 1984 that preceded Gorbachev’s belated rise to power.

The end of that Cold War meant something more than giving humanity a sense of security. This was not only the liberation of masses of people from a sense of fear, but it also opened the prospect for many countries to decide upon their own future. “With the Cold War coming to an end, the countries of Central and Eastern Europe were voicing their aspirations and Germany was uniting. Without a doubt, those processes received an impetus from the changes in our country. Having granted democratic rights and freedoms to the peoples of our country, we could not thwart the aspirations of the peoples of neighboring countries, our allies. From the very start, we told those countries’ leaders that we would not interfere in their affairs and that they were responsible to their people. Therefore, when the wind of change blew in those countries, we proved that what I had said about freedom of choice – which was one of the main theses of my speech at the United Nations – was not empty rhetoric.” (Gorbachev 2021, p. 16).

If one was to name just one person in the world who, in our lifetime, has made the greatest contribution to changing the global geopolitical system for the better, that person would be Mikhail S. Gorbachev as the General Secretary of the Communist

Party of the Soviet Union. As strange as it sounds today, it was his words and deeds that amplified the winds of great changes that were already blowing.

Deng Xiaoping did not have to tear down the Chinese wall, because in his lifetime it no longer separated the Middle Kingdom from the rest of the world, while he knew the cause of isolation well. Mikhail Gorbachev had to tear down the Berlin Wall because he understood what was happening in his country and around the globe. This last Soviet leader, reformer, and statesman on a global scale, therefore, wanted to change the nature of socialism—nowadays, *ex post*, most often referred to in the literature as communism—rather than move it to history; he wanted to give it a chance to survive and thrive, rather than shut it down; he wanted to save it from collapsing under the increasing pressure of its own inefficiency, rather than overthrow it. However, it turned out otherwise, and so, contrary to intentions, few like Gorbachev contributed in the end to the collapse of the state socialist system. I have no doubt that monuments will be erected in his honor, as was once done in honor of Columbus in recognition of his merits—for having discovered a new living space for many millions of people. I hope that people will never destroy them, as happens today with the monuments that were once erected in honor of the discoverer of America, who is blamed by some for the sins committed later by others. When Columbus reached a continent unknown to Europeans, he did not realize what he was actually doing. He was guided primarily by greed, but he was no stranger to the curiosity of the world, and he certainly did not lack the courage either. The legacy of his mistake is memorable; the world has changed greatly and irrevocably.

Gorbachev also made a mistake. Just like Columbus did. He meant something different from what resulted from his great reforms. Because of them, albeit unwittingly, but nevertheless due to his political determination and courage, the inefficient soviet socialism was brought to the downfall. Yet, what followed—even if originally it was not intentional—had brought about a great change for the better. Not to everyone, not always, and not everywhere, but it was that great change that played a significant role in directing the whole process of post-socialist systemic transformation towards the market and democracy.

Without overestimating the role of the individual in history, it must nevertheless be said that we undoubtedly owe the emergence of a market economy and a better political system than before in a vast area inhabited by almost 2 billion people to these two great reformers, Mikhail Gorbachev and Deng Xiaoping. The fact that in more than 30 countries from Central Europe to the Western rim of the Pacific, there is a market and democracy, albeit flawed, functioning, is an unquestionable merit of these two statesmen.

5.4 Theft First, then Confiscation—A Strange Russian-Western Partnership

Russia has had a particular kind of experience of neoliberalism. It was a disastrous experience. Not as a result of the Soviet legacy, but more as a result of the erroneous policies of the 1990s, production fell by a total of about 60% during that decade.

This is astounding in peacetime conditions. Amazingly, however, the advocates of neoliberalism in both the East and the West hail it as an achievement. There is a plain psychological explanation: the many economists, analysts, advisers, and politicians who played a role in that era want desperately to save face. There are two more reasons for trying to place things in context.

First, neoliberalism is an ideology and an economic program with a definite agenda. Beneath the lovely slogans about freedom, democracy, and enterprise, it is an instrument not only for enforcing effectiveness, but also for redistributing income for the benefit of the elite, at the cost of the general population. Secondly, neoliberalism is a tool for plunder on a gigantic scale. The depletion of the national wealth on a scale like that in Russia is a rare event in history. No reasonable person, of course, will insinuate that neoliberalism in its essence is an instrument of plunder and theft. However, the weakness of economic institutions makes such things possible. This is why it happened in Russia and why it could not happen in China.

For some people, the neoliberal policy in Russia was a great business. Zbigniew Brzezinski, an influential political scientist who was President Jimmy Carter's adviser, admits as much. Placing the key words in quotation marks, he notes that a swarm of Western 'consultants', most of them Americans, often conspired in 'privatization' with Russian 'reformers' and made themselves rich, especially through the privatization of energy assets (Brzezinski 2007, p. 64). I know that warnings to this effect reached the very top of the political establishment in Washington, but were ignored. This 'larcenous' privatization, the role that American partners played in it, and the tolerance shown by the American authorities has all been described in analytical and specialist studies, and elsewhere. However, the cacophony of neoliberal propaganda and the pressure from the interest groups that benefited drowned out these warnings (Sater 1998; Wedel 1998a, b). High-ranking American officials, right up to the White House, sounded the alarm about the disastrous consequences of pathological Russian-American neoliberalism. Fritz M. Earmath, a former senior CIA officer, told me at a Jamestown Foundation conference in Washington in the summer of 1999 that one such urgent report came back with a one-word annotation by Vice President: 'Bullshit'. Zbigniew Brzezinski was also present at this conference and criticized the discreet sympathies between some elements of the American establishment and corrupt Russian politicians.

Why did dubious excesses take place on such an enormous scale in Russia, but not, for example, in Poland? The fact that the structural reform policy was much better carried out there, especially in the mid-1990s, had something to do with it. Mainly, however, it was because Russia contained far more resources to pillage and control and still does. The neoliberal trend combined with the general disarray made things all the easier. The one-of-a-kind Russian-American 'public-private partnership' was in its element. Earmath wrote to me in the fall of 1999 that "The fortunes to be made and moved out of Russia were so huge that they, like gravitation attraction of mass bodies, attracted powerful Western stakeholders. Perhaps Poland benefited not only from better initial conditions and policy, but by not being so rich in plunderable resources". He had no doubts either then or now—how could he?—that the truth about the Russian transformation was known to those in the US with a need to know.

He stated that "...the whole top echelon of our administration pretty much knew the true picture in Russia all along. They have to have known that, at least after late 1997, the GKO (Russian short-term securities) market was being used by Russian officials and all speculators as a means of plundering the Russian budget and the IMF money. What do you think Talbott, Summers, Lipton, Chubais, and Berezovsky chatted about when they got together in July 1998?"

There can be no doubt that we were dealing not so much with neoliberal obtuseness as simply with criminality. This, it should be added, was super-organized crime. Earmath concluded: "I have come to understand another dimension of this, which is more crime than folly. From various very credible Russian sources it is now clear that the short term government debt (GKOs) that was soaking up so much public money in 1997–98 became, not a grotesquely irresponsible and risky means of bringing money into the budget, but a means by which government officials, Central Bank bonzes, and speculators (Russian and Western) plundered the state budget... deliberately. And the clear purpose of the last IMF tranche in the summer 1998 was to keep the bubble up for a last round of profiteering and a well-timed collapse for the benefit of insiders, Russian and Western. This is so widely understood in Russia now that they are bored with the topic. The really interesting question is what USG and IMF leaders knew and thought about what was going on, especially when Chubais came to Washington in July to arrange the last tranche with Summers, Lipton, and Talbott. There are only two possibilities: Either they were ignorant of activities that involved dozens of knowing players, and hundreds of speculators and this was, hence, a hugely expensive blunder of intelligence and policy; or they wittingly bought into the scheme for some reasons of greed or pressure. I am convinced this picture is true". So am I.

Earmath added that "You could have a considerable voice when the discussion turns to the question of future policy. (...) Maybe wait and see if any debate is provoked and reconsider this... But, by all means, write a fresh piece, and offer alternatives to the IMF. Maybe we could provoke Congressional hearings on this topic. (...) The most important thing: It is vital that you and others who can do so get into this debate to educate the politicians about what did and did not work in the most successful transition so far, Poland. (...) Call it chance, call it Allah's mysterious ways: It is our job to take advantage. (...) People must be reminded over and over again about the real Polish story, as well as the folly of the IMF in Russia".¹

Although formulated quite a long time ago, the Earmath's suggestions remain relevant, since the truth has not yet come out decisively on top—if it ever will. However, surprisingly, maybe such a chance has just appeared as one of the consequences of sanctions imposed on Russia after it launched the war against Ukraine. The West is now—only now—eager to expose and even confiscate the wealth stolen

¹ I published extensively on the subject at the time, even in the *New York Times* ("Russia Should Put Its People First," July 7, 1998), *The Economist* ("Don't Abandon Russia," February 27, 1999), and the World Bank's new research series ("Ten Years of Post-socialist Transition: The Lessons for Policy Reforms," *Policy Research Working Paper 2095*, April 1999). See also my long book *From Shock to Therapy: The Political Economy of Postsocialist Transformation* (Oxford and New York: Oxford University Press, 2000).

by oligarchs and corrupted politicians, with the West knowledge and discreet acceptance in the course of the 1990s, under President Yeltsin administration. Hypocrisy at the extreme, isn't it? When I was working on the book, *Truth, Errors and Lies: Economics and Politics in a Volatile World*, a dozen years ago, I asked Earmath for permission to use excerpts from our correspondence. He consented without hesitation since he was more convinced than ever that he was right. He added: "American political and business interests got involved with Russian corruption and plundering from the beginning. It has continued to this day". Nevertheless, Russia repudiated the naïve neoliberal line that it followed through most of the 1990s and enjoyed seven fat years from 2001 to 2010. People laughed when President Vladimir Putin announced that GDP would double within a decade, but it started coming true. Even if it was more a matter of the high price of Russia's key exports, oil and gas, than of structural reform, it showed that at that time the country had been capable of taking advantage of opportunities and circumstances—both those that turn out to be favorable regardless of policy choices and those that the right policies can bring about. Even if those policies have been insufficiently reformist and did not squeeze all the possible benefits out of an oil boom that turned out to be impermanent, they were nevertheless better than the policies exercised during the previous decade.

5.5 The Power of Thought

János Kornai passed away in the autumn of 2021. He did not live to see the Nobel Prize, unquestionably due to him for many years, for his undisputed, original, and creative contribution to economic thought. Since the days of Oskar Lange and Michal Kalecki, he has been not only the most outstanding economist of the entire area of the former socialist countries with their centrally planned economies but also a world-class scholar, appreciated in many places, even far from his native Hungary.

Kornai's worldwide reputation came with his groundbreaking work published half a century ago *Anti-Equilibrium: On Economic Systems Theory and the Tasks of Research* (Kornai 1971). He wrote it—with a lot of categorical statements, sometimes in a harsh tone—because of the conviction he had acquired during the debate on the otherwise momentous decentralization reform of the Hungarian economic system in 1968. Let us not forget that this was the most far-reaching economic liberalization in the socialist countries at the time. Back then I was beginning my economic studies, but I already knew that it was essential to follow Kornai's thought. Many years later, he would publish the book *By Force of Thought: Irregular Memoirs of an Intellectual Journey* (Kornai 2006), in which he described—not shying away from self-criticism, a rare trait characteristic only of great minds—the evolution of his thoughts on the economy and theoretical interpretations of its functioning.

János Kornai contributed greatly to political changes with the strength of his thought, the depth of his research analysis, and the precision of his theoretical synthesis. With thoughts, not actions. He did not go to barricades and rallies, he did not engage in politics, but he tried to influence how others thought and behaved. In this sense, his sometimes highly theoretical considerations were of considerable importance for economic practice. He was not always listened to attentively, also as

a member of the Board of Scientific Advisors of the European Bank for Reconstruction and Development, EBRD, from its establishment in 1989 until 1994, or of the Monetary Policy Council of the National Bank of Hungary from 1995 to 2001. This second adventure into the real sphere of the economy, where important decisions are made, he later recalled with bitterness, largely regretting the time wasted: Councils go their way and the monetary policy its way. He was less skeptical about his expert work on the other side of the Atlantic as one of the vice chairs of the United Nations Development Planning Committee between 1972 and 1977.

Fifty years ago, when it seemed to many people from the Elbe to the west coasts of the Pacific that the socialist economy, even if not doing well in the short term, had a good future, no one took these thoughts as a serious warning that it did not have to be this way at all that a system of central planning founded on almost ubiquitous state ownership could quickly wear thin unless it can be reformed. In this context, I asked Kornai during one of our many meetings back at the beginning of this century why his theory of the socialist economy had essentially only a descriptive side. Why was it confined to describing and explaining the operation of the forces and mechanisms of economic dynamics and said basically nothing about how to reduce their defects and improve the functioning of the state socialist economy? Why was there no indication in his work of how to move from describing and explaining how the system works to postulating directions and ways of changing it for the better? In response, I heard that it was because he was convinced—at least from the end of the 1960s—that the socialist economic system was irreformable. When I inquired why such a sentence could not be found *expressis verbis* in his works from that period, he replied that the very fact that he did not write about how to reform that system indirectly proved that already then he was convinced of the inevitable arrival, over time, of the twilight of the planned economy, which by its very nature cannot be sustainable.

The second fundamental work, *Economics of Shortage* (Kornai 1980), elevated its author to the pedestal of economic thought. It was undoubtedly the most important theoretical work explaining the causative mechanisms of the socialist economy, with enormous implications for the considerations of some authors on the directions of pro-market reforms in that system and confirming the conviction of other researchers that the failing system could not be repaired. There is no other such important work than this book by Kornai that has had a greater impact on the way of thinking in socialist countries. The words of Yegor Gaidar, Director of the Moscow-based Institute for the Economy in Transition and Acting Prime Minister of Russia in the second half of 1992, an opinion maker in Russia and some post-Soviet republics, are telling: “János Kornai understands the way the socialist economy works better than anybody else in the world. His *Economics of Shortage* was for me and my associates in Russia a book of great importance”. These sentences are quoted on the last page of the cover of the book *By Force of Thought: Irregular Memoirs of an Intellectual Journey*.

Not every socialist country welcomed this work and not everywhere was it translated. It was not published in Romania; it is common knowledge that there were no shortages there in the 1980s. In Russia, it was not published until 1990, while in Poland—five years earlier under the somewhat euphemistic title *Shortage in the*

Economy (Niedobór w gospodarce). Such a watering down of the emphatic title *Economics of Shortage*—and this category, shortages, according to official doctrine, should not refer to a centrally planned economy—by changing the title to *Shortage in the Economy*, which could be eliminated, was a preemptive intervention by some zealous censorship official fearful of discontent at the top of the centralized power. By the way, in a similar context, I had earlier encountered the postulate of the editor-in-chief of *Gospodarka Planowa (Planned Economy, currently Gospodarka Narodowa. The Polish Journal of Economics)* to avoid the term ‘cycles of growth’ in the title of an article on the cyclical nature of growth in socialism (in the title only, not in the content) and to replace it with ‘phases’ (Kolodko 1979), so as not to irritate the authorities in the period of ‘harmonious and dynamic development’.

Kornai’s third great work appeared somewhat belatedly. It is uniquely titled as two terms commonly confused, often deliberately, in the economic literature and in other sciences occur side by side. In 1992, when the economy of state socialism was ceasing to exist, the book *The Socialist System: The Political Economy of Communism* (Kornai 1992) was published. This work has even more citations (nearly 4900) than the famous *Economics of Shortage* (less than 4500).² It was supposed to be an American university textbook from which students at the universities that taught Economics of Socialism, usually under the name Economics of Communism or Political Economy of Communism, starting with Harvard, would learn. Since we have already entered a new era in relation to the post-socialist transformation of the political system, Kornai’s great work describing the regime that was receding into the past—the third book of his momentous trilogy found on the shelves of every decent academic library—has survived only as a scholarly treatise interpreting past times.

János Kornai conclusively demonstrated that a socialist economy has no effective mechanisms for eliminating weak, badly managed enterprises. In the absence of a free market, politicians give in to the pressures of employees and managements of state-owned enterprises and tend to give discretionary aid to companies that are not performing well. In the systemic absence of hard budget constraints, both politicians and the management of state-owned enterprises are unable to be ‘tough’ and confront the demands of workers that soften the system and push the economy into a state of imbalance.

The inventiveness and originality of the author of *Anti-Equilibrium* were that he created a different and appropriate language to study and describe an economic system different from the Western one. Also different from what was then common in the literature on the subject in socialist countries. Not everyone liked his formalized language, some probably because they could not keep up with him. It is a fact that he could have used a simpler language, but he applied his specific style deliberately, addressing his words to a sophisticated and engaged reader. This is the case when, in *Anti-Equilibrium*, which opened the eyes of many of his economist contemporaries to the challenges of the real economy and the awkwardness of the theory explaining

² A commonly used measure of the frequency of citations of scientific literature, the Hirsch index (h-index), in the case of Kornai’s work is 63, meaning that as many works are cited at least that many times. This index acts not as a measure of moving along a flat distance, but as a measure of climbing ever higher peaks.

it, he wrote: “One of the stabilizers of economic organizations and systems is the circumstance that certain processes will start, or deviate from their previous volume, only if the change in environment has exceeded certain thresholds of sensation. Too narrow thresholds of sensation lead to hypersensitivity, superfluous fluctuations, and shifts; too great thresholds of sensation, however, to a weakening of adaptation and to rigidity.” (Kornai 1971, p. 192). And further in the conclusion: “The socialist economy did not prove to be hypersensitive but exceedingly insensitive. Only under the effect of sharp and grave signals were production lines changed and adapted to changed needs.” (*ibidem*, p. 193).

Kornai was a learned economist, not an anti-communist Sovietologist. He was not involved in fighting socialism. He did not predict its inevitable collapse, but indirect suggestions of the lack of development prospects due to the systemic, in his view, inability to fundamentally rebuild the institutional foundations of the economy can easily be seen in his numerous works.

Being a well-known and respected scholar in the West, he was more and more often invited there until he took up systematic lectures in the US. He taught and researched the political economy of socialism at Harvard from 1986 to 2002, but unlike many social science luminaries from socialist countries, he did not engage in an ‘anti-communist’ crusade but developed his theory. A particular feature of his scientific biography is its shuttling quality. Not in the sense that he hesitated intellectually and politically, as he had clearly formed views, but because he led a shuttling scientific and personal life: a semester in Cambridge, Massachusetts, at Harvard University, a semester in Budapest at the Institute of Economics of the Hungarian Academy of Sciences and at Central European University.

This unique shuttling quality was significant. In this way, Kornai showed that the world is more united than divided, proving at the same time how it is possible to integrate substantively and methodologically seemingly incoherent economic thought resulting from the critical observation of socialist and capitalist economies. I think he was beyond what the leading American economic thinkers were able to comprehend at the time. Only a great intellectual mind capable of grasping simultaneously and deeply the essence of both economic systems could do this.

In later years, towards the end of his career, this resulted in an interesting study, two essays comparing the salient features of the opposing economic systems, with Kornai having the courage to point out not only the flaws of the defunct real socialism, which is now all too easy for others to do, but also of the very real capitalism that does exist. Only he could confront the socialist economy of permanent shortages with the capitalist economy of permanent surpluses in such a way, emphasizing that both types of disequilibrium are a denial of economic rationality, but nevertheless the latter—the capitalist one—is qualitatively better (Kornai 2014). He was particularly irritated by describing the unemployment rate immanent to capitalism, the low rate during good times, as ‘natural’, as if it had something to do with nature, with its positive connotations. He had no doubts about the superiority of a market economy over a planned economy, of private over state, of capitalist over socialist, neither in the 1970s nor in the first decade of this century, neither when creating and living in Cambridge nor when working and living in Budapest.

Kornai wrote in Hungarian, with his most important works being translated into English. The author's principle was to publish his books first in his native language, then in English. This was so efficiently organized that *Anti-Equilibrium* and *Economics of Shortage* were published in the same year, 1971 and 1980, respectively, first in Hungarian and immediately in English, then in many other languages, in a total of 25 languages, which is rare for academic economic literature. Eighteen books by Kornai were published in English, 15 in Chinese, and 10 in Polish. By way of comparison, seven in Vietnamese, six in Russian, five in German, four in Slovak, three in Czech and Bulgarian, two in Romanian, and just one in Croatian and Serbian, as well as Arabic.

A direct acquaintance and a bond of friendship began between us in the summer of 1989. It was a special time, because in Poland the historic Round Table and the June elections to the Sejm and the Senate, which marked a turning point in the political history of Poland, were already behind us. The Berlin Wall was still standing, the Soviet Union existed, but owing to Gorbachev and his reforms, the so-called Brezhnev doctrine, which called for armed intervention in brotherly countries wishing to change the system, was no longer in force. In the language of early Kornai—that of two decades ago—"the change in environment has exceeded certain thresholds of sensation". He wrote that "from the point of view of great collapse the most important factor was not what happened in Hungary or Poland, although that certainly contributed to the erosion. The decisive events occurred in the Soviet Union." (Kornai 2006, p. 344).

We were both in Helsinki at the time, writing our papers at the UN World Institute for Development Economics Research, UNU-WIDER (Kolodko 1989; Kolodko et al. 1990; Kornai 1992). Kornai wrote in Hungarian, an on-site assistant translated into English and edited the nascent manuscript of his next book. The author used structured transcripts of his Harvard lectures from the late 1980s, given in English and transcribed by his students, which, reproduced in a minimum volume, we were able to study before the publication of his most comprehensive work.

The stay at UNU-WIDER was a special time that created opportunities for daily conversations. The topics of the lively discussions were, in the long-term perspective, the ways to make the transition to a market economy and, in the short-term perspective, to get out of the *shortageflation* syndrome that was particularly acute in Poland. It was far less severe in Hungary, and it is all the more interesting that it was there and not elsewhere that the theory of the economy of shortages was born. Back then in UNU-WIDER, I was dealing with the former, fundamental issue, while I had written about the latter a few years earlier (Kolodko 1986), also under the influence of Kornai's thought. Not even in my wildest dreams about the future would it have occurred to me at the time that I would use this category again a third of a century later, comparing the earlier phenomenon from the Second World War, which I described as *shortageflation* 1.0, and that typical of an unsustainable socialist economy, *shortageflation* 2.0, with the current one, occurring in the context of the coronavirus pandemic, *shortageflation* 3.0.

Later, we met many times, usually in the capitals of our two brotherly countries. Our last personal meeting took place in 2018 in Budapest during an international conference organized at Corvinus University of Budapest on the occasion of János Kornai's 90th birthday. In my old copy of *Anti-Equilibrium*, with the corners of numerous pages with precious thoughts bent, covered with countless handwritten notes, the author of the work wrote: "To Greg, to the open-minded young reader of 1973 and to the more experienced, wise reader of 2018". Yes, I have learned a lot over the years, including from the author of that excellent book, still highly valuable despite the passage of time. It is a classic of economic literature. Several years earlier, in 2007, he dedicated a very personal book to me about the wandering of his own thoughts in a wandering world, writing: "To Greg, with friendship and with gratitude for your leading in reaching the Polish success". This success was a combination of circumstances, which certainly included practical conclusions drawn from Kornai's theory. Recently, we wondered whether the transformational successes of our homelands could be sustained in the face of the onslaught of illiberal democracy and economic populism. Kornai was very emotional and referred with undisguised negativity to the Fidesz party rule in his country, which he associated, not without reason, with the Law and Justice, PiS, party government in mine.

A birthday gift from me was a specially prepared paper—as the jubilarian was pleased to describe, tailor made—on China's transformation (Kolodko 2018). We had differing opinions on the Chinese reforms and the nature of the Chinese system. Kornai argued that China had successfully eliminated soft budget constraints—one of the main categories in his theory of disequilibrium (Kornai 1986)—and, as a result, got rid of shortages by moving de facto to capitalism, which he believed was demonstrated by the majority private ownership of the means of production (Kornai 2008). This view is not shared by some authors, arguing that flexible market-clearing equilibrium price policies can also be pursued under soft budget constraints (Nuti 2018; Popov 2014). I share this second point of view. China succeeded in eliminating the systemic shortages, creating a new system different from socialism and capitalism with fully liberalized prices but not fully hardened budgetary constraints.

It was a huge exaggeration when Kornai claimed that "The leaders of modern China won't be satisfied with turning their country into one of the leading powers of the multipolar world. Their aim is to become the hegemonic leader of the globe." (Kornai 2019). I believe that their aspiration is to make China great again—not at the expense of other nations, but through a productive synergy with them. China's foreign activity, including the bold Belt and Road Initiative, should be seen as a means to address growing domestic problems by sustaining economic prosperity, not as a kind of new international expansionism. Some sow fear, others delude themselves that here comes *Pax Sinica*. Not at all. We may pin our hopes on the fact that, with China's inevitably growing role in the global political and economic fields, over time this country will be able to transfer at least some of its skills in terms of good collective action practices to some other areas of the world.

Kornai rightly noted that Western intellectuals “not only watched China’s transformation with approval but actively contributed to these changes”. I have participated in that to some extent, as well, but I fundamentally disagree with the claim that “Many of us already bear moral responsibility for not protesting against the resurrection of the Chinese monster” (*ibidem*). First, there is no monster. Second, most economists question specific structural reform failures and economic policy flaws and suggest appropriate directions for changes, but the Chinese are the authors of their great economic success, albeit not without the influence of foreign economic thought. If they had not listened to it, especially in the earlier stages of market reforms, the situation there would have been much worse or not as good as it is. If someone wants to see a monster, they should visit North Korea, not China.

If civilization is to survive in peace, it would be good to do so based on the social market economy and political pluralism. It is difficult to imagine that, in the age of globalization, any other economic and political system could provide equilibrium, or rather acceptable states of disequilibrium, and the necessary degree of global rationality. Let us hope that China, which long ago left the monster of Maoist communism behind, will move towards a social market economy (of course, with the famous ‘Chinese characteristics’) and will become neither a state corrupt capitalism nor an unjust neoliberal capitalism. Very diverse economic structures can be observed there, an interesting circulation of economic thought on the creative coexistence of private sector and state intervention, free market entrepreneurship and government economic policy, regulation and spontaneity, technology, and culture. It is neither socialism nor capitalism; it is not a monster, as Kornai put it, but a new systemic phenomenon which I call Chinism.

References

- Åslund, Anders (1991), *Gorbachev’s Struggle for Economic Reform*, Cornell University Press, Ithaca, NY.
- Åslund, Anders (1995), *How Russia Became a Market Economy*, The Brookings Institution, Washington, D.C.
- Brzezinski, Zbigniew (2007). *Second Chance: Three Presidents and the Crisis of American Superpower*, Basic Books, New York.
- Csaba, László (2021), *Institutions and Change: New Horizons in Economic Theory*, in: Judit Ricz, Tamás Gerőcs (eds.), *The Post-Crisis Developmental State. Perspectives from the Global Periphery*, Palgrave Macmillan, Cham, Switzerland, p. 13–31.
- Dabrowski, Marek (2020), *Transition to a market economy: A retrospective comparison of China with countries of the former Soviet block*, „Acta Oeconomica”, 2020, Volume 70, Special Issue, p. 15–45.
- Doomsday Clock (2022), *At doom’s doorstep: It is 100 seconds to midnight*, Bulletin of the Atomic Scientists, Science and Security Board (<https://thebulletin.org/doomsday-clock/current-time/>; access: 23.01.2022).

- EC (1990), *Stabilisation, Liberalisation and Devolution: Assessment of the Economic Situation and Reform Process in the Soviet Union*, European Commission, Brussels.
- Economist (2021a), *What would America fight for?*, „The Economist”, December 11 (<https://www.economist.com/leaders/2021/12/11/if-the-united-states-pulls-back-the-world-will-become-more-dangerous>; access: 25.12.2021).
- Economist (2021b), *Belarus is making the rest of Europe nervous*, August 7 (<https://www.economist.com/europe/2021/08/05/belarus-is-making-the-rest-of-europe-nervous>; access: 13.12.2021).
- Economist (2021c), *America is at last getting serious about countering China in Asia. But strengthening military alliances is not enough*, „The Economist”, September 25 (<https://www.economist.com/leaders/2021/09/25/america-is-at-last-getting-serious-about-countering-china-in-asia>; access: 12.12.2021).
- Economist (2021d), *The Fed should explain how it will respond to rising inflation*, „The Economist”, April 17 (<https://www.economist.com/leaders/2021/04/17/the-fed-should-explain-how-it-will-respond-to-rising-inflation>; access: 23.04.2021).
- Economist (2021e), *The world's consumers are sitting on piles of cash. Will they spend it?*, „The Economist”, March 9 (<https://www.economist.com/finance-and-economics/2021/03/09/the-worlds-consumers-are-sitting-on-piles-of-cash-will-they-spend-it>; access: 12.12.2021).
- Economist (2021f), *Labour markets are working, but also changing*, „The Economist”, April 10 (<https://www.economist.com/special-report/2021/04/08/labour-markets-are-working-but-also-changing>; access: 13.12.2021).
- Economist (2021g), *The patten of fewer tiny feet*, „The Economist”, December 4 (<https://www.economist.com/asia/2021/12/02/indias-population-will-start-to-shrink-sooner-than-expected>; access 20.12.2021).
- EIU (2021), *Democracy Index 2020 In sickness and in health? A report by The Economist Intelligence Unit*, London, The Economist Intelligence Unit Limited (<https://www.eiu.com/n/campaigns/democracy-index-2020/>; access: 13.12.2021).
- Gaidar, Y. (2007), *Collapse of an Empire: Lessons for Modern Russia*, The Brookings Institutions, Washington, D.C.
- Gorbachev, Mikhail S. (2021), *Perestroika and New Thinking: A Retrospective*, „Russia in Global Affairs”, 9.08.2021 (<https://eng.globalaffairs.ru/articles/perestroika-and-new-thinking/>; access: 13.12.2021).
- Grinberg, Ruslan S. (2022), 30 let bez SSSR: Itogi i uroki [30 years without the USSR: Results and lessons], „Mir Pieremien”, No. 1, p. 5–8 [in Russian].
- GUS (2021), *Produkt krajowy brutto w 2020 roku – szacunek wstępny (Gross Domestic Product in 2020 – preliminary estimate) [Gross Domestic Product in 2020 - preliminary estimate]*, Główny Urząd Statystyczny [Central Statistical Office], Warszawa (<https://stat.gov.pl/obszary-tematyczne/rachunki-narodowe/roczne-rachunki-narodowe/produkt-krajowy-brutto-w-2020-roku-szacunek-wstepny,2,10.html>; access: 13.12.2021) [in Polish].
- Halper, Stefan (2010), *The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-First Century*, New York, Basic Books.
- Kissinger, Henry A. (1989), *Seeking a New Balance in Asia*, „Newsweek”, May 22 (https://findit.library.yale.edu/images_layout/view?parentoid=11781621&increment=199; access: 21.12.2021).
- Kołodko, Grzegorz W., Marian Ostrowski, Dariusz Rosati (1990), *Stabilization Policy in Poland: Challenges and Constraints*, „WIDER Working Papers”, WP 81, World Institute for Development Economics Research of the United Nations University, UNU-WIDER, Helsinki (<https://www.wider.unu.edu/sites/default/files/WP81.pdf>; access: 13.12.2021).
- Kołodko, Grzegorz W. (1979), *Fazy wzrostu gospodarczego w Polsce [Economic growth phases in Poland]*, „Gospodarka Planowa”, 1979, No. 3, p. 137–143 [in Polish].
- Kołodko, Grzegorz W. (1986), *The Repressed Inflation and Inflationary Overhang under Socialism*, „Faculty Working Paper”, No. 1228, Bureau of Economic and Business Research, University of Illinois, Urbana-Champaign.

- Kolodko, Grzegorz W. (1989), *Reform, Stabilization Policies and Economic Adjustment in Poland*, "WIDER Working Papers", 51, World Institute for Development Economics Research of the United Nations University, Helsinki.
- Kolodko, Grzegorz W. (1998a), *Russia Should Put Its People First Following Poland's Example*, „The New York Times”, July 7, p. A27 (http://tiger.edu.pl/kolodko/artykuly/NYT_98.pdf; access: 13.12.2021).
- Kolodko, Grzegorz W. (1998b), *Economic liberalism became almost irrelevant*, "Transition", Vol. 9, No. 3, p. 1–6.
- Kolodko, Grzegorz W. (2018), *Socialism, Capitalism, or Chinism?*, „Communist and Post-Communist Studies”, Vol. 51, No. 4, p. 285–298.
- Kornai, János (1971), *Anti-Equilibrium: On Economic Systems Theory and the Tasks of Research*, North-Holland, Amsterdam.
- Kornai, János (1980), *Economics of Shortage*, North-Holland, Amsterdam.
- Kornai, János (1992), *The Socialist System: The Political Economy of Communism*, Princeton University Press, New Jersey.
- Kornai, János (2014), *Dynamism, Rivalry, and the Surplus Economy: Two Essays on the Nature of Capitalism*, Oxford University Press, New York.
- Kornai, János (1986), *The Soft Budget Constraints*, „Kyklos”, Vol. 39, No. 1, p. 3–30.
- Kornai, János (2006), *By Force of Thought: Irregular Memoirs of an Intellectual Journey*, MIT Press, Cambridge, Mass. – London.
- Kornai, János (2019), *Economists share blame for China's 'monstrous' turn*, „Financial Times”, July 10 (<https://www.ft.com/content/f10ccb26-a16f-11e9-a282-2df48f366f7d>; access: 1.02.2021).
- Maçães, Bruno (2018), *Belt and Road. A Chinese World Order*, Hurts & Company, London.
- Mau, Vladimir (2018), *Russia's Economy in an Epoch of Turbulence: Crises and Lessons*, Routledge, New York.
- McGregor, James (2012), *No Ancient Wisdom, No Followers: The Challenges of Chinese Authoritarian Capitalism*, Prospecta Press, Westport, CT.
- Medvedev, Sergei (2020), *The Return of the Russian Leviathan*, Polity Press, Medford, MA.
- Nuti, Mario D. (2018), *The Rise and Fall of Socialism*, Dialogue of Civilizations Research Institute, Berlin (https://doc-research.org/2018/05/rise_and_fall_of_socialism/; access: 12.12.2021).
- Ostrovsky, Arkady (2015), *The Invention of Russia: The Journey from Gorbachev's Freedom to Putin's War*, Atlantic, London.
- Pei, Minxin (2016), *China's Crony Capitalism: The Dynamics of Regime Decay*, Harvard University Press, Cambridge, Massachusetts, London, England.
- Popov, Vladimir (2014), *Mixed Fortunes: An Economic History of China, Russia, and the West*, Oxford University Press, New York.
- Russia (1992), *Russia Inflation Rate in 1992*, Statbureau, Moskwa (<https://www.statbureau.org/en/russia/inflation/1992>; access: 13.12.2021).
- Sakwa, Richard. (2019), *Russia's Futures*, Polity Press, London.
- Sater, David (2003), *Darkness at Dawn: The Rise of the Russian Criminal State*, Louis Stern Memorial Fund, Washington, D.C.
- Sater, David (1998), *The Rise of the Russian Criminal State*, "Prism", Sept. 4.
- TI (2021), *Corruption Perception Index 2020*, Transparency International. The global coalition against corruption (<https://www.transparency.org/en/cpi/2020/index/som>; access: 25.01.2022).
- WB (2021), *World Development Database: GDP per capita, PPP (current international \$)*, The World Bank, Washington, D.C. (<https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD> access: 12.12.2021).
- WDI (2021). World Development Indicators, The World Bank, Washington, D.C. (<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=B8-PL>; access: 12.12.2021).
- Wedel, Janine R. (1998a), *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe 1989–1998a*, St. Martin's Press, New York.
- Wedel, Janine R. (1998b), *The Harvard Boys Do Russia*, "The Nation", June 1.
- WEO (2021), *World Economic Outlook Update*, International Monetary Fund, Washington, D.C., January (<https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update> ; access: 12.12.2021).
- Yavlinsky, Grigory et. al. (1991), *500 Days: Transition to the Market*, St. Martin Press, New York.

Chapter 6

One-Third of a Century of Transformation



Progress is impossible without change, and those who cannot change their minds cannot change anything.
George Bernard Shaw (1856–1950)

6.1 The Beginning and the End of the Post-socialist Transformation

Yes, history is unfolding. Undoubtedly, one of the most striking pages of its contemporary version is the post-socialist systemic transformations affecting two billion people in a vast area stretching from Central Europe to the Western shores of the Pacific. Moreover, their indirect effects and political and economic echoes are still making themselves felt in other parts of the world that were for some time attracted to socialist ideas and practices—from the Middle East and several countries in northern and sub-Saharan Africa to some countries in South America and the Caribbean. To this day, they are keeping a close eye on how the European post-socialist countries and post-Soviet republics, including Russia, and the Asian economies, especially China, involved in systemic changes, are coping with the difficulties of systemic transformation and integration into the global economic system. Poland left some significant marks on these pages of history, playing a groundbreaking role in intensifying the post-socialist transition. Whether it went down in golden letters is yet to be seen, for history continues. History begins when its last witness passes away; we are still alive and doing fine and may it continue for as long as possible.

For Poland, a historic event was the initiation of the Round Table talks a third of a century ago, on February 6, 1989. The talks created the conditions for a political breakthrough, which in turn made it possible to irreversibly push forward the process of systemic transformation—far-reaching political and economic liberalization leading the way to democracy and market economy. They are leading the way

because this work is not yet complete. The transformation is underway. Although from various points of view, it can be assumed that we are already past it, and the end of the process and its beginning remain a matter of debate.

It is a fact that there have been times when staunch supporters of radical economic liberalization have announced its end very early. In the case of Russia, the market economy was supposedly already built in the mid-1990s (Åslund 1995), but these were assessments formulated far in excess. If one prefers clear dates, then in the case of Poland, the following questions arise: Was the post-socialist systemic transformation completed with its accession to the Organisation for Economic Co-operation and Development, OECD, in 1996? Maybe it was the time of joining the European Union with seven other post-socialist countries—the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia, and Slovenia—in 2004? Or—since the predecessors left ‘the country in ruins’—did this happen only after the 2015 elections that brought Law and Justice to power? Or perhaps this will only happen after Law and Justice loses power, leaving ‘ashes’? Maybe, indeed, the transformation is not yet over, if it is assumed that its aim is to create a functional democracy—recently often described as liberal, because it turns out that it can also be illiberal—and a social market economy, institutionally mature, as in the Scandinavian countries?

Looking back, however, is this really only about a third of a century? Do we not sin in our tendency to shorten the perspective, both in looking back and in looking forward? Did the post-socialist systemic transformation indeed only begin in 1989? There has been a consensus on this issue, as it is widely accepted that this year marks the boundary between the old and the new, between state socialism, which is (becoming?) a thing of the past, and market capitalism, which has come (is coming?). I feel the same, as 1989 was certainly a watershed year, a time of momentous events such as the Polish Round Table and the fall of the Berlin Wall. However, the foundations of these spectacular events—including the somewhat later end of the Soviet Union—were put down earlier.

The system of state socialism entered a phase of general crisis when it began to create more problems than it was able to solve. When the problems started to definitely dominate, its collapse was becoming inevitable. State socialism was not overthrown—as fervently proclaimed by right-wing ideologists and politicians who, naturally, successfully overthrew it—but collapsed under the weight of its own incapacity and inability to adapt to the next phase of the scientific and technological revolution and globalization which was gaining impetus. Without including the previously socialist part of Eurasia in this process, globalization would not deserve its name, for what is a globe without the vast area stretching from the Elbe to the Pacific.

During epochal political transitions, there is a dialectic of continuity and change that is often overlooked in contemporary social sciences. And it is important to remember; forgetting the origins of transformation hinders its full intellectual understanding. The enormous impact on the course of the transformation of the market reforms preceding 1989, which were most advanced in Hungary and Yugoslavia, cannot be underestimated, but at that time the Soviet Union, owing to Gorbachev’s

perestroika and *glasnost*, was already a different state, with a different society and economy than under its predecessors (Grinberg 2021). Nonetheless, Poland was the leader of pro-market reforms and, although limited, political liberalization (Kozłowski 2008).

During a debate at the economic forum taking place in Kyiv in the autumn of 2021, I heard that some threads of the ongoing disputes there about the reconstruction of the economic system and the directions of the economic policy (certainly not those about the digitalization of the economy, which is discussed there no less than in advanced economies) are associated with what was happening in Poland in the early 1990s. *Déjà vu?* If so, this shows the generational lag of the Eastern neighbor of Poland in building the market and democracy and confirms Poland's advancement on this route already in the late 1980s. With the market-oriented reforms, already in the second half of the 1980s, relatively favorable starting conditions were created compared to other socialist countries for accelerating the transformation, the symptoms of which had emerged earlier.

Without those reforms, there could not have been such advanced (then) discussions in the country on the Vistula River as there are now (delayed) in the country on the Dnieper River. While in 1989, GDP per capita (according to PPP) in Poland was \$12,800, in Ukraine it was significantly higher, amounting to as much as \$17,290. During the past one-third of a century, it has risen by 164% in the former and fallen by 25% in the latter country and now stands at \$33,800 and \$12,870, (WB 2021), or 265% and 75% of its 1989 value, respectively. Thus, within a generation, the ratio changed from 7:4 in favor of Ukraine, then still Soviet, to 8:3 in favor of Poland. For comparison, let us immediately add that these relations have changed on an even greater scale when we compare Russia with China—from about 16:1 in favor of Russia in 1989 to just 3:2 in 2021. According to World Bank estimates, GDP per capita (calculated according to PPP in constant 2017 prices), in 1989, was \$22,170 in Russia and \$1390 in China. In 2020, it was \$26,456 and \$16,411, respectively. Assuming that GDP in 2021 grew in line with the government expectations of Moscow and Beijing, i.e., by 3.8 and 6.0%, we arrive at the mentioned proportion (Chart 6.1).

In the late 1990s, in Poland, the degree of autonomy of state-owned and cooperative enterprises was growing, but it was not yet a market economy, although it was certainly not a centrally planned economy either. After the network of nine banks was spun off from the National Bank of Poland, NBP, formerly operating as a monobank, and after they had been commercialized, a decentralized banking system started to operate. The foreign exchange market has been fully liberalized for the public and partly for businesses. In terms of values, since the summer of 1989, more than half of the goods purchased by households have been sold at free market prices. There were laws regulating the inflow of foreign direct investment and antitrust laws. Poland was a member of the General Agreement on Tariffs and Trade, GATT, the predecessor of the World Trade Organization, and since 1986 a full member of the World Bank and the International Monetary Fund again (again, as Poland was a member of the IMF as a cofounder in 1944, but left the organization during the Stalinist era, in 1950). More than half of the foreign trade turnover came from the exchange of goods

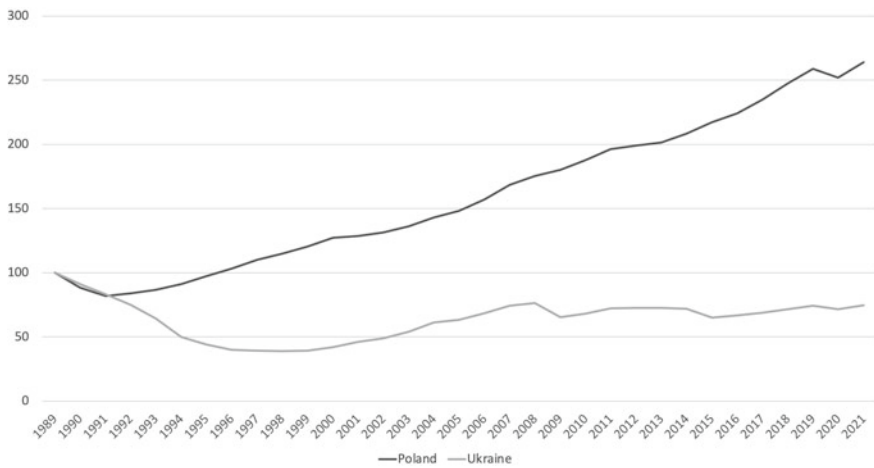


Chart 6.1 Recession and economic growth in Poland and Ukraine in 1990–2021 (GDP per capita, PPP). *Source* For years 1990–2020: World Bank (2021), (constant 2017 \$). For the year 2021 for Poland according to the draft budget for 2022, for Ukraine according to the announcement of Prime Minister Denys Shmyhal at the Kyiv International Economic Forum (Ukrinform 2021)

with the West. No less than 20% of the national income was generated by the private sector—individual agriculture, handicrafts, and small manufacturing, which are now referred to as small and medium-sized enterprises, SMEs. No socialist country at the time could boast such far-reaching decentralization and deregulation, or the extent of the private sector.

On the other hand, the situation in Poland was exceptionally unfavorable due to the then largest, in the socialist countries, scale of a particularly severe hybrid form of inflation—open price inflation and suppressed inflation, both at once—which posed particularly serious challenges to the stabilization policy. Unfortunately, the obvious exaggeration of the gravity of this policy, instead of limiting the scale of price increases, has first significantly accelerated them. As a result, the exit from the economy of shortages was accompanied by slumpflation, i.e., inflation coupled with an economic recession. The serious breakdown in production, the inevitability of which some economists had warned about (Laski 1990), was accompanied by galloping inflation turning into hyperinflation. In the final months of 1989, the rate of price increases was already falling, but the so-called shock therapy radically reversed this trend in early 1990. The Minister of Finance and his advisers had assured that month-on-month inflation would be as low as 1% already after the quarter, but it only happened after seven years. The government promised a short-term, one-year recession of 3.1%, but it lasted three years—12 quarters from the second half of 1989, when Solidarity took power, to the first half of 1992. GDP fell by nearly 20% during this period. Unemployment that was supposed to emerge, which should not have risen any more once it reached 400,000, exceeded 2 million and only began

Table 6.1 Changes in the level of production and the rate of inflation (CPI) in Poland in 1990–1991 (in percent)

	1990	1991	1991 (1989 = 100)
GDP			
Official data of the Central Statistical Office (GUS)	−11.6	−7.0	82.2
Alternative estimate	−13.8	−10.3	77.3
CPI	585.8	70.3	1167.9

Source GUS (2021). Alternative estimate: Jakubowicz (2020)

to fall after four years as a consequence of the implementation of the ‘Strategy for Poland’.

According to official figures from the Central Statistical Office, GDP shrank by 11.6% in 1990 and by 7% a year later. Such macroeconomic data—estimated for such a turbulent period, entangled in deep structural changes in production and prices—must be treated with due caution. In the case of Poland, they were positively verified by international organizations, including the IMF and the WB. This did not stop the apologists of ‘shock therapy’ from various manipulations and attempts to minimize the depth of the recession (Winiński 1991). In turn, other authors point out that the recession was even deeper because, according to later calculations, the fall in GDP between 1990 and 1991 amounted to a total of almost 23% (Table 6.1).

Thus, after two years of recovery through ‘shock therapy’ from price and resource inflation, national income was one-fifth lower (industrial production almost one-third) and prices almost twelve times higher! No wonder this has prompted some authors to write about the pathology of the transformation, with the term ‘pathology’ referring to a longer period than the years of ‘shock therapy’, wrongly attributing the hallmarks of unhealthy disorders also to what does not deserve it. After all, one must be aware that many of the negative economic phenomena and processes that manifested themselves later and lasted longer—such as unemployment, poverty, income inequality, or social exclusion—were rooted in that unfortunate time. Witold Kieżun went particularly far, titling one of the chapters of his monograph on the transformation [in Polish] very eloquently: “Shock therapy or economic neo-colonization?” (Kieżun 2013). He was wrong in presenting a description of, as he puts it, “a negative, pathological side of the renaissance of capitalism in Poland against the background of the world aggressive game of international capital in the era of neoliberalism”. Yet, these were not some kind of neocolonial forces of international capital that should be held responsible for the excesses of the transformation, but first and foremost the domestic, Polish economists and politicians who were the perpetrators of these excesses.

Nor can the otherwise undoubted abuse of social resilience and the lack of acceptance for the changes taking place in certain periods be reduced to a pathology of the entire transformation. Assuming that pathology comprises only irregularities in the functioning of an organization or structure, then one could agree with such an approach, provided that it does not refer to the entirety of the transformation, nor

to its whole duration, but to specific spheres of change and specific periods. If, on the other hand, pathology comprises social deviations threatening social life, public order, and economic development, then Kieżun's view is a great exaggeration. The post-socialist transformation in Poland—with all its flaws—is neither a disease nor a threat to social life, but an opportunity for its evolution in the right direction.

The Polish transformation of 1989 was indisputably decisive in setting the system transformation in full motion: the Round Table, the June elections to the Sejm and the Senate, and the formation of the government of Prime Minister Tadeusz Mazowiecki. I added the term 'full motion' to emphasize that something important was already happening in this area earlier, and there was happening a lot. It is important to distinguish between the reforms of the socialist economy and the transition to a capitalist economy. Until 1989, the main aim was to transform the economy into a market-oriented economy as far as possible in the political and geopolitical realities of the time, to create a kind of market socialism or, if someone prefers, a socialist market. It was a period of systemic reforms, not of the transformation involving a qualitative departure from the previous system, although not everywhere; certainly not in Albania or Romania, or far from Europe—in Mongolia or Cuba.

It came as a surprise, therefore, when the International Monetary Fund stated that it was distant Laos, Vietnam, and above all, China that were ahead of Poland in joining the transition. In a special issue of the periodic review of the world economic situation, the IMF stated that "[In] the East Asian countries transition began prior to 1989. The first 11 years of transition for these countries cover the following periods: China (1978–89), Lao P.D.R. (1986–97), and Vietnam (1986–97)" (IMF 2000, p. 94). This is how we learned that it was not Poland that was the precursor and initiator of the post-socialist transition. Its essence was to move away from the socialist economy towards the capitalist economy, and these were certainly not the intentions of the Asian socialist countries in the 1970s and 1980s. Some say that these countries still do not have them, continuously referring to them as communist countries.

The matter gets complicated this time, too, due to the vagueness of the terms used. This also applies to the transition. What we wanted at the Round Table—at least that was my understanding—was to find ways, including, what is very important, to create politically favorable conditions for the transition to a social market economy, although different people did not understand that concept in the same manner.

It was not without reason that the statement about such political ambitions was included in the *exposé* by Prime Minister Tadeusz Mazowiecki on September 12, 1989. But he did not use this term in his first parliamentary speech. Immediately after his appointment as Prime Minister, and even before the government was formed, Mazowiecki said: "The government's long-term strategic goal is to restore economic institutions in Poland that have long been known and proven. By this I mean a return to a market economy and to a role for the state that is similar to that exercised in other economically developed countries. Poland can no longer afford ideological experiments" (Mazowiecki 1989). Unfortunately, shortly afterward, the government of Prime Minister Mazowiecki, which personally was not fully aware of this, embarked on an experiment in the form of 'shock therapy' to create an essentially neoliberal capitalist economy. The economic cost of this venture was enormous, and the

political loss was soon suffered by Mazowiecki himself, losing the 1990 presidential election. It is significant that the political price for the failure of the neoliberal ‘shock therapy’ was paid not by its supporter—the Minister of Finance—but by the Prime Minister, who covered this therapy with a political umbrella. After losing the presidential election, which was a clear expression of public rejection of the economic policy pursued, the latter resigned in honor, not the former.

Kieżun pointed out that “(...) in the theoretical structure of decision-making, the stage of mission and strategy formation was the work of George Soros and Jeffrey Sachs, while the stage of creative tactics and operational implementation was the work of Leszek Balcerowicz. So, it is appropriate that the process of [the beginnings of] Polish transformation should be called the work of Soros, Sachs, and Balcerowicz. All three are praiseworthy for the positive sides of the idea of transformation, but also bear responsibility for the pathological solutions of the various stages” (Kieżun 2013, p. 121).

Sachs himself said something very different years later. He argued that the stabilization policy had gone further in its radicalism than he had hinted. In addition, there was no reason to allow for the excessive weakening of the state. “When writing recommendations for Poland, I wanted it to become a country with a mixed economy, with a strong role of the state, with redistribution mechanisms, an efficient labor market. Social democracy is the tradition to which I have always been closest” (Sachs 2014). Interestingly, it was supposedly the model of a social democratic economy so close to him that he desired in 1989 and a few years later: “Shock therapy at that time was not about creating a neoliberal or free market economy. The idea was to restore Poland’s links with Europe and for Poland to become part of Europe, the then European Community, as soon as possible” (Sachs 2020, p. 256). By the way, Europe is not just the European Community (then) or the European Union (now). Countries as different as Ukraine and Switzerland, Norway and Belarus, Iceland and Moldova, not to mention the most densely populated and developed European part of Russia, are also Europe. Let us not comment on the slogan of a ‘return to Europe’, repeated pointlessly by some up to this day, as if we had not been in Europe—right in its middle—for centuries.

Formulating a rather straightforward opinion about Balcerowicz, Kieżun accused him of “(...) belonging to the group of capitalistically «indoctrinated» under the United States Information Agency’s program for young party scientists who were given the opportunity to study in the USA” (Kieżun 2013, p. 130). This spiteful remark about party affiliation is probably connected with Balcerowicz’s earlier work at the Institute for Basic Problems of Marxism-Leninism of the Central Committee of the Polish United Workers’ Party, although he dealt with pro-market reforms of the socialist economy, which should be praised rather than reproached. Moreover, one does not have to go to the US to study in order to succumb to the neoliberal doctrine. Without underestimating the influence of Western political, intellectual, and scientific circles on the thinking of many Polish economists or luminaries of other social sciences, it should be pointed out that doctrinarism and neoliberal dogmatism were essentially home grown.

At that time, the Americans and the British sent advisers to Poland—and to other countries in the region—who, aware of the economic ignorance of the new government leaders, easily convinced them of their, usually neoliberal, ideas. The overpublicized Jeffrey Sachs presents the birth of that concept in a rather caricatural form as being written in the offices of *Gazeta Wyborcza*. At the same time, he portrays the Solidarity leaders coresponsible for taking such an economic policy line as economic dilettantes who understood little (Sachs 1994). On the other hand, Balcerowicz, whom he met later, is portrayed as the de facto recipient and determined executor of his plan commissioned by George Soros.

Sachs, crediting himself as the author of the concept of the radical transformation of the Polish economy known as ‘shock therapy’, vividly depicts the ultra-short period of several hours during which it was formulated. He begins by describing a meeting with Jacek Kuroń, at his home, before the parliamentary elections in June: “Smoke was filling the room, and the bottle kept pouring. I talked and talked, probably for another three or four hours. I was drenched in sweat. I do not know how many packs of cigarettes he smoked that night, each stub being crushed into an ever filling ashtray. At the end of the evening, he said, «Okay, I understand this. We’ll do it. Write a plan.» I thought to myself, «This is exciting. He liked the ideas.» I said, «Mr. Kuroń, we will go home and fax you something within a week or two about these ideas.» He hit the table. «No! We need the plan now.» I said, «What do you mean?» «I need this tomorrow morning.» Lipton and I looked at each other. And Kuroń said again, «I need this tomorrow morning.» It was probably half past eleven at night. Larry said, «Okay, we’ll go over to the *Gazeta* office. There’s a computer there. You can type out a plan.» Larry Lindenberg was business manager of *Gazeta Wyborcza*, the newly legalized Solidarity newspaper, under the leadership of the new editor in chief, Adam Michnik. We arrived at midnight in the newsroom, recently converted from a kindergarten classroom. I sat at the keyboard, and Lipton and I began to write a plan for the transformation of Poland from a socialist economy in the Soviet orbit to a market economy within the European Community. We worked through the night until dawn, at which point we printed out a fifteen-page paper with key concepts and a planned chronology of reforms” (Sachs 2006, pp. 113–114). That is how the plan for Poland was conceived—in the kindergarten, dashed off on the spot, during one night, and with consequences for many years. The only thing missing was someone to back it up, but he was soon found and the ‘Sachs Plan’ was soon renamed into ‘Balcerowicz Plan’ in the media. A few months later, it was given an extended form, accompanied by proposals for legislative changes modifying the principles of functioning of the economy.

Was then the social market economy, as it was understood by the political leaders of Solidarity, who did not even grasp the essence of the market economy, apart from its generalities, still to bear any traces of socialism, its good sides? Was it going to be a strictly capitalist economy? Or is it possible to talk about our great political transformation without using the categories of socialism (communism) *versus* capitalism? This is surely about more than just the transition from a planned economy to a market economy, which may have seemed to someone to be the essence of things back in 1989 and the next few years, but is it enough to talk about the need and desire

to create a social market economy? This is not built over one or two parliamentary terms of a progressive government, but over one or two generations, as the experience of the Scandinavian countries proves.

I do not elaborate here on the issue of defining this period of history in politics and public discourse, as well as—even worse—in academic writing, as a post-communist transition, which implies that it was preceded by communism. This is a mistake, unless one equates state socialism with communism, which I think is an error in the typology of economic and political systems. Communism has its definitions in the social sciences and none of them—from Marx and Engels when they published *The Communist Manifesto* in 1848 (Marx and Engels 2000), to Andrzej Walicki when his *Marxism and the Leap to the Kingdom of Freedom: The Rise and Fall of the Communist Utopia* was published in 1995—fit the realities of the few decades preceding the otherwise landmark years of 1989–1991. Interestingly, Kornai, moving actively between West and East, solved this problem by using the terms ‘socialism’ and ‘communism’ interchangeably as essentially synonymous. Walicki was indeed right when he argued that if one could speak of communism in relation to Poland at all, then with certain terminological rigor, it could be identified with the infamous episode of Stalinism, which ended with the Polish October 1956. The title of his book *From the Communist Project to the Neoliberal Utopia* (Walicki 2013) is significant in this regard, emphasizing that the neoliberal system that some contemporaries would like to create so that it stays forever is a utopia.

It is interesting that while in the Western literature in the period before 1989, the realities of Central and Eastern Europe and the Soviet Union, as well as China, Mongolia, and the Indochinese countries, Vietnam, Cambodia, Laos, as well as Cuba, were quite commonly called communist, and these countries themselves generally spoke of socialism. Sometimes descriptive adjectives were added, such as ‘state’, to emphasize the natural omnipotence of the state in politics, but also in the economy and in various spheres of social life—from culture through education to sports. Or ‘real’, distinguishing it from the ideal, whose utopian image was drawn in the documents of the ruling parties and the orthodox textbooks of the so-called political economy of scientific socialism. In other countries, such as the Soviet Union, Yugoslavia, or Romania, the ruling parties were called communist. This is still the case in China and it does not irritate them that this ‘communist’ party tolerates income inequality as massive as in the USA, that it accepts unemployment, that it favors entrepreneurs maximizing their, by all means, capitalist profits. In Poland, the German Democratic Republic, GDR, or Hungary, full power was held by parties described as socialist or workers’ parties.

6.2 The Pros and Cons of the Polish Transformation, or Between the Neocolonization and the Golden Age

There is plenty of highly critical voices about the Polish transformation, especially its initial phase known as ‘shock therapy’ (Poznanski 1996; Rosati 1991). I myself prefer to write about shock without therapy because, in the early 1990s, there were quite a few avoidable, costly shocks, and the healing effects of liberalization and stabilization policies could have been many more (Kolodko and Nuti 1997). Some authors have written about the utter failure of the first years of transformation and the defeat of Solidarity (Ost 2005), to which other apologetically minded authors give immense credit in directing Poland’s paths towards a better future.

There is a pending process of promoting the so-called black legend, which consists in falsifying and slandering the previous era in order to whiten and create possibly the most beautiful image of the new era. This is nothing original; it was done in the Renaissance against the Middle Ages, it was done after the October Revolution when the tsarist era was mercilessly denigrated, and it was done in the People’s Republic of Poland when interwar Poland was shown in an unfavorable light. This also happened after 1989, especially during periods of right-wing governments, in descriptions referring to the People’s Republic of Poland, known mainly under the pejoratively tinged abbreviation—PRL. Both its ups and its downfall, as well as the successes and failures of the subsequent systemic transformation and socio-economic development after 1989, will be judged fairly objectively by history over time. Yet, without waiting for it to tell us the truth—hopefully as complete as possible—it is necessary to voice it now. After all, in socialist Poland, key problems for the country’s development were solved, making breakthroughs in many spheres. The strategic changes are of particular importance:

1. the transition in agriculture from the natural economy that dominated before the war to a market economy;
2. the land reform covering a third of the acreage and the accompanying elimination of the feudal economy;
3. the industrialization of the economy, which increased employment in industry (in establishments employing eight or more people) from 0.9 million in 1939 to 5.2 million in 1989;
4. making the economy more dynamic by accelerating the average growth rate of the industry from 2–3% during the post-crisis recovery of the 1930s to 6–7% between 1950 and 1989;
5. the total elimination of unemployment and the regulation of labor relations based on employment contracts and social insurance, which increased the number of people covered by such a system six times, compared to the prewar period—from 2.8 million people in 1938 to 17.6 million in 1989;
6. the elimination of illiteracy, which before the war was as high as 23%, and a tenfold increase in the number of people with higher education, from 176,000 before the war to 1.8 million in 1989;

7. the fundamental rise in the cultural level of the Polish countryside, especially through its electrification and the introduction of a pension system for farmers;
8. the development of the maritime economy complex, including shipbuilding, ports, and fishing, which entailed an increase in employment in this part of the national economy from a negligible 50–60,000 people before the war to 400–450,000 in 1989;
9. the launch and expansion of exports to the competitive markets of developed countries of highly processed industrial products, which resulted in an increase in the share of such products in exports from a trace 1.4% of the value of total exports before the war to a significant 38% in 1989;
10. opening up Eastern markets for the Polish economy and using this as a factor accelerating economic development. In particular, exports to the Soviet Union rose from 0.8% of total exports before the war to 22% in 1989.

Mainly, these structural changes contributed to the rapid growth of national income over the two postwar generations. It is worth remembering that the average rate of national income growth in the 45 years of the People's Republic of Poland, 1945–1989, was higher than in the period after 1989. The category of 'net national income'—a widely used measure of output growth on a macroeconomic scale in socialist countries—is not the same as the category of Gross Domestic Product. The matter is further complicated by the fact that in the socialist economy, with its typical priority given to the production of the means of production, a syndrome of 'production for production's sake' existed there. GDP was growing, but it translated into the growth in consumption only to some extent, even in the long term. GDP in the People's Republic of Poland grew slower than net national income, but at the same time faster than GDP during the post-socialist transformation. Therefore, the estimates suggesting quite different trends must come as a surprise. One can come across the bizarre view that GDP in socialist Poland grew by an average of only around 2% a year (Vonyó 2017), which would imply that it increased by only about 140% over the entire 45-year period. This is nonsense.

Moreover, it must be stressed that in the centrally planned socialist economy, from its systemic nature and as a result of the implemented development strategy giving priority to industry over services and preferring heavy industry over light industry, several year periods of faster growth of investment than of consumption were imminent, which was the cause of throwing the economy out of balance and alternating years of faster and slower growth of production. The cyclicity of economic growth seemingly disappeared, but, in fact, it was one of the characteristics of the centrally planned economy (Gruszczyński and Kołodko 1975; Bauer 1978).

Many authors have an understandable tendency to average the data showing the course of economic processes. Yet, it should be remembered that there are clear fluctuations in the dynamics of production and consumption and fluctuations in other aspects of social and economic realities behind such averaging. The processes in question are not linear; in practice, at different points along the path of time, there are different characteristics—some better, some worse—of the transformation into the market-oriented economy. With excessive averaging and hasty generalizations,

the view becomes blurred. Well, with regard to certain threads of the transformation, this fallacy has not been avoided by serious economists who cannot be denied the knowledge of the matter, either. Just as some, making interesting comparisons in time and space against the panoramic picture of the historical development process, are inclined to proclaim this period as a ‘golden age’ (Piatkowski 2018), others see an almost epochal failure in the same reality. Is this some kind of golden age of neocolonialism? Neither one nor the other. A lot depends on how one compares, what for and what with. Comparative studies constitute an excellent research method, but it is worth being restrained when making judgments and drawing conclusions.

When averaging the data illustrating the course of the past one-third of a century now, the catastrophic recession caused by ‘shock therapy’ and the dramatic collapse of economic dynamism during the damaging economic cooling down at the end of the 1990s decade is being concealed, especially with regard to changes in GDP. This led to an almost economic stagnation, with GDP growing by a trace 0.2% in Q4 2001 (Chart 6.2).

It was not easy to put the economy back on the path of fast growth, as it was in 1994–1997, after the shock without therapy, but it worked. Marek Belka, when he was briefly Deputy Prime Minister and Minister of Finance, spoke of a 1–3–5 path, referring to percentage GDP growth rates in subsequent years: 2002, 2003, and 2004. When I took over his position, at the beginning of the summer of 2002, I announced that it would be 3–5–7. And this happened as a result of deliberate deregulation of the economy and policies supporting entrepreneurship. The bold, unorthodox debt relief of a thousand companies that the overly restrictive policies of previous years had brought to the brink of bankruptcy was of great importance. Their public bad debts—outstanding taxes and social security contributions—have been

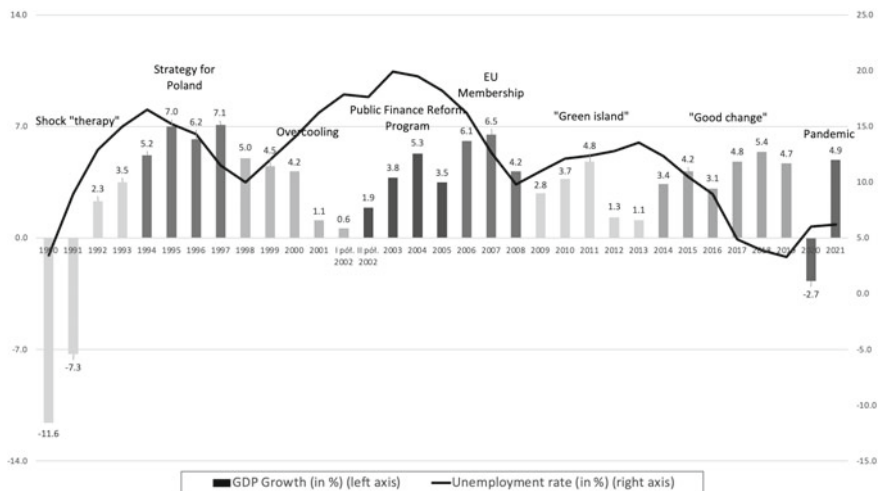


Chart 6.2 Periodization of one-third of the century of post-socialist transformation in Poland. Source Central Statistical Office, GUS, different years

deeply reduced so that, once their modest share has been paid, they regained liquidity and became capable of growth. Of the companies participating in this program, as many as 99.3% were small and medium-sized companies, almost all in the private sector, and only 0.7% were large companies, of which only some were state owned. As a result, a lot of jobs have been saved. The Polish Central Technical Organization (NOT) awarded me a special honorary prize in 2002 for the implementation of this unconventional and highly effective program, highlighting the ‘saving of 210,000 jobs’.

What is important, the policies and reforms pursued at that time were coupled with structural adjustments and institutional changes that corresponded to the requirements of the forthcoming EU membership. Coordinating the final stage of the necessary and sometimes difficult changes, I visited all 15 Member States of the ‘old’ Union during working visits, negotiating hard on various details concerning the conditions of our favorable accession to this integration grouping. The summit of April 16, 2003, in Athens, at which the Act of Accession to the European Union was signed, marked the end of the road to which the gates had been wide open seven years earlier, on July 11, 1996, when I signed Poland’s Act of Accession to the OECD in Paris. How ominous in this context are some Law and Justice politicians, proclaiming in 2021 that Poland may leave the European Union if it does not want to treat us ‘properly’. It would be difficult to believe such extreme irresponsibility, but I have to, since I heard such a statement by the chairman of the ruling party’s parliamentary club with my own ears.

Between 1990 and 2021, GDP grew at an average annual rate of 3.1%. Recently, it has become popular, especially in neoliberal circles, to omit data from 1990–1991 from calculations and interpretations. The average growth rate then rises to 3.9%, which is significantly better than the corresponding figure for the whole period of 1989–2021. But this average of 3.1%, to which the ‘Strategy for Poland’ made a particular contribution, during the implementation of which, between 1994 and 1997, GDP per capita grew by an average of 6.4% per year (according to World Bank data, this average calculated in constant 2017 dollar prices is slightly above 6.1%), is more than in other post-socialist economies and perceptibly faster than in the rich Western countries.

These average dynamics—one-third of a percentage point higher for Poland than for the world as a whole—result in the Polish economy’s share in gross world product being slightly higher now than it was in 1989. To be precise, the average annual growth rate of gross product in the years 1990–2021, according to calculations verified by the World Bank (for 2021, the European Commission’s forecast), is 3.07% for Poland and 2.73% for the world as a whole (WB 2021); thus, these indicators differ by 0.34 percentage points. This is the case when counting at the exchange rate (in constant 2010 dollars). From this perspective, this share, after falling from 0.69% in 1989 to 0.60% in 1990, increased to 0.76% in 2021. In turn, based on estimates according to PPP, it is currently lower, having fallen from 0.98% in 1989 to 0.85% in 1990, only to rise later, after 1992, however, reaching only 0.96% of the value of the world’s global product in 2021. The real situation is better illustrated by the second measure, since income estimated according to purchasing power parity tells us what it is really

worth, i.e., how many goods and services can be purchased with it, given the diversity of prices around the world. The whims of shocks and overcooling have caused that this is relatively a little less than it was a generation ago because according to this measure the world has been developing production, on average, slightly faster than Poland.

Our share in the global economy would have been much greater had it not been for the conceptual and implementation errors of the beginning and end of the first decade of transformation. In particular, during ‘shock therapy’, interest rates were excessively inflated, including the interest rates on old loans, which prevented many companies from repaying their debts and led to their collapse. Marek Pol, later a minister in the government of the Democratic Left Alliance and the Polish People’s Party, SLD-PSL, remembers the time when “there was a conviction that not the sphere of manufacturing, but the sphere of services was of key importance to the development of a modern economy. Therefore, among those in power in Poland at the end of 1989 and then from 1990 to 1992, there was little regret about the shrinking industry and the failing industrial enterprises. At that time, some people were even claiming that Poland had been overindustrialized (therefore, it had to be deindustrialized so that—ironically—a quarter of a century later politicians from formations that had once supported this process could announce re-industrialization). The dominant view was that all the problems of industry would be solved by the market and by the privatization of enterprises enforced by, among others, popiwek—a super-normative wages tax as well as bankruptcies or the threat thereof” (Pol 2019, p. 144). Views on the need to deindustrialize the supposedly overindustrialized Poland were also voiced by Sachs (1994).

The progressing destruction of the real sphere of the economy was fostered by an exorbitant tax on excessive increases in wages, the mentioned popiwek, imposed exclusively on state enterprises, which made it practically impossible to compensate the employees of state enterprises for the drastic fall in real wages in the conditions of induced hyperinflation, even if they had the financial means to do so. The scale of devaluation of the zloty was excessive and lasted too long, over 16 months. The exchange rate of the zloty was kept fixed to the US dollar instead of to the basket of currencies reflecting the structure of foreign trade (Kolodko et al. 1992). In turn, this trade was liberalized too early and on a too large scale, from which the government of the time quickly retreated (Frydman et al. 1991).

Then, during the cooling down of the economy between 1998 and 2000, monetary doctrinairism was favored, confusing policy measures with its objectives. Balancing the budget was considered an overriding objective, as was the reduction of the current account deficit, although this was essentially financed by inflows of foreign direct investment. The sign of a good economic condition in the form of its competitiveness positively perceived by foreign capital, followed by a rapid flow of direct investment, was seen by the neoliberal doctrine as a weakness. As a result, the economic situation rapidly worsened.

The mismanagement of the economy prompted the withdrawal from the government of the neoliberal Freedom Union, UW, the successor of the Democratic Union, UD, and the Liberal Democratic Congress, KL-D, which had previously

supported ‘shock therapy’, and which were predecessors of the Civic Platform, PO. It must be stressed that the party leader of the Freedom Union at the time was Leszek Balcerowicz, again, after 1989–1991, Deputy Prime Minister and Minister of Finance. He led his party to government in a coalition with Solidarity Electoral Action, AWS, postulating, among others, for the acceleration of growth when, as a result of the implementation of the ‘Strategy for Poland’ in the spring of 1997, it was a record high out of the whole of the past 33 years, reaching as much as 7.5%. After AWS-UW took power, the proposal was quickly and radically reduced to almost nothing. This time—unlike in the early 1990s—Prime Minister remained in government until the end of his term, while Deputy Prime Minister and Minister of Finance responsible for the collapse of the economic dynamics withdrew.

6.3 Reality and Opinions

These and other mistakes were avoidable, but unhealthy radicalism prevailed. Or maybe it was healthy after all? Well, it was therapy. When, in 1991, I lectured at the Salzburg Seminar on stabilization policy, *Dušan Tríska*, the author of the Czech mass privatization, the so-called *kuponovka* (‘voucher privatization’), listened to me (I, in turn, listened to his lectures on privatization). He responded to my arguments related to the imperative of rationalization and a pragmatic approach to liberalization and stabilization amid the recovery from the *shortageflation* syndrome saying that it was all irrelevant. What was important, however, was to destroy state ownership, by uprooting it, because this is the basis of the communist economy. And so they were doing.

Paweł Kozłowski, a sociologist, and Andrzej Walicki, an eminent philosopher and historian of ideas, do not doubt that “(...) two names from the period of the birth of Solidarity Poland epitomize the beginning of this road, bringing bitterness and pain to many people: Lech Falandysz and Leszek Balcerowicz. The former began the degradation of legal consciousness and the opportunistic instrumentalization of law itself under a new regime, while the latter decisively contributed to the discrediting of liberalism and, what is important, the destruction of the continuity of the economy, society, and human life” (Kozłowski 2021, p. 27). Leon Podkaminer formulates his view even more radically: “I do not deny Leszek Balcerowicz one undoubted merit. In an objectively difficult situation, he undertook a task that competent, prudent, and responsible people (such as Professor Witold Trzeciakowski) did not have the courage (or strength) to perform. That, in my opinion, is where his merits end. The economic program («shock therapy») devised by him and implemented from the beginning of 1990 was a veritable disaster”. And further: “Poland got out of the trap it got into by ‘shock therapy’ for good only after 1994—during Grzegorz Kołodko’s first term as Deputy Prime Minister (1994–1997). One proof of the effectiveness of his policies («therapy without shock») was the cumulative GDP growth of 21.7% between 1995 and 1997. What «Lesio» wasted, «Grzesio» regained. Unfortunately,

the return of Leszek Balcerowicz to the post of Deputy Prime Minister in the AWS-UW government has not brought anything good. Between 1998 and 2000 he managed to push through «four fundamental reforms». We are still struggling with their fatal consequences (pension system, health care) today” (Podkaminer 2021).

This is a very harsh assessment, but it should be remembered that the author of these words from the very beginning has not been afraid to argue with the initiator of ‘shock therapy’ and his advisers, while formulating specific counterproposals with regard to various aspects of liberalization and stabilization. Too bad, but like other critics of the tide of Polish neoliberalism, he too was not listened to. Now, certainly, he is exaggerating when he claims that the sole merit of the supposedly incompetent, inconsiderate, and irresponsible author of shock without therapy was that “in a difficult situation, he undertook a task that competent, prudent, and responsible people did not have the courage (or strength) to perform”. However, it was during the governments of Prime Ministers Tadeusz Mazowiecki and Jan Krzysztof Bielecki that the course towards the market-oriented economy became irreversible. It is only regrettable that, as a result of doctrinaire thinking and numerous technical errors, this was done at such a huge economic and social cost.

Slightly less cruel, yet explicit, is the accusation that “the disproportion between the publicized vision and reality has reached such a high degree that one can speak of a classic pathological action, i.e. a situation in which wastefulness has highly exceeded the limits of social acceptance” (Kieżun 2013, p. 130). In contrast, not so radical is the widely argued view of one of the world’s most prominent experts on post-socialist transformation, who dares to argue that the ‘Strategy for Poland’ even saved the transformation (Nuti 2019). Maybe not that much, but certainly if it had not been for the political and programmatic shift after 1993 and again after 2001, the transformation would have been less beneficial than we managed to achieve.

Let us recall that it was during the implementation of the ‘Strategy for Poland’ that inflation fell by two-thirds and unemployment by a third, and it was then that state-owned enterprises were commercialized and privatization became more rational, blocking the disproportionate selling off of state assets and the monopolization and oligarchization of the economy. It was then that I signed an agreement with the London Club to halve our foreign debt to private banks, which lifted the burden of \$6.3 billion, which was then 5.7% of our GDP, from the shoulders of the society. Owing to this, Poland was introduced to the European and world capital markets for the first time and also obtained an investment grade from one of the rating agencies. Agriculture was no longer treated as a ball and chain for economic modernization, and a comprehensive, innovative program of integrated development of the countryside and rural areas was launched. The popiwiek and import taxes were abolished, personal income taxes, PIT, were reduced from 45, 33, and 21% to 40, 30, and 19%, and a phased reduction of corporate taxes, CIT, from 40 to 32% was initiated.¹ Our external financial relations have been normalized and the issues of financial settlements with

¹ During the AWS-UW government, CIT was reduced by just 4 points, to 28%. Later, as part of the “Public Finance Reform Programme” (Kolodko 2005), we reduced it deeply, down to 19%. It is therefore worth emphasising that of the 21% point reduction in CIT—from 40%, with which the economy was left after 1990–1993, to the current 19%—as many as 17 points of the reduction are

the West, as well as with Russia, China, the Czech Republic, and other countries, dating back to the times of PRL, have been settled. In short: the image of the Polish economy has changed, both institutionally and in real terms.

The editor-in-chief of *Gazeta Wyborcza* has a completely different opinion. In an interview given to the *Zdanie* quarterly, one can read that “Kolodko said a number of wise things, but what did he do? Twice, in several governments, he was Deputy Prime Minister and Minister of Finance.”. The interviewer reacted, “Well, there was economic growth. The GDP dynamics were record-high in the whole of the Third Republic of Poland (...), he was praised for being a minister generous to culture”, just to hear: “At this point, I think Kolodko was more right than Leszek Balcerowicz, but this growth was made possible by what Balcerowicz had previously done. Come on, Let’s not be silly” (Michnik 2021, p. 15).

Well, Let us not be silly, indeed, not only in real politics, where it is socially and economically costly, but also in public debate, because it confuses people and when one messes with people’s minds, one errs. In contrast to the journalist who, despite admitting that he is incompetent in economic matters, makes authoritative comments on them, the fatal errors of the Polish neoliberalism were understood by Marcin Król, who had the civil courage to admit this in the pages of the same newspaper, stating bluntly: “We were stupid”. When the interviewer raised an issue that: “Free and enterprising people will do just fine on their own, as long as they are not disturbed. The quarterly «Res Publica», which you headed, was full of such texts”, Król replied: “We were stupid. In the 1980s we became infected with the ideology of neoliberalism. I actually did a lot of work here. I persuaded Tusk, Bielecki, and the whole of Gdańsk to pursue it. I was diligently showing Hayek’s writings to them. We had similar views with Balcerowicz, today we diverged. This enthusiasm died out in me rather quickly. I realized that liberalism was beginning to be dominated by a component of individualism, which in turn was crowding out other important values and killing the community” (Król 2014).

The author of these words understood this, although regrettably belatedly, but he does not want to understand that after the failure of ‘shock therapy’, progressive reformers with a social democratic and popular orientation democratically came to power as a result of the 1993 election. Soon afterward, as he admitted that the Polish neoliberals lacked wisdom, especially in the early years of transformation, he stated in a short book or perhaps a longer essay: “I cannot understand it, so once again I come back: how could this happen? How could the communists have come to power in 1993? Although, they did nothing wrong afterward, but who could have predicted that?” (Król 2015, p. 79). So, these were the so-called communists that led the Polish economy out of the entanglements caused by the mistakes of the times when some people involved in serious politics ‘were stupid’. At least Król’s readers learn that these ‘communists’ ‘did nothing wrong afterward’, but he is unable, or perhaps just unwilling, to tell them how much good they did.

due to left-wing governments, in which I was Deputy Prime Minister and Minister of Finance, and only 4 points are the result of decisions made by center-right governments.

The essence of the mistakes made at the beginning of the transformation, some of which were cardinal, was better understood by others, including such important figures for the Polish transformation associated with Solidarity as Karol Modzelewski. In one interview, when told by an interlocutor that “I thought we were fascinated by capitalism at the time”, he replied: “Our great activists at the time were talking such rubbish. I remember how, during the presidential election, my colleagues, the workers’ union activists who supported Tadeusz Mazowiecki, went to election meetings and explained to the workers that the great socialist industry was a relic and a scrap of history. And they, that is the working class from big businesses, are the leftovers of socialism. They argued that they should leave this junkyard as soon as possible and take up some useful business” (Modzelewski 2013).

Jacek Kuroń, in turn, admitted that he was at fault: “Back then, in the council of ministers, it was me who mattered and not Balcerowicz. I endorsed his plan, and that was my undoubted sin” (Kuroń 2002, p. 9). What is important, he was also able, when rejoining the government as Minister of Labor and Social Policy in 1992–1993, to inspire and take actions involving the distancing from the neoliberal current, particularly in the form of a pragmatic and socially oriented approach to state-owned enterprises. The shocks were getting fewer and fewer, and the symptoms of therapy were already appearing.

6.4 Post Hoc Ergo Propter Hoc

The already mentioned classic logical fallacy of post hoc ergo propter hoc (after this, therefore because of this) is way too often made in socio-economic and political debates. The implementation of the ‘Strategy for Poland’ in 1994–1997 brought record economic growth and a perceptible improvement in the living standards of people, as well as important institutional progress in the sphere of building a social market economy, not because of the previous ‘shock therapy’, but in spite of that. Had the recovery from acute price and resource inflation and the acceleration of market-oriented structural reforms in the early 1990s been better managed, economic progress in later periods might have been greater.

Yes, it is obvious that certain things were possible because of the earlier groundbreaking push towards the market economy, but the point is that it could have been done much better. The response to the witty argument that one should not dock a dog’s tail in portions, was: OK, but why cut it right behind the head? If by the alternative one means a different option, then there was indeed no alternative to moving to the market, but there were different options of economic policy and detailed structural reforms. There is now a vast literature on this subject, and even then, dissenting and constructive proposals were plenty (Kolodko 1989a; Nuti 1990; Podkaminer 1992). Within the Solidarity elite, sensible opponents of radicalism and upheaval have been crushed by the onslaught of neoliberalism. Karol Modzelewski admits: “I was not the only one against at the time. An economist and a Solidarity advisor, Tadeusz Kowalik was also against it. He knew that neoliberalism was an ideology and an intellectual

fashion, not an economic necessity. Unfortunately, our elites treated neoliberalism as a creed, and we did not have the clout” (Modzelewski 2013). Yes, it was a naive faith, not thorough knowledge.

As a matter of fact, many of the activities that were carried out during the implementation of the ‘Strategy for Poland’ were only possible because there had previously been ‘shock therapy’. Had it not been for the devastation caused by the policies of 1990–1991, there would have been no need to recapitalize the banks, many of which were brought to the brink of bankruptcy. The best example of this was the rescue of the later thriving and prosperous Bank Gospodarki Żywnościowej, BGŻ. While, with great effort, the government was implementing a consolidation program for the financial sector that saved the core of the Polish banking (PKO BP and the insurance company, PZU) from the cheap sale, *Gazeta Wyborcza* was spouting nonsense about bank recommunization. While, at a huge cost to the state budget, several complex restructuring programs were carried out in various branches of industry, including the power and steel industries, the pharmaceutical industry, and the defense industry, and while, at the same time, instead of fast privatization motivated by ideological and vested interests, the management methods of commercialized state enterprises were improved, *Gazeta Wyborcza* wrote absurdly that privatization had its teeth pulled out. As if it were supposed to bite the society rather than serve it when done well. While the reorientation towards building the social market economy and the change of strategic directions in the economic policy resulted in an overdoubling of the rate of economic growth, from 2.9% on average in the 1992–1993 biennium to 6.6% in the 1995–1996 biennium, *Gazeta Wyborcza* wrote silly things about the tiger getting out of breath. Its economically irrational attacks on the ‘Strategy for Poland’ were constant.

In times that are as interesting as they are difficult, when people are faced with numerous development challenges, it is necessary to think big. Interdisciplinary thinking in particular has a great future. Certainly, the ability to take an interdisciplinary view did not leave Andrzej Walicki, who did not doubt that “the elites after 1990 betrayed... The intellectual elites after all (...) had made commitments towards the rest, they were debtors to the people. Meanwhile, in Poland after 1990, they preached the opposite, that the people should help them in their neoliberal modernization and sacrifice themselves in its name. Such was the content provided by *Gazeta Wyborcza*” (Kozłowski 2021, p. 19).

Walicki also noticed that “(...) Balcerowicz does not profess liberalism, but libertarianism, and that the book anthology (as the title says) of liberal thought that he compiled showed not so much the knowledge of the subject as the lack of historical and current knowledge on the subject” (ibidem, p. 25). Looking at the matter from an economic point of view, neoliberalism is, on the one hand, about knowledge and its fully aware cynical exploitation for the benefit of vested interest groups, while, on the other hand, it amounts to ignorance and smacks of libertarianism, more of a quasi-religious faith than knowledge. I would add that even further to the right there is anarcho-capitalism, but this is simply naivety or intellectual and political adventurism, which does not mean that in times of crisis of liberal democracy and unbridled populism, we are not threatened by anarchization.

Some time ago, a weekly magazine invited me to a discussion with a declared anarcho-capitalist, a professor at a Californian university, David D. Friedman, son of Milton Friedman, Nobel Prize winner in economic sciences. The meeting took place in the autumn of 2008 at Kozminski University, and its excerpts were published under the title *Friedman versus Kolodko* (Wprost 2008). While Friedman believes that “the free market is not perfect, but all alternatives are far worse”, I have consistently argued that the market must be properly regulated. There are two problems here: The first is that the ‘free’ market is a utopia, and the second is the meaning of the word ‘properly’ and who is to determine the nature and extent of regulation and how to do it.

When it comes to professional—academic, political, and business—economists who promote neoliberalism, they either make the logical fallacy of assuming that it ensures sustainable socio-economic and environmental development, or, knowing that this is not the case, they hypocritically use the concept to push policies of bad economic deregulation, deliberately weakening the supervisory functions of the state and manipulating the public finance system (taxes, transfers, spending), which ultimately serves to enrich the few at the expense of the majority (Galbraith 2014). This is confirmed by the data on the evolution of the economy under neoliberal governments from the US and the UK through Poland and Russia to Hong Kong and Australia. The solutions proposed by neoliberalism are not a path to social welfare but to the deepening of income and wealth inequalities (Piketty 2014; Tanzi 2011), which in turn raises anger, and which now triggers reactions in the form of other pathologies—populism and new nationalism.

As for the undereducated economists or those who do not understand the intricacies of economics but are active commentators of public life, by supporting neoliberalism, they have not made the intellectual effort to fully grasp its nature and the risks it poses for social and economic development. This is why in Poland and some other post-socialist countries, there was once so much uncritical euphoria about the demands of the ‘Washington Consensus’, detached from their social context. The Polish neoliberalism boils down to the delight in the deceptive slogans that constitute the canons of shock without therapy: liberalization, privatization, and ruthless hard financial policy. It is a pity that some ex post, when faced with objective facts and overwhelming arguments, prefer to remain in error.

Obviously, the policy of the Solidarity governments at the beginning of the 1990s would not have been possible without the earlier achievements of the reformers such as Władysław Baka and Zdzisław Sadowski, and without the policy of Prime Ministers such as Zbigniew Messner and Mieczysław F. Rakowski. It is astonishing that professional discussions are all too often silent on the fact that the core assumptions of the economic ‘refolution’, as it was then called, had been prepared earlier. These were, in fact, right assumptions, even before the program of simultaneous economic liberalization and financial stabilization was spoiled in Q4 1989 by its radicalization and misalignment of the sequence of measures, under the considerable influence of various domestic and foreign advisers. These right assumptions were developed by the team of Andrzej Wróblewski, Minister of Finance in the Rakowski government. In addition to the minister himself, the deputy ministers Ryszard Pazura and

Andrzej Podsiadło and the director of the department responsible for public finance and budget, Wojciech Misiąg, were particularly involved in developing the reform agenda. All three later formed the backbone of the Ministry of Finance, rationalizing macroeconomic policy as much as possible and trying to influence specific solutions implemented as part of structural reforms.

Someone may ask: Then why were their right ideas and proposals not implemented earlier, before the government of Prime Minister Mazowiecki took power? It was because internal and external political barriers made it impossible. The former resulted from the use by the Solidarity opposition of the economically destructive but, from its political point of view, effective tactics of ‘the worse, the better’. The attempts to carry out market-oriented reforms were blocked by protests and strikes so that the situation could not improve, but rather deteriorate. Its improvement could promote the legitimacy of the ‘communist’ power, which was, after all, about to collapse. The latter consisted of the economic sanctions imposed by the West on Poland after the imposition of martial law in late 1981. At the time, the US, significant Western European countries, and Japan had no other option but to introduce them, but over the years it has proved to be an effective weapon for them in the ongoing Cold War between the West and the East. Here, too, the principle of ‘the worse, the better’ applied.

So, it was not a lack of will and competence on the part of governments of the 1980s that led to the lamentable state of the economy at the end of that decade, but the cold wars: the Polish civil war and the world war. The political breakthrough of 1989 changed the conditions fundamentally; what was previously unfeasible² has now become possible, although still very difficult. It is therefore not surprising that all ministries—starting with the most important one: the Ministry of Finance—reached into their drawers to pull out program proposals lying there. After refreshing, many of them could now be useful.

6.5 What If...

Giving in to economic fashion is a minefield. It happens at different times, in many places. A kind of coincidence happened to us that in the years when the economic reforms in the socialist countries were gaining momentum and were turning into the systemic transformation, monetary theory and supply-side economics became very fashionable. If Keynesianism was popular—as it was a few decades earlier, or neo-Keynesianism, as it is today in response to the financial crisis of 2008–2010 (Skidelsky 2009) and to the shock of the coronavirus pandemic after 2019—things

² Although I knew something about what to do and how to do it to reform the Polish economy effectively and put it on the road of sustainable development, in the summer of 1989, I categorically rejected Prime Minister Czesław Kiszczak’s proposal to take up the post of Minister of Finance in the government he was trying to form, fruitlessly as it soon turned out. I did so because what was economically necessary was still politically impossible. Professor Zdzisław Sadowski then said: “It’s a pity—you would see why nothing can be done”.

would have happened differently. Fashion, however, played its part. An American researcher notes: “While in New York, Balcerowicz was exposed to the new theories of supply-side economics, and he carried those ideas back to Poland with him” (Porter-Szücs 2014, p. 330).

This professional American historian and emotionless researcher of Polish history writes: “During the intervening years the dominant economic policy-maker was Grzegorz Kołodko, who was minister of finance from 1994 to 1997 and again from 2002 to 2003. A prolific author and essayist as well as a professor of economics, he has established a worldwide reputation as a critic of supply-side economics. (...) When Kołodko became finance minister he slowed down the process of privatization, made the budget less austere, and expanded some social welfare programs to cushion the landing for those who fell through capitalism’s gaps. The polemic between Balcerowicz and Kołodko has grown quite sharp, as suggested by the title of one of the latter’s books, «From Shock to Therapy»” (ibidem, p. 342). An interesting observation of the author of these arguments is that my approach, not the supply-side economics, was correct and more fruitful. “Balcerowicz complained that the greatest threat to Poland was the rise of “Santa Clauses” who would introduce unsustainable social welfare programs, and Kołodko described libertarianism as “a deviation of a market economy, a deviation of capitalism.” No matter how one assesses the accomplishments of these two men, the swings back and forth between them make it difficult to unambiguously attribute Poland’s overall successes or failures to either approach. The fact that Poland has sustained a robust domestic consumer market is a victory for the demand-side inclinations of Kołodko, and probably the single most important reason the country has mostly (so far) escaped the Great Recession and austerity crisis that has hit the rest of Europe” (ibidem, pp. 342–344).

Interestingly, the Polish translation of the book does not include this passage but contains sentences that are not in the American original. So, the author formulates the view that a consensus of opinion can be reached when considering the matter very broadly, namely in the general attitude towards liberal economics, which, however, does not exclude fundamentally different views on how the liberal economic thought should be used in the practice of economic policy. “In the 1990s, there was premature confidence that meritocracy would eventually gain a dominant position. The opposite poles in the debate on the economy seemed to be represented by Leszek Balcerowicz and Grzegorz Kołodko, an economist closer to the Keynesian approach, who served as Minister of Finance in the SLD governments in 1994–1997 and 2002–2003. They found their differences irreconcilable, but both accepted the basic tenets of liberal economics. Anything outside the Balcerowicz-Kołodko spectrum was considered utopian, regarded as proposals that were not serious, that were unrealistic or simply indicating ignorance” (Porter-Szücs 2021, p. 564). This last sentence is debatable; not everything was treated as such, and certainly, not everyone thought so, as opinions varied considerably.

By the way, it is both puzzling and sad that the truth about the postwar history of Poland—including its economic history—is presented in the book by an American author, while domestic historians do not attempt to confront the challenge. In contrast to Porter-Szücs’s *free from negative emotions narrative about the functioning of*

the Polish economy both in 1944–1989 and during the systemic transformation of 1989–2020, many of them prefer to get entangled in ideologically biased historical politics.

Once again, it would not be inappropriate to refer to the dialectic of continuity and change. In this context, a noteworthy judgment was presented by John Williamson, an eminent Anglo-American economist—author of the term ‘Washington Consensus’, which made such a remarkable career. This supposed unanimity or consensus is, in fact, a structured catalog of recommendations on the desirable directions and instruments of liberalization and stabilization policies, addressed mainly to Latin American economies, entrapped in unpayable debts and high inflation. The principles of these recommendations were basically agreed upon among influential organizations located in the US capital, such as the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the US Departments of State and Treasury, as well as major research institutes such as The Institute for International Finance, hence the terms ‘Washington’ and ‘consensus’.

The cluster of economic policies that it encompassed has been unfortunately applied in Poland. This was also acknowledged by Williamson, noting the misinterpretation of his recommendations, in particular referring to the key issue of privatization, which “...remains a desirable objective, but that more attention needs to be paid to the way in which it is achieved than has often been the case in the past. There needs to be more attention to ensuring that privatization is, and is seen to be, squeaky clean. If that restrains the pace at which it is carried out, so be it. The objective should not be “privatize as fast as you can” (as Kolodko (1998) once claimed the Washington Consensus demanded), but to privatize in a way that will increase efficiency without concentrating wealth” (Williamson 2005, p. 10).

He wrote to me earlier: “I was particularly pleased that you have tried to define the alternative to big bangery in terms of some careful design of individual policy components rather than general go slow. On just about all the individual items you identify, certainly including protection and privatization, I agree with you in retrospect, and indeed I would have agreed with you at the time... But in all honesty, I have to confess that I still worry that had I been in the place of Balcerowicz I might not have put together the decisive package that I think in retrospect Poland needed at the time and that laid the foundation for your successful period in office. Perhaps one needed a little bit of overkill to make it emotionally possible for your allies to accept that the world has changed, and even to give you the opportunity of correcting their excesses and in the process winning their acceptance of the new model? It reminds me of the situation in my home country: I am much more comfortable with Tony Blair than with Mrs. Thatcher, but I am not sure that we could have had him without her” (Williamson 1999³).

The fact is that Blair’s reforms and policies were a continuation of what was right, but also a response to the failings of Margaret Thatcher’s neoliberal reforms and policies, putting the lie to her flagship TINA slogan: There is no Alternative. There undoubtedly was an alternative. Indeed, the reforms and policies of the ‘Strategy for

³ Williamson (1998); personal communication with the author, as quoted in Kolodko (2000, p. 38).

Poland' and later of the 'Program for Restructuring of Public Finances of Poland' and of some other governments after 2005 continued what was rightly pushed forward in 1989–1993, but at the same time they contested the evident errors of neoliberal policies on the one hand and populist tendencies on the other.

Joseph E. Stiglitz also noticed and was able to appreciate the correct, unorthodox line of approach to systemic transformation, writing: "Poland's former deputy premier and financial minister, Grzegorz W. Kolodko, has argued that the success of his nation was due to its explicit rejection of the doctrines of the Washington Consensus. The country did not do what the IMF recommended, did not engage in rapid privatization, and it did not put reducing inflation to lower and lower levels over all other macroeconomic concerns. But it did emphasize some things to which the IMF had paid insufficient attention, such as the importance of democratic support for the reforms, which entailed trying to keep unemployment low, providing benefits for those who were unemployed and adjusting pensions for inflation, and creating the institutional infrastructure required to make a market economy function" (Stiglitz 2002, p. 181). It is worth emphasizing that the author of these words, when he was Vice President for Development and Chief Economist of the World Bank in the late 1990s, was a strong critic of the IMF orthodoxy, although the neoliberal orthodoxy of some neophyte Eastern European economists and politicians was even more radical and harmful.

How wrong, then, were those who irresponsibly and falsely painted a picture of the coming changes when, in the autumn of 1993, democratic elections brought the left-center SLD-PSL coalition to power? Jan Winiecki, who represented Poland in the European Bank for Reconstruction and Development at the time, spoke of the government of national catastrophe; Jan Krzysztof Bielecki, Prime Minister from 1990 to 1991, predicted 300% inflation to emerge as early as in the spring, and Leszek Balcerowicz showed off, making a comment published in 'The Wall Street Journal', threatening with a vision of creeping destruction.

It is understandable that during the implementation of the 'Strategy for Poland' in 1994–1997, as well as later, during the launch of the 'Program for Restructuring of Public Finances of Poland' in 2002–2003, certain mistakes were made as well, which should be self-critically—acknowledged. It is hardly a surprise, and there is no need to quote the trite saying that the only man who never makes mistakes is the man who never does anything. A great deal was being done—and was done—under these programs, yet the mistakes made were negligible. They consisted either of giving in to the coalition parties' proposals or of giving in to the influential lobbies of particular interests of a certain industry or a large state-owned enterprise, or of overlooking a point in the tax law on donations supporting human capital, or of failing to take into account a particular transformation of ownership, or of a doomed attempt to introduce the property declarations into our fiscal system.

Yes—more could have been done and better, but as I said at the time: It is not enough to be right, you still need a majority, and this was not always enough among the political leaders of the SLD-PSL, during government decision-making, in the Sejm and the Senate. I would also add that equally important—and for me sometimes even more important—was the majority public support, which was sometimes

extremely difficult to achieve in the heat of public debate, where the healthy mechanisms of liberal democracy were mixed with the unhealthy manipulations of certain media. The decisive factor was to gain understanding and the majority public support regarding the acceptance of the negotiated terms of accession to the European Union, as this was decided by a majority in a national referendum held on June 7–8, 2003. My mission in the fourth government—this time of Leszek Miller after the previous governments of Prime Ministers Waldemar Pawlak, Józef Oleksy, and Włodzimierz Cimoszewicz—was crowned by the victorious vote in this referendum.

Leaving aside the essentially political rhetoric about the salutary role of ‘shock therapy’ or the ‘country in ruins’, about Prime Minister Donald Tusk’s ‘green island’ or the ‘good change’ of Prime Ministers Beata Szydło and Mateusz Morawiecki, as well as about other only right ways—it is worth asking ourselves a question from the sphere of the so-called alternative history: What if...? What if the government’s predictions about the course of macroeconomic reproduction in 1990–1991 had come true? What if the predictions of the party leader of the Freedom Union, and later its Deputy Prime Minister and Minister of Finance, about doubling national income within a decade had come true? Doubling the level of output would require an average growth rate of 7.2%, so in principle maintaining the dynamics achieved in the fourth year of implementation of the ‘Strategy for Poland’, when GDP grew by 7.1%. What if the unnecessary overcooling of the economy had not only not severely slowed down the growth rate during the years of the AWS-UW coalition government, but also had not implied rickety dynamics for the next few quarters? What if it were not for the mistakes made in the economic policies of various governments?

If such a different path had been followed, in other words, if the policy mistakes, which proved to be very costly from the point of view of economic growth, had been avoided, and if the forecasts concerning the maintenance of the high growth rate after 1997 had come true, Poland’s GDP and, as a result, the standard of living of its population would already have been much higher. Instead of being between Portugal and Estonia with an income of around \$33,000 (according to PPP), we could already be at a much higher level of development. If one persistently claims that there was no alternative to ‘shock therapy’, then one must agree that such a collapse of economic dynamics as was brought about at the end of the 1990s by the policies of the neoliberal government, this time with a dash of Solidarity populism, was not inevitable. We could therefore enjoy per capita income of well over \$40,000, placing us somewhere between the Czech Republic and Italy, on the one side, and South Korea and France, on the other side. The losses suffered in this field are now irrecoverable. Future growth in production and consumption will not compensate for past losses. Opportunities that existed have been missed.

Well, more could certainly have been achieved if mistakes had been avoided. Another alternative history—what if?—is always based on numerous and inherently questionable assumptions. This time is no different. We know for sure that things would be better if it were not for the handicaps of certain phases of the transformation. The most important thing is to draw practical conclusions from this knowledge for the future.

References

- Åslund, Anders (1995), *How Russia Became a Market Economy*, The Brookings Institution, Washington, D.C.
- Bauer, Tamás (1978), *Investment Cycles in Planned Economies*, „Acta Oeconomica”, Vol. 21, No. 3, p. 243–260.
- Frydman, Roman, Stanislaw Wellisz, Grzegorz W. Kolodko (1991), *Stabilization Policies in Poland: A Progress Report*, in: Emil-Maria Classen (ed.), *Exchange Rate Policies in Developing and Post-Socialist Countries*, International Center for Economic Growth Publication, ICS Press, San Francisco, p. 89–115.
- Galbraith, James K. (2014), *The End of Normal: The Great Crisis and the Future of Growth*, Simon and Schuster, New York.
- Grinberg, Ruslan S. (ed.) (2021), *Gorbaczew: Urok swobody [Gorbachev: The charm of freedom]* Izdatelstwo Wies Mira, Moskwa [in Russian].
- Gruszczyński, Marek, Grzegorz W. Kolodko (1975), *Regularność wahań tempa wzrostu gospodarczego [Regular fluctuations in the rate of economic growth]*, „Gospodarka Planowa”, No. 7–8, p. 421–429 [in Polish].
- GUS (2021), *Roczne wskaźniki cen towarów i usług konsumpcyjnych od 1950 roku [Annual price indices of consumer goods and services since 1950]*, Główny Urząd Statystyczny [Central Statistical Office], Warszawa (<https://stat.gov.pl/obszary-tematyczne/ceny-handel/wskazniki-cen/wskazniki-cen-towarow-i-uslug-konsumpcyjnych-pot-inflacja-roczne-wskazniki-cen-towarow-i-uslug-konsumpcyjnych/>; access: 13.12.2021) [in Polish].
- IMF (2000), *World Economic Outlook: Focus on Transition Economies*, International Monetary Fund, Washington, D.C., September (<https://www.imf.org/en/Publications/WEO/Issues/2016/12/31/Focus-on-Transition-Economies>; access: 13.12.2021).
- Jakubowicz, Andrzej (2020), *Spadek i wzrost gospodarczy w okresie transformacji polskiej gospodarki [Economic decline and growth in the period of transformation of the Polish economy]*, „Biuletyn PTE”, No. 1, p. 49–57 [in Polish].
- Kieżun, Witold (2013), *Patologia transformacji [Transformation pathology]*, Wydawnictwo Poltext, Warszawa [in Polish].
- Kolodko, Grzegorz W. (1989a), *Reform, Stabilization Policies and Economic Adjustment in Poland*, “WIDER Working Papers”, 51, World Institute for Development Economics Research of the United Nations University, Helsinki.
- Kolodko, Grzegorz W. (1998b), *Economic liberalism became almost irrelevant*, “Transition”, Vol. 9, No. 3, p. 1–6.
- Kolodko, Grzegorz W. (2005), *Lessons for the emerging markets from Poland's great change*, “Communist and Post-Communist Studies”, Vol. 38, No. 3, p. 369–379.
- Kolodko, Grzegorz W. (2000), *From Shock to Therapy: The Political Economy of Postsocialist Transformation*, Oxford University Press, Oxford – New York.
- Kolodko, Grzegorz W., D. Mario Nuti (1997), *The Polish Alternative: Old Myths, Hard Facts and New Strategies in the Successful Transformation of the Polish Economy*, „Research for Action”, 33, The United Nations University World Institute for Development Economics Research, WIDER, Helsinki (<https://www.wider.unu.edu/sites/default/files/RFA33.pdf>; access: 13.12.2021).
- Kolodko, Grzegorz W., Danuta Gotz-Kozierkiewicz, Elżbieta Skrzyszewska-Paczek (1992), *Hyperinflation and Stabilization in Postsocialist Economies*, Kluwer Academic Publishers, Boston – Dordrecht – London.
- Kozłowski, Paweł (2021), *Spotkania z Andrzejem Walickim [Meetings with Andrzej Walicki]*, Instytut Wydawniczy Książka i Prasa, Warszawa [in Polish].
- Koźmiński, Andrzej K. (2008), *How it All Happened: Essays in Political Economy of Transition*, Diffin, Warszawa.

- Król, Marcin (2014), *Byliśmy głupi* [We were stupid], Interview given to Grzegorz Sroczyński, „Gazeta Wyborcza – Magazyn”, February 8–9, (<https://wyborcza.pl/magazyn/7,124059,15414610,bylismy-glupi.html>); access: 13.12.2021 [in Polish].
- Król, Marcin (2015), *Byliśmy głupi* [We were stupid], Wydawnictwo Czerwone i Czarne, Warszawa [in Polish].
- Kuroń, Jacek (2002), *Caté życie jestem marzycielem*, [I've been a dreamer all my life], Interview „Three for one” given to Edward Chudziński, Stefan Cieply, Filip Ratkowski, „Zdanie”, No. 1–2, p. 3–17 [in Polish].
- Laski, Kazimierz (1990), *The Stabilization Plan for Poland*, „Wirtschaftspolitische Blätter”, No. 5, p. 444–458.
- Marx, Karl, Friedrich Engels (2000), *The Communist Manifesto*, Martino Fine Books, Eastford, CT.
- Mazowiecki, Tadeusz (1989), *Wystąpienie Tadeusza Mazowieckiego w Sejmie 24 sierpnia 1989 r.* [Tadeusz Mazowiecki's speech in the Sejm on August 24, 1989], „Dzieje.PL Portal historyczny” (<https://dzieje.pl/aktualnosci/wystapienie-tadeusza-mazowieckiego-w-sejmie-24-sierpnia-1989-r>); access: 13.12.2021 [in Polish].
- Michnik, Adam (2021), *Kto się boi, powinien spać pod pierzyną* [Who is afraid, should sleep under the duvet], Interview „Three for one” given to Patrycja Dołowy, Jan Ordyński, Paweł Sękowski, „Zdanie”, No. 1, p. 3–16 [in Polish].
- Modzelewski, Karol (2013), *Moje spory z Mazowieckim* [My disputes with Mazowiecki] Interview given to Cezary Łazarewicz, „Wprost”, November 2 (<https://www.wprost.pl/423413/modzelewski-moje-spory-z-mazowieckim.html>); access: 13.12.2021 [in Polish].
- Nuti, Mario D. (1990), *Crisis, Reform, and Stabilization in Central Eastern Europe: Prospects and Western Response*, in: *La Grande Europa, la Nuova Europa: Opportunità e Rischi*, Monte dei Paschi di Siena, Siena.
- Nuti, Mario D. (2019), „Strategia dla Polski”: *na ratunek polskiej transformacji* [„Strategy for Poland”: *to the rescue of the Polish transformation*], in: Grzegorz W. Kołodko, Jacek Tomkiewicz (eds.), „Strategia dla Polski”: *Ćwierć wieku później* [„Strategy for Poland”: *A quarter of a century later*], Wydawnictwo Naukowe PWN, Warszawa, p. 77–89 [in Polish].
- Ost, David (2005), *The Defeat of Solidarity: Anger and Politics in Postcommunist Europe*, Cornell University Press, Ithaca – London.
- Piatkowski, Marcin (2018), *Europe's Growth Champion: Insights from the Economic Rise of Poland*, Oxford University Press, Oxford – New York.
- Piketty, Thomas (2014). *Capital in the Twenty-First Century*, The Belknap Press of Harvard University Press, Cambridge, Massachusetts – London, England.
- Podkaminer, Leon (1992), *Macroeconomic Policy for the Transitional Reforms in the Centrally-Planned Economies*, in: János M. Kovács, Marton Tardos (eds.), *Reform and Transformation in Eastern Europe: Soviet-type economics on the threshold of change*, Routledge, London and New York, p. 263–282.
- Podkaminer, Leon (2021a), *Gdyby nie Kołodko* [If not for Kołodko], „Przegląd”, March 8–14, p. 41 [in Polish].
- Pol, Marek (2019), *Uwarunkowania i długookresowe skutki programów restrukturyzacji przemysłu i rozwoju infrastruktury w „Strategii dla Polski”* [Determinants and long-term effects of industrial restructuring and infrastructure development programs in the „Strategy for Poland”], in: Grzegorz W. Kołodko, Jacek Tomkiewicz (eds.), *Strategia dla Polski: Ćwierć wieku później*, [„Strategy for Poland”: *A quarter of a century later*], Wydawnictwo Naukowe PWN, Warszawa, p. 141–161 [in Polish].
- Porter-Szücs, Brian (2014), *Poland in the Modern World: Beyond Martyrdom*, Wiley Blackwell, Malden, MA – Chichester, West Sussex, UK.
- Porter-Szücs, Brian (2021), *Całkiem zwyczajny kraj: Historia Polski bez martyrologii* [Quite an ordinary country: Polish history without martyrdom], Wydawnictwo Filtry, Warszawa [in Polish].
- Poznanski, Kazimierz (1996), *Poland's Protracted Transition: Institutional Change and Economic Growth*, Cambridge University Press, Cambridge.

- Rosati, Dariusz K. (1991), *The Polish Road to Capitalism: A Critical Appraisal of the Balcerowicz Plan*, “Thames Papers in Political Economy”, School of Social Sciences, Thames Polytechnic, London.
- Sachs, Jeffrey (1994), *Poland’s Jump to the Market Economy*, MIT Press, Cambridge, Mass.
- Sachs, Jeffrey (2014), *Ja tylko doradzałem. Z Jeffreyem Sachsem rozmawia Rafał Woś [I was just advising. Rafał Woś talks to Jeffrey Sachs]*, „forsal.pl”, June 8 (<https://forsal.pl/artykuly/802085jeffrey-sachs-ja-tylko-doradzalem.html>); access: 13.12.2021) [in Polish].
- Sachs, Jeffrey (2020), *Polska transformacja i perspektywy: Wystąpienie na X Kongresie Ekonomistów Polskich [Polish transformation and prospects. Speech at the 10th Congress of Polish Economists]*, in: Bogusław Fiedor, Marian Gorynia, Elżbieta Maczynska (eds.), *Nauki ekonomiczne i wyzwania współczesności: Fundamentalne problemy w teorii i praktyce [Economic Sciences and Modern Challenges: Fundamental Problems in Theory and Practice]*, Polskie Towarzystwo Ekonomiczne, Warszawa, p. 255–260 [in Polish].
- Sachs, Jeffrey (2006), *The End of Poverty: Economic Possibilities for Our Time*, The Penguin Press, New York.
- Skidelsky, Robert (2009), *Keynes: The Return of the Master*, Perseus Books, New York.
- Stiglitz, Joseph E. (2002), *Globalization and Its Discontents*, W.W. Norton & Company, New York.
- Tanzi, Vito (2011), *Government versus Markets: The Changing Economic Role of the State*, Cambridge University Press, New York.
- Ukrinform (2021), *Shmyhal forecasts 4% Ukraine’s GDP growth at yearend*, Ukrinform. Ukrainian multimedia platform for broadcasting, 7.10.2021 (<https://www.ukrinform.net/rubric-economy/3328970-shmyhal-forecasts-4-ukraines-gdp-growth-at-yearend.html>); access: 13.12.2021).
- Vonyó, Tamás (2017), *War and Socialism: why Eastern Europe Fell Behind between 1950 and 1989*, „The Economic History Review”, Vol. 70, Issue 1, p. 248–274.
- Walicki, Andrzej (2013), *Od projektu komunistycznego do neoliberalnej utopii [From a communist project to a neoliberal utopia]*, Universitas – Polska Akademia Nauk, Kraków.
- WB (2021), *World Development Database: GDP per capita, PPP (current international \$)*, The World Bank, Washington, D.C. (<https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>); access: 12.12.2021).
- Williamson, John (2005), *Differing Interpretations of the Washington Consensus*, „Distinguished Lectures Series”, No. 17, Leon Kozminski Academy of Entrepreneurship and Management, Warsaw (<http://www.tiger.edu.pl/publikacje/dist/williamson.pdf>); access: 13.12.2021).
- Winiecki, Jan (1991), *Costs of Transition That Are Not Costs: On Non-Welfare-Reducing Output Fall*, „Rivista di Politica Economica”, No. VI, p. 85–94.
- Wprost (2008), *Kołodko kontra Friedman [Kolodko versus Friedman]*, Prepared by Krzysztof Trębski, „Wprost”, November 9, p. 60–61 [in Polish].

Chapter 7

Shortageflation 3.0: War Economy–State Socialism–Pandemic Crisis



The risk now is that strains in the economy lead to a repudiation of decarbonization and globalization, with devastating long-term consequences. That is the real threat posed by the shortage economy.
“The Economist”, 2021

7.1 Different Faces of Inflation

Are we to expect a significant acceleration of inflationary processes? While some fear this or predict almost another disaster, others, on the contrary, compete in presenting minimalist forecasts of price increases. As is always the case when different opinions are confronted, this time it is also necessary to properly identify the object of controversy and correctly define the economic categories around which the discussion revolves. When searching for an explanation of the possible evolution of the state of affairs as regards inflation in the context of a humanitarian, but also social and economic disaster which is the global pandemic, it would be appropriate to present an adequate taxonomy of inflationary processes. Inflation is one of the more complex economic processes that is as much monetary as social in its nature. On the one hand, it depends on and is influenced by politics, but at the same time, it is closely associated with the decisions of microeconomic actors: households and businesses of all types. Although the syndrome of contemporary inflation is unique, it has some similarities to what states, societies, and economies have already gone through. Therefore, it is also worth reaching to comparative studies that can somehow indicate what might happen and suggest what to do and what to avoid.

Except for Japan, experiencing deflation for another year in a row—otherwise negligible, as the overall price level there has fallen by a trace 0.2% in 2021—inflation is making itself felt around the world. In previous years, it has been kept under control at a low level that was basically harmless for the economy. This is creeping inflation. There have been exceptions of galloping inflation, as in Argentina

and Turkey, where the consumer price index, CPI, was already high at the end of 2021, at around 51% and 36%, respectively, and even hyperinflation, as in economically devastated Venezuela (CPI for December 2020 to December 2019 around 2960%) and Zimbabwe (around 350%).

In an overwhelming majority of countries, in response to the pandemic crisis, governments and central banks injected record peacetime amounts of money into the economy. Although nowadays they are generally not in paper form, the above process is most often referred to as printing money. If, therefore, a mass of money has been ‘printed’ without being covered by the real offer of goods, the question is posed as to why inflation has not accelerated even further? Others, on the other hand, believe that it is already substantially higher than it was a few months earlier: “The inevitable has begun. America’s CPI in March was 2.6% higher than a year earlier, when prices collapsed as the pandemic struck. The increase in inflation from 1.7% in February was the biggest rise since 2009; the last time the economy was recovering from a deep shock. Several more months of high numbers—by rich-world standards—are coming. The CPI could reach over 3.5% by May 2022” (Economist 2021b). A year later, in April 2022 compared with the previous April, it was 8.3% and the commentators were stressing that it was less than a month earlier, when the CPI stood at 8.5%. What is important in this observation is that it applies to standards relevant to rich countries, and let us remember that one-seventh of the people living there have been producing less than half of the world’s output for several years.

Well, inflation has already increased, which is visible to the naked eye. This is clearly felt by households and entrepreneurs in countries such as the US and Poland, among others, where the rate of increase in the general price level in December 2021 compared to December of the previous year was 7.0% and 8.6%, respectively. In Poland, in April 2022, it was already 13.7%. But that is not all, as we are dealing with inflation that is to some extent suppressed. Indeed, the money supply, which increased in the earlier phases of the fight against the pandemic, was, to no small extent, *de facto* withdrawn from circulation in the sense that it was frozen in the form of forced savings made when part of the economy was blocked. However, this is a temporary state and, eventually, these funds will make themselves felt—or, to be more precise, they are felt—through five channels:

1. an increase in the effective demand that entails an increase in production and employment,
2. an increase in imports resulting in increased supply, but also a deterioration in the balance of payments,
3. an increase in voluntary savings,
4. an increase in prices of commodities and assets, including shares and real estate,
5. an inflationary increase in prices.

We do not know their proportions *ex ante*, the more so because the problem is contextual. For example, the second channel is easier to be used by countries that have previously been characterized by the surplus of the balance of payments or

substantial foreign exchange reserves. From this point of view, Germany and Russia, for example, are in a better position, while the standing of the US and Brazil is relatively worse. However, we know that in any case, it is worth maximizing the sizes of the first and third channels.

Let us add that, regardless of the exceptional nature of the pandemic, a long-term upward trend in the overall savings rate can be seen in many economies, especially if it was previously low, as was in the European post-socialist countries. The increased propensity to save, so to put aside a growing proportion of disposable income, is associated with uncertain future prospects, the aging of the population, and changing consumption patterns.

In the classical economic theory, inflation is understood as an increase in the general price level. In the liberalized market economy, it can be caused by the rising costs pushing up prices (cost-push inflation) or by the flow of excessive demand pulling up prices (demand-pull inflation). In the economic reality, these two forms coincide, although with uneven force. For households, it does not matter much; prices are rising, so the costs of living are rising, and that is why we do not like inflation. This does not matter much in general and on average in the economy, but it does in individual cases. Sometimes, cost-push inflation is beneficial to some households if its mechanism is linked to an increase in labor costs, which for a particular household may mean that its wage income rises faster than its costs of living.

We do not like inflation because it is an increase in the general price level, and the average of this increase is a resultant of diversified changes in the prices of individual goods and services. Currently, this diversification, due to supply and demand, shocks caused by the pandemic, is exceptionally high and, by the way, irritating. The dispersed movements in the prices of various commodities, compared with their steadier average growth, result in a far greater extent of economically unjustified income redistribution, which does not result from changes in productivity. Nominal income diversification is therefore important, as the structure of expenditure, and hence the associated severity of inflation, depends on it. Differences in the dynamics of individual prices cause the inflation to be perceived by the society as much higher than it actually is.

The pandemic has changed the structure of spending and consumption, and the things we are buying more now got relatively more expensive. Nevertheless, opposite trends can also be observed. In particular, the prices of digital services, whose share in purchases is growing, have dropped. Without going into a detailed analysis of the adequacy of the basket of goods and services used in statistical surveys of household budgets, which in theory is representative but in practice never is, it should be said that the resultant of all these changes raises the inflation rate (Reinsdorf 2020). Moreover, the officially calculated retail price index for goods and services purchased by households does not take into account the rising prices of real estate, especially housing.

But people are not heartless analysts. They do not count averages or estimate shares and relative weights of particular groups of goods and services included in their consumption basket. Instead, they are easily influenced by the fragmentary information coming from their own observations and from often misleading suggestions

of public commentators. In the morning, over breakfast listening to one of the radio stations, people hear that prices are skyrocketing, as selective examples are supposed to prove. In the evening, the TV news on another channel shows them that prices have risen very moderately and that the government is doing what it can to make wages rise noticeably faster. In the morning, it is bad, and in the evening, it is good; in the morning, we are in one country, and in the evening in another, although all the time it is the same realm. When it comes to the opinion on high prices, the psychological mechanism works like that: a person leaving a hairdresser says “everything is getting more expensive, by several percent!” (in Poland the prices of hairdressing and beauty services in 2020 increased on average by 11.1%), but when leaving a gas station, the same person does not claim that “everything is getting cheaper, by more than 10%!” (in 2020 fuel prices decreased by 10.7%). This subjective aspect is important as it reinforces inflationary expectations. Since the public perception is that “everything is getting more expensive” on a large scale, then in the real world it may continue to get more expensive than the hard balance relations on the market would indicate because prices adapt to some extent to social expectations in this matter.

Moreover, as the costs of living are going up, it is necessary to request compensation, that is, an increase in wages and benefits. Preferably in excess: not by as much as the prices rise according to the government, but by as much as they ‘really’ rise. This type of wage revindication may prove all the more effective, the more it is accompanied by labor shortages in certain segments of the labor market—which is the situation in many countries of medium and highly developed economies—and the stronger the bargaining position of trade unions. This exacerbates inflationary pressures and, worse still, sets off the spiral of wages (and hence costs as well) and prices. It is therefore so important to take all necessary measures that would cool down the inflationary expectations of people.

7.2 Inflation Suppression

The problem does not end here, by no means. If it did, handling inflation and keeping it under control would be relatively less complicated. Unfortunately, it is—because again we are dealing not only with price inflation, also referred to as open inflation, but also with suppressed inflation, also known as hidden inflation. The latter type is known from the past (Charlesworth 2003; Kolodko 1984; Nuti 1986). In the rich countries of the West, it took its toll during the Second World War. The administrative, politically imposed by governments, freezing of prices at a relatively low level that did not balance the supply and demand, was accompanied by forced savings, which financed military efforts. They took the form of unintended financial resources. People saved some of their disposable income not because they wanted to, but because they were forced to do so by the lack of consumer goods in free sale. A range of goods from coffee to shoes was rationed in the US. Due to the conversion of industry to military production, it was forbidden to produce consumer luxuries

Table 7.1 Changes in the production level and the inflation rate in the US and the UK in the years 1946–1949 (in percent)

	Year	1946	1947	1948	1949
US	GDP	−11.6	−1.1	4.8	−0.6
	CPI	18.1	8.8	3.0	−2.1
UK	GDP	−2.5	−1.3	3.2	3.3
	CPI	3.1	7.0	7.7	2.8

Source For the US, GDP: US GDP (2021), CPI: US Inflation (2021); for the UK, GDP: MeasuringWorth (2021), CPI: Historical UK (2021)

such as bicycles or refrigerators. It is hard to believe that in 1943 only 139 passenger cars were sold there (Economist 2021a).

When the war ended, despite the general recession, to which also the business cycle contributed, there was a boom in consumer sectors of industries and services. It was caused by households that rushed in great numbers to the market with their previously forced savings. Five years after the war, there were more than eight million cars produced in the US. The way in which the US recovered from suppressed inflation was creative. It was substantial from 1946 to 1947, but they managed to prevent it from turning into destructive galloping inflation (Table 7.1).

It is worth recalling that after the First World War, many countries experienced hyperinflation devastating their economies (Lopez and Michener 2018). This time, after the Second World War, on both sides of the Atlantic, savings resulting from the forced deferral of part of unsatisfied demand turned into an additional flow of demand, over and above that created by current income. This gave an excellent boost to the economy, rapidly increased the use of existing production capacities, subsidized investment expansion creating new capacities, and supported the conversion of parts of the arms industry to peacetime production. Instead of providing tanks to the army, tractors were sold to farmers; instead of delivering guns to soldiers, typewriters were supplied to journalists; instead of transporting the army to Europe using ships, passenger ships began to carry tourists. Of course, there were exceptions. The most spectacular was Hungary, which experienced the greatest inflation in history. By the middle of 1946, prices were doubling every 15 h, rising by more than 200% per day!

After that experience—apart from short-lived and unsuccessful incidents of price and wage freezes—suppressed inflation was something unknown in highly developed capitalist economies, but they sometimes suffered from high price inflation, occasionally combined with rising unemployment and low production dynamics. This was stagflation (Blinder 1979) and, in extreme cases—where rising prices were accompanied by falling output—slumpflation. The inability of the governments of the time to cope with high inflation, which reached 13.3% in the US in 1979 and 18% in the UK the following year, was one of the factors that brought Ronald Reagan and Margaret Thatcher to power.

Suppressed inflation, like a malignant cancer, yet on a varying scale, devastated the socialist economy (Portes 1977). Let us designate it as 2.0. Initially, the economic

literature of countries with centrally planned economies euphemistically described it as merely inflationary pressures and inflationary phenomena, discussed economic imbalances and changes in the price level, while the Western literature wrote about hidden inflation (Howard 1976; Steiner 1983). It was quite widely assumed that actual inflation rates were 1–2% points higher than indicated by official data (Adirim 1983; Wiles 1982).

It is a fact that, to a certain extent, traditionally understood inflation was successfully concealed by suppressing price rises through political decisions—against the logic of the market economy, with which the centrally planned economy of that time had little in common—but this was akin to an ostrich burying its head in the sand. What the government and the official, bureaucratic economy, did not want to perceive, was seen—or rather felt in the form of severe shortages of consumer goods—by every housewife and every supplier in a state enterprise. No wonder, the most extensive departments in them were procurement departments and not sales departments, as is the case in a balanced market economy. It was very easy to sell but difficult to buy.

Over time, much more has been said about the complex nature of inflation in bureaucratized socialist economies. Undoubtedly, János Kornai's work was groundbreaking in academic discussions on the subject. Then, in the 1980s, inflation was least severely felt in the orthodox socialist countries, the former Czechoslovakia and East Germany, and most severely in the economies undertaking tentative market-oriented reforms, Poland and Hungary, and especially in Yugoslavia characterized by a relatively high degree of decentralized economic governance. Worse still, as a result of inconsistent reforms that liberalized trade only partially, but did not introduce sufficiently hard budgetary constraints and systemic barriers for the creation of excessive demand impossible to be balanced by the supply-side capacity of the economy (including imports), shortages of goods were accompanied by the process of price growth. This syndrome is called *shortageflation* in the world literature (Kolodko 1986). Although things were getting more and more expensive, they were not always buyable. It was not the desire for full political freedom and democracy, as is claimed today, that was the main cause of the collapse of that system, but the escalation of this form of inflation, which contributed to the deterioration of business efficiency and the annoyance of the daily life of people.

Unlike the recovery from *shortageflation* 1.0 in the highly developed capitalist countries, especially in the US and the UK (Hicks 1947), during the post-socialist political transition, the recovery from the realities of price and resource inflation, i.e., *shortageflation* 2.0, was disastrous (Kolodko 1991; Mundell 1995 and 1996). To a large extent, this was due to succumbing to the pressures of the neoliberal economic doctrine, which at that time had become popular and had a considerable impact on the economic policy and direction of reforms implemented in the countries of Central and Eastern Europe and the post-Soviet republics. As a result, a very deep so-called transformational recession lasted from three years in Poland to ten years in Russia, where the level of GDP fell by more than half. As a result of erroneous program assumptions and faulty implementation of the stabilization package, we saw a kind of transition from a *shortageflation* to *slumpflation* syndrome. In Poland,

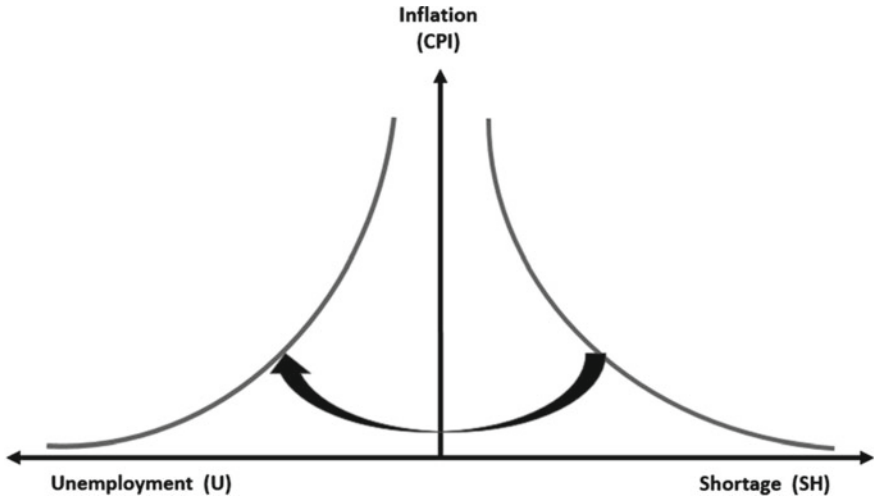


Chart 7.1 From shortageflation to slumpflation. *Source* Author’s own

the stabilization policy of late 1989 and 1990–1991 was based on a rather primitive attempt to use the concept of the ‘Washington Consensus’, which did not fit the institutional and cultural realities of the time. As a result, open (price) inflation in the first months of 1990 was even higher than in the final months of 1989, and shortages (a manifestation of suppressed inflation) were replaced by a rapidly growing mass unemployment (Kolodko 1992). After two years of recovery from the *shortageflation* 2.0 syndrome using “shock therapy”, GDP was nearly a fifth lower and prices almost twelve times higher! (*vide* Table 6.1) (Chart 7.1).

Interestingly, only China (Lin 2004) and Vietnam (Kolodko 1990; Popov 2006; Kornai and Qian 2009), owing to gradual reforms and prudent policies, got out of the nightmare of the shortage economy, avoiding a multi-year recession and without provoking an outbreak of hyperinflation (Gutián, Mundell 1996). The authoritarian political system was helpful. In China, the successful elimination of shortages, accomplished relatively quickly, was accompanied by economic growth, while the price inflation associated with the release of prices remained low (Table 7.2).

Table 7.2 Changes in the level of production and the inflation rate in China in the years 1990–1993 (in percent)

	1990	1991	1992	1993
GDP	3.8	9.2	14.2	14
CPI	3.1	3.4	6.4	14.7

Source National Bureau of Statistics of China

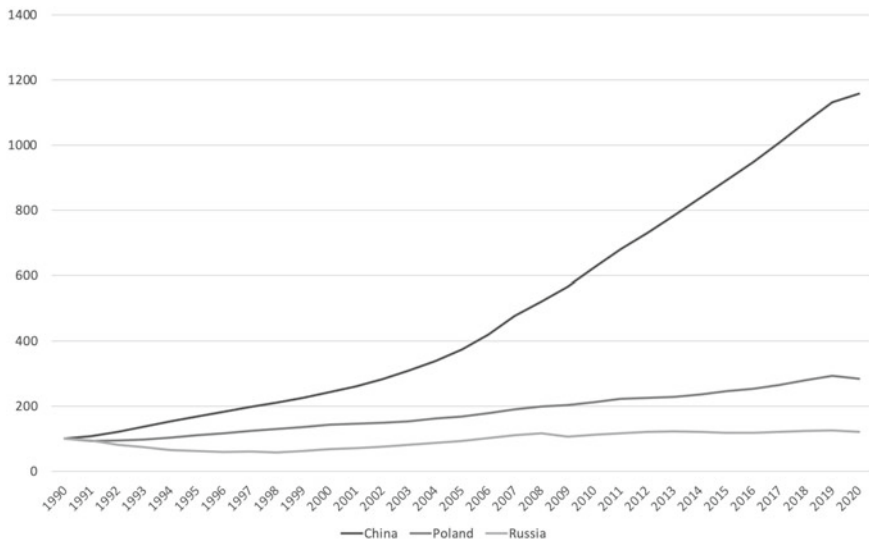


Chart 7.2 GDP per capita of China, Poland, and Russia, 1990 = 100 (PPP, constant international dollar 2017). *Source* For years 1989–2019: WDI (2021). For the year 2020: China and Russia WEO (2021), Poland GUS (2021)

The far-reaching effects of those shocks and the subsequent processes of macroeconomic reproduction are still clearly visible, and their consequences—including geopolitical ones (Bell 2015)—are wide-ranging (Chart 7.2).

The prevailing view is that in the case of the Soviet and East European socialism state ownership of the means of production was the cause of soft budget constraints, and these, in turn, were the reason for inflation—more or less suppressed, or more or less open, depending on time and place, so on the systemic and political context. So it was, but did it inevitably have to be that way? János Kornai argued that this is so as long as state ownership dominates (Kornai 1992). Mario Nuti, in turn, claims that under socialism, theoretically speaking, equilibrium prices clearing the market could be present without the need to introduce a regime of hard budget constraints through privatization of the means of production (Nuti 2018). The fact that this did not happen was not due to the nature of the system but to imperfections of the economic policy.

In the European socialist countries, they tried but failed. In China, as well as in Vietnam and in very underdeveloped Cambodia and Laos, they managed to succeed. Was Kornai wrong then? Are equilibrium prices clearing the market also possible under socialism? In places where it works well, does it involve hard or soft budget constraints? What are the implications of the evolution of the Chinese economic system? Is it socialism with a balanced market, and more specifically, with the market characterized by overproduction and unemployment, as the flow of supply exceeds the flow of demand, or is it capitalism with still partly soft budget constraints? (Ellman 2021).

I say that neither one nor the other. The contemporary Chinese political system is qualitatively different from both state socialism with its inherent soft budget constraints, as well as from liberal capitalism, where hard constraints generally prevail (Huang 2017). It is a specific systemic hybrid, in which multiple forms of ownership of the means of production coexist and which, in a particular intertwining of authoritarianism and meritocracy, creatively combines automatic market regulation with interventionist state regulation. Thus, Kornai's thesis that the elimination of shortages absolutely requires a transition to the capitalist market economy based on the dominance of private ownership is not correct, but Nuti's supposition that it was possible to eliminate shortages in the state socialist economy also remains debatable. In practice, no one has proved this, unless we accept as true the claim that the prevailing regime in China is socialism, but with 'Chinese characteristics' (Hu 2019).

In the countries of Central and Eastern Europe and the former Soviet republics, the initial phase of post-socialist political transformation was accompanied by galloping inflation, and in some cases hyperinflation, also because they did not manage to make use of the accumulated forced savings to boost the economy (Blejer and Skreb 2001; Popov 2014). Although it was postulated, this specific resource was not converted into a completely new instrument in the post-socialist reality—into funds invested in securities. Then, their surrogates could be issued in anticipation of the latter implementation—already after the stabilization of the economy and the creation of foundations of an institutional basis of the capital market—of an extensive program of privatization of state assets. Instead, the savings of people—not only those forced but also some voluntarily held reserves—were drained.

The shock without therapy led to a drastic fall in production and, therefore, a noticeable reduction in the level of real supply from domestic production. This was a consequence of an obvious miscalculation of the stabilization policy, especially the exorbitant interest rates on old loans, the repressive taxation of wage increases in state-owned enterprises, the excessive scale of devaluation of the zloty, and too rapid liberalization of foreign trade. These were overlapped with ideologically motivated actions intentionally targeting the state sector, which forced the prices to rise even higher than they would inevitably increase as a result of price liberalization initiated on a large scale back in 1989. The decline in the total supply was prevented by an explosion of private imports financed by the previously dormant multi-billion stocks of convertible currencies that had been hoarded by households and, in the final years of socialism, when it was made possible, by the gradual liberalization of the economy, including the rigors of foreign trade settlement, also by businesses. As a result, in 1990, the inflation rate reached the staggering level of 586%, and a year later, it was over 70%. The shock without therapy transformed the monetary overhang into an inflationary avalanche with its dire consequences both for the real economy as well as for the redistribution of wealth and income of people.

7.3 Economics of Flows and Economics of Stocks

The American way of recovering from *shortageflation* 1.0 was commendable, the Chinese way of recovering from *shortageflation* 2.0 was good, if we limit ourselves to assessing purely economic aspects, while the Polish way of recovering from the same was very bad. Now, in a way that is difficult to predict, yet imaginable, price and resource inflation has reappeared: this is its 3.0 version. Interestingly, this phenomenon can be extended beyond the period affected by the pandemic because of turbulence in the supplies of certain goods and services resulting from the war in Ukraine and retaliatory sanctions imposed on Russia.

We should be surprised by the economists who do not notice this and who claim that ‘printing money’ does not at all intensify the waves of inflation. Some of them point to the situation from the years 2008 to 2010, when the supply of money was rapidly increased and it did not result in accelerating inflation. At that time, the production and supply side efficiently absorbed the additional mass of money, saving the real economy from depression after a brief, only a year-long recession, through positive adjustment processes; the gross world product declined by 1.7% only in 2009, to increase again by 4.3% the following year. With those unconventional reactions of the economic policy, the practice has been enriched with a new instrument of state interventionism, and the economic theory with a new term—quantitative easing (Blanchard et al. 2012). Central banks acquired substantial amounts of government bonds, issued to finance additional anti-crisis public spending, on the secondary market.

However, the current situation is different from that several years ago, as inflation is higher than it can be read only from the analyses of price indices, both from the Consumer Price Indices as well as Producer Price Indices. Worse still, it can become even higher if the current monetary and market conditions are misinterpreted, which may happen if the economics of flows is confused with the economics of stocks. In the crisis we are currently experiencing, a significant part of the flow in the form of an inflation gap, meaning a surplus of effective demand over the flow of aggregate supply, has transformed into savings forced by the market situation, that is the monetary overhang. As the pandemic subsides, some of these stocks turn back into the flow. Given that in practice inflation-free offset of demand growth by a hypothetical conversion of the entire resource is not possible, the smaller the converted part, the better, as the milder the inflationary impulse will be. The economic policy must bear this in mind.

There is little that can be achieved here simply by raising interest rates, but there is no escape from resorting to this monetary policy instrument either. Attempts to counter inflation using this method must be approached very prudently this time because, in the economic sphere, the coronavirus pandemic has created not only a considerable inflationary potential but also serious unemployment. If central banks decide to raise interest rates too rapidly in the wake of accelerating price inflation, this may—but does not have to—block price increases, but at the expense of a slower

recovery of old jobs, lost to the crisis, and the creation of new ones. In the short term, an alternative clearly manifests itself: inflation *versus* unemployment.

So far, after the unpleasant experience of high inflation of the 1970s, a monetarist doctrine has prevailed together with a resulting practice that required that inflation was counteracted even at the expense of weakening economic dynamics and increasing unemployment. It is different now and it is no longer possible to treat high unemployment and the accompanying growth of poverty and various pathologies, from social exclusion to crime, as inevitable side effects of the battle against inflation. There is already a change in the approach of some central banks visible, who emphasize the imperative of tackling unemployment by stimulating the economy in parallel with mitigating inflation. According to the new rules of monetary policy adopted in 2020, the US Federal Reserve has moved to the so-called average inflation target as a reference point of its policy. The Fed now emphasizes maximizing employment also as an important objective, suggesting that inflation may temporarily exceed the previously set target of 2%, as long as it helps more people find employment. A similar departure from the previous practice has been announced by the Bank of Japan, and it was introduced even earlier, after 1980, by the Reserve Bank of New Zealand, perhaps the most orthodox central bank in the world in this respect.

The monetary policy should follow such a road in the difficult mission of simultaneously overcoming the effects of the pandemic crisis in production and employment, on the one hand, and rationally curbing inflation, on the other. The answer to the question of what is 'rational' is contextual and depends on the specific situation of the country. In the case of the US, this implies accepting inflation higher than the 2% threshold previously adopted by the Fed. Other central banks will also have to reformulate their missions and redefine their monetary policy objectives. This becomes much more difficult than manipulating the interest rate so that the actual inflation rate deviates by no more than 1% point from a given particular inflation target.

Central banks can be expected to exercise restraint in raising interest rates also because keeping the nominal interest rates below the rate of inflation, and thus persisting with negative real interest rates, will depreciate household and corporate financial reserves. It is understandable that for political reasons, such behavior will be justified as a concern for the stimulation of investment and production as well as employment. Either way, a relatively long period of negative real interest rates is to be expected—far longer than during the 2008–2010 crisis—and this discourages saving.

Negative real interest rates on a significant portion of bank deposits of people and businesses should also be seen as a kind of substitute for raising taxes. Their higher rates imposed on current income would drain part of the flow of the current demand, which could encourage the affected economic entities to draw on accumulated resources, meaning savings, including those of a forced nature, on a relatively larger scale. To some extent, it is not only the accumulation of funds for major investments and social programs, as announced by President Joe Biden, but also this is the intention of the White House's policy, aiming to seriously increase the fiscal burdens, especially on business and the wealthier groups of people. In other words, under certain conditions, higher taxes may contribute to lower price inflation. This

is a much more complicated issue than a simple either-or alternative, as policy must also take into account other objectives, especially income redistribution, employment and unemployment, production activity and its profitability, as well as investments.

The current circumstances are particularly interesting, as more information on the issue of possible changes in future inflation can be provided by behavioral economics (Thaler 2016), rather than by monetary economics, especially the knowledge of psychological factors affecting human expectations and the rationale of decisions on how to use the financial resources held (Thaler and Sunstein 2009). It may happen that a sharp rise in interest rates—by 100 or more basis points at once—will not stop the growth of the inflation rate if the nature of expectations strongly encourages economic entities to spend the money.

In the year of the pandemic cataclysm, gross world product fell by 3.3%, with the magnitude of changes in the level of production varying widely; for the economies of major importance to the global average, it ranged from a decline by 8% in India to an increase by 2.3% in China. Among the rich countries, the rate of decline in GDP in 2020 fluctuated between 3.5% in the US and 11% in Spain. In Poland, the recession was relatively shallow, as it amounted to 2.8%. In this context, while the Central Statistical Office calculated the decline in retail sales at 3.1%, the Economist Intelligence Unit estimated that globally they fell by around 2%. If this was indeed the case, it means that, in Poland, the extent of the decline in retail sales was somewhat greater than the decline in the GDP level, and, on a global scale, on the contrary—retail turnover declined somewhat less than the overall production level, while the turnover of worldwide online sales rocketed up by around 30%. It was the online trading that has saved us from an even greater scale of increase in forced savings. We could not spend money in shopping malls, we could buy online; we could not go to the cinema, we could subscribe to Netflix or some other online platform; we could not search for interesting books through the shelves of bookstores, we downloaded e-books onto Kindle or similar e-readers; we could not go to a restaurant, we ordered home delivery of dinner. The structural changes that have taken place in this field as a result of the pandemic shock will largely prove to be permanent (Kolodko 2020).

It is estimated that in the 21 countries of highly developed capitalism excessive savings in 2020 amounted to over 3 trillion US dollars. They are excessive in the sense that they are so much greater than they would be if the prepandemic trends would have continued (Chart 7.3).

Despite this, classic price inflation was low, ranging in 2020 in the group of the major Western economies, the G7, from a negligible 0.4% in Italy to 1.4% in the US. In Japan, prices fell by 0.6%. The average for the member countries of the OECD was 1.5%. For 2021, the EIU projected it to be low: from 0.2% in Japan and 1.1% in France to 1.9% in the US and 2.1% in Canada. The optimism of these forecasts was striking, but we should not be surprised that inflation turned out to be higher.

This optimism is also reflected in the exceptionally strong growth in gross world product assumed by the IMF in spring 2021—by as much as 6% (and by 4.4% in 2022). It is thus assumed—again, very optimistically, but is it realistic?—that after a one-year recession, the economy will more than recover (Table 7.3).

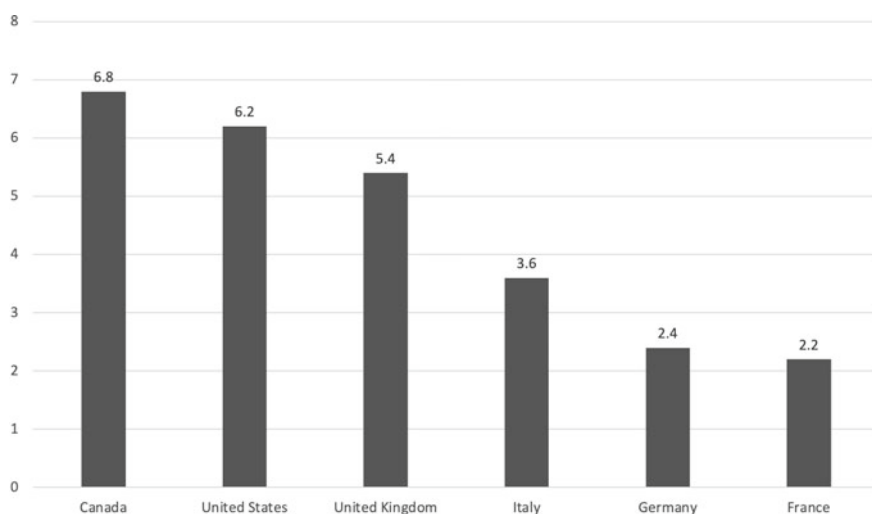


Chart 7.3 Excessive savings in advanced economies (percent of GDP). *Source* OECD and World Bank (see: Economist 2021c)

Table 7.3 GDP decline rate and forecasts in selected countries in 2020–2022 (in percent)

	2020	2021	2022
France	−8.2	5.8	4.2
Japan	−4.8	3.3	2.5
Canada	−5.4	5.0	4.7
Germany	−4.9	3.6	3.4
US	−3.5	6.4	3.5
UK	−9.9	5.3	5.1
Euro area	−6.6	4.4	3.8
China	2.3	8.4	5.6
India	−8.0	12.5	6.9

Source IMF (2021)

If things turn out this way, it will mean that the first channel is decisive for absorbing excess savings, that it is the additional demand generated by the conversion of a stock of money involuntarily saved into a flow of effective demand that fuels the economy, increasing production and employment by the fuller use of production capacities. This is the best possible scenario, but will it come true?

In Poland, the financial resources of both businesses and people have also increased considerably. In the first case, despite the drop in production in 2020, they increased by around PLN 70 billion, that is by some 25 billion more than a year before, according to the National Bank of Poland. This constitutes, in simple terms, their forced savings. What is more, of the approximately PLN 70 billion (around 3%

of GDP) held by entrepreneurs in banks in foreign currency accounts, some part—I think more than a half—is also forced by market realities. Such significant unwanted savings, stemming from the lack of sufficiently attractive production and investment spending opportunities in the eyes of businesses due to the periodic lockdowns and freezing of the economy and the downturn, may suggest that once unfrozen, the spending pressure may cause a relatively high increase in the price level in the production sphere. Over time, the resulting additional increase in production costs, PPI, will be passed on to consumer prices, CPI.

In the second case, in relation to households, a grave part of the special protective measures transferred by the government in the successive phases of the anti-crisis policy also turned into forced savings. Transferable overnight deposits of households grew despite their negative real interest rate of minus 3.4% and amounted to some PLN 827 billion at the end of Q1 2021 (NBP 2021), which is more than 180 billion, as much as 30% more than a year earlier, when COVID-19 arrived in Poland and the economy freezing began. For comparison, in 2019, the year preceding the pandemic, analogous deposits increased by PLN 80.4 billion, i.e., by 15.4%, while during just the first three months of 2021 they grew by 42.2 billion. In other words, these funds during the pandemic grew roughly twice as fast as in the preceding period (Chart 7.4).

We should remember that the amount in question is only the money held in banks, but there is also quite a lot held on the stock market, in various investment funds, insurance policies, and in cash. Some of these funds are the modern equivalent of the monetary overhang.

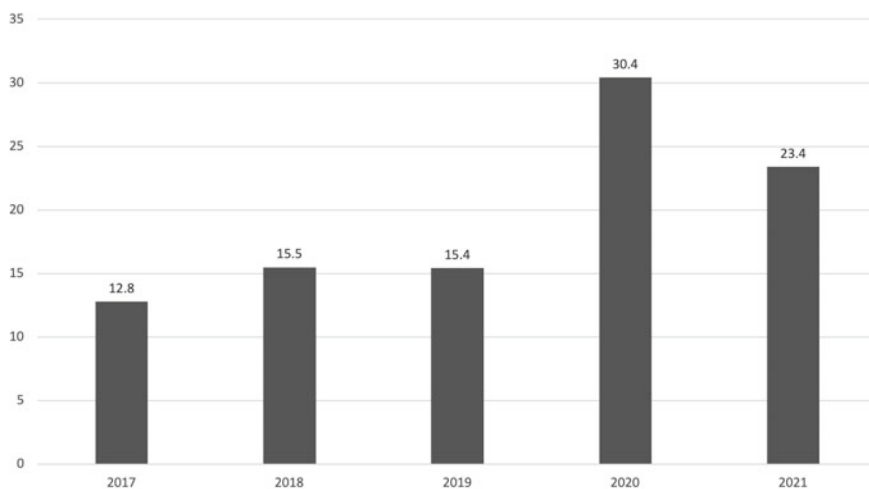


Chart 7.4 Growth in current deposits and other liabilities of banks to households between 2017 and 2021 (percent). *Source* NBP (2021). Data for 2021 on a full year basis, assuming the same growth rate in subsequent quarters as in Q1 2021 compared to Q4 2020

7.4 *Shortageflation* Rate

When comprehensively estimating the magnitude of current inflation—this price and resource inflation, *shortageflation* 3.0, taking into account suppressed inflation—I believe that in Poland, as early as in 2020, its rate oscillated around 6%, which is one and a half times higher than the official rate announced by the Central Statistical Office, GUS. In other words, this is how high—and possibly more, as it is a highly fluctuating figure given the emotional and not always rational decisions of people regarding the management of their own financial resources—price inflation could be if, in the face of the anti-crisis ‘printing’ of money, the significantly increased demand was not suppressed and compulsorily deferred in any way. Also in 2021, the estimated *shortageflation* rate was higher than the official consumer price index, but the differences between these two measures were no longer as large as a year earlier.

Any such estimate is based on rather arbitrary assumptions, since it is impossible to accurately assess the size of the second component of the *shortageflation* rate, i.e., the hypothetical additional increase in the price level in the context of full liberalization of production and distribution. Such an attempt was once made in the case of *shortageflation* 2.0. This required first to quantify the savings forced by the shortages and to express them in percentages so that this rate could be added up with the rate of price inflation. When estimating the rate of shortage, the sum of savings held for retirement and liquid assets held for transactional and precautionary purposes were subtracted from the total balance of liquid assets of the population:

$$r_{SH} = \frac{R_m - (S_v + T_r)}{Y}$$

where

r_{SH} the rate of shortage expressed as a percentage of Gross National Income, GNI (Y),

R_m the total stock of liquid assets of the population,

S_v financial assets other than money and savings accounts, assumed to be held mainly for retirement,

T_r balances of money and savings accounts held for transaction and precautionary (including speculative) purposes.

After adding price and suppressed inflation rates, the average price (open) and repressed (hidden) inflation rates, *shortageflation* 2.0, for the European socialist countries over the eight years of 1977–1984, ranged from a modest 3% in East Germany to a significant 30% in Poland (Table 7.4).

Although under no circumstances should it be underestimated, the phenomenon of *shortageflation* 3.0 is far less inconvenient to people and less damaging to the economy than its earlier versions. Back then, the suppression of inflation was accompanied by the inherent pathologies in commodity–money relations: queues, rationing, forced substitution, black market, barter transactions, corruption of suppliers and

Table 7.4 Average shortageflation rates in selected socialist countries in 1977–1984 (percent)

	<i>Shortageflation</i> rate
Bulgaria	6.9
Czechoslovakia	5.1
East Germany	3.1
Hungary	8.9
Romania	8.3
Soviet Union	4.6

Source Kolodko and McMahon (1987)

sellers, selling under the counter. Formerly, one could bribe a seller of a washing machine that was supposedly out of stock but was found in the back of the store; nowadays, it is impossible to get the desired plane ticket if the plane is there but does not fly. In the past, the authorities organized a narrow network of special well-stocked points of sale for the privileged few; nowadays, one could not get tickets for an opera première using one's informal connections because the theaters were temporarily closed to everyone. Now, these pathologies, with all their important differences and specific nuances, manifest themselves to a negligible extent, mainly due to the relatively short duration of the phenomenon and the specificity of supply constraints.

Of course, in the wider world, today there are also exceptions, like the extreme case of totalitarian North Korea, where shortages are particularly acute due to the drastic suppression of price increases, or the anachronistic state socialism in Cuba (Kolodko 2012), where the 2.0 variant of price and repressed inflation couples with the 3.0 variant. Such comparisons in space, just like looking for analogies and differences in time, show the similarities and *differentia specifica* of all three types of inflation suppression in the form of the accumulation of forced savings by producers and consumers as well as the nature of price increases.

Suppressed inflation 1.0 was caused by administrative orders and prohibitions breaking the rules of the free market economy. There were enough raw materials, capital, and labor to ensure a sufficient supply of consumer goods under normal conditions, but by political decisions, these were periodically, for the abnormal times of war, transferred to fulfill other purposes. The *shortageflation* syndrome inherent to the economy of state socialism, the 2.0 variant, was, in turn, a systemic feature. The economy, by its very systemic nature, when faced with politically motivated price controls, was unable to supply enough goods and services to balance the flow of demand it stimulated. It was supposed to be cheap so that things would be there for everyone, over time it was relatively cheap, but not enough for many.

Hence, phenomenon 3.0 is different from the previous two. By the essence of the capitalist economy, production capacities are excessive from the point of view of insufficient effective demand, but the additional constraints on their use imposed by unorthodox anti-crisis policy instruments under pandemic conditions cause that more could be produced, sold, bought, and consumed at the same time, but it is

prohibited to do so. Thus, as in 1.0 and 2.0 variants, there are forced savings present, but in addition—and this is a major difference—there are reserves of production capacities. In the 1.0 variant, it was negligible; the war economy was in full swing. In the 2.0 variant, they were virtually nonexistent, and if they occurred somewhere, it was because of the structural imbalance of the economy: A part of the factory was at a standstill because it was affected by shortages of the components required to maintain the continuity of production.

7.5 What's Next?

An overview of inflationary processes in the European Union brings some interesting observations and intriguing questions. First, in 2021, the rate of growth of consumer prices was clearly higher in the poorer economies of the European Union, in the countries of Central and Eastern Europe, than in their wealthier neighbors. Second, there is no correlation between the scale of the increase in public debt and the inflation rate, which may indicate a relatively weak impact of demand-driven inflation stimulated by the simultaneous increase in the amount of money in circulation.

An increase in debt does not necessarily mean an increase in the amount of money in circulation. In principle, debt is financed by private savings, and even when it is partially monetized, the quantity of money is still determined by the behavior of economic agents and banks, i.e., the demand and supply of credits and deposits. In the eurozone, it is even more complicated because the European Central Bank buys government bonds in proportions that are not based on each country's level of public debt (Table 7.5).

One of the factors causing such price behavior is a specific mechanism operating in the conditions of an open economy such as the European Union, namely the 'catching-up' of the price level of certain groups of services. The general level of prices in the post-socialist economies of the EU is still low compared to those in the 'old' Union countries. It fluctuates between half of the average prices for the whole Union in the case of the cheapest Bulgaria and Romania, and just over 80% in the case of Slovakia and Estonia, the most expensive countries in Central and Eastern Europe.

Nowadays—also in the years of the pandemic—the share of importable services in the basket of purchased items is increasing, due to the nature of the current phase of technological progress, especially the digitalization of various services that know no borders, where the place of their consumption is not linked to the place (and cost) of their preparation, such as the possibility of using online communication software. The same is true for the prices of certain services such as banking and insurance, logistics, and foreign tourism, as well as in the sphere of education and entertainment. This is an important structural factor in relation to inflation. Prices do not have to rise, but the very fact that more and more services provided by more expensive countries are included in the basket of purchases made by domestic households increases the inflation rate. Since there are relatively more goods at Western-level prices entering

Table 7.5 Core inflation rate, increase in public debt and average level of retail prices in selected European Union countries in 2021

	Core HICP inflation in 2021*	Increase in public debt**	Price level at the end of 2020***
Italy	1.3	22.0	103.0
Greece	1.4	26.7	84.9
France	1.7	17.1	109.3
Spain	2.0	27.3	98.0
Bulgaria	3.8	4.7	51.0
Latvia	3.9	6.6	74.4
Germany	4.1	10.8	107.5
Romania	4.6	12.2	49.9
Czech Republic	5.1	12.7	70.2
Estonia	5.1	11.0	82.4
Slovakia	5.1	13.2	82.4
Poland	5.3	11.8	56.7
Hungary	5.8	11.9	61.1
Lithuania	6.1	8.7	66.6

*Core inflation (November 2021) excluding energy and food prices: Harmonized Index of Consumer Prices (HICP); year-on-year

**Increase in government debt as a percentage of GDP from the end of 2019 to the end of Q2 2021

***Overall domestic price level, EU average = 100

Source Eurostat (2022)

the basket of purchases compared to previous periods, the general price level is also rising.

The situation is special because the nature of the pandemic crisis is unique. This time, the turbulences in the reproduction process are taking place both on the supply side—mainly in the form of broken supply chains, whose transnational role has increased enormously in the age of globalization, and temporary bans on production and especially on services—as well as on the demand side. The orthodox economic thought often fails to provide suggestions on how to minimize the costs of micro- and macroeconomic adjustments to specific challenges, which overlap with other ills, especially those related to protectionist practices that spread under the new nationalism and populism. Economic, social, and political realities different from what we know from the past confront us with the imperative to seek innovative theoretical interpretations. The more accurate they are and the earlier they appear, the more effective corporate management and pragmatic economic policies can draw on them.

We know that, given the situation resulting from the pandemic, economies will recover from the syndrome of *shortageflation 3.0* through five channels:

$$\Sigma_{FS} = d_{\psi} + d_{IM} + d_{VS} + d_{AP} + d_{CPI}$$

where

- Σ_{FS} forced savings arising under pandemic perturbations,
- d_{Ψ} an additional flow of demand stimulating production and supply growth,
- d_{IM} financing additional imports from reserves previously compulsorily held,
- d_{VS} an increase in voluntary savings as a result of a change in the preferences of the holders of previously compulsorily unspent funds,
- d_{AP} financial resources absorbed by an additional increase in the prices of raw materials and assets,
- d_{CPI} funds drained by an additional inflationary price increase.

The proportions of these five components of the right-hand side of the equation are not known *ex ante*. We do not know to what extent and at what pace, in the post-pandemic economy, the stocks of compulsory savings will be transformed into the flow of additional effective demand, and this—along with the scale of production growth in subsequent periods—will be critical for the intensification of inflationary processes; those already entirely open, price-based ones, and not suppressed, stock-based ones.

A significant part of compulsory savings has arisen as a result of the drastic reduction in the possibility of enjoying services, especially travel, tourism, leisure, and entertainment. Countries where the hospitality sector accounts for a relatively large part of employment and national income, such as Mexico, Kenya, or Italy are particularly hard hit. In Thailand, where in the wake of a total collapse in foreign tourist arrivals, which plunged by 99.8% in 2020, GDP fell by more than 6%. Money unspent in 2020 on airline tickets and car rentals, hotels and restaurants, concerts and matches, museums and galleries has already become voluntary savings to a considerable but unknown extent. Nevertheless, as soon as these service sectors started to gain momentum, after an initial period of discounts to encourage spending, prices rocketed. Airline tickets to exotic countries are more expensive; we have to pay more for the next Beyoncé concert; the owner of our favorite restaurant makes it up on us; a masseur charges us appropriately; a plumber takes more money; shopping in a bookstore costs us more. It can be assumed that New Zealand and Australia in the spring of 2021 were closest to the state that can be described with some approximation as a post-pandemic reality. In the former country, restaurants, cafés, shopping centers, and amusement parks were visited more frequently than before the pandemic, and in the latter, in the first two months of 2021, the number of restaurant visitors was 65% higher than a year earlier (Economist 2021d). In both cases, such a large increase in effective demand intensified inflationary pressures and resulted in price increases, which weakened when, again—due to successive waves of the pandemic—severe restrictions were introduced to limit the movement of people.

We also do not know how much demand will be diverted abroad and, by stimulating the economy elsewhere, worsen the domestic balance of payments. This phenomenon is already evident in the US, where a sizable portion of the extraordinary budget spending that sustains the population's consumption levels and intentionally supports US businesses, finances imports, especially from China (Hessler 2021), on

which the Americans otherwise impose economic sanctions, as ineffectively as they are harmful. The globalized economy is a system of interconnected vessels, and it is worth understanding how its mechanisms work (Wolf 2004; Stiglitz 2006).

What we do know is that an important part—although we do not know how large—of the additional flow of money that has poured into the market and got temporarily immobilized as an inflationary resource is activated in the market of assets. Their prices are already going up and will continue to do so for some time. In the US, stock indices have gone up sharply in 2021: S&P 500 by as much as 27%, Nasdaq by 21%, and Dow Jones Industrial Average by 19%. The Euro Stoxx 600, a stock index of the single currency area, rose by 22%, while in Poland, the WIG rose by 24%. This additionally reinforces inflationary expectations and stimulates speculation. The beginnings of a speculative bubble can already be noticed in some segments of the asset market, especially in the housing market. Inevitably, the time will come when it will burst, causing further crisis phenomena. This can be countered by the targeted taxation of speculative transactions to temper their scope. The prices of other assets, above all of many raw materials, especially petrochemicals and metals, shares on some stock exchanges, and cryptocurrencies will continue to behave chaotically, although with a tendency towards strong increases. There is no doubt that the relative excess of money in circulation is the grist for the mill of the nascent cryptocurrency market, where the drops will be as spectacular as the rises. There are always people willing to speculate, and this is reflected in the fact that even the price of carbon contracts is being played with. Indeed, *pecunia non olet*...

The large-scale asset purchase programs pursued by central banks have enormous consequences. These undertakings have significantly increased central banks' balances, whereas they mainly purchased assets such as government bonds and corporate bonds. This means that extra funds—commonly referred to as 'printed money'—have entered the financial system, but have not increased the circulation of money; instead, they have increased the prices of assets, above all of shares and real estate, and this, as we know, is not included in the calculation of the inflation rate.

Inflation would have been much higher had it not been for the decline in the rate of circulation of money in the economy. There is more money, but it circulates slower. The monetarist theory of inflation generally assumes that the rate of circulation is constant, so an increase in the amount of money automatically leads to an increase in prices in the absence of a corresponding increase in supply. In pandemic conditions, this is not the case, as the rate of circulation of money has declined sharply.

The 3.0 syndrome, after all, is qualitatively different from the earlier cases of 1.0 and 2.0. It is therefore necessary to tone down inflationary expectations of both businesses and households, but also of the professional public narrative. People should not be threatened with the vision of massive inflation, because if they believe that, then the word will become flesh: There will be more inflation than there needs to be to moderate the temperature of market perceptions.

Above all, entrepreneurs must be encouraged to invest in production by various means. This will be facilitated by increasing complementary public investment, which, in the case of the US, the administration of President Joe Biden intends to do on a large scale, amounting to trillions of dollars. The European Union plans

to spend €750 billion from its common funds by the end of 2026 as part of the Recovery and Resilience Plans. These funds are received by all Member States in specified proportions in the form of loans and grants, distributed through National Reconstruction Plans, NRPs. This public spending will undoubtedly entail additional private investments which, if well-targeted by the market, will create new production capacities absorbing the growing flow of demand.

The population, in turn, needs to be persuaded of the profound sense of sustainable saving. If we have saved some money under a kind of temporary constraint, we should not run with it to the unblocked market as soon as better times come—because they will—but convert it into voluntary savings through sheer willpower: for better holidays, for home improvements, for ongoing training, for additional financing of our future standard of living, for topping up our pensions. Just in case.

7.6 The Worse, the Worse

By the end of the second year of the pandemic, the situation with regard to inflation was deteriorating. It was deteriorating in the sense that the stocks of excess money injected into the economy during the fight against the pandemic to a relatively small extent—less than could have been achieved with a better macroeconomic policy—are being unloaded through channels one (stimulating growth in production and employment) and three (increasing voluntary savings), and more and more through channel five, inflationary price increases. Price and repressed inflation—that *shortageflation* syndrome with the 3.0 indicator—quickly transforms from partially suppressed inflation to open price inflation. Open, admittedly not yet fully, because the shortages created by the blockage of various forms of economic activity and the distortions on the side of production and distribution chains have not yet been completely eliminated. On the one hand, in relation to certain assortments of goods and services, there is no full freedom of production and provision due to sanitary anti-pandemic rigors, while on the other hand, due to regulatory restrictions, the mechanisms of prices ‘clearing’ the market, i.e., automatically balancing demand with supply through price adjustments, do not function efficiently. There are no sufficient amounts of certain types of microchips, causing, for example, entire car assembly lines to be brought to a standstill; there are not enough shipping containers, so a wide variety of final goods and semi-finished products do not reach their destinations, further disrupting the continuity of production and supply of goods. We should add that the shortage of containers has led to a huge spike in transport prices, which is an additional factor fueling inflation pushed by manufacturing costs.

An important feature of current inflation—from the US to Poland, from Ukraine to China—is its mixed, cost-push and demand-pull nature. In addition, the spiral of prices > wages > costs > prices is spinning, and attempts should be made to break it at all its stages. The costs of producing material goods and providing services are rising for a variety of internal and external reasons. If the price of oil in the world market is twice as high as it was a year ago, this will certainly increase costs. It is natural that

producers, suppliers, and sellers, exercising economic freedom, immediately pass on the rising costs of production to the prices charged to other producers, service providers, and consumers who buy from them. It is easy for those raising prices because buyers—reluctantly, but still, because they have no other choice—agree to this market *dictum*, as they have the income allowing them to buy at higher prices. They have it because the mass of money that was ‘printed’ earlier was given to them, especially to some entrepreneurs who were intentionally rescued from the trouble caused by the administrative freezing of the economy.

Now, inflation is taking its cruel toll, bringing incomes down to their purchasing power in line with the long-term trend in labor productivity growth and, above all, making out the bill for the costs of combating the economic consequences of the spread of the coronavirus. This has been inevitable for some time. Let us add, for the record, that for several months, money was rightly ‘printed’ and distributed in various ways without any cover in additional supply because the immediate fight against the effects of the pandemic on employment and production had to take priority over the fight against future inflationary effects. We must definitely fight against them now that price inflation is gaining momentum. However, the government and the central bank are delaying this fight because the fiscal and monetary authorities treat inflation somewhat instrumentally, using it to balance flows and depreciate the financial stocks of the population and businesses so that it is easier to balance the economy.

Does this mean that nothing more could have been done beforehand to counteract the coming wave of inflation? Well, on the contrary. Most of all, the energy sector should have been restructured with ruthless determination, particularly with a view to increasing competitiveness between the companies operating within it (and, in the process, stimulating a long-term shift to renewables). Specific inflation-triggering expenditures from the state budget should have been reduced, including those for national defense and megalomaniac or politically prestigious but economically questionable (at best) investments that immediately create demand but not supply. Some social transfers, without which relatively wealthier households would have been able to cope, should have been reduced or stopped altogether. This is what could have been done on the government’s side. On the side of the monetary policy, interest rates should have been raised earlier. This would have slightly slowed down economic growth and could have increased unemployment, as well as reduced the investment dynamics, which are already too low, but these are inevitable costs of the fight against inflation. Now that it is already higher, these costs are also higher.

But we should not be deluded that further interest rate increases by the central bank will stifle inflation. The first to benefit will be commercial banks, which will inevitably raise interest rates on loans (thus increasing financial expenses of companies, which they will immediately pass on to prices) to a greater extent than on deposits. All in all, it will be more costly for the society rather than the other way around. Nevertheless, interest rates must be raised, and raised aggressively, because inflation has become aggressive. Why? Well, not to increase the propensity to save because that would require interest rates that would be clearly and appreciably above the rate of inflation, which is currently already over 10%. Such rates, by their attractiveness to savers, would be conducive to drawing from the market a considerable

portion of surplus, pro-inflationary demand, but at the same time, they would push up the cost of consumer credit, including housing credit, and especially working capital and investment credit for businesses, leading in many cases to a reduction in production or even insolvency and bankruptcy. Inflation could be lower fairly quickly, but a sharp slowdown in economic dynamism, perhaps a recession, and a significant rise in unemployment would occur just as quickly.

Why, then, should interest rates be raised in such a situation? Well, to tone down inflationary expectations. Let us remember that inflation is not only, or not mostly, a monetary process. It is also a psychological phenomenon. Monetary authorities cannot wait for the inflationary conflagration to die down on its own, because they may not live to see it. They can say whatever they want about the reality and proclaim that inflation is temporary and will decrease over time (yes, it will decrease over time...), but they must also discourage dissaving, at least partially, as it may make the fight against inflation much more painful. All possible means—from the public narrative to reducing the scale of negative real interest rates on deposits—must be used to cool down the inflationary expectations of economic agents. Although savers lose out by not spending, they still need to be persuaded to save. The belief that central banks are determined and effective in controlling inflation is important in suppressing inflationary expectations. Let us hope that the NBP does not lose confidence in this matter. If these expectations continue to intensify and cause a turmoil in the form of savers ‘rescuing’ their financial stocks on a mass scale, if they race to the market to buy: from clothes just to stockpile them to yet another gold ring, from uninteresting antiques to a second home they do not need, from going on a trip anywhere to spending on anything—then inflation will be even higher and the economy and society as a whole will lose even more.

The mixed nature of inflation makes the crusade against it difficult but not impossible. Given that after “shock therapy” it was possible, through the application of the “Strategy for Poland”, to reduce inflation by two thirds, from 37% at the end of 1993 to 13% four years later, and at the same time to reduce unemployment by one-third and increase per capita income by as much as 28%, it seems much easier to go from inflation of 12–13% to 2–3%, and not in four years, but much faster. The primary condition is willingness, genuine determination and courage, as well as political sincerity. Unfortunately, these are missing from both the ruling elite and the opposition: They do not practice what they preach. In the short term, high inflation favors the former, the government, because it brings in extra fiscal revenue, starting with higher VAT receipts, which is a function of nominally higher trade volumes. This provides ad hoc relief in the efforts made to keep an unbalanced state budget more or less under control. Increasing inflation suits the latter, the political opposition, because their leaders adhere to the economically insane but, in their view, politically practical principle that “the worse, the better”. If they cannot democratically defeat the current government with their own attractive alternative development program, then let that government collapse under the weight of the people’s hatred. And, there are few things better suited than inflation nagging at people to reinforce this strong feeling!

By no means: the worse, the worse. Since the opposition wants to take power, they should be on the same side as the government in the fight against inflation. Otherwise, when they finally take over the government they want, they may no longer be able to cope with slumpflation, that is, with inflation even higher than now and recession occurring at the same time. We are all in the same boat. Nicolaus Copernicus (1473–1543)—a great astronomer, but also a knowledgeable economist—wrote that “the interests not of particular groups speak at sound money, but the interests of the general public, the interests of the country”. How inconsiderate—and quite simply harmful—are some opposition politicians, as well as various ‘celebrity economists’ and numerous media commentators on television and radio programs, in some newspapers, and on Internet sites, who are fueling the already overheated inflationary expectations.

References

- Adirim, Issak G. (1983), *Stagflation in the U.S.S.R.*, Delphic, Falls Church, VA.
- Bell, Daniel A. (2015), *The China Model: Political Meritocracy and the Limits of Democracy*, Princeton University Press, Princeton, New Jersey.
- Blanchard, Olivier J., David Romer, A. Michael Spence, Joseph E. Stiglitz (eds.) (2012), *In the wake of crisis: Leading Economists Reassess Economic Policy*, MIT Press, Cambridge Massachusetts – London, England.
- Blejer, Mario I., Marko Skreb (eds.) (2001), *Transition: The First Decade*, MIT Press, Cambridge, Mass. – London.
- Blinder, Alan S. (1979), *Economic Policy and the Great Stagflation*, Academic Press, New York.
- Charlesworth, H.K. (2003), *The Economics of Repressed Inflation*, Routledge, Abingdon, Oxon.
- Economist (2021a), *What would America fight for?*, “The Economist”, December 11 (<https://www.economist.com/leaders/2021a/12/11/if-the-united-states-pulls-back-the-world-will-become-more-dangerous>; access: 25.12.2021).
- Economist (2021b) *The Fed should explain how it will respond to rising inflation*, „The Economist”, April 17 (<https://www.economist.com/leaders/2021b/04/17/the-fed-should-explain-how-it-will-respond-to-rising-inflation>; access: 23.04.2021).
- Economist (2021c), *The world’s consumers are sitting on piles of cash. Will they spend it?*, „The Economist”, March 9 (<https://www.economist.com/finance-and-economics/2021c/03/09/the-worlds-consumers-are-sitting-on-piles-of-cash-will-they-spend-it>; access: 12.12.2021).
- Economist (2021d), *Labour markets are working, but also changing*, „The Economist”, April 10 (<https://www.economist.com/special-report/2021d/04/08/labour-markets-are-working-but-also-changing>; access: 13.12.2021).
- Ellman, Michael (2021), *János Kornai: economics, methodology and policy*, „Cambridge Journal of Economics”, Vol. 45, Issue 2, p. 371–390.
- Eurostat (2022), *Harmonised index of consumer process (HICP)*, Brussels (<https://ec.europa.eu/eurostat/web/main/data/database>; access: 7.01.2022).
- Gutián, Manuel, Robert A. Mundell (eds.) (1996), *Inflation and Growth in China: Proceedings of a conference held in Beijing, China, May 10–12, 1995*, International Monetary Fund, Washington.
- GUS (2021c), *Roczne wskaźniki cen towarów i usług konsumpcyjnych od 1950 roku [Annual price indices of consumer goods and services since 1950]*, Główny Urząd Statystyczny [Central Statistical Office], Warszawa (<https://stat.gov.pl/obszary-tematyczne/ceny-handel/wskazniki-cen/wskazniki-cen-towarow-i-uslug-konsumpcyjnych-pot-inflacja-roczne-wskazniki-cen-towarow-i-uslug-konsumpcyjnych>; access: 13.12.2021) [in Polish].

- Hessler, Peter (2021), *Manufacturing Diplomacy*, „The New Yorker”, March 15, s. 50–59.
- Hicks, John R. (1947), *The Empty Economy*, „Lloyds Bank Review. New Series”, No. 5, Lloyds Bank Limited, London.
- Historical UK (2021), *Historical UK inflation rates and calculator* (<https://inflation.iamkate.com/>; access: 13.12.2021).
- Howard, David H. (1976), *A Note on Hidden Inflation in the Soviet Union*, „Soviet Studies”, Vol. 28, s. 599–608.
- Hu, Bin (2019), *The Source of China's Confidence: How to Understand Socialism with Chinese Characteristics*, Foreign Languages Press, Beijing.
- Huang, Yukon (2017), *Cracking the China Conundrum: Why Conventional Economic Wisdom Is Wrong*, Oxford University Press, New York.
- IMF (2021), *World Economic Outlook: Managing Diverging Recoveries*, April. International Monetary Fund, Washington, D.C. (<https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>; access: 13.12.2021).
- Kolodko, Grzegorz W. (1984), *Inflationary Alternative*, „Polish News Bulletin of the British and American Embassies Economic Review”, No. 18–84 (March), p. 14–22.
- Kolodko, Grzegorz W. (1986), *The Repressed Inflation and Inflationary Overhang under Socialism*, „Faculty Working Paper”, No. 1228, Bureau of Economic and Business Research, University of Illinois, Urbana-Champaign.
- Kolodko, Grzegorz W. (1990), *Hyperinflation and stabilization in postsocialist economies (the case of Poland, Viet Nam and Yugoslavia)*, „Working Papers”, No. 16, Institute of Finance, Warsaw (http://www.tiger.edu.pl/kolodko/working/if/IF_working_papers_nr16.pdf; access: 13.12.2021).
- Kolodko, Grzegorz W. (1991), *Polish Hyperinflation and Stabilization 1989–1990*, „Most. Economic Journal of Eastern Europe and the Soviet Union”, No. 1, p. 9–36.
- Kolodko, Grzegorz W. (1992), *Economics of Transition: From Shortageflation to Stagflation: The Case of Poland*, in: Armand Clésse, Rudolf Tökés (eds.), *Preventing a New East-West Divide: The Economic and Social Imperatives of the Future Europe*, Nomos Verlagsgesellschaft, Baden-Baden, p. 172–181.
- Kolodko, Grzegorz W. (2012), *Transición económica: luces y sombras [Economic transition: lights and shadows]*, „Temas”, No. 72, octubre-diciembre, p. 83–92 [in Spanish].
- Kolodko, Grzegorz W. (2020), *After the Calamity: Economics and Politics in the Post-Pandemic World*, „Polish Sociological Review”, No. 2, p. 138–155.
- Kolodko, Grzegorz W., Walter McMahon (1987), *Stagflation and Shortageflation: A Comparative Approach*, „Kyklos”, Vol. 40, No. 2, p. 176–197.
- Kornai, János (1992), *The Socialist System: The Political Economy of Communism*, Princeton University Press, New Jersey.
- Kornai, János, Yingyi Qian (2009), *Market and Socialism: In the Light of the Experiences of China and Vietnam*, Palgrave Macmillan, Houndmills, Basingstoke, Hampshire – New York.
- Lin, Justin Yifu (2004), *Lessons of China's Transition from a Planned to a Market Economy*, „Distinguished Lectures Series”, No. 16, Leon Kozminski Academy of Entrepreneurship and Management, Warsaw (<http://www.tiger.edu.pl/publikacje/dist/lin.pdf>; access: 13.12.2021).
- Lopez, Jose A., Kris James Michener (2018), *Uncertainty and Hyperinflation: European Inflation Dynamics after World War I*, „Working Paper 2018–06”, Federal Reserve Bank of San Francisco (<https://www.frbsf.org/economic-research/files/wp2018-06.pdf>; access: 13.12.2021).
- MeasuringWorth (2021), *What Was the U.K. GDP Then?*, “MeasuringWorth.com” (<https://www.measuringworth.com/datasets/ukgdp/>; access 13.12.2021).
- Mundell, Robert A. (1995), *Great Contractions in Transition Economies*, paper prepared for the First Dubrovnik Conference on Transition Economies, Dubrovnik, June.
- Mundell, Robert A. (1996), *Inflation and Growth in the Transition Economies*, in: Manuel Guitián, Robert A. Mundell (eds.), *Inflation and Growth in China: Proceedings of a conference held in Beijing, China, May 10–12, 1995*, International Monetary Fund, Washington, p. 100–106.
- NBP (2021), *Statystyka i sprawozdawczość. Należności i zobowiązania monetarnych instytucji finansowych i banków [Statistics and reporting. Receivables and liabilities of*

- monetary financial institutions and banks], Narodowy Bank Polski [National Bank of Poland], Warszawa (https://www.nbp.pl/home.aspx?f=statystyka/pieniezna_i_bankowa/nal_zobow.html); access: 13.12.2021) [in Polish].
- Nuti, Mario D. (1986), *Hidden and Repressed Inflation in Soviet-Type Economies: Definitions, Measurements and Stabilization*, „Contributions to Political Economy”, Vol. 5, p. 37–82.
- Nuti, Mario D. (2018), *Kornai: Shortage versus Surplus Economies*, „Acta Oeconomica”, Vol. 68, No. 1, p. 85–98.
- Popov, Vladimir (2006), *Shock Therapy Versus Gradualism Reconsidered: Lessons from Transition Economies after 15 Years of Reforms*, „TIGER Working Paper Series”, No. 82, Leon Kozminski Academy of Entrepreneurship and Management, Warsaw (<http://www.tiger.edu.pl/publikacje/TWPN082.pdf>); access: 13.12.2021).
- Popov, Vladimir (2014), *Mixed Fortunes: An Economic History of China, Russia, and the West*, Oxford University Press, New York.
- Portes, Richard (1977), *The Control of Inflation: Lessons from East European Experience*, „Economica”, Vol. 44, No. 174, p. 109–129.
- Reinsdorf, Marshall B. (2020), *COVID-19 and the CPI: Is Inflation Underestimated?*, „IMF Working Paper”, WP/20/224 (November), International Monetary Fund, Washington, D.C. (<https://www.imf.org/en/Publications/WP/Issues/2020/11/05/COVID-19-and-the-CPI-Is-Inflation-Underestimated-49856>); access: 13.12.2021).
- Steiner, James E. (1983), *Disguised Inflation in Soviet Industry*, „Journal of Comparative Economics”, Vol. 7, Issue 4, p. 449–451.
- Stiglitz, Joseph E. (2006), *Making Globalization Work*, W.W. Norton & Company, New York – London.
- Thaler, Richard H. (2016), *Misbehaving: The Making of Behavioral Economics*, W.W. Norton & Company, New York.
- Thaler, Richard H., Cass R. Sunstein (2009), *Nudge: Improving Decisions about Health, Wealth, and Happiness*, Penguin Books, London.
- US GDP (2021), *US GDP by Year Compared to Recessions and Events*, „The Balance” (<https://www.thebalance.com/us-gdp-by-year-3305543>); access: 13.12.2021).
- US Inflation (2021), *US Inflation Rate by Year from 1929 to 2023*, „The Balance” (<https://www.thebalance.com/u-s-inflation-rate-history-by-year-and-forecast-3306093>); access: 13.12.2021).
- WDI (2021), World Development Indicators, The World Bank, Washington, D.C. (<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=B8-PL>); access: 12.12.2021).
- WEO (2021), *World Economic Outlook Update*, International Monetary Fund, Washington, D.C., January (<https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update>); access: 12.12.2021).
- Wiles, Peter (1982), *Soviet Consumption and Investment Prices, and the Meaningfulness of Real Investment*, „Europe-Asia Studies”, Vol. 34, Issue 2, p. 289–295.
- Wolf, Martin (2004), *Why Globalization Works*, Yale University Press, New Haven – London.

Chapter 8

The Irreversibility of Globalization



Whoever thinks he can do without the world deceives himself much; but whoever thinks the world cannot do without him deceives himself much more.
François de La Rochefoucauld (1613–1680)

8.1 The Essence of Globalization

Globalization has many faces, which is why there are various definitions of it. A sociologist will describe it differently than a geographer (Martell 2016), distinct definitions will be provided by a lawyer (Santos and Rodríguez-Garavito 2005) and a cultural scholar (Tomlinson 1999), while a political scientist (Steger 2002) or an economist (Rodrik 2011) will present yet another version and each of them has the right to their own definition because it is a multidimensional category. Although for us the economic one is the most important, in order to grasp its essence properly, the demographic, ecological, socio-cultural, and political dimensions must be borne in mind. We are having trouble with this because social sciences, including economics, are struggling to keep up not only with explaining reality but also with influencing its directions.

In economic terms, globalization is a historical and spontaneous process of liberalization and integration of markets and national economies that previously operated to a certain extent in isolation from each other into a single interdependent world market for goods, capital, and technology and—with delays and constraints resulting primarily from non-economic reasons—labor force. This definition includes three crucial words: liberalization, integration, and interdependence.

Let us immediately add that regional integration processes, where the European Union is most advanced, are not in conflict with globalization understood in this way, but may support it. Now, instead of bringing particular national economies together individually, regional integration groupings, some major ones covering almost the entire globe, can do this. For example, the European Union's cooperation with

ASEAN¹ facilitates the exchange of goods, capital, and experience between Croatia and Thailand, while the policy coordination between SADC² in southern Africa and ECOWAS³ in its west promotes economic exchanges between Zimbabwe and Senegal.

A fairly common mistake in the public discussion—also made in the academic literature—is to speak of the globalization of the world or the globalization of the world economy. This is a tautology, since globalization, by definition, concerns the world as a whole. The French use the term *mondialisation*, and, if it were the French language that dominated the world, we would probably be talking not about globalization but about ‘mondialization’. Globalization is internationalization on a worldwide scale. The world cannot ‘worldize’ because by definition it is worldly; the globe cannot globalize because by definition it is global. It is not the world that is globalizing, but the exchange of information and the economy—trade, finance, capital flows, technology transfer, and investment. It is also misleading to use the term ‘in the globalized world’ to mean an interconnected world in which various phenomena and processes are intertwined on a worldwide, or global, scale. Thus, with this in mind, referring to the economy, the term ‘in the globalized economy’ should be used. The same is true when it comes to world culture or politics.

Contemporary globalization—like the economy and the economic thought that describes it—is profoundly different from its earlier versions, but it is not a fundamentally new process. Already the era of the great geographical discoveries made the economy a globalized, that is worldwide, economic system with specific trade and capital interconnections and institutions regulating transnational economic activity. Although some authors see the beginnings of globalization back in the vast Roman Empire or even earlier, in the times of the conquests of Alexander of Macedon. However, even at the time when the extent of the territories conquered by him was the greatest, this was only a fraction of the world, and Alexander himself had no idea not only of the flourishing civilizations on other continents, which did not exist in the consciousness of his contemporaries, but also of Confucius, who lived earlier and created with the pen mightier than the sword. Some authors see preglobalization even earlier, before the civilizations previously flourishing in the north-eastern Mediterranean collapsed one after the other in the twelfth century BC, when supposedly ‘the world was globalized’ already in the Bronze Age (Cline 2015). Yet, these were all just minor or major regionalizations.

That first phase of globalization really took off when Magellan’s expedition circumnavigated the world. Later, two centuries ago, it moved into another phase as a result of the first Industrial Revolution and the accompanying breakthrough in

¹ ASEAN, the Association of Southeast Asian Nations, brings together Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

² The member countries of SADC, Southern African Development Community, are Angola, Botswana, Democratic Republic of the Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Republic of South Africa, Seychelles, Tanzania, Zambia, and Zimbabwe.

³ ECOWAS, the Economic Community of West African States, includes Benin, Burkina Faso, Cape Verde, the Gambia, Ghana, Côte d’Ivoire, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

economic practices as well as in the economic thought, although initially its greats, such as Smith and Ricardo, did not see the world in its totality either. This phase was relatively short, no more than a century and a half, and was brutally interrupted for three generations by the First World War and its economic and political aftermath. Three generations because it is impossible to talk about globalization in the sense I ascribe to it between 1914 and 1989, from the outbreak of the First World War to the end of the First Cold War.

Some—especially in the West—date the beginning of the modern phase of globalization back to 1945, after the end of the Second World War, but such an approach is flawed as what emerged from it was a world even more divided than the one that existed before. The so-called Third World was the most numerous; third because there was the second—socialism (or communism, as others wish to call it)—and the first, meaning the countries of advanced capitalist economies, that functioned alongside it. In particular, the ‘world’ of socialism was cut off from the other two ‘worlds’, somewhat as a result of its isolation by the West, and partly of its own accord, as it used non-convertible currencies, controlled the foreign trade, blocked free capital transfers and labor flows. The far-reaching liberalization and integration of markets were seen only in the capitalist West, and that was not the whole world, even though some people thought it was.

Our times—and it should be emphasized that the Polish political breakthrough of 1989 and its geopolitical and economic consequences extending far beyond its borders played a significant role in the transition to the current, third phase of globalization—are associated with the enormous dynamics of globalization resulting, among others, from its coupling with the current phase of the scientific and technological revolution and the demographic explosion. It should be remembered that 500 years ago, when Copernicus warned not to spoil money, humanity was only about 480 million, and 200 years ago, when Michael Faraday constructed the first electric motor, it only reached one billion. No later than 2024, when new artificial intelligence revelations will emerge, there will be eight billion of us...

Globalization, which has only been known by its current name for two generations, is, therefore, a historical process, which means that it continues over time. It is something epochal. Once started—assuming half a millennium ago—it evolves, passing through periods of ups and downs of varying length and intensity, and remains an open process. It is thus a specific historical process; there is and will be no end to it. The absolute culmination of globalization would be the complete liberalization and full integration of all goods and capital markets in the world, which is Utopia. The scale of globalization, on the other hand, can mature, its scope can broaden and deepen. For many years to come—within the limits of an imaginable future, which is all the more difficult to imagine the less probable it becomes—economic relations *sensu largo* may become increasingly globalized, but this process is never complete because its course is similar to an asymptotic curve: it may be getting closer, but there is always some distance to cover. Nowadays—despite the widespread crisis of 2008–2010 caused by neoliberal economic policies—this distance is shorter than it was in 2000, and in 2040, it will be shorter than it is today, despite an even more

acute crisis and the accompanying disruptions in global economic relations caused by the coronavirus pandemic and the aftermath of the Russian invasion of Ukraine.

In other words, the economic reality is saturated with globalization to a greater extent now than it was in the past—which does not mean that this is so in 2022 compared to 2019—and will be even greater after next generations. But will it happen for sure? Does it have to be this way? Well, no. It does not have to be this way, but it should be, because globalization, by its very nature, encourages development which is what the social process of economic activity should be about. There is no doubt that, alongside the main factor which is the technological progress, one of the drivers of rapid growth—highly variable in time and space—is trade, including international and transnational trade. It creates additional jobs and brings economies of scale consisting of lowering unit costs due to the increased, in some cases many times, production and supply to world markets compared to limited sales volumes on the internal market. In the US alone, it is estimated that around 25% of the workforce—as many as 40 million people—are employed in foreign trade and related sectors of the economy. In countries with a higher share of exports in national income than in the US, it is relatively even more. Whoever trades more produces more and relatively cheaper and, as a result, lives at a higher level. There are exceptions to this rule, as well, and to some authors this rule seems controversial (Rodrik 2017). Small- and medium-sized economies may temporarily experience periods of higher total production dynamics than foreign trade turnover. This can also occur over longer periods in large economies with large, receptive internal markets.

Trade turnover is characterized by a much greater amplitude of fluctuations than total production due to its greater sensitivity to various external shocks, but the overall long-term dynamics of world trade are almost twice as high as that of world production (6.1 and 3.1%, respectively, over the period 1991–2020), so its share in the aggregate output of the world is increasing in the long run. At least that was the case until the American crisis, which in 2008 broke out not as a result of globalization but as a result of the flawed deregulation imposed by the neoliberal doctrine, but which, under globalization, quickly spread to other markets, taking on the characteristics of a global crisis in 2008–2009. Despite a strong upward rebound in trade turnovers in the post-recession years of 2010–2011, they were not able to return to the record rate of 60.8% of the world output reached in 2008 for seven consecutive less-than-perfect years. Then, another blow came from the pandemic crisis, as a result of which the share of world trade in world output in 2020 (55.1%) fell below the 2005 level (56%). And then, again, the economic spillovers from the Ukrainian war are negatively affecting the volume of world trade. Apart from these extraordinary circumstances, the structural factor is also important. In large economic systems, starting with the US and China, consumption and investment have been growing faster than exports for some time, so the share of exports in world output has been falling. All this, however, does not mean a reversal of the long-term trend, but its temporary, albeit not short-term, disturbance (Chart 8.1).

However, economic globalization is about much more than trade. Particularly important are capital flows, which are often accompanied by the transfer of modern and efficient technologies. Whoever participates in exports and imports of capital to

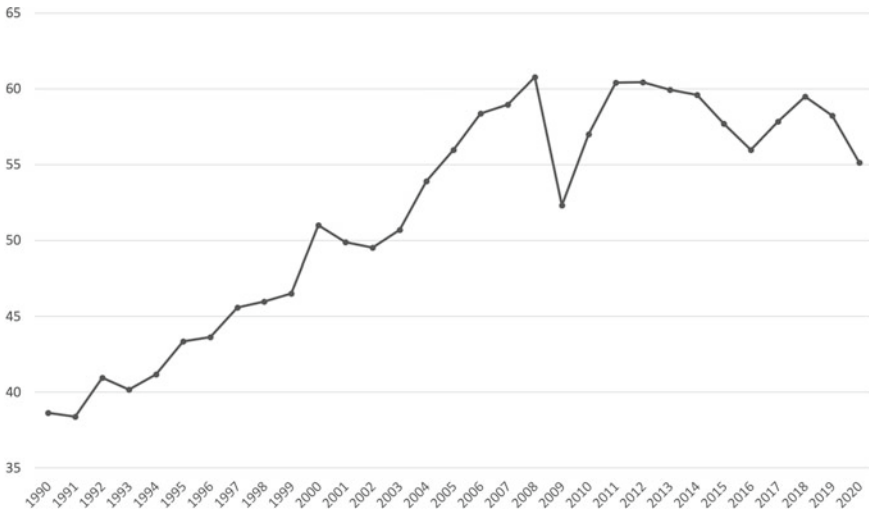


Chart 8.1 Share of world trade in gross world product, 1990–2020 (percent). *Source* WB (2021c)

a greater extent achieves more in terms of raising labor productivity and the quality of production, thereby raising the standard of living of the population relatively faster. Globalization is also expressed in the flow of ideas, knowledge, and a mass of information, unprecedented in history, and promotes the exchange of experience and know-how, the improvement of staff qualifications and management skills, which noticeably improve economic efficiency and foster the competitiveness of economies on world markets, and raise the level of production and consumption in one’s own country.

The contemporary phase of globalization, unlike its predecessors in the eras of the great geographical discoveries and the first Industrial Revolution, is characterized by the expansion of complex and often sophisticated transnational production and supply chains. One of the flagship products of our time, the iPhone was designed in California, but is made of components manufactured in 43 countries on all six continents: This is a product of globalization. Some COVID-19 vaccines, for example from Pfizer, would not have appeared in decent numbers and as quickly as they did if it had not been for the research, production, and distribution chain extended over 20 countries: This is an effect of globalization. Unfortunately, the pandemic would not have spread so quickly either were it not for globalization. Sad to say, but globalization has many ugly faces, including terrorism and money laundering.

Transnational corporations engage in supply chains, or more precisely in research–development–production–sales relationships, where it is most profitable for them, thoughtfully exploiting the comparative competitive advantages arising from the international division of labor. At the same time, the countries in which such chains have their links are trying to move upwards, towards those that produce ever-greater added value. They strive not to perform the final assembly of finished components, but

to design them, not to sort and pack but to produce and service them. Incidentally, the rapid advancement in this respect of numerous Chinese companies in the electronics, biotechnology, and especially telecommunications and digital economy sectors lies at the heart of the trade war declared against them by the US.

Obviously, businesses should care about advancing in this area—the higher they are able to get, the higher the rate of return on the capital they achieve. So should the state, which then finds it easier to look after the growing prosperity of the society. Here, production and supply chains have micro- and macroeconomic aspects. It is possible to be a small country, like Singapore or Switzerland—and be at the top. One can be big, like Brazil or Nigeria—and be at the bottom. It is possible to be average, like Italy or Turkey—and remain stuck in one place, or, like Chile or Slovenia—to move clearly forward. Globalization creates opportunities to do that and domestic politics and entrepreneurial skills may but do not have to exploit these opportunities intelligently. Globalization can be seen as an objective process accompanied by opportunities and threats. The balance of the resulting additional benefits, which would not have arisen were it not for globalization, and additional costs, which would not have been incurred were it not for the same globalization, depends on the craftsmanship of the domestic development policy at the macroeconomic level and the quality of governance at the microeconomic level.

Countries whose political leaders do not grasp the essence of this process will not be able to take advantage of the benefits of globalization to accelerate the pace of their own socio-economic development. Moreover, by escaping into the nationalist delusion of protectionism, they may end up not benefiting from a bold participation in the irrevocable global division of labor. They can also be exploited by others in various ways—from consolidating an agricultural and raw material production structure to draining the workforce, as in the case of Ukraine, or they can stop at the bottom of production and supply chains bringing little added value, as in the case of Bangladesh.

It is somewhat natural in such a complex process that there are fluctuations in internationalization at the level of the world as a whole and of the various integration groupings, but the correlation does not necessarily always have to be positive; a regional integration process may stop or enter a phase of a temporary regression with overall globalization advancing, and vice versa. Globalization has reached a high level of saturation, and its regression, observed in some respects, is often a result of the focus on internal affairs of the authorities of large global players. However, the clear predominance of positive aspects of globalization over its negative aspects, some of which are objectively unavoidable, while others can and should be compensated for or eliminated by means of enlightened economic policies of individual countries and their coordination on an international scale, makes globalization irreversible. And, this is so in spite of all the fractures, turbulence, crises, and doubts, as well as the many political errors, short-sightedness, and parochialism, waves of nationalism, populism, isolationism, and protectionism experienced in the last few years on a larger scale than before, because there are more problems with which politics cannot cope. This is not because we live in the age of globalization, but for other reasons. Operating within a framework of an ever-deeper transnational economic integration,

at the same time, there are ever-deeper tensions in political and cultural relations seen between certain states. Moreover, social polarization in many countries has gone so far as to threaten democracy and intensify autocratic tendencies.

In particular, on the one hand, the accumulating difficulties are a result of the mistakes of the economic policy based on the neoliberal doctrine and, on the other, of the inappropriate response to them in the form of populism. Globalization in a neoliberal fashion is indeed contributing to growing income and wealth inequalities (Milanovic 2016), which in turn provokes waves of migration that the world will continue to face in the future. This is about increasing inequalities within countries, as income relations between them are disappearing. Average incomes are rising faster, for example, in China than in the US, in Mexico than in Japan, in the Czech Republic than in Germany. On the other hand, enormous problems—mostly environmental devastation and climate warming, as well as the catastrophe of the pandemic—were not originally caused by globalization, but it secondarily fostered their escalation (Ghosh 2021). Using globalization to counter these disasters is imperative. There are no better (or rather worse) examples to show that only in a globally coordinated way can the resulting challenges be dealt with.

In short: economies that are more involved in the globalization process grow faster. This is a general principle, to which, however, some remarks must be added. This is what happens when the development strategy and economic policy at a national level are conducive to it. Over the past three decades, none of the major countries made such a brilliant use of globalization to support their development as China, which has increased its GDP per capita by more than 13 times during that time to exceed the world average of USD 17,109 in 2020 with a value of USD 17,312, calculated according to PPP (WB 2021c).

Poland has also done well, although it has got involved in the global economy insufficiently. Its entry into globalization is mainly through Europeanization and, even more specifically, through participation in the European Union integration process, with three-quarters of its exports and more than half of its imports being conducted within the Union. In 2020, the European Union's share in Poland's total exports was 74.1% and in imports 55.4%. Exports to the so-called developing countries reached only 7.7% and imports (mainly raw materials) 28.8% (GUS 2021a). Among Poland's top ten trade partners on the export side, there are only two non-EU countries, Russia (seventh place), and the US (ninth place), and on the import side, there are three, China (second place), the US (eighth place), and South Korea (ninth place). Turnover with Africa—the continent with the fastest growing population in the world—is very modest, as is turnover with Latin America. Before the pandemic, in 2019, Poland's four biggest partners on the export side were Germany (27%), the Czech Republic (6%), the UK (6%), and Italy (5%), and on the import side—Germany (25%), China (10%), Italy, and the Netherlands (5% each). It may seem paradoxical, but despite the paramount importance of the European Union membership for the development of the Polish economy, it is the trade with non-European countries, above all with emancipating economies, that should grow the fastest. It is true that the EU is closer, but there are definitely more possibilities to be exploited on other continents, while particular attention should be drawn to increasing trade with

India, Turkey, Egypt, Nigeria, Brazil, and Mexico, as well as with China, to which mainly exports must grow at an above-average rate in order to reduce the deep trade payment deficits that exist with these two countries.

It is difficult to estimate, but it can be assumed that the average annual growth of GDP per capita of nearly 4%, recorded from 1992 to 2021, in one-quarter results from the share of the growing involvement of the Polish economy in globalization, not only in the form of transnational trade but also because of the use of capital flowing into Poland, especially in the form of direct investments, which to a certain extent co-finance this growth. So far, after 1989, to the mutual benefit of foreign investors and the Polish economy, there has been the equivalent of nearly one trillion zlotys invested, with companies from Germany, the US, and France leading the way. There would not have been such a scale of growth in production and consumption if it were not for these investments; there would not have been such investments if it were not for globalization.

Will globalization really continue? Is it really irreversible? Is there anything that could push the economy off this path? Will the non-economic aspects of globalization, especially from the more broadly understood cultural sphere, support globalization through increasing doses of multiculturalism, or will they harm it through intolerance and xenophobia? Well, no: the continuation of globalization is not an absolutely inevitable future. There is no absolute determinism here. This time, too—as we often do in economics and in considering the future—the claim that globalization is irreversible is based on the assumptions made. The first assumption is that peace will prevail and there will be no third world war. There are those for whom this is a certainty, but there are also those who think otherwise. According to the second assumption, political and cultural leaders, having learned from the experiences of the past years, will prove wise enough to force a more inclusive course of globalization. If this does not work—yet, I assume it will because this is the imperative of sustainable development—the civilization could collapse and globalization slow down for many generations. If this would happen, globalization would still come back in a few or a dozen generations, and the thinkers, as well as ordinary people of that future era would wonder how it was even possible that such a civilizational collapse had occurred. Just like we wonder how it was even possible that so many horrors and triumphs of stupidity could have occurred in the past. The current international tensions, the Second Cold War, bring us one more time closer to such a triumph of stupidity...

A century ago, some people also thought that this state of affairs—which was in fact globalization, although no one called it that way then, as they spoke of internationalization—was irreversible. In one of his early works entitled *The Economic Consequences of the Peace*, John Maynard Keynes wrote in a chapter on the glorious prewar era in human economic progress: “The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole Earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he

could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could dispatch his servant to the neighbouring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs (...) But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice". (Keynes 1920, p. 9). And then the war broke out, which quickly became a world war, and after another generation was called the first, which, with its dire consequences, shattered that *belle époque*.

It was a great and naive optimism to believe in the permanence of the then 'extraordinary epoch in terms of human economic progress'. It was a mistake. I hope that we are not making a mistake. I also trust that now, when the conflictual nature of the reality around us is in some respects greater than it was then, those of us who claim that globalization will endure, becoming more inclusive, which will be manifested in the less unequal sharing of its economic fruits and the reduction of the scale of social exclusion, are not mistaken. Here, the possibilities of progress are even greater than in the sphere of quantitative growth in production and consumption.

8.2 What's Going on

A strategic game for the future of the world is being played, geopolitics and global economic systems are being reformulated, and various interests and ideas are clashing. Sometimes to such an extent that it is not entirely clear what contributes more to the storm of disputes and conflicts: contradictory economic and political interests or differences in the sphere of values and ideas that guide us. Both an intentionally free market economy and liberal (also intentionally) democracy display numerous inefficiencies. This is the grist to the mill of the gaining momentum economic, social, and political movements and formations that we tried to write on the dark pages of history too soon. Instead of disappearing completely, the black trinity of populism, nationalism, and totalitarianism is doing better and better in countries as poor and backward as Cambodia and Tanzania, through medium-developed countries such as Malaysia and Turkey, to countries as rich as the UK and the US.

We are witnessing incredible changes in global relations. The current geopolitical disorder and economic imbalances threaten peaceful development and cannot

be tolerated in the long run. Many of the problems that are faced by modern civilization—such as environmental devastation and warming climate—will have to be resolved by future generations, but the next few years could prove critical to the fate of the world.

In the third decade of the twenty-first century, the main features of the global economy and related policy changes will be shaped by three megaprocesses. First, the mode of production and social relations will be increasingly affected by scientific and technological progress. Many new professions will emerge and no less new jobs will be created than old ones will disappear. We are therefore not threatened by mass structural unemployment, but fundamental changes will take place in the directions and methods of education and in the organization and functioning of the labor market, also with regard to working time. Economies that demonstrate greater innovativeness and flexibility in these fields will become more competitive and will develop better. It should be added, however, that it is not the case, as some reckless views most often claim, that without innovation there is no chance of development and progress. Well, an overwhelming majority of economies thrive on imitations rather than original new ideas, implementations, technologies, or ways of managing production and distribution. Many authors define as innovation things that are, in fact, secondary, that is, they are actual imitations, but in a given country, industry, or company they are completely new at a given time, so they are treated as if they were innovations. Innovation by definition is something pioneering, but the concept becomes relativized: It is something that is done for the first time, not in general, but by us. The best example of this is China, which, before it became a genuinely innovative economy, made great use of copying something that someone else somewhere else had previously invented for its impressive economic growth (Kolodko 2020d). More innovative economies have a special position for a while, a kind of rent arising from the primacy in a particular field, but this does not last long, even in cases protected by patents and copyrights, which become less and less effective over time.

Second, the transformations of global linkages towards a more equitable sharing of their fruits will continue. This factor and the natural desire of businesses to operate profitably in broad transnational fields will break down harmful protectionism. Unlike globalization, protectionism is a temporary phenomenon. Globalization will handle the ‘black trinity’ as long as it gradually becomes more inclusive and is supported by regional integration processes—which is consistent with its logic. If this does not work, the numerous symptoms of what I have previously called an Even Greater Crisis will grow. Then, instead of epoch-making progress, there will be epoch-making stagnation or even reversal.

Third, momentous shifts will take place in the geopolitical system as a result of fundamental changes in the relationships between major national economies and integration groupings. In particular, the importance of Eurasia will grow, while the position of North America will decline. Africa will gain significance both because of its above-average economic growth rate and, above all, because of its demographic boom, as this is where the fastest population growth occurs, which, according to UN projections, will increase by as much as 42% between 2015 and 2030—from around 1.19 billion to 1.68 billion. While Africans constituted less than 10% of

humanity in 1960 (285 million), by 2050 this number could be as high as 25% (2.4 billion). In other words, in 30 years, there may be as many Africans as there were people on Earth 75 years ago, naturally, with all its consequences for the rising tides of mass migration, getting out of control. The world is completely unprepared for this, and Europeans in particular need to be aware of its implications. They should already be taking actions in relation to their southern neighbor to promote its sustainable development and family planning in order to stop the population explosion and emigration exodus. According to the African Development Bank, the continent needs \$130–170 billion a year to meet its infrastructure needs. From this point of view alone, there is a huge shortage, of around \$68–108 billion, which increases considerably when the need for investment in human capital is also taken into account. This, among other things, is to be facilitated by the European Union's Global Gateway initiative, which "will mobilize up to 300 billion euros by 2027 for developing global infrastructure and supporting the green and digital transitions around the world" (EU 2021). Undoubtedly, it is also a belated response to China's Belt and Road Initiative, as are the strands, targeted outside the US, of the US Build Back Better, BBB, program outlined with great vigor by the administration of President Joe Biden.

Unfortunately, recently, the reckless pursuit of higher military spending will commit the financial resources badly needed to support development in Africa and other emancipating economies. Instead of seeking peaceful cooperation and healthy economic competition, the future of competition and tensions is foretold (and wanted by some): "In the long term, one Western-bashing bloc (led by China and Russia) and one Western-leaning bloc (led by the US and the EU) will cement themselves into the geopolitical landscape and use economic and military levers to court countries that are not aligned with either side. We expect this competition for influence to expand rapidly beyond Asia and into Africa, the Middle East, and Latin America, further accelerating the decoupling of the world's two largest economies". (Economist 2021a, b, c).

It seems that for the foreseeable future nothing can stop the growth of China's economy and its global expansion. Contrary to the intentions of irresponsible politicians, the trade war declared on them by the US and the Second Cold War will further strengthen China over time. History has taught them to play strategically (Kissinger 2015; Kolodko 2020c). Following the blows aimed at its economy, China is resetting its economic policies and development strategies, even more actively than it has done in the past. It concentrates on transforming production and supply chains to occupy increasingly higher technological positions in them, on the one hand, and to be less dependent on the imports of supplies from other countries, especially from the US, on the other. China, despite the current time of turmoil (or perhaps owing to it?), is moving from extensive to intensive growth, from an emphasis on quantitative aspects to qualitative aspects becoming more knowledge-based, from a disregard for the negative ecological effects of exorbitant growth rates to a sustainable green economy.

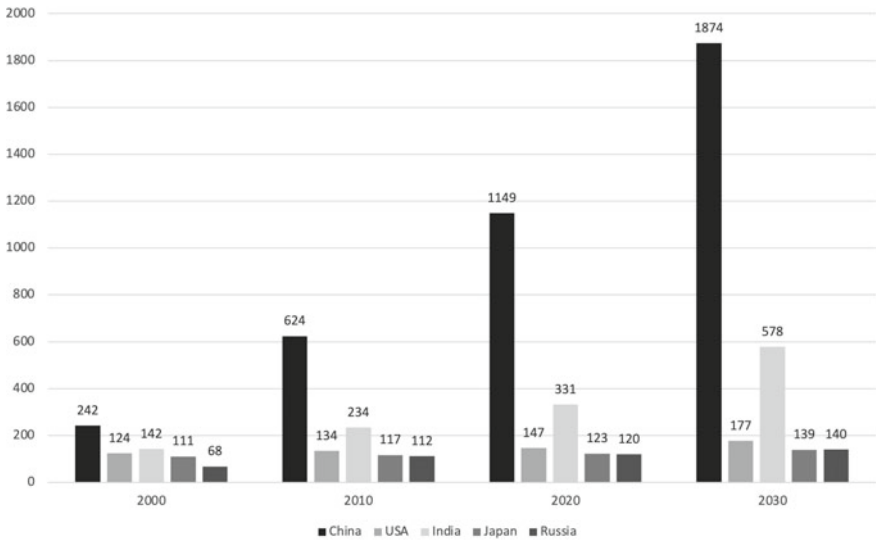


Chart 8.2 GDP per capita (PPP, constant international dollar 2017), 1990 = 100. *Source* Own calculations based on WB (2021b)

Economic growth in the traditional sense, measured by increases in Gross Domestic Product, GDP, will undoubtedly be much slower than in the past, but it will still be at a rate roughly twice as high as in the rich countries. Already in 2025, China will be classified—according to World Bank standards—to high-income countries, which Poland joined in 2009. The magnitude of the Chinese economy’s memorable leap is still difficult to comprehend. If one makes a realistic assumption that during the next fifteen years, 2021–2035, China’s national income will double, which requires a moderately rapid average annual growth rate of 4.7%, then GDP per capita will be a sky-high 1874% of the level of so recent 1990 (Chart 8.2).

Without underestimating the achievements of the soon-to-be most populous country, India, where per capita income has increased almost six times in that time, it is shocking that in the US it will increase by just less than 80% in 2030 compared to 1990, and in Russia and Japan by a mere 40% (assuming that GDP growth in 2021 was in line with IMF projections and then, by the end of the decade, the average growth rate is equal to the average of the four years preceding the coronavirus pandemic, 2016–2019). China’s achievements and backwardness should be compared with these countries, although the rationales for comparisons are different in each of the four cases. To realize how much it changes the economic map of the world, we need to see the reshuffling of the relative positions of major economies. While China’s position is growing enormously and India’s significantly (let us note that given the assumptions made, India’s average GDP growth rate in 2022–2030 is to be higher than China’s and equal 5.5%), the importance of the US is decreasing substantially, and Russia and Japan are becoming relatively less important. Of course, Russia has

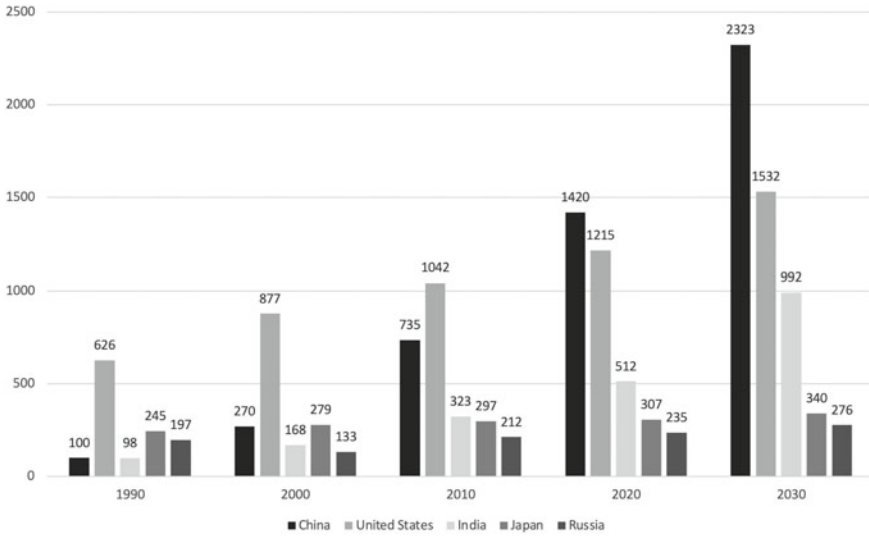


Chart 8.3 Big five—China, US, India, Japan, Russia. China’s GDP 1990 = 100 (PPP, constant international dollar 2017). *Source* Own calculations based on WB (2021b)

put itself on a much worse track in the aftermath of aggression against Ukraine and its severe economic consequences (Chart 8.3).

These are indeed tectonic changes. While Russia’s GDP was higher than China’s when the Soviet Union collapsed, in 1990, it is now six times lower. In the case of Japan, until recently Asia’s most powerful economy, the relationship has changed from about 2.5 times in its favor to 4.6 times in favor of China. In ten years, China’s GDP will be about 8.4 times that of Russia (and even more than that due to the consequences of the Ukrainian war and the recession induced by Western sanctions) and 6.8 times that of Japan. While the size of India’s economy was roughly equal to that of China in 1990, it is now its 36%. The most important fact in this unique geostrategic game is that while the US economy three decades ago was almost 6.3 times larger than China’s, it is now 14.4% smaller than China’s (according to PPP), and will be equal to only two-thirds of China’s after the next ten years.

Some are scared, and as we all know, fear takes away reason. While it can be comprehended in terms of psychology in relation to individuals, it cannot be ignored in the sphere of geopolitics. And the fear of Chinese expansion is growing and additionally fueled. It is not surprising when this is done by interest groups that benefit from sustaining tensions and protectionism, including the military and industrial lobby. There are also many politicians and economists who do not understand what is going on and who are just plain stupid. However, it is astonishing that even *The Economist*, instead of supporting the toning down of global tensions and the rationalization of the US policy on the occasion of Joe Biden taking over the presidency, is calling for the formation of an anti-China alliance led by the US (Economist 2020), the coalition which is to be joined by the European Union, Japan, South Korea,

and Australia (Sevastopulo 2021). According to this idea, the alliance should help America keep its edge in the race with China for technological dominance, which could supposedly strengthen democracy through the politics of power.

A wise response to China's growing power is not only anti-Beijing alliances, which simply cannot win completely, but above all, the creation of as many bilateral and multilateral cooperation platforms as possible with China, including with its high-tech companies. It is therefore important to establish the *Regional Comprehensive Economic Partnership*, RCEP, the largest free trade grouping in history, whose member states account for about 30% of humanity and produce about the same amount of the world output. It is significant that in addition to China and the ten ASEAN members, it would include Japan, South Korea, Australia, and New Zealand. These four highly developed countries, remaining in the sphere of American political and military influence, are acting pragmatically, understanding that there is much to be gained from an otherwise uneasy cooperation with China, while much to be lost from a hostile confrontation with it.

China's dynamic growth is more of an opportunity than a threat to the rest of the world. Chinism—a specific political and economic system in the form of a synergy between the market and the state, whose policies are based on meritocracy and the intelligent integration of the national economy into globalization—may appear in many places of this wandering world as a pro-development alternative to the neoliberal economy and dysfunctional state capitalism and spread to other countries, especially in Asia and Africa. China's New Silk Road could also play an important role in this field.

Some interpret this term extremely broadly. In their view, it is not just China's Belt and Road Initiative, BRI, but a phenomenon of fundamental changes in the functioning of the world economy and, for this reason, and under the influence of demographic processes, also in politics, inevitably leading to the weakening of the power of the West and the strengthening of the East. According to the author of an otherwise excellent monograph written from a position of contemporary world history, "...the decisions being made in today's world that really matter are not being made in Paris, London, Berlin, or Rome—as they were a hundred years ago—but in Beijing, and Moscow, in Tehran and Riyadh, in Delhi and Islamabad, in Kabul (...) in Ankara, Damascus and Jerusalem. I wanted to remind the reader that the world's past has been shaped by what happened along the Silk Roads. And I wanted to underline that so too will its future'. (Frankopan 2018, p. 7). This is a greatly exaggerated opinion. The author is right that today it is sometimes the case that the decisions made in Riyadh are more important than those made in Rome, but there will always be plenty of critical spots. Decisions that are sometimes of great importance for others, often for the whole world, will still be made in the Western European capitals mentioned here—especially Berlin, London, and Paris, as well as Brussels. As for the Asian cities mentioned, only Beijing and Delhi count on a comparable scale; the others will be crucial, yet, not in global affairs, but only in their region, otherwise important for world energy and trade, and especially for peace.

The US will continue to play a very important role. Yes, the relative strength of both their economy and their militaries will diminish over the years, but they will continue to be prominent. It is extremely significant that in the imaginable future nothing will replace the English language in its role as a *lingua franca*. The impact of the US Wall Street will be enormous. It will not be displaced from the world market by the Shanghai exchange, although the latter will inevitably relatively undermine the former. Bollywood is no substitute for Hollywood. California's Silicon Valley will not have a formidable competitor in Saudi Neom. MIT will be able to face the competition from Tsinghua, while Harvard, Yale, Berkeley, and other Ivy League universities will continually attract more Asian students than all of Asia from the US. Just because someone's dominance ends does not mean that their influence disappears. It will be a long, long time before it will happen...

Apart from the obvious US–China rivalry, a major role will be played by China's relations with India and the European Union, which should not allow itself to be drawn into the strategic game on the American side. The Union is supposed to bind and integrate the Euro-Atlantic and Eurasian systems supporting peace and development; that is its *raison d'état*. The great challenge for the years to come is the re-institutionalization of globalization, which must be based on multilateralism, compromise, pragmatism, and inclusiveness. The world will increasingly become multipolar, which is why diplomacy and a sound strategy of socio-economic development using scientific and technological progress will mean more than military force. There will not be a hot war. Leadership will be determined to a relatively decreasing extent by physical and financial capital, and increasingly by human and social capital. Therefore, it needs to be heavily invested in.

8.3 Polish Ways

A *raison d'état* consists in ensuring the conditions for the safe and sustainable development of the people and the state. In all circumstances, it is a contextual category and in order to specify it not only the immediate geopolitical situation and its economic implications must be taken into account, but also the long-term megatrends shaping the world. Politicians—especially those who aspire to be statesmen—need to show forward-looking abilities and need to be responsible, to have a sense of the times we live in and an imagination for what the future may hold, including the future that is far beyond their official terms of office.

The Polish *raison d'état* is expressed in its concern to guarantee the systemic and material conditions for the functioning of the state and the economy in the interests of the common good. This care must be pragmatic and effective, not verbal and declarative. Speeches at rallies and Twitter posts do not increase prosperity; appropriate reforms and wise actions do. When there is an excess of the former and a shortage of the latter, we waste time, we miss opportunities, and the economic situation deteriorates instead of improving. If not absolutely, then certainly relatively; it could have been better, but it is not.

Our *raison d'état*—like that of any other state—is determined primarily by the level of development achieved and by the near and distant environment. Today, the position of Poland on the map is a victory of history. While for centuries our location here—in the Central European lowlands, in the neighborhood of unfriendly or openly hostile peoples and countries—was a kind of curse, today, being at the meeting point of the East and the West is a great opportunity for dynamic development. Thus, there is a need for a strategy for Poland that is based on a well-understood *raison d'état*, and not on its denial.

The neighborhood of Germany and further the West on the one side, and Russia and further the East, on the other side, had created favorable conditions for further development, taking into account the geopolitics as a whole. It was so until the unfortunate Russian adventure in Ukraine in 2022. But there must be a will and ability to use such favorable conditions and this is something that the policies of none of the post-Solidarity parties does properly. Economic cooperation must be intensified, both with the West, attracting direct investment from there, and with the East, especially with China. All the more so, because China has the products, technologies, and capital we sought after, and is, in turn, a receptive market for our goods. An immanent aspect of the economic *raison d'état* is to open up the economy to trade and cooperation with the whole world.

A crucial element of the Polish *raison d'état* is to support the process of European integration and to use it for the benefit of our own development. European integration must be strengthened, not undermined, by the various concepts of the Visegrad Group, obviously headed by the megalomaniac Poland, and by the idea of creating the Three Seas Initiative, a regional agreement treated as a factor in softening the institutional and political integrity of the European Union. Donald Trump, as the President of the US, made one of his first foreign visits to Warsaw not because he values and respects Poland—for he and his policies have been characterized by neither. He flew to Warsaw because advisers explained to him that the Three Seas Initiative—in fact, without prospects—could be an instrument to undermine European integration, which is what the American President wanted. In his mind, anything that complicates matters for others improves the chances of making America *Great Again!* The weaker others get, the stronger we become! Even if that were the case—which it is not—let the American President worry about that, and let the Polish President worry about the Polish national interest.

I believe that in long-term categories—and the *raison d'état* is about this—Poland's interests will be better off when we join the single currency area of the eurozone. It is not just about the political importance of this next stage in European integration, but mainly about the economic benefits. While it is possible to understand the reasons for postponing this project 'for later', the view that we will deal with the matter when wages in Poland are equal to those in Germany, is disconcerting. Such treatment of the matter also goes against the national interest as it reduces our development opportunities since the introduction of the euro would shorten the period of catching up with countries that are richer than us.

Poland's reputation has suffered a great deal in recent years, not because they do not like us in the world or because some foreign person wants to weaken us, but because a number of statements and behaviors by domestic politicians are a blot on our reputation. This indeed overlaps with the fact that some foreign media with a strong influence on public opinion treat Poland rather selectively and are reluctant to write anything positive about Poland. It is a pity because they could mention the economy, which is one of the better parts of our reality. However, our political leaders provide so many interesting materials from other spheres of public life that there is plenty to write about—from the President of the country disregarding the Constitution to the dying of horses in an exclusive stud, from intolerance towards sexual minorities to the clericalization of social life, from manipulation of public media to morbid anti-communism without communists, from felling trees in the Białowieża Forest to chopping off a piece of the Vistula Spit, from illegal wiretapping of opposition activists to clumsy diplomatic statements. Nevertheless, the Western media narrative about Poland has changed fundamentally—yet no one knows for how long—in light of admitting over 2 million Ukrainian refugees just in a matter of two first months since the Russian invasion.

The frequent uncritical imitation of the West, evident, *inter alia*, in infesting the Polish language; the excessive party favoritism, also in matters where the common good should certainly be of utmost importance; the emotional behavior and subsequent appalling statements by prominent members of the political scene; a series of irrational moves and omissions in the foreign policy—all this is contrary to the Polish *raison d'état*. Sometimes, it would be appropriate to be guided simply by common sense and honesty (which includes sincerity and truthfulness), but the *raison d'état* is much more than that. It still requires wise patriotism. But can patriotism be foolish? Unfortunately, yes, it can. This is the case when it is mistaken for imprudence, to which—in the age of irreversible globalization of the economy and information, culture and science, sport and tourism—protectionism, populism, nationalism, xenophobia, and chauvinism qualify.

There are statesmen who do not fly to Washington at the beck and call of the American President. Chancellor Angela Merkel, subordinating her agenda to German affairs, refused to visit the White House because she understood that its host, seeking reelection, wanted to use the pretext of a rapidly convened meeting of G7 leaders to slow down his falling support. The President of Poland, whenever the opportunity arose, went there immediately. Both Presidents treated the meeting instrumentally, as part of their election campaigns, believing it would help them retain their positions. It helped the Polish; it did not help the American one. The White House, in its announcement of the Polish President's sudden arrival in June 2020, informed of the planned topics of the talks: "The Presidents will discuss further strengthening of cooperation in defense, trade, energy, and telecommunications security". This is no surprise; each of them is about American political and economic priorities, to which Poland is supposed to subordinate its long-term interests. It is obvious what the energy issues are all about. As far as 'telecommunications security' is concerned, it is primarily about blocking Chinese high-tech companies, especially Huawei, which has the best fifth-generation high-speed Internet technology, 5G, from accessing the

European market. American companies cannot cope with Chinese competition, so they resort to protectionism and a kind of tie-in transactions. This is also true of other countries being blackmailed by the White House on this issue, including such major ones as the UK, which has been threatened with blocking the sale of F-35 fighter jets, and Italy, which would be cut off from NATO intelligence information if Huawei's offers were accepted. It does not matter that it is conducive to the much desirable development of economic cooperation with China. It does not matter that we will end up getting high-speed Internet later and paying more for it. After all, it will increase our 'telecommunications security'...

Most NATO countries rightly do not spend 2% of their national income on military expenditures, as the hawks of this pact demand, because their leaders are aware of the real social and economic needs, such as health care and investment in human capital, care for the environment and investment in infrastructure. But there are others, such as Poland, who, in their zeal under the American pressure, are ready to waste more and more public funds on the so-called national defense. It is already 2.2% of GDP, and since 2023, it will be 3.0%. Undoubtedly, a considerable proportion is earmarked to buy American arms. Germany, until the Russian aggression in Ukraine, did not intend to raise its military spending to 2% of GDP, so the US President announced that he was withdrawing 9500 troops from there. And, there is Poland—or more accurately its rulers—reiterating its readiness to welcome many of them on its soil. What is more, it has declared its willingness to spend almost PLN 10 billion from the state budget for this purpose. In this way, President Trump, who did not really care about Poland, achieved three goals in one fell swoop: he did good for his very influential military-industrial-political lobby, punished Germany, and teased Russia. Clearly, the reallocation of US troops closer to its borders was seen as a provocation that Russia could not leave unanswered, and the fact that such bad American actions are reciprocated with bad Russian responses—such as the provocative gathering of concentrated military troops close to the Ukrainian border and the fatal decision to invade Ukraine—further aggravates the situation. Both sides stopped talking about de-escalation, and both contribute to escalating tensions.

Only one of the candidates for the highest office in the country, that of the President of the Republic of Poland, has explicitly spoken out against irrational military spending and bringing a foreign army into the country. Do the others not understand the issue, or are they simply afraid? In the meantime, it would be good, especially in view of the widespread crisis caused by the pandemic, not to raise, but to freeze military spending and reallocate the amounts of its planned increase to the fight against the coronavirus, to social and development purposes, and, of course, for counteracting the climate warming.

In the context of irreversible globalization, it is crucial for the Polish case to take advantage of its unique and potentially highly advantageous geopolitical position. Poland is located at the junction of two giga-spheres whose functioning and mutual relations will determine the future of the world. These spheres are no longer the West, of which we have become an integral part as a result of the post-socialist transformation and integration into Western political and economic structures, and the East, with which we have not only historical but also contemporary ties, starting

from our cultural affiliation with the Slavdom. These giga-spheres are the Euro-Atlantic geopolitical system, still headed by the US, and the Eurasian system, with no clear leadership, although with the absolutely and relatively growing position of China, which, however, will not stand at its forefront. Africa is also in the zone of the Eurasian sphere because of the strong ties of the post-colonial countries to their former metropolises, especially the UK, France, and Portugal, and the considerable role in business—mainly trade and finance—of the Indian and Chinese diaspora. Latin America and the Caribbean, in turn, are in the zone of the Euro-Atlantic sphere—on the one hand, because of the traditionally strong political and economic position of the US in that region, and because of the cultural links with the former metropolises, Spain and Portugal, on the other.

In the former system, the relative position of the US will weaken, while the importance of the European Union will strengthen, together with expanding and deepening its integration relations. In time, all the Balkan countries will join the EU and the single currency area will cover the whole Union, strengthening the relative position of the euro as the world's second reserve currency after the US dollar. Poland should join the single currency area, which is otherwise determined by the Treaty of Athens, supported by the national referendum in 2003, which lays down the principles of membership, while the most important thing is not the date of conversion but the exchange rate at which it will be done. The rate should guarantee the competitiveness of the export sector of the Polish economy due to its strategic importance for its functioning and development (Kolodko 2017). Given its relatively small domestic market, Poland should pursue an export-led growth strategy.

In the latter system, the Chinese economy will be even more important than it is today, but in the long run, due to the advantage of the demographic dividend (young population), India will bridge the distance separating it from China. India will become the most populous country in the world still during this decade, overtaking China. According to the latest figures—this time not from the UN, but from India's national statistics—the country's population will reach its maximum a decade earlier, not in 2060 as the UN predicted, but already in 2050, and it will be 100 million fewer—not 1.7 billion, but 1.6 billion (Economist 2021a). India's demographic dividend will also melt away faster than it was previously forecast. It turns out that the fertility rate there has already fallen to 2.0. It is hard to believe that when India gained independence in 1947, on average, a woman gave birth to six children, then five—half a century ago, and only two now. Thus India, too, has entered a phase of demographic transition in which, at the same time, relatively fewer children are being born and the population is aging.

The dynamism of the Chinese economy will weaken in the coming decades. The Economist Intelligence Unit conservatively assumes for 2021–2050 a GDP growth rate of only around 3.5% on average per year, which is twice as low as in the 2011–2020 decade. Between 2021 and 2025, GDP growth is already purely a function of capital and productivity growth, and in the next twenty-five years, 2026–2050, it will be done with employment decreasing following the decline in population Chart 8.4.

Russia will be reckoned with all the time. This will not be so primarily because of its military potential, but because of the inexhaustible reserves of raw materials

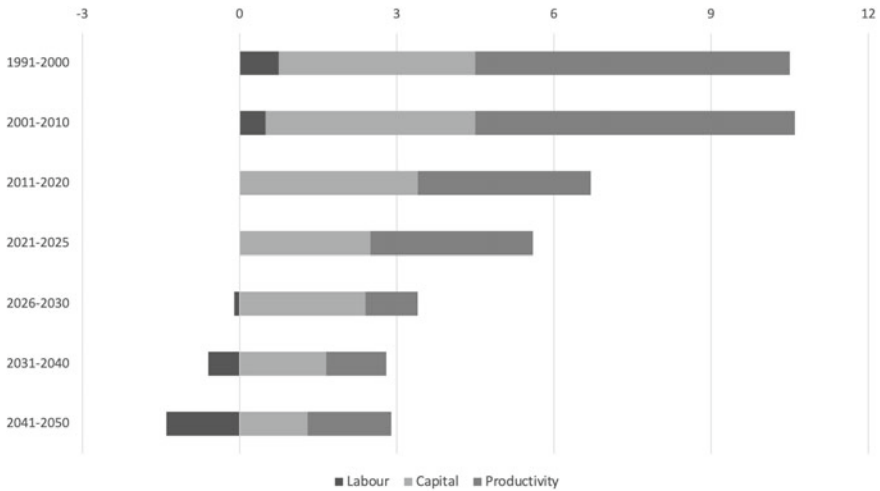


Chart 8.4 Contribution of employment, capital, and productivity to GDP growth in China, 1990–2050 (percentage points). *Source* The Economist Intelligence Unit (presentation online 23.09.2021)

lying beneath the surface of this territorially largest country in the world. Despite material-saving technological progress, the demand for most raw materials will be strong. At the same time, access to many resources, particularly in Siberia and the Arctic, will become easier due to unfortunate climate change.

Poland's Western orientation—so strongly emphasized in politics—should not deform the fact that it lies at the junction of these giga-spheres. Advantages should be taken of it through trade, stimulating capital and technology transfers, and developing human capital by enriching it with knowledge and experience gained through exchanges in all directions. The efficient use of the two major projects may be of particular value in the coming years. The first is China's insufficiently specified 16 + 1 program (again, it is 16 + 1, as after Greece's accession in 2019 it was 17 + 1 for two years, to become 16 + 1 again after Lithuania left the structure in 2021) which, within the framework of the Belt and Road Initiative, is addressed to the countries of Central and Eastern Europe, including Poland as the largest economy in the region generating over one-third of the cumulative GDP of the Eastern European countries participating in the initiative.

The second are the European Union programs that have only recently taken specific shapes: the Multiannual Financial Framework for 2021–2027 and the EU's *Next Generation* recovery instrument. Under these two European programs, Poland is to receive a total of around EUR 139 billion in grants and EUR 34 billion in loans during the seven-year period.

Both initiatives are first and foremost about investing in hard economic infrastructure, in which the regional needs are enormous. The lion's share of the investments financed from both sources—and unlike the entirely commercial Chinese ones, the EU ones are to a large extent of non-refundable financial assistance provided to the

Member States in accordance with the European Union’s cohesion policy rules—will be made with a view to environmental protection.

The Chinese initiative should not be set against EU plans, as some Brussels and Polish politicians and bureaucrats as well as Americans are doing, which is not surprising given their vested interests and desire to maintain global domination, but rather attempts should be made to coordinate both initiatives. Poland—both in its own interest and for the sake of other countries in the region—should inspire others to create an EU-China working group that will identify areas of potential conflicts of interests in order to overcome them reasonably, and seek areas where it would be worthwhile to coordinate or join efforts. This is in Poland’s strategic interest. This is also in the well-understood interests of both China and the European Union as a whole.

Funds flowing from abroad—public funds, whose sectoral and geographical location we can influence more, and private funds, whose location is less determined by government economic policy—are only a supplement to domestic savings as a source of investment funding. The efficiency of investments is important, but so is their level. It will grow both in absolute and in relative terms in the coming years, mainly owing to the growing savings of the population. With real wages rising in line with growing labor productivity, the propensity to save will increase, as long as economic policy keeps inflation under control. It erodes the real value of savings inasmuch as they bear interest, on average, below the rate of increase in the price level. In the long term, this will not be the case, and saving will really pay off, so the stocks of savings will increase. Financial intermediaries—banks and the capital market—will convert these stocks into capital outlays. Overall, the investment rate, i.e., the share of investment in national income, will rise over the next few years.

In any case, it is important to maintain a dynamic harmony with regard to the development of interrelationships of basic macroeconomic categories. To permanently improve the competitiveness of the Polish economy, which is necessary to maintain the economic growth and satisfy consumers’ aspirations, the macroeconomic balance must be maintained, which in turn requires appropriate differentiation of the growth rate of the main macroeconomic aggregates. Investment (I) should grow fastest, followed by exports (E), imports (I_{mp}), Gross Domestic Product (GDP), consumption financed by personal income (C_{pi}), overall consumption (C), consumption financed by public funds (C_{pf}), budget revenue (B_r), and budget expenditure (B_e). While the government often has no influence on the geographical location of a particular foreign direct investment, FDI, the local government can have such an influence by offering access to well-prepared, infrastructurally developed land. This need not be the case in every subsequent year on the timeline, but it should be the case in the medium-term over several years:

$$\Delta I > \Delta E > \Delta I_{mp} > \Delta GDP > \Delta C_{pi} > \Delta C > \Delta C_{pf} > \Delta B_r > \Delta B_e \quad (8.1)$$

This is the way it should be, although this is not a rigid rule (Kolodko 2009). Exports and imports can also be allowed to grow even faster than investments, provided, however, that the country’s balance of payments is kept in a dynamic

equilibrium. This rule then takes the form:

$$\Delta E > \Delta I_{mp} > \Delta I > \Delta GDP > \Delta C_{pi} > \Delta C > \Delta C_{pf} > \Delta B_r > \Delta B_e \quad (8.2)$$

or:

$$\Delta E > \Delta I > \Delta I_{mp} > \Delta GDP > \Delta C_{pi} > \Delta C > \Delta C_{pf} > \Delta B_r > \Delta B_e \quad (8.3)$$

So, what is the reality? Answering this question, we should bear in mind that the normal course of things has been brutally disrupted by the coronavirus pandemic, the shadows of which are also cast on the economic macroproportions in the following years, especially on the dynamics of budget revenues and expenditures in 2021–2022, when the expenditures go down on average by as much as 2.1% and revenues by 0.2%. According to the government's assumptions and plans presented in the budget for 2022, over the five years between 2021 and 2025, imports are expected to grow the fastest (7.2% on average annually), followed by exports (6.3), then investments (5.5), state budget revenues (4.8), and consumption financed by personal income (4.6), GDP (4.1), overall consumption (4.1), state budget expenditures (2.6), and consumption financed by social consumption funds (2.3) (Budget 2021). Thus, according to government projections for 2022–2025, the sequence of the dynamics of change of the analyzed categories is as follows:

$$\Delta I_{mp} > \Delta E > \Delta I > \Delta B_r > \Delta C_{pi} > \Delta GDP > \Delta C > \Delta B_e > \Delta C_{pf} \quad (8.4)$$

To ensure reasonably sustainable economic growth, the dynamics of these relations cannot be shaped solely by spontaneous market processes. The state must be involved in shaping their courses through appropriate regulation and by using various public policy instruments, as well as fiscal and monetary policy tools. It is a difficult task.

The importance of targeting individual capital expenditures should also be emphasized. The mere fact that the investment rate is rising does not yet guarantee that the high rate of output growth, let alone socio-economic development, will be sustained. The point is to achieve a high rate of investment growth in general and, in particular, to create new production capacities in certain spheres of production that will be the drivers for technical progress and new service capacities that would correspond to the changing needs of the society. Particularly important will be green investments and investments in the energy sector to leverage the use of renewable sources, including nuclear energy, and investment in services that meet the needs of an aging population.

For this to happen, again, one cannot rely solely on the market element. What is needed is the state's control, both at the central and local government level, through an appropriate institutional setting and public aid, and above all through public investment and joint projects in the form of public–private partnerships. As difficult as it is, it is crucial that such priorities in terms of investment structure are in line with the European Union's preferences highlighting the move towards increasingly social,

green, and knowledge-based economies and taking into account the imperative of developing a senior economy.

It should be kept in mind that the amount of income does not determine the standard of living. It happens that with a higher level of income one has a lower standard of living—and vice versa—than in some other comparable country. The standard of living is determined not only by the flow of income but also by the stock—accumulated consumer wealth. Therefore, although Poland has overtaken Greece and Portugal in terms of per capita income, it has a lower standard of living, on average, than those countries, because they benefit from stocks accumulated in the past that are richer than those of Poland. Going this way, let us emphasize that the quality of life is also determined by other factors, notably nature, being out of human control, and culture, certainly under human control. And, there is politics.

Similar disputes concerning comparisons of living standards and quality of life will continue after the next generation. If the average economic growth rate of 3.10% from 1990 to 2021 were to be maintained for the next 29 years, GDP per capita would increase by 136% and would amount to more than \$82,000 in 2050 (calculated by PPP); that is \$20,000 more than in the US today. If, in turn, it were to grow 8 per mille faster, i.e., 3.93%—the actual growth rate over the last 30 years, between 1992 and 2021, i.e., after eliminating the fall in GDP caused by the 1990–1991 shock without therapy—it would reach \$104,000 in 2050; that is twice as much as Belgium’s current rate. Such is the power of compound interest, but it is not the one that should be counted on. What should be counted on is one’s own foresight and strategic insight.

The point is for per capita income to grow. There are instances where total income rises but per capita income falls. This happens especially in very poor countries if they are hit by a natural disaster or become embroiled in internal conflicts or armed border clashes. At the extreme, in South Sudan, population growth in 2021 is estimated to be over 5%. In Burundi and Niger, it is estimated to be 3.68% and 3.65%, respectively. This is purely the result of natural population growth, as no one immigrates to these countries. These three countries are among the ten poorest countries in the world, and the inhabitants of the poorest, Burundi, produce annually as much as the two-day income of the inhabitants of Liechtenstein...

In most countries, until recently, the essence of the problem was for their income to grow faster than the simultaneous population growth. This was the case in the People’s Republic of Poland, when between 1960 and 1989 only, the population increased by almost 9 million and, at the same time, per capita income increased considerably, as labor productivity was rising on a large scale. In the next 30 years, the situation changed: The population first grew slower in the decade of the 1990s, and then, from 2000, its number started to decline. Thus, since the beginning of the twenty-first century, every increment in production was immediately an increment per capita. The population of Poland is shrinking—in 2021, it was estimated to have declined by 0.23%—and this process will continue to such an extent that there will be years when, although GDP will fall in general, it will rise per capita.

The demographic collapse that awaits Poland in view of a very low fertility rate of just 1.38 children per woman (the fourth lowest rate in the world) is one of the most serious challenges that the Polish economy will have to face. The indices of Romania

and Japan are similar to those of Poland, and only Bosnia and Herzegovina (1.35), Singapore (1.15), and South Korea (1.09) are worse. In contrast, at the opposite extreme are Niger (6.91), Angola (5.90), the Democratic Republic of the Congo (5.70), Mali (5.63), and Chad (5.57). In the world's poorest Burundi, it is 5.10 (CIA 2021). At the same time, the population of Poland is aging: The median age is already 42, and it will rise slowly to reach, as the Central Statistical Office forecasts, 49.5 in 2050, one of the highest levels in the European Union (CSO 2014). Consequently, the total demographic dependency ratio is as high as 51.4, which means that for every person not working because of being still a child or already retired, there are less than two people of working age. For comparison, the highest median age is noted in Japan—48.6 years, and in Germany—47.8, and it is the lowest in Uganda—15.7 years, and Niger—14.8 (CIA 2021). In other words, when there are a hundred average Japanese people, half of them are almost 49 years of age and above, which makes it an old society. When there are a hundred Nigeriens, half of them are children who are less than 15 years of age, which means that it is a young society.

A legitimate attempt to improve this situation by gradually raising the retirement age has been torpedoed by populist motives. The matters in this area will therefore continue to deteriorate, so it will be extremely difficult—if not impossible—to raise the fertility rate, where it is essential to move away from the culturally dominant $2 + 1$ model, i.e., parents and one child, to the $2 + 2$ model. By 2050, there may be fewer than 34 million of Poles.

Even more than the total population, the supply of labor will be reduced, as the working-age population could fall by as much as 8 million or so—from around 24 million today to around 16 million. The emerging gap in the labor market may be filled partly by robotization and automation of production processes and partly by immigration, whose waves to Poland may appear, as it unexpectedly happened due to the waves of refugees coming from Ukraine, provided that as a result of fast economic growth Poland will appear attractive enough in terms of earning money in comparison with other countries and provided that it will learn to be more tolerant towards others and become more open to multiculturalism. Definitely, it was not the case when the border with Belarus was entirely closed for the migrants from South Asia and the Middle East in 2021. On the other hand, Poland should not count on a brain drain and the continued sucking of manpower from Ukraine, which make its development prospects complicated.

The politicians holding power are also fed up with the mess they and their predecessors have contributed to and want more order in public affairs, announcing the 'Polish Deal' (Polski Ład)—a document with ambitions of a comprehensive and long-term development strategy (Polski Ład 2021). It cannot go unnoticed, especially because it aspires to be a breakthrough state program; according to the government, it is a 'development plan for the next decade'. It is far-reaching and multifaceted, which is good, but these are not enough for the 'Polish Deal' to be attributed the features of a strategic plan for socio-economic development that characterized the five years earlier 'Plan for Responsible Development', although also burdened with numerous flaws (SOR 2016). The Polish Deal—despite its wealth of themes—is not comprehensive, and this is an indispensable attribute of any good strategy. In a decade-long

timeframe, important conditions and development policy measures and objectives are ignored. The biggest drawback of the Polish Deal, in which, by the way, the category of ‘social market economy’ does not appear even once, is that it is a document that focuses more on the distribution of national income than on its creation; it is easier to divide money than to multiply it. It is a kind of populist manifesto that reaches out above all for subsidies and reliefs, which are supposedly the best instrument for achieving multiple ambitious objectives but does not delve into the economic and political conflicts of interests that need to be resolved. It is somewhat paradoxical that substantial funds from the European Union are to support the financing of the populist program of right-wing parties with their inherent Euroscepticism.

Yes, it is good to have ambitions, but they must be realistic. It is worth being an optimist, but in politics being a realist is a must, above all. One needs to care about the harmony in development, about dynamic balance, but one must not succumb to the illusion that this can be achieved without conflicts. Unfortunately, the Polish Deal lacks both pragmatism and realism in relation to many issues. What is more, it omits some fundamental problems altogether. A specter looms over Poland—the specter of populism.

In the beautifully illustrated pages of the Polish Deal, there is a lot about what will be better and new, different and diverse, what will be less bad and more good. This is right. The Polish Deal, however, does not mention anything about the need to defend the consumer. Worse still, there is no such a word at all in the entire lengthy document. The otherwise perfectly legitimate concern for fair competition alone is not enough. But is this what the ‘Polonization of public tenders’ is supposed to achieve, which means, in essence, eliminating foreign companies in advance, even if they can do things better, faster, and cheaper? While creating a better reality, policy ways and instruments must be developed, including appropriate legal regulation, to protect against confusion, exploitation, and harm being made to consumers *sensu largo*—from a purchaser to a tenant, from a customer to a passenger, from a subscriber to a patient. This is the absolute obligation of the state genuinely concerned about social order in the modern phase of capitalism.

A new socio-economic and political order must be created around consumer protection, not around the pursuit of economic growth, additionally measured by an outdated indicator of Gross Domestic Product. Keeping to this measure, the government extremely optimistically projects that in 2030, GDP per capita, calculated according to PPP, will equal the European Union average. If we reached 77% of the EU average in 2020, this means that, on average, it will grow by 2.3 percentage points faster every year than in the EU as a whole.

At this point, it is worth recalling once again the ‘Strategy for Poland’—a pragmatic and long-term program of systemic reforms aimed at building a social market economy and dynamic yet sustainable development—because it was comprehensive. That program rejected the detrimental practice of neoliberalism, but it did not fall into the trap of populism and ‘everythingism’. The Polish Deal, which also distances itself from neoliberalism, has allowed itself to be caught up in it. Naturally, the policies of the Law and Justice government have not ignored the major challenges facing Poland, especially demographic, environmental, and financial ones.

Numerous issues are taken up in the National Reconstruction Plan and in the well-prepared State Multiannual Financial Plan for 2021–2024 (APK 2021), others are covered in several good sectoral programs, which may justify the fact that the Polish Deal does not treat these matters sufficiently enough or sometimes even treats them superficially—for example, when considering the issue of decarbonization of the economy and transition to renewable energy sources. Especially with regard to this last issue, such an important document should clearly show how the national path towards climate neutrality will fit into the European and global strategy.

A careful reading of the Polish Deal inevitably leads to the reflection that it was created more as a resultant, a kind of collection of a mass of postulates submitted by various circles, and especially by parties and groupings of the United Right, as well as ministries and other state offices (hence the huge amount of all sorts of funds and agencies), than from a framework, a promising idea as to a complex vision of the future, to which the details of development should be subordinated. We, therefore, learn that the entry to the Czartoryski Museum will be free of charge for persons under 26 years of age, but there is nothing about Poland's geopolitical position at the junction of the Euro-Atlantic and Eurasian systems, which must be exploited wisely in order to improve its position in Europe and the world. We hear that within the framework of water management, there will be mechanisms facilitating the creation of ponds in rural areas, but there is nothing about the prospect of future membership in the eurozone being used to strengthen the Polish economy. We learn that grass in cities is to be cut infrequently, but there is not a word about the possibility of using China's great Belt and Road Initiative to improve the country's infrastructure. We learn that the rate of subsidies for agricultural fuel per hectare will rise by PLN 10, but we do not know how the urban disorder in the Polish cities is to be curbed, for it is not by building single-family houses of up to 70 m² 'without a permit (...) but only on the basis of a notification'...

The most varied tax reliefs are a favorite move of the populists. They spoil the system and take a heavy toll over time when the economic climate becomes less favorable. Taxes are not extortion money or a levy, but simply a form of payment for the use of public goods and services. The Polish Deal promises more tax reliefs and exemptions, intending to make this another remarkable success of the ruling coalition, but actually introducing even more disturbance into the—already messed up—fiscal system. When the time for prudence and pragmatism comes again—and it will come—it will be very difficult to withdraw from them. The opposition, which aspires to seize power, must realize this fact. Right now, it is not about being more pro-social (or, in fact, more populist), but about keeping one's feet on the ground, as we will be walking on the same ground in a few, a dozen, and several dozen years.

Instead of taking away a part of revenues through tax exemptions—especially where this illusorily encourages the desired behavior of workers and producers—investment in science and culture should be increased. Meanwhile, before the government gave an operational and specific shape to its beautiful slogans, already alongside the amendment made to the 2021 budget, due to higher revenues resulting from higher than previously assumed GDP growth, expenditures on national defense were increased.

Spending on education was treated unfairly by this amendment, yet its quality will have an increasing impact on socio-economic development. The modern economic thought emphasizes that innovation depends on the quality of teaching, and without innovation, it is impossible to maintain the economic dynamism at a high level. Comparative research in the sphere of educational economics shows that it is not traditional but contemporary values—such as individualism, vitalism, or self-expression—that evoke the desire to challenge *the status quo* and encourage innovation (Phelps et al. 2020). What needs to be taught is not creationism but creativity, not godliness but boldness, not agreeableness and concordance but contestation and non-conformity, and it needs to be taught from an early age, because, after all, ‘what youth is used to, age remembers’. It is, therefore, a good thing that Poland spends a relatively higher proportion of total public expenditure on preschool education than, for example, Germany, but it is wrong that in total Poland does not spend even more on education and upbringing. It is hard to expect the above-average quality of human capital and above-average dynamism of the development of a country that prefers to increase expenditure on arms more rapidly than on education.

It is very good that the Polish Deal announces a significant increase in the share of public expenditure on health in GDP, from around 5% to over 7%, but it is very bad that it does not say at what relative cost for other spheres of public services this is to be achieved. Because the shares always add up to 100%; no matter who is in power. In fact, the cost of servicing the public debt, which in the year of the pandemic jumped by as much as 12 percentage points to 57.5% of GDP, is to fall by around 0.5 percentage points of GDP. The forecast of negligible costs of servicing it is questionable, just as the assumption of continued low interest rates in the long term. Where, then, is more money for health supposed to come from? From a relative reduction in expenditure on financing what other social needs? It will not come from cutting wasteful spending on armaments; the government does not take it into account—on the contrary. It is also doubtful that it would be willing and able to cut its own bureaucratic excesses. There is not a word mentioned about either in the document.

Already the first page of the Polish Deal contains a biased and completely wrong overview of the years preceding the current governments, putting them into one bag (except for a short episode of the Law and Justice rule in 2005–2007), even though the policies pursued between 1989 and 2015 were so diverse and their results so varied. Even worse, the authors of this document, failing to grasp the dialectics of continuity and change in historical processes, repeat lies about the People’s Republic of Poland and the era preceding the political breakthrough of 1989. A good future cannot be built on a lie about the past. Therefore, it is thrilling to hear that the curriculum of ‘the twentieth-century history (mainly of Poland)’ in secondary schools is to be extended. And then, there will be an ‘annual national history quiz’. One can already imagine some of the questions and answers... Yes, it is worth knowing history well—of one’s own and of others—if one wants to create a good future, avoiding mistakes that have already been made somewhere, but it is even better to shape creativity, teach innovative thinking, stimulate inexhaustible curiosity, openness, and tolerance already from primary, or preferably even from nursery schools. The competitiveness of the Polish as well as any other economy will depend on how the quality of education at

all levels improves, which also requires a fundamental improvement in the financing of schools, including a significant increase in the salaries of teachers. The position of Poland will be determined more by human than by financial capital.

Yes, the Polish Deal promises that the water will be clean and the grass green, and since the air will also be fresher, it will be pleasant to breathe in such a good atmosphere. Life could not be any better! But then, there is also a nasty political atmosphere, which the Polish Deal alone—even if it were to come true—will not improve. The atmosphere is getting thick. A policy that tramples on women's rights to decide about pregnancy and abortion and the rule of law compliant with the standards of the European Union, a policy that does not like those who pray and love differently, that does not accept refugees and immigrants, that favors populism over pragmatism, and often prefers lies to the truth, is not capable of creating harmony and order. It would therefore be a good idea to widen the paths to a better Poland that exudes harmony to include ways of repairing this thrifless Republic. If this fails, the economy too will be in trouble. Organizing the real economy and the legal rules improving its operation is a challenging task. Meanwhile, in the heat of the never-ending political battle and because of the implementation of solutions that de facto spoil the system, Internet mockers and scoffers share memes that show the phrase 'polish deal' as an oxymoron...

Even if Poland, making effective use of the benefits of globalization, were able to maintain the rate of economic growth per capita achieved in the previous 30 years over the next three decades, the damage done by the mistakes made in some periods of those years is irreparable. Future growth in production and consumption will not compensate for the material losses incurred in the past. Opportunities that existed then have been missed. Therefore, it is even more important not to waste the opportunities that the future holds for us in the context of the inevitable continuation of globalization. And precisely these factors—the dynamic global economic system and the accompanying politics entangled in conflicts of ideas and interests—should be the starting point for drawing up a far-reaching strategy for Poland. Based on new pragmatism and strengthening the elements of a social market economy, Poland can systematically improve its position in the world, and its economy will foster a perceptible advancement in the quality of life.

It is extremely important that this is done with the employment rate as close to full employment as possible. Labor is fundamental everywhere. People want to work because they have to earn money, but also because work makes them social beings, gives them a sense of belonging and dignity. If one had to name just one strictly economic and most important category—it would not be money or wealth, but labor. If indeed technological progress proves so great that there is not enough work for all those who want it with the current organization of the labor market and the length of working time, it will have to be shared. We will work shorter hours so that everyone who wants to work can work. In this respect, the twenty-first century will bring even greater changes than the previous two centuries.

8.4 Shortening Distances

It is natural, both for individuals and for whole societies, to compare one's own material condition to that of wealthier neighbors. Ordinary people do this by comparing wages and other income, and most often do not look at the real purchasing power of the income received, but confront it according to the market exchange rate. Economists and politicians are turning to GDP per capita comparisons, this time taking the purchasing power parity into account. For Algerians, the reference country is France, for Estonians—Finland, for Mexicans—the US, for Ukrainians—Poland, for Hungarians—Austria, for Zambians—South Africa, while for Poland—Germany. All too often do we hear the question of when we will catch up with Germany, and those who ask it usually mean the level of GDP as well as earnings and social benefits, especially pensions.

From this perspective, Poland may catch up with Germany, but this does not have to be the case, as they too will be on the path of growth, but its rate will be slower than that of Poland. However, bridging the gap between these two countries will continue. Let us consider in which year the levels of income would hypothetically equalize with an average annual growth rate twice as high in up-and-coming Poland as in rich Germany, taking as a starting point the GDP per capita estimate in 2020, when Polish income of \$34,265 was less than 64% of German income of \$53,694 (according to PPP) (WB 2021b). The assumed average annual growth rate for Poland is 3% in the first scenario, and 2.5% in the second. If such ratios were twice as high as the corresponding ratios for Germany, then in the first case Polish GDP per capita would equal German GDP in 2051 and in the second case in 2057 (Chart 8.5).

However, there is a recurring question of how to measure the quality of life, how to evaluate the changes taking place in this field? Because we should have no illusions: When incomes double or triple, there will still be complaints. When GDP per capita exceeds USD 100,000—and many will see this day, although probably it will not be 2050—many will still complain that things could be better. And, kind of right, we almost always say so *ex post*. So, what should be used to measure socio-economic progress and how should it be evaluated?

Since we are in a beyond-GDP economy, it is necessary to resort to other measures of socio-economic development than Gross Domestic Product, GDP, which narrows the field of observation and, as a result, of action. There are such measures, and it is surprising that discussions about economic growth and socio-economic development more broadly focus on GDP and its growth factors. Only the small kingdom of Bhutan has been maximizing not the Gross National Income, GNI, but the gross happiness index, GHI (Ura et al. 2012) for 50 years now. This is a composite index that is far better because it is broader, deeper, and more comprehensive in reporting the state of affairs. Later, other measures of a similar nature appeared, such as the already mentioned better life index or the quality of life index constructed by the European Union (EU 2021). None of these, however, is used to actively formulate development strategies and shape socio-economic policies, but they are only used as instruments to inspire comparative analysis and research.

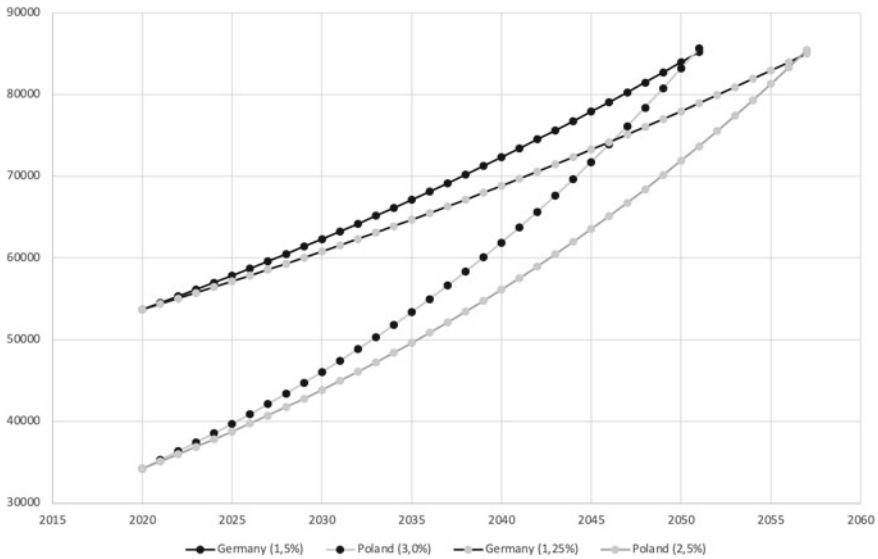


Chart 8.5 For the trajectory of Poland catching up with Germany in terms of GDP per capita. *Source* Own calculations

There is also an interesting concept put forward by the Polish Economic Institute, namely the responsible development index, RDI (PIE 2020). Unfortunately, even this proposal, according to which Poland is ranked 32nd in the world, is not taken into account by the government when drawing up development plans. The proposals that the information on the shape of the RDI with a projection of its medium-term changes should each time accompany a draft budget being presented to the parliament and the public are not being heard, although this could significantly influence the content and form of the public and political debate on the functioning of the economy and ways to improve it. This is even odder given that the picture of the economic, social, and ecological situation that emerges when observing the reality from the perspective of the RDI has changed for the better over the last few years on a greater scale than GDP has grown over the same period. It is worth making it compulsory to present this indicator to the public and to discuss it annually during a parliamentary debate, as a rule, giving it statutory power. By the way, Bhutan has introduced relevant provisions institutionalizing GHI as a government policy objective in its constitution adopted in 2008. It is a pity that the RDI is almost completely absent from the public discussion. It is difficult to explain rationally why the government does not rely on its own measure, which was developed by the government research center.

While in the ranking of national income per capita, this time measured in terms of Gross National Income, GNI, Poland ranks 41st in the world, in terms of the human development index, HDI, of 0.880, it is 33rd, after Cyprus and Lithuania, and before Latvia and Portugal, and in terms of the same index adjusted for inequality, IHDI, of 0.813, it is 26th, after Israel and Singapore, and before the US and Slovakia (we

Table 8.1 Indices of human development in selected countries in 1990–2020

Country	HDI	HDI	IHDI	Average annual growth rate of HDI in years				
	1990	2019	2019	Change in HDI ranking in 2019 compared to 2014	1990–2000	2000–2010	2010–2019	1990–2019
Norway	0.849	0.957	0.899	0	0.75	0.27	0.20	0.41
Germany	0.808	0.947	0.869	–3	0.81	0.57	0.24	0.55
USA	0.865	0.926	0.808	–3	0.24	0.33	0.12	0.24
Cyprus	0.735	0.887	0.805	0	0.90	0.63	0.40	0.65
Lithuania	0.738	0.882	0.791	0	0.32	0.87	0.66	0.62
Poland	0.718	0.880	0.813	0	0.96	0.62	0.52	0.70
Latvia	0.711	0.866	0.783	3	0.33	1.15	0.55	0.68
Portugal	0.718	0.864	0.761	–1	0.99	0.46	0.46	0.64

Source HDI: UNDP (2021a), IHDI: UNDP (2021b)

omit tiny Liechtenstein and the territory of Hong Kong from this ranking; both are higher than Poland). Norway tops both lists with the indices of 0.957 and 0.899, respectively. It is pleasing to see Poland moving forward faster both compared to countries at a similar level of development and to the most advanced countries, Norway and Germany, with which it is most often confronted with regards to the process of catching up with highly developed economies Table 8.1.

It should be noted that although Cyprus and Lithuania are ahead of Poland in terms of the HDI, in terms of the IHDI the quality of life in Poland is rated higher. It is also striking that Poland is slightly, but nevertheless ahead of the US because the relatively low level of the IHDI in this highly developed, rich country is seriously weighed down by income inequalities and an extent of social exclusion, especially on the basis of race. The Gini coefficient—the primary measure of income inequality—is 41.4 in the US and 30.2 in Poland (WB 2021a).⁴ In the development strategy of Poland for the coming years, care must be taken to ensure that these inequalities do not increase excessively, but they should also not be further reduced by additional social transfers because this may turn against the ability to form capital and allocate it effectively.

Comparisons of standards and quality of life and changes in these domains are not easy, and it is especially difficult to judge where and by how much it is better. Although the IHDI is certainly a better measure than GDP, it is still not a fully adequate measure to show a reasonably comprehensive picture of the state of affairs. What is closer to a competent and comprehensive answer to the question of how great a distance separates Poland from the level of development achieved by neighboring

⁴ These are data for 2018. For Poland, Eurostat estimated the Gini coefficient in 2019 at the level of 28.5 (Eurostat 2021).

Germany: differences in income levels or the distance in the sphere of human and social capital? We already know that at the turn of the second and third decades of the twenty-first century, Poland's average national income generated per capita amounted to 64% of Germany's. Now we learn that the IHDI of a Pole is as much as 93.56% of the IHDI of a German. Could it be that the development gap is much smaller than is commonly assumed, looking at the reality mainly from the point of view of current incomes? So, what's next?

By its very nature, social capital indices grow slower than national income indices, as it is not possible to extend the years of schooling very much or to reduce the almost non-existent illiteracy, which determines the increments in the education component, nor to rapidly extend the average life expectancy, which determines the increases in the health component. In the case of Poland, the HDI grew significantly over the thirty-year period of 1990–2019, at an average annual rate of 0.70, which is more than a quarter faster than in Germany and as much as nearly three times faster than in the US.

Ascending to economic heights can be associated with mountain climbing: It is easier to conquer each successive meter upwards if you are high up but all the time in the Tatras, but it gets much harder—because it is not the same meter—if you are climbing in the high Alps, not to mention the Himalayas. Assuming that by investing in human capital and raising labor productivity through technological progress and improvements in the quality of management, and by basing economic growth more on innovation rather than imitation, Poland will raise its HDI annually at half the rate it managed to do in the previous decade, i.e., by 0.26%. In relation to Germany, we assume that they will climb at a rate equal to a third of the rate recorded in those years, i.e., 0.08%. What's then? Well, Poland would catch up with Germany—at a very high level, higher than the current record index of Norway—after 41 years, in 2060. This is the direction to pursue, even if it cannot be reached (Chart 8.6).

More important than catching up with others is satisfying society's own needs. In a country as highly developed as Norway, with its functional social market economy, it can be assumed that in terms of the areas covered by the HDI and IHDI, its society is close to full satisfaction. But even there, it is far from perfection, as there are other spheres: culture and especially the environment, which are becoming increasingly important for the quality of people's life. When its condition is taken into account, Norway's rating drops seriously; it falls to 15th place among the compared countries, with Ireland, which ranks second in the HDI comparisons, taking the lead. This significant drop in Norway's rating is due to the very high importance of oil production in its economy. The environmental factor was a fundamental contributor to the Conservative Party's defeat in the September 2021 election, which, after eight years, lost power to a left-center coalition headed by the Labor Party.

The United Nations Development Program, UNDP—30 years after it first presented an assessment in the form of the HDI in 1990—has rightly broadened its field of observation in 2020 to include an analysis of the state of the natural environment that surrounds humans and is changed by humans. Unfortunately, people are changing the environment for the worse all the time. In the report—this time subtitled 'The next frontier: Human development and the Anthropocene' (UNDP

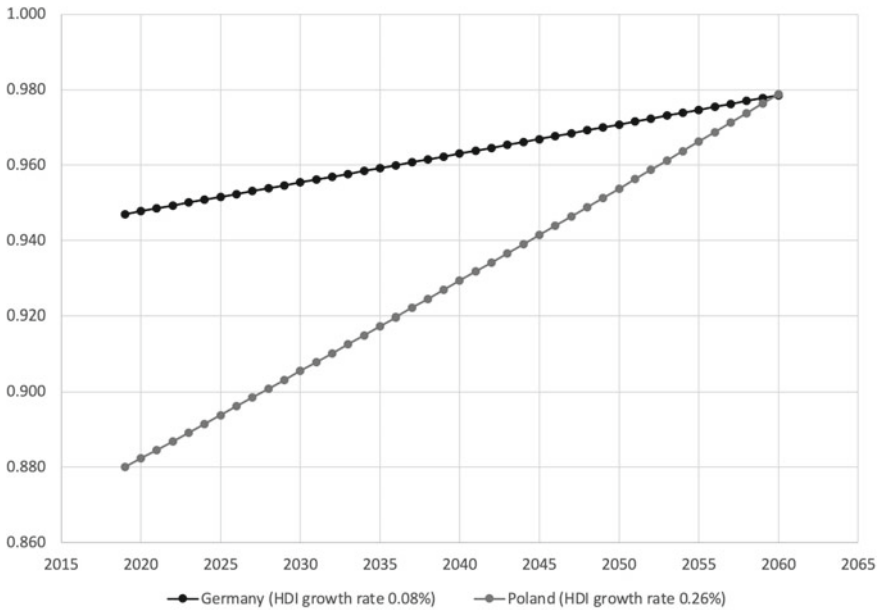


Chart 8.6 Scenario of closing the gap between the Polish and German Human Development Indices. *Source* Own calculations

2021c)—the UNDP expands the HDI with an environmental component by calculating the *Planetary pressures-adjusted human development index*, PHDI. In spite of economic growth—or perhaps as a result of it, due to the accompanying devastation of the environment—we are getting poorer because, although we are getting richer in material terms and the value of our human capital is increasing, our natural capital has been declining for several decades. While productive capital per capita on Earth has increased by more than 90% over the past three decades, natural capital has decreased by almost 40%.

When constructing the PHDI, particular attention is paid to per capita greenhouse gas emissions and the material footprint left behind. In this respect, when assessed from the point of view of the HDI and IHDI, Poland fares poorly, as it cares for nature even worse than some economies at a similar level of development understood traditionally, i.e., in an outdated way that does not correspond well to the challenges of the future. The distance from Poland to Norway has shortened, but it got longer to Ireland. While Poland drops three places on the list of PHDI-rated countries compared to the HDI classification, Cyprus falls two places and Lithuania six. Latvia and Portugal, ranked immediately behind Poland in the HDI ranking, advance nine and fifteen positions, respectively (Table 8.2).

What matters most is how the distance to an ever better tomorrow—as understood by the society—changes. The problem is that the societies of various countries vary, albeit not to the same extent, and the notions of a better tomorrow are highly heterogeneous. All the more so in the era of irreversible globalization, the strategy

Table 8.2 Human development index adjusted for environmental pressures

	HDI	HDI rank	IHDI	IHDI rank	PHDI	PHDI rank
Norway	0.957	1	0.899	1	0.781	16
Ireland	0.955	2	0.885	5	0.833	1
Germany	0.947	5	0.869	10	0.814	6
Poland	0.880	33	0.813	26	0.752	36

Source UNDP (2021c)

of triple—economically, socially, and ecologically—sustainable development must strike a good balance between the conflicting interests of different population groups at the same time and of the society as a whole in the short and long term. There should be no illusion that these conflicts can be easily overcome, but there must be a vision—ambitious but realistic—of a better tomorrow. Without a long-term vision, a long-term development strategy cannot be implemented. An indispensable element of such a vision is a correct perception of one’s place in the world.

In addition to the natural climate, dangerously heated up by human economic activity, there is also another climate that matters, the political one. If it is spoiled, the effects achieved in other fields may be reduced. It is not the maximization of the growth rate of GDP and consumption, but the values of human and social capital and concern for ecologically sustainable development that will determine social well-being and satisfaction from economic activity. Once again: People go where they aim. It is still necessary to prudently take advantage of globalization and to make it more inclusive from an economic perspective, despite the deterioration of the overall situation from a political angle. It is very challenging, but feasible if only the rational people will be able to lead this never-ending greatest humanity show. It would be a gigantic, of historical dimension, blunder if the international relations, spoiled by the implications and consequences of conflict around Ukraine, would dominate the agenda and if the matter of economic progress would be pushed aside, as a secondary matter, and would take a reverse course. Each country can find its own way of development and can do so not at the expense of others but in creative coexistence and cooperation with them. We can still all fit into this wandering world...

References

- APK (2021), *Program konwergencji. Aktualizacja 2021 [Convergence program: Update 2021]*, Rada Ministrów [Council of Ministers], Warszawa, April (<https://www.gov.pl/web/finanse/aktualizacja-programu-konwergencji>; access: 13.12.2021) [in Polish].
- Budget (2021), *Ustawa budżetowa na rok 2022. Uzasadnienie (Budget Act for 2022. Explanation)*, Warszawa: Council of Ministers, August 24, 2022 (<https://www.gov.pl/web/finanse/projekt-przekazany-do-rds3>; access: 13.12.2021).
- CIA (2021), *The World Factbook*, Central Intelligence Agency, Washington, D.C. (<https://www.cia.gov/the-world-factbook/>; access: 25.12.2021).

- Cline, Eric H. (2015). *1177 B.C.: The Year Civilization Collapsed*, Princeton University Press, Princeton.
- de Sousa, Santos, Boaventura, César A. Rodríguez-Garavito, (2005), *Law and Globalization from Below: Towards a Cosmopolitan Legality*, Cambridge University Press, New York.
- Economist (2020). "The China strategy America needs", "The Economist", November 21 (<https://www.economist.com/leaders/2020/11/19/the-china-strategy-america-needs>; access 25.12.2021).
- Economist (2021a), *The patter of fewer tiny feet*, "The Economist", December 4 (<https://www.economist.com/asia/2021/12/02/indias-population-will-start-to-shrink-sooner-than-expected>; access 20.12.2021).
- Economist (2022a), *How to think about the threat to American democracy*, "The Economist", January 2 (<https://www.economist.com/leaders/2022/01/01/how-to-think-about-the-threat-to-american-democracy>; access 4.01.2022).
- Economist (2022b), *Welcome to the era of the bossy state*, "The Economist", January 15 (<https://www.economist.com/leaders/2022/01/15/welcome-to-the-era-of-the-bossy-state>; access 22.01.2022).
- Economist (2022c), *India's democracy is not as healthy as this month's elections make it seem*, "The Economist", February 12 (<https://www.economist.com/leaders/indias-democracy-is-not-as-healthy-as-this-months-elections-make-it-seem/21807621>; access 11.02.2022).
- EU (2021), *Quality of Life*, Brussels: European Commission Eurostat (<https://ec.europa.eu/eurostat/web/quality-of-life>; access: 13.12.2021).
- Eurostat (2021), *Gini coefficient of equivalised disposable income – EU-SILC*, Brussels (https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di12; access: 13.12.2021).
- Frankopan, Peter (2018), *The New Silk Road: The Present and Future of the World*, Bloomsbury Publishing, London – Oxford – New York – New Delhi – Sydney.
- Ghosh, Amitav (2021). *The Nutmeg's Curse: Parables for a Planet in Crisis*, University of Chicago Press, Chicago.
- GUS (2021a), *Obroty towarowe handlu zagranicznego ogółem i według krajów w 2020 r. [Foreign trade turnover in total and by countries in 2020]*, Główny Urząd Statystyczny [Central Statistical Office], Warszawa (https://stat.gov.pl/files/gfx/portalinformacyjny/pl/defaultaktualnosci/5466/2/13/1/obroty_towarowe_handlu_zagranicznego_ogolem_i_wedlug_krajow_w_2020_roku.pdf; access: 13.12.2021) [in Polish].
- Keynes, John Maynard (1920), *The Economic Consequences of the Peace*, Harcourt, Brace and Howe, New York.
- Kissinger, Henry A. (2015), *World Order*, Penguin Book, New York.
- Kolodko, Grzegorz W. (2009), *A two-thirds of success. Poland's post-communist transformation 1989–2009*, "Communist and Post-Communist Studies", Vol. 42, No. 3, p. 325–351.
- Kolodko, Grzegorz W. (2017), *Economics and Politics of the Currency Convergence: the Case of Poland*, "Communist and Post-Communist Studies", Vol. 50, No. 3, p. 183–194.
- Kolodko, Grzegorz W. (2020d), *The Great Chinese Transformation: from the Third to the First World*, "Acta Oeconomica", Vol. 70, Special Issue, p. 71–83.
- Kolodko, Grzegorz W. (2020c), *Economics and Politics of Post-Communist Transition to Market and Democracy: The Lessons from Polish Experience*, "Post-Communist Economies", Vol. 32, No. 3, p. 285–305.
- Martell, Luke (2016), *The Sociology of Globalization*, Polity Press, Cambridge, UK.
- Milanovic, Branko (2016), *Global Inequality for the Age of Globalization*, The Belknap Press of Harvard University Press, Cambridge, Massachusetts, London, England.
- Phelps, Edmund, Raicho Bojilov, Hian Teck Hoon, Gylfi Zoega (2020), *Dynamism: The Values That Drive Innovation, Job Satisfaction, and Economic Growth*, Harvard University Press, Cambridge, Massachusetts, London, England.
- PIE (2020), *Indeks odpowiedzialnego rozwoju [Responsible Development Index]*, Polski Instytut Ekonomiczny, Warszawa (<https://pie.net.pl/polska-na-32-miejscu-w-indeksie-odpowiedzialnego-rozwoju/>; access: 26.12.2021) [in Polish].

- Polski Ład (2021), *Polski ład. Plan rozwoju na najbliższą dekadę* [Polish order: *Development plan for the next decade*], Rada Ministrów [Council of Ministers], Warszawa (<https://www.gov.pl/web/polski-lad>; access: 25.01.2022 [in Polish]).
- Rodrik, Dani (2011), *The Globalization Paradox: Democracy and the Future of the World Economy*, W.W. Norton & Company, New York – London.
- Rodrik, Dani (2017), *Straight Talk on Trade: Ideas for a Sane World Economy*, Princeton University Press, Princeton – Oxford.
- Sevastopulo, Demetri (2021), *US vs China: Biden bets on alliances to push back against Beijing*, „Financial Times”, March 4 (<https://www.ft.com/content/cf71feb2-297f-4e3a-8627-b89931cc6a80>; access: 13.12.2021).
- SOR (2016), *Plan na Rzecz Odpowiedzialnego Rozwoju*, [Plan for Responsible Development], Ministerstwo Funduszy i Polityki Regionalnej [Ministry of Funds and Regional Policy], Warszawa (<https://www.gov.pl/web/fundusze-regiony/plan-na-rzecz-odpowiedzialnego-rozwoju>; access 3.01.2022) [in Polish].
- Steger, Manfred B. (2002), *Globalism. The New Market Ideology*, Rowman & Littlefield Publishers, Lanham – Boulder – New York – Oxford.
- Tomlinson, John (1999), *Globalization and Culture*, The University of Chicago Press, Chicago.
- UNDP (2021a), *Human Development Index*, United Nations Development Programme, New York (http://hdr.undp.org/sites/default/files/2020_statistical_annex_table_3.pdf; access: 13.12.2021).
- UNDP (2021b), *Inequality Adjusted Human Development Index* (<http://hdr.undp.org/en/content/inequality-adjusted-human-development-index-ihdi>; access: 22.12.2021b).
- UNDP (2021c), *Human Development Report 2020. The next frontier: Human development and the Anthropocene*, UNDP, New York (<http://hdr.undp.org/sites/default/files/hdr2020.pdf>; access: 13.12.2021).
- Ura, Karma, Sabina Alkire, Tshoki Zangmo, Karma Wangdi (2012), *A Short Guide to Gross National Happiness Index*, Thimphu: The Centre for Bhutan Studies (<http://www.grossnationalhappiness.com/wp-content/uploads/2012/04/Short-GNH-Index-edited.pdf>; access: 13.12.2021).
- WB (2021a), *World Development Indicators*, The World Bank, Washington, D.C. (<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=B8-PL>; access: 13.12.2021).
- WB (2021b), *World Development Database: GDP per capita, PPP (current international \$)*, The World Bank, Washington, D.C. (<https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD> access: 12.12.2021).
- WB (2021c), *World Bank Open Data*, The World Bank, Washington, D.C. (<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>; access: 13.12.2021).

Chapter 9

Ending, or How to Row Uphill



The reformulation of economic development objectives is the imperative of our times. This will prove crucial for reorienting the pursued development strategies. Insisting on the old, already morally worn-out ones, ever so often creates more problems than it solves. Development goals for the new era should be formulated rationally, which is a task not only for the elites who outline and exemplify these goals but for entire societies that must profoundly rethink their value systems. It is impossible to return to the era of the primitive community with gathering and hunting typical to it, but it is also impossible to continue living in the vapors of unbridled consumerism born out of the twentieth-century capitalism. What humanity needs is not abundance but moderation, not the pursuit of producing and consuming more goods, but the ability to maintain an ever-increasing dose of a secure economic balance.

After all, there will be no chance to introduce the desired changes in value systems and ways of consumption without a determination that will favor them of those exerting a significant influence on the behavior of individuals and communities, on the directions of political and economic activities, on the formulation of cultural and social priorities, on the shaping of attitudes and interpersonal relations. Some people have already naively come to believe that they can find answers to every question on the Internet, but they will not find such replies to fundamental queries unless these answers come from the richest treasury of knowledge ever, held by intellectual elites. Definitely, the economy is to be increasingly knowledge-based, but the institutions that determine social relations must also be underpinned by knowledge. For these reasons, the issue of leadership at different levels of economic, social, and political structures is becoming increasingly important. This is precisely so: increasingly, not less important, as some people think. This applies to leadership in both democratic and authoritarian systems. It is impossible to get out of the entrapment with ignorants in power. Success can be achieved only with enlightened leaders.

Why, then, are they so often lacking in goodwill and charisma wherever they appear? Why—despite the demands repeated over many years—is it still not possible to move towards alternative measures of development that would motivate moderate behavior instead of excesses, giving a chance for at least the necessary degree of

social harmony? It is not, after all, due to stupidity, although there is no shortage of it either. This is because it does not pay off for the special interest groups, its influential exponents, who are sometimes feared by politicians, by whom at other times those politicians are corrupted, and most often both. Even leaders in the religious and cultural spheres, who do not have to strive for support to win elections every few years, often lack the courage to oppose evil and stupidity, dishonesty, and greed—in specific cases, not in general.

Today—for the first time in history—a chance is emerging that the rich and powerful countries will not oppress the weak and poor, because they have to get along with them in the climate battle. More and more politicians seem to finally understand this. Unless... Unless the New Cold War amok will take over the minds of political leaders, and the media serving their goals, and will drive the political attention in the wrong direction. It is the time for the masses of people to understand it—with the help of politicians, with the support of opinion-forming elites, from scientific to religious elites. War, force, exploitation, and deception can no longer be used to settle the matter nor can it be swept under the carpet. Neither in the rich and the richest countries nor in the poor and the poorest. Undoubtedly, this understanding is greatly fostered by the unbridled globalization of the flow of information and the activity of reliable media. Without their contribution, the problem would not have been solvable at all.

Never before have the mighty of this world understood on such a visible scale that in certain fundamental, existential respects they are in the same boat as the poor. It is not possible to create a ghetto with those COVID-infected and isolate the rich, to be healthy, from the poor, who can get sick. It turns out that there is only one hospital; it has also become globalized. In many respects, however, the differences between the rich and the poor are appalling. The global inequality in coronavirus vaccination is blatant. According to estimates by Johns Hopkins University, which has kept a relevant statistical database since the start of the COVID-19 pandemic, while an average of 198 injections per 100 inhabitants had been administered in 'high-income countries' (according to the World Bank terminology) by the end of April 2022, there were only 23 of them administered in 'low-income countries'.

The fates of those who have a lot and those who have little are intertwined as never before. One can live in some better neighborhoods that may still be called Bel Air, or in whole cities with so beautiful-sounding names as Buenos Aires, but the atmosphere surrounding Earth is one. If one wants to breathe clean air in California, there is no way money can buy it. Some funds need to be assigned for the development of renewable energy elsewhere in the inextricably linked world. If the exodus of the sub-Saharan African masses of destitute people is to be stopped, the rich societies of Europe must share their income with them. There is a chance that, at least in part, right lessons will be learned.

Interestingly, both in the flourishing democracies and in the autocracies that are not free from turmoil, the ruling circles are still unable to draw the obvious conclusion that public military spending, which is so lucrative for the shareholders of the armaments industry and the politicians and media corrupted by it, needs to be deeply cut, and that the resources thus released should be transferred to combating global warming and

to forms of economic activity that reduce the areas of economic and social exclusion. Without an end to the arms race, it will not be possible to control adverse climate change democratically. What is more, global cooperation between democracies and autocracies is necessary in this matter; otherwise, it will not work. Therefore, the sooner the West, with the US and the European Union at the forefront, understands that the Sinophobia expressed so explicitly is the wrong way to approach the issue, the better. Large and powerful countries are bound to work together and must handle common problems mostly pragmatically rather than ideologically. Values must be discussed; problems must be solved.

Relations between the US and China will always remain important. The former must come to terms with the fact that they are unable to curb the rise to prominence and global influence of the latter. The latter must moderate their external expansionism and avoid direct confrontation with the megalomania of the former. What defies common sense—or even more, elementary wisdom—is a public narrative, sometimes intrusive, tainted by anti-Chinese sentiment, and a policy—including an economic one—that aggressively seeks to weaken China. The best way, according to the authors of such unhealthy political thinking, is to internally destabilize China, which is to be achieved both by—ostensibly motivated by the concern for human rights—fueling ethnic, religious, and political conflicts, and by complicating the functioning of the economy through the application of various business and trade sanctions. It needs to be accepted that China has already woken up irreversibly, as Napoleon warned, and, while discussing what is wrong with whom and arguing about various issues, cooperate pragmatically on the global stage. It is the only sensible way forward in the world of the future. And, this world will benefit from it. The point is that those who make these arrangements should be concerned with this world, and not with their own interests satisfied at the expense of others. Too bad this is not the case...

US–China relations need a dramatic turnaround, similar, in a way, to what was done a third of a century ago by conflicting powers—the Soviet Union under Mikhail Gorbachev and the US under Ronald Reagan. This time the result of such a turnaround must not be a triumphalism of one side, as quickly happened in the 1990s. Now, a political breakthrough must be followed by a partnership, if it cannot be a brotherhood. What the world needs is not a rivalry between the US and China—so often tainted by outright hostility, at least on the American side and in the circles of its loyal allies—but cooperation in solving common problems, on which the fate of billions of people in other countries also depends. One cannot fall into the limitations of the narrative (Malinowski 2019), which manifests itself in nothing more than nonsense about the so-called Thucydides Trap (Allison 2017), which is a supposed threat of an American–Chinese war similar to the ancient clash between Sparta and Athens.

Just as after 1945, Europe was saved from disastrous armed conflicts by the political and economic cooperation of the regional powers that had been at war for generations, Germany and France, which had previously suffered greatly from the Franco-Prussian wars of the nineteenth century and the world wars of the twentieth century, so now the world must be saved by means of a transition from antagonism to cooperation between the two contemporary global powers, China and the US. Of course, also the mutual relations between the West and Russia—the worst since the

end of the climax of the previous Cold War at the time of the Cuban missile crisis in 1962, must be radically improved, yet it will take a long time... Leaders willing and able to do this and to put themselves on the right side of history will come to light and take the helms of these countries. There is no point in waiting with uniting efforts for an attack from extraterrestrials and a war of the worlds because we must save this present world from the threats already attacking us with all their energy.

Globalization is a complex issue with many faces. Its contemporary phase began three decades ago. The end of the Cold War, coupled with the market transformation of the former socialist countries, enabled vast territories from central Europe to the west rim of the Pacific to join global economic exchange. The split into three “worlds”—countries of advanced capitalism, centrally planned socialist economies, and the “Third World”—was becoming outdated. Certainly, it was not the famous “end of history”, but undoubtedly, it was a double breakthrough—economic and political—in the history of the world. Yet, only in the early years of this enormous spectacle—after the Polish Round Table, exactly a third of a century ago in the spring of 1989, and the fall of the Berlin Wall, in the autumn of that year—political globalization kept up the pace with economic one, and sometimes was even ahead of it. Economic reason and political wisdom seemed to be going hand in hand. However, it appeared quite soon that whereas an ever more integrated world economy was emerging, political globalization was lagging behind. It turned out that the political logic differed from the economic one, and they began to diverge.

In a process of consolidation on a much smaller scale—in the European Union—we do have both, an integrated economy and an advanced mechanism of policies’ coordination. In contrast to the European project that has created an entity within which political integration helps to solve the problems of economic integration, on a worldwide scale, it has not happened. The existing architecture of international organizations—starting from the IMF, World Bank, WTO, ILO, and WHO—provides insufficient instruments of global coordination of economic policies. We do have a world economy, but we lack an institution of global governance.

Recently, some politicians, media commentators, and economists have announced the end of globalization. Too hastily. It is true that political globalization is clearly receding due to the coronavirus pandemic, the Second Cold War, notably unhealthy US–Chinese relations, and the hot war in Ukraine followed by sanctions imposed on Russia for its adventurism, but economic globalization is irreversible. Yes, the convergence of these shocks causes numerous difficulties in logistics, procurement, production, and distribution of goods and services. On the one hand, supra-national cooperation ties, technology transfer, and financial settlements have been tarnished. On the other hand, the amassing difficulties, starting with accelerating inflation and deepening income inequalities, fuel anti-globalization sentiments of the population. While globalization is not inherently the cause of the troubles, regrettably, policy instead of being increasingly pragmatic is resorting to populism and protectionism—these two greatest enemies of the open world market. This further widens the gap between economic globalization, which has only temporarily lost its impetus, and political globalization, which, instead of running forward, is retreating.

With all its drawbacks, globalization is advantageous for economic growth since it implies trade across national borders, which brings economies of scale that are reducing unit costs of production. The combination of shocks strains but does not eliminate the supply chains. Both, the pandemic and the war in Ukraine are making an impact on capital flows, but the world is big enough to absorb liquid savings. If there is a capital surplus somewhere, it is a temporary phenomenon; it will soon be absorbed elsewhere. Transnational movement of capital, including portfolio and direct investment, will not stop since it supports efficiency by reaching places where it can be used more profitably. Furthermore, cultural exchange, tourism, and sport are also the persistent sides of globalization, making it an internally coupled mechanism. These spheres of activities are also exposed to stress, but because of the unbroken people's will to travel and stay in touch, they will facilitate demand and growth.

While after a certain period of turbulence and tough adjustments to changing social, cultural, demographic, and technological circumstances, globalization in its economic dimension will take off again, in its political aspect it will diverge making overall globalization relatively less progressing than otherwise it could be. Yet, there is still a chance not to divide permanently the world into two hostile blocs: the West with the US and the EU at the helm and the East with China and Russia at the fore. Such a future is envisioned by the Economist Intelligence Unit that supposes that these blocs will “use economic and military levers to court countries that are not aligned with either side” (EIU 2022). Instead of a confrontation along such a line, two differently seen arrangements—the Euro-Atlantic and Euro-Asian—can compete and cooperate peacefully, without reaching to “military levers”; moreover, the strengthening of transnational economic levers may render military ones useless. In both blocs, a critical role should be played by the European Union, which does not have to take sides in the American–Chinese quarrels.

While after Russia's historical blunder its international role is doomed to diminish considerably, China has a chance to strengthen further its global position. The consequences of Russia's despicable aggression against Ukraine are far from clear, yet for a number of reasons the entity that will evolve in the post-Putin years should not be forced out of global economic exchange. Russia is too big a country to be erased from the world map. Of growing significance in the geopolitical game will be India and Africa, which wisely did not allow themselves to be manipulated into taking a position on one of the sides of the Sino-American tag of war.

While economic globalization integrates different parts of the world, political globalization must accept its multi-polar character. Another occasion to follow such a principle will occur in November at the summits of G20 in Bali, Indonesia, and the COP27 in Sharm El-Sheikh, Egypt. Although they do not encompass the whole world, such initiatives as the earlier mentioned *Regional Cooperation for Economic Partnership*, RCEP, which encompasses China as well as Australia, Japan, South Korea, and ten ASEAN countries, and unveiled in May 2022 at the QUAD meeting in Tokyo a new US-led trade pact that aims to promote regional growth, the *Indo-Pacific Economic Framework for Prosperity*, IPEF, which involves 13 countries, including India, ought to serve economic globalization, too.

The situation is getting more difficult, if not downright dangerous, when short-sighted politics signifies more than economic pragmatism. And, we need a lot of it; the new pragmatism aiming at triple balance—economic, social, and ecological—is a must. Business, since it is a natural ally of economic globalization, and thus, the enemy of political de-globalization, should engage more in this matter. The cascading challenges humanity is facing are still manageable. However, it will not happen without the strategic vision of the new world order and without an enlightened political leadership. It is a long shot to reverse the current trend and change international politics in a way making it compatible and again supportive of economic globalization. It will happen in due time, but nobody knows when such a time will come.

The modern mighty of this world caught in a trap must understand that one cannot continue to enrich oneself, often by exploiting others, without looking at the social and environmental costs that this entails. Meanwhile, the societies of countries making their way up, operating in emancipating economies, must find their own meritocracy-based way of benefiting from irreversible globalization for sustainable development. Without controlling demographic processes and dealing with corruption devastating the economy, they will not succeed.

In this third part of the trilogy about the world, I share with the readers my observations and thoughts on the condition of the globalized economy and its political and cultural environment. It is extremely difficult to answer such seemingly simple questions: what is the situation? What should we do? What is next? I try to be unemotional, drawing on the wealth of knowledge accumulated by others and relying on my own research. From this methodological perspective, I must reiterate that although many things, including evil, unfavorable, and disastrous ones, are already determined by the past—and this is due to cause-and-effect relations operating over time, sometimes over very long time intervals—the vast majority of what will happen in the future depends on us. Us as humanity, modern civilization, us as participants of ongoing social processes.

The challenges we face are threats but, at the same time, opportunities to resolve problems wisely. The vast majority of them can be overcome, and that is the reason for optimism. This may or may not be the case, which leads a careful observer of the reality around us to be pessimistic. Either way, let us try, as far as possible, to be guided by rationality and not by emotions, both in making diagnoses and in formulating receipts. For when we give in to emotions, it is indeed difficult to be optimistic, faced with the exceptional accumulation of negative aspects of these 12 Great Issues of the Future, especially socio-economic inequalities, environmental changes, and demographic imbalances, compounded by the aforementioned 'black trinity'. Unfortunately, democracy is also failing.

So, what to do? Well, as I say—row uphill. Someone say it is impossible? One can at best walk or ride a good bike uphill, but it is impossible to row? Well... It is possible. This is exactly what happened once in Venezuela, when I went to the highest waterfall in the world, Salto Angel, called Kerepakupai Merúby by the local people. We were on a canoe traveling up the Caroni River, a tributary of the Orinoco, the counter-current was so strong that we could feel that the closer we got to the

springs, the higher we were above sea level. With the engine off, it was necessary to paddle very hard to move forward at least a little. But it worked. For a few minutes. Now we have to paddle all the time, especially as there is no end in sight to this revealing worldwide journey of ours. So, let us get on with our business, and then things can get better. Now the game is no longer about continually enriching oneself, but about not falling, losing one's balance completely.

References

- Allison, Graham (2017), *Destined For War: Can America and China Escape Thucydides's Trap?* Houghton – Mifflin – Harcourt, Boston – New York.
- EIU (2022), *What does the Ukraine crisis mean for the US?* The Economist Intelligence Unit, April 12th, 2022.
- Malinowski, Grzegorz (2019), *China, geopolitics and geoeconomics. How not to fall in the trap of narration?*, "Acta Oeconomica", Vol. 69, No. 4, p. 495–522.

Epilogue

At the dawn of globalization, Magellan and 270 men set off on an expedition around the world, heading west. He himself did not return to the motherland, but exactly half a millennium ago, on 6 September 1522, Juan Sebastian Elcano did, when, after 1082 days of travel, having covered 69,000 km, he moored ‘Victoria’ on the banks of the Guadalquivir in Seville. Only 18 brave souls were on board of the only one of the five ships that had sailed from there three years earlier, and they embarked on the greatest escapade in history. This is the reality.

The opposite direction was taken 350 years later by Phileas Fogg (a fictional character), who set off with just one companion (and a policeman on his back), betting with some English gentlemen that he would travel around the world in eighty days. He returned to London after 79 days because he did not know that traveling across time zones to the east saves one day. And, he rushed so fast because it was made possible by the technological advances inherent in its contemporary phase of globalization. The world seems to have shrunk since the Suez Canal was put into operation, which now carries more goods in one year than the entire world produced a century and a half ago.

And in the autumn of the first year of the third decade of the twenty-first century, four non-professional astronauts onboard the Dragon spacecraft circled the Earth almost 50 times and in the course of three days and nights of orbiting flew over areas inhabited by 90% of humanity. This was the *Inspiration4* mission, whose pillars declared by its author, Elon Musk, are generosity, leadership, hope, and prosperity. The generosity of the mighty of this world cannot be counted on. Good leadership is always useful, but in the current phase of globalization, it is not enough. We can only hope that we ourselves, by making prudent use of globalization, will create prosperity. It is worth it, because the world will not end in a symbolic 100 s, nor will we live to see its end at all. It is a fact that there is something to be afraid of, but it makes even more sense to act to make this wandering world better again.

Bibliography

- AIIB (2021), *Member and Prospective Members of the Bank*, Asian Infrastructure Investment Bank, Beijing (<https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>); access: 25.12.2021.
- CAN (2021), *Household incomes fall in 2020 due to COVID-19 impact, but rose in past 5 years* (<https://www.channelnewsasia.com/singapore/singapore-household-incomes-fall-in-2020-due-to-covid-19-impact-337201>).
- COP (2021), *Uniting the World to Tackle Climate Change*, the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow on 31 October – 12 November 2021 (<https://ukcop26.org/>); access: 13.12.2021).
- Economist (2017), *If France used America's system, Marine Le Pen might have won*, „The Economist”, April 29 (<https://www.economist.com/europe/2017/04/29/if-france-used-americas-system-marine-le-pen-might-have-won>); access: 25.12.2021).
- Economist (2021), *America is at last getting serious about countering China in Asia. But strengthening military alliances is not enough*, „The Economist”, September 25 (<https://www.economist.com/leaders/2021/09/25/america-is-at-last-getting-serious-about-countering-china-in-asia>); access: 12.12.2021).
- FH (2021) *Global Freedom Scores*, Freedom House, Washington, D.C. (<https://freedomhouse.org/about-us>); access: 22.01.2022).
- Friedman, Milton (1970), *The Social Responsibility of Business is to Increase its Profits*, „The New York Times Magazine”, September 13 (<http://websites.umich.edu/~thecore/doc/Friedman.pdf>); access: 13.12.2021).
- GUS (2014), *Prognoza ludności na lata 2014–2050 [Population forecast for 2014–2050]*, Główny Urząd Statystyczny [Central Statistical Office], Warszawa (<https://stat.gov.pl/obszary-tematyczne/ludnosc/prognoza-ludnosc/prognoza-ludnosc-na-lata-2014-2050-opracowana-2014-r-1,5.html>).
- GUS (2021a), *Komunikat Prezesa Głównego Urzędu Statystycznego z dnia 25 marca 2019 r. w sprawie tablicy średniego dalszego trwania życia kobiet i mężczyzn [Statement of the President of the Central Statistical Office of March 25, 2019 on the life expectancy table for women and men]*, Główny Urząd Statystyczny [Central Statistical Office], Warszawa (<https://stat.gov.pl/sygnalne/komunikaty-i-obwieszczenia/lista-komunikatow-i-obwieszczen/komunikat-w-sprawie-tablicy-sredniego-dalszego-trwania-zycia-kobiet-i-mezczyzn,285,9.html>).
- GUS (2021b), *Produkt krajowy brutto w 2020 roku – szacunek wstępny (Gross Domestic Product in 2020 – preliminary estimate) [Gross Domestic Product in 2020 - preliminary estimate]*, Główny Urząd Statystyczny [Central Statistical Office], Warszawa (<https://stat.gov.pl/obszary-tematyczne/rachunki-narodowe/roczne-rachunki-narodowe/produkt-krajowy-brutto-w-2020-roku-szacunek-wstepny,2,10.html>).

- Halper, Stefan (2010), *The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-First Century*, New York, Basic Books.
- Jan Paweł II (1991), *Centesimus Annus*, Dicastero per la Comunicazione – Libreria Editrice Vaticana (https://www.vatican.va/content/john-paul-ii/pl/encyclicals/documents/hf_jp-ii_enc_01051991_centesimus-annus.html).
- Keynes, John Maynard (2018), *The General Theory of Employment, Interest, and Money*, Palgrave Macmillan, Cambridge, UK.
- Kolodko, Grzegorz W. (1998), *Russia Should Put Its People First Following Poland's Example*, „The New York Times”, July 7, p. A27 (http://tiger.edu.pl/kolodko/artykuly/NYT_98.pdf).
- Kolodko, Grzegorz W. (2000), *From Shock to Therapy: The Political Economy of Postsocialist Transformation*, Oxford University Press, Oxford – New York.
- Kolodko, Grzegorz W. (2009), *A two-thirds of success. Poland's post-communist transformation 1989–2009*, „Communist and Post-Communist Studies”, Vol. 42, No. 3, p. 325–351.
- Kolodko, Grzegorz W. (2018), *Socialism, Capitalism, or Chinism?*, „Communist and Post-Communist Studies”, Vol. 51, No. 4, p. 285–298.
- Krugman, Paul (2020), *Arguing with Zombies: Economics, Politics, and the Fight for a Better Future*, W.W. Norton & Company, New York.
- Kuitens, Margot, Brigitta L. Wallace, Charles Lindsay et al. (2021), Evidence for European presence in the Americas in AD 1021, “Nature”, 20 October (<https://www.nature.com/articles/s41586-021-03972-8>; access: 13.12.2021).
- OECD (2021), *OECD Data: Government Debt* (<https://data.oecd.org/gga/general-government-debt.htm>; access: 13.12.2021).
- Our World in Data (2021a), *GDP per capita in England*, „Our World in Data: Statistics and Research” (<https://ourworldindata.org/grapher/gdp-per-capita-in-the-uk-since-1270?time=1270..2016>); access: 14.12.2021).
- Our World in Data (2021b), *Coronavirus (COVID-19) Vaccinations*, „Our World in Data: Statistics and Research” (<https://ourworldindata.org/covid-vaccinations>; access: 13.12.2021).
- Paweł VI (1970), *Address to the Food and Agriculture Association on the twenty-fifth anniversary of its foundation (16 November 1970)*, “*Insegnamenti di Paolo VI*”, Vol. VIII, p. 1153.
- Paweł VI (1971), *Apostolic letter: Octogesima adveniens (14 maja 1971)*, 21: Libreria Editrice Vaticana, AAS 63, p. 416–417.
- Podkaminer, Leon (1992), *Macroeconomic Policy for the Transitional Reforms in the Centrally-Planned Economies*, in: János M. Kovács, Marton Tardos (eds.), *Reform and Transformation in Eastern Europe: Soviet-type economics on the threshold of change*, Routledge, London and New York, p. 263–282.
- Rosati, Dariusz K. (1991), *The Polish Road to Capitalism: A Critical Appraisal of the Balcerowicz Plan*, „Thames Papers in Political Economy”, School of Social Sciences, Thames Polytechnic, London.
- Sachs, Jeffrey (2005), *The End of Poverty: Economic Possibilities for Our Time*, The Penguin Press, New York.
- Smith, Adam (2010), *The Theory of Moral Sentiments*, Penguin Books, London.
- SOR (2016), *Plan na Rzecz Odpowiedzialnego Rozwoju*, [Plan for Responsible Development], Ministerstwo Funduszy i Polityki Regionalnej [Ministry of Funds and Regional Policy], Warszawa (<https://www.gov.pl/web/fundusze-regiony/plan-na-rzecz-odpowiedzialnego-rozwoju>; access 3.01.2022) [in Polish].
- UE (2021), *Global Gateway*, European Commission, Brussel (https://ec.europa.eu/commission/presscorner/detail/en/fs_21_6490; access 13.12.2021).
- Wiatr, Jerzy J. (2022), *Political Leadership: Between Democracy and Authoritarianism*, Verlag Barbara Budrich, Opladen – Berlin – Toronto.
- Yavlinsky, Grigory et. al. (1991), *500 Days: Transition to the Market*, St. Martin Press, New York.

Index

A

Abbott, Greg, 58
Afghanistan, 12, 21, 60, 66, 103
Africa, 21, 23, 65, 67, 70–72, 74, 78, 79,
88, 90, 100, 103, 109, 112, 118, 155,
210, 215, 218, 219, 222, 227, 237,
249
Aging of population, 11–13, 185
Agriculture, 158, 164, 170
Air pollution, 92, 93
Albania, 160
Alexander of Macedonia, 210
Aliyev, Ilham, 104
All-China People's Congress, 96
Allende, Salvador, 59
America's Business Roundtable, 33
Anarchization, 98, 173
Anarcho-capitalism, 173
Angola, 14, 80, 210, 232
Anti-equilibrium, 146, 148, 150, 151
Anti-inflationary policy, 120
Arab Spring, 98
Arbenza, Jacobo, 59
Argentina, 16, 19, 59, 65, 66, 74, 109, 183
Aristide, Jean-Bertrand, 60
Armaments, 17, 42, 122, 128, 235, 246
Arms
sales, 60
spiral, 125, 128, 141
Asian Infrastructure Investment Bank
(AIIB), 18
As-Sisi, Abd al-Fattah, 60
Association of South-East Asian Nations
(ASEAN), 210, 222, 249
Associations, 57, 64, 102
Attenborough, David, 115

Aumann, Robert, 8
Australia, 19, 24, 27, 38, 74, 78, 81, 96, 99,
109, 113, 123, 141, 174, 201, 222,
249
Australia, United Kingdom, United States
(AUKUS), 141
Authoritarianism
Chinese, 99, 101
new, 101, 102
Soviet system, 133
Authority, 118
Azerbaijan, 60, 67, 104

B

Bahrain, 66, 74, 137
Baka, Władysław, 174
Balanced Development Index (BDI), 36
Balance of payments, 37, 184, 201, 229
Balance of power
new, 141
Balance of public finances (budget
balance), 54
Balcerowicz, Leszek, 161, 162, 169–173,
176–178
Bangladesh, 44, 62, 63, 65, 67, 70–72, 88,
90, 104, 214
Bank deposits of people and businesses,
193
Bank Gospodarki Żywnościowej (BGŻ),
173
Bankruptcy, 166, 168, 173, 205
Barrow, Adama, 63
Barter transactions, 197
Belarus, 56, 58–61, 137, 161, 232
Belka, Marek, 166

- Belt and Road Initiative, 19, 79, 95, 151, 219, 222, 228, 234
- Benin, 63, 80, 210
- Berkeley, 9, 223
- Berlin wall, 134, 143, 150, 156, 248
- Better Life Index (BLI), 35, 36, 237
- Beyoncé, 201
- Beyond-GDP
 - development strategy, 6
 - economic policy, 6
 - economic theory, 6
 - economy, 30, 237
- Bezos, Jeff, 119
- Bharatiya Janata Party (Indian People's Party), 81
- Bhutan, 237, 238
- Biden, Joe, 58, 64, 78, 79, 95, 103, 141, 193, 202, 219, 221
- Bielecki, Jan Krzysztof, 170, 171, 178
- Big bangery, 177
- Big data, 15
- Black Lives Matter, 35, 79, 81
- Blair, Tony, 177
- Bolivia, 24, 80, 87
- Bollywood, 223
- Boric, Gabriel, 104
- Borneo, 127
- Bosnia & Herzegovina, 232
- Botswana, 74, 210
- Brazil, 22, 24, 44, 59, 62, 65–67, 70–72, 76, 77, 87, 88, 90, 92, 109, 113, 185, 214, 216
- Brexit, 19
- Broken science, 5
- Brunei, 210
- Build Back Better, 219
- Bulgaria, 66, 198–200
- Bureaucracy, 24, 73, 96, 104
- Burkina Faso, 63, 80, 210
- Burundi, 80, 87, 231, 232
- Bush, George H. W., 57, 124
- Business ethics, 76
- C**
- Cameroon, 80
- Canada, 12, 19, 24, 62, 77, 78, 81, 96, 109, 113, 194, 195
- Cape Verde, 63, 74, 210
- Capital
 - human capital, 32, 39, 71, 72, 79, 89–91, 93, 178, 219, 226, 228, 235, 240, 241
 - social, 35, 223, 240, 242
- Capital accumulation and allocation, 76
- Capitalism
 - casino, 20
 - political, 19, 26, 86, 162, 173
 - real, 149
 - state, 10, 222
- Capital markets, 15, 22, 45, 170, 191, 211, 229
- Carbon Border Adjustment Mechanism (CBAM), 111
- Carbon dioxide, 14, 111–113, 118, 122
- Caribbean, 100, 155, 227
- Castillo, Pedro, 63
- Catastrophe, 112, 114, 126, 127, 141, 178, 215
- Ceașescu, Nicolae, 104
- Censorship, 56, 102, 148
- Central African Republic, 80
- Central Asia, 63
- Central banks, 42, 122, 145, 184, 192, 193, 199, 202, 204, 205
- Central European University, 149
- Centralization of power, 98
- Centrally planned economy, 94, 131, 146, 148, 157, 165, 188
- Chad, 80, 232
- Charles V, vii
- Chauvinism, 225
- Check and balance system, 87, 103
- Chile, 19, 23, 35, 39, 59, 74, 104, 214
- China, 10, 11, 13, 18, 19, 21, 22, 24, 26, 27, 35, 41, 44, 55, 61, 62, 65–67, 69–72, 74–80, 85–90, 92–97, 100, 109–113, 115, 119, 122, 123, 128, 131–133, 135–137, 139, 141, 144, 151, 152, 155, 157, 160, 163, 171, 189–191, 194, 195, 201, 203, 212, 215, 216, 218–224, 226–229, 234, 247, 249
- Chinism, 9, 100, 152, 222
- Churchill, Winston, 22, 23
- CIA, 12, 59, 144, 232
- Cimoszewicz, Włodzimierz, 179
- CIT (tax), 121, 170
- Civil rights, 55, 57, 81
- Climate
 - change, 2, 111, 112, 114, 115, 117, 122, 125, 127, 128, 141, 228, 247
 - warming, 2, 99, 115, 215, 226
- Clinton, Bill, 8
- Clinton, Hillary, 57, 87
- Coal
 - burning, 115

- mining, 117
 - Cold War
 - First, 124, 128, 211
 - irrational, 18
 - new, 26, 78, 246
 - Second, 11, 26, 27, 216, 219, 248
 - strategy, 27
 - Colombia, 24, 74, 104
 - Colonialism
 - neo-colonialism, 57, 166
 - Columbus, Christopher, 143
 - Communism, 34, 54, 65, 72, 132, 143, 148, 152, 162, 163, 211, 225
 - Comparative costs, theory of, 7
 - Comparative studies, 38, 39, 60, 87, 137, 166, 183
 - Competitiveness, 38, 73–76, 88, 93, 168, 204, 213, 227, 229, 235
 - Confucianism, 101
 - Confucius, 210
 - Congo, Democratic Republic of, 32, 59, 80, 113, 137, 210, 232
 - Consumerism, 24, 99, 245
 - Consumer Price Index (CPI), 184, 197
 - Consumption patterns, 12, 28, 114, 185
 - Contradictions
 - ideas, 1
 - interests, 1
 - political, 1
 - Contras, 60, 74, 83, 111, 170, 171, 176, 232, 248
 - Cooling of the economy, 179
 - COP15, 118
 - COP26, 109, 111, 114, 115, 117, 119, 126
 - COP27, 249
 - Copernicus, Nicholas, 206, 211
 - Corbyn, Jeremy, 33
 - Coronavirus, 99, 204, 226, 246
 - Coronavirus pandemic, 41, 64, 74, 109, 119, 150, 175, 192, 212, 220, 230, 248
 - Corporate Social Responsibility (CSR), 31, 33, 41, 117
 - Corporations, 33
 - Corruption, 24, 64, 76, 81, 88, 98, 118, 136, 146, 197, 250
 - Corruption Perception Index (CPI), 76
 - Costa Rica, 74, 120
 - Cost of living, 95
 - Côte d'Ivoire, 210
 - Country in ruins, 156, 179
 - COVID-19, 7, 80, 81, 99, 110, 116, 122, 196, 213, 246
 - Crisis
 - financial, 9, 175
 - pandemic, 122, 184, 193, 200, 212
 - Cryptocurrencies, 15, 16, 202
 - Cuba, 60, 62, 160, 163, 198
 - Cyprus, 238, 239, 241
 - Czartoryski Museum, 234
 - Czechoslovakia, 60, 188, 198
 - Czech Republic, 24, 38, 64, 140, 156, 171, 179, 200, 215
- D**
- Darwin, Charles, 43
 - Debt
 - foreign, 119, 170
 - public, 42, 119, 120, 199, 200, 235
 - Decarbonization, 81, 114, 234
 - Decentralization, 146, 158
 - Deficit
 - current account deficit, 168
 - fiscal deficit, 42
 - payment deficit, 216
 - Deflation, 183
 - Deindustrialization, 168
 - Demand, 7, 13, 15, 16, 35, 43, 62, 119, 124, 148, 174, 176, 185–188, 190, 192, 193, 195, 197–201, 203–205, 226, 228, 245, 249
 - Democracy
 - illiberal, 23, 56, 151, 156
 - liberal, 11, 19, 22–24, 56, 58, 79, 81, 86, 98, 104, 134, 173, 179
 - popular, 171
 - Democracy index, 66, 67, 70, 71, 77, 85, 88, 137
 - Demographic collapse, 231
 - Demographic dependency ratio, 13, 232
 - Demographic dividend, 227
 - Demographic trends, 97
 - Deng Xiaoping, 131, 132, 134, 137, 139, 143
 - Denmark, 62, 64, 76, 104, 121, 136
 - Deregulation, 29, 56, 158, 166, 174, 212
 - Despotism, 56
 - Devaluation of the zloty, 168, 191
 - Development strategy, 19, 24, 36, 54, 85, 165, 215, 219, 232, 237, 239, 242, 245
 - Dictatorship, 56, 58, 59
 - Digitalization, 41, 157, 199
 - Disequilibrium theory, 151
 - Disinformation, 31, 102

- Doomsday Clock, 141, 142
 Draghi, Mario, 110
 Duvalier, François, 104
- E**
- East Timor, 119
 Ecological balance, 35
 Ecology, 31
 Ecology, Society, Governance (ESG), 31
 Economic Community of West African States (ECOWAS), 63, 210
 Economic freedom, 56, 64, 69–71, 75, 204
 Economic Freedom Index, 64, 70
 Economic growth, 1, 15, 22, 38, 41, 54, 55, 66–71, 74, 82, 94, 127, 138, 165, 171–173, 179, 189, 204, 218, 220, 229–233, 236, 237, 240, 241, 249
 Economics
 behavioral, 8, 28, 45, 194
 beneficial, 18, 29, 185
 monetary, 175, 192, 194
 neoliberal, 29, 211
 Economic sanctions, 14, 175, 202
 Economics of
 common good, 44, 223
 progressive capitalism, 44
 sharing economy, 31
 shortages, 147, 148, 150
 tomorrow, 8
 yesterday, 8
 Economist Intelligence Unit (EIU), 23, 66, 67, 70, 74, 75, 78, 85, 88, 98, 137, 194, 227, 228, 249
 Economy
 deficit economy, 73
 digital economy, 15–17, 31, 214
 global economy, 19, 31, 33, 37, 118, 168, 215, 218
 green economy, 219
 knowledge economy, 2, 10, 42
 new economy, 17
 sharing economy, 9, 31
 war economy, 199
 Education, 14, 21, 28, 34, 36, 39, 71, 72, 75, 79, 104, 119, 120, 126, 163, 164, 199, 218, 235, 240
 Effective demand, 184, 192, 195, 198, 201
 Egypt, 22, 38, 44, 60, 66, 87, 119, 137, 216, 249
 Einstein, Albert, 5
 Eisenhower, Dwight, 124
 Elcano, Juan Sebastian, 253
 Electoral system, 57
 Electricity, 16, 73, 111, 117
 Electric vehicles, 117
 Elites
 power, 98
 Emancipating economies and societies, 22, 250
 Emerging markets, 22, 57, 58, 82
 Emigration, 12, 219
 Employment, 7, 12, 16, 32, 34, 43, 73, 89, 100, 124, 164, 165, 184, 193–195, 201, 203, 204, 227, 236
 Energy Policy Institute at the University of Chicago (EPIC), 93
 Energy sources, 112, 113, 116
 Engels, Frederick, 34, 163
 England, 7
 Enterprises
 cooperatives, 62, 157
 state-owned, 148, 157, 170, 172, 178, 191
 Entrepreneurship, 25, 31, 73, 75, 76, 152, 166
 Environment, 2, 5, 10, 13, 14, 19, 29, 30, 32, 33, 40, 41, 54, 55, 67–69, 74, 75, 87, 99, 101, 117, 119, 121, 124–127, 139, 149, 150, 224, 226, 240, 241, 250
 Environmental protection, 112, 124, 126, 127, 229
 Equilibrium prices, 151, 190
 Erasmus of Rotterdam, 104
 Eritrea, 60, 62, 66, 82, 87, 137
 Estonia, 156, 179, 199, 200, 237
 Eswatini, 65, 210
 Ethiopia, 68, 80, 82, 137
 Eurasia, 156, 218
 Eurasian Economic Forum, 127
 European Bank for Reconstruction and Development (EBRD), 147, 178
 European Community, 161, 162
 European Union (EU), 13, 24, 30–32, 38, 61, 75, 82, 93, 96, 109, 112, 119, 128, 156, 161, 167, 179, 199, 200, 202, 209, 215, 219, 221, 223, 224, 227–230, 232, 233, 236, 237, 247–249
 Euroscepticism, 233
 Even Greater Crisis (EGC), 41, 218
 Exclusion, 11, 32, 34, 72, 79, 95, 159, 193, 217, 239, 247
 Expansionism, 151, 247

Exploitation, 7, 14, 15, 17, 57, 76, 89, 126, 173, 233, 246
 Export, 35, 100, 111, 119, 146, 165, 212, 215, 216, 227, 229, 230

F

Facebook, 17, 25, 102
 Fake news, 30
 Faraday, Michael, 211
 Fast growth, path of, 166
 Federal Reserve, the US, 193
 Fertility rate, 11, 12, 227, 231, 232
 Financial
 authorities, 15
 capital, 223, 236
 elites, 24
 flows, 7, 44
 penalty, 81
 regulation, 15
 resources, 16, 93, 186, 194, 195, 197, 201, 219
 sector, 20, 173
 stocks, 204, 205
 First Nations, 81
 Fiscal
 and monetary policy, 230
 burdens, 193
 deficit, 42
 health, 70
 redistribution, 121
 revenue, 124, 205
 system, 20, 178, 234
 Fogg, Phileas, 253
 Food and Agriculture Organization of the United Nations (FAO), 126
 Foreign exchange reserves, 185
 Forests, 113, 114, 127, 225
 Foundations, 14, 26, 31, 42, 44, 102, 139, 141, 144, 149, 156, 177, 191
 Francis, Pope, 127
 Franco, Francisco, 104, 247
 Freedom House, 64, 65, 75
 Freedom Union (UW), 168–170, 179
 Free enterprise, 69
 Free market, 41, 56, 100, 134, 148, 152, 157, 161, 174, 198, 217
 Fridays for Future, 115
 Friedman, Milton, 7, 33, 174
 Fujimori, Keiko, 63
 Future
 inevitable, 216
 of the digital economy, 17

unpredictable, 53

G

G20, 18, 109, 110, 118, 119, 128, 249
 G7, 77–81, 104, 109, 194, 225
 Gaidar, Yegor, 132, 147
 Galbraith, James Kenneth, 7, 9, 25, 46, 174
 Galbraith, John Kenneth, 46
 Gambia, the, 63, 80, 210
 Gas, 14, 37, 61, 112, 116, 117, 122, 146, 186
 Gazeta Wyborcza, 162, 171, 173
 General Agreement on Tariffs and Trade (GATT), 157
 Geneva Accords, 59
 Geopolitics, 8, 61, 78, 94, 217, 221, 224
 Georgia, 19, 26, 74
 German Democratic Republic (GDR), 163
 Germany, 22, 57, 74, 77, 78, 87, 98, 109, 118, 122, 137, 142, 185, 188, 195, 197, 198, 200, 215, 216, 224, 226, 232, 235, 237, 239, 240, 242, 247
 Ghana, 59, 63, 80, 210
 Gilets jaunes, see yellow vests, 35
 Gini coefficient (index), 21, 22, 76, 84, 85, 91, 239
 Glasgow, 111, 114, 115, 119, 125
 Glasnost, 131, 133, 139, 140, 157
 Glomp, Józef, 127
 Global Competitiveness Index, 75, 76
 Global Gateway, 219
 Globalization
 contemporary phase, 7, 18, 213, 248, 253
 economic, 18, 212, 248–250
 first phase, 210
 inclusive, 118, 216, 242
 non-inclusive, 11, 17, 18
 political, 18, 248, 249
 third phase, 211
 Global warming, 11, 15, 23, 32, 99, 111, 114, 115, 117, 123, 124, 246
 Global Witness, 117
 Godard, Jean-Luc, 2
 Golden age, 164, 166
 Good change, 179
 Good economy, 28, 36–38, 41, 44, 45, 89, 168
 Gorbachev, Mikhail S., 124, 131–136, 138–143, 150, 156, 247
 Gore, Al, 57
 Goulart, João, 59

- Great Crisis of 1929-1933, 41
 Greed, 24, 143, 145, 246
 Greenhouse gas emissions, 115
 Greenhouse gases, 14, 32, 99, 111, 112, 115, 116, 122, 241
 Green island, 179
 Grinberg, Ruslan, 9, 140, 157
 Gross Happiness Index (GHI), 237, 238
 Gross world product, 22, 122, 124, 167, 192, 194
 Growth rate, 66, 67, 69–71, 73, 85, 89, 90, 124, 164, 166, 167, 179, 196, 219, 220, 227, 229, 231, 237, 242
 Guinea, 63, 80, 210
 Guinea-Bissau, 63, 80, 210
 Gulag, 39
 GUS, Central Statistical Office in Poland, 135, 159, 166, 190, 197, 215
 Guyana, 80
- H**
 Haiti, 60
 Harvard University, 149
 Harvey, William, 9, 20, 43
 Hayek, Friedrich, 7, 171
 Heritage Foundation, 69–71
 High-income countries, 118, 220, 246
 Highly Indebted Poor Countries (HIPC), 80
 Hitler, Adolf, 104
 Holland, see Netherlands, 77
 Honduras, 60, 80
 Hong Kong, 35, 83, 85, 99, 174, 239
 Huawei, 225, 226
 Human Capital Index (HDI), 71
 Human Development Index (HDI), 35, 71, 76, 88, 89, 91, 238, 242
 Humanitarian catastrophe, 80, 183
 Hungary, 10, 19, 23, 38, 60, 61, 63, 103, 133, 140, 146, 147, 150, 156, 163, 187, 188, 198, 200
 Hyperinflation, 139, 158, 168, 184, 187, 189, 191
- I**
 Iceland, 78, 161
 Illiteracy, 164, 240
 Illusions, 43, 55, 117, 233, 237, 242
 Imbalances, 11, 12, 15, 29, 36, 138, 148, 188, 199, 217, 250
 Imitations, 81, 100, 218, 225, 240
 Immigration, 12, 232
 Imperialism, 77, 217
 Inclusiveness, 54, 223
 Income inequalities, 21, 22, 35, 41, 72, 79, 84, 91, 95, 159, 163, 239, 248
 India, 22, 62, 65–67, 70–72, 74–78, 81, 88–90, 92–95, 98, 100, 109, 111–113, 115, 119, 122, 123, 128, 141, 194, 195, 216, 220, 221, 223, 227, 249
 Indonesia, 19, 22, 24, 65–67, 70–72, 77, 83, 85, 87–90, 92, 109, 113, 210, 249
 Industrialization, 113, 118, 164
 Industrial Revolution, 6, 7, 14, 112, 118, 210, 213
 Industry
 heavy, 114, 139, 165
 light, 139, 165
 shipbuilding, 101
 Inflation
 core, 200
 cost-push, 38, 185, 203
 creeping, 183
 demand-pull, 185, 203
 fight against inflation, 205
 galloping, 158, 183, 187, 191
 repressed, 197, 198, 203
 suppressed, 158, 184, 186, 187, 189, 190, 197, 198, 203
 Inflationary, anti-, policies, 120
 Inflationary conflagration, 205
 Inflationary expectations, 186, 202, 205, 206
 Inflationary overhang, 191, 192
 Inflationary pressure, 186, 188, 201
 Institute for Basic Problems of Marxism-Leninism of the Central Committee of the Polish United Workers' Party, 161
 Institute for International Finance, 177
 Institute for the Economy in Transition, Moscow-based, 147
 Institute of Economics of the Hungarian Academy of Sciences, 149
 Institute of Finance, Warsaw-based, 138
 Integrated Index of Progress (Zintegrowany Indeks Rozwoju (ZIP)), 35
 Integration, 1, 7, 18, 26, 63, 64, 155, 167, 209, 211, 214, 215, 218, 222, 224, 226, 227, 248
 Intelligence, 102, 145, 211, 226
 Interest groups, 5, 34, 87, 102, 126, 144, 173, 221, 246
 Interest rates, 42, 168, 191–194, 204, 205, 235

International division of labor, 118, 213
 International Energy Agency (IEA), 114
 International Labor Organization (ILO), 89, 248
 International Monetary Fund (IMF), 18, 85, 120, 145, 157, 159, 160, 177, 178, 194, 195, 220, 248
 International Panel on Climate Change (IPCC), 14, 113, 114
 International security, 123, 141
 Internet bubble, 17
 Interventionism
 state interventionism, 56, 101, 192
 iPhone, 213
 Iran, 59, 61, 66, 101, 137
 Italy, 19, 61, 77, 78, 82, 98, 109, 110, 121, 179, 194, 200, 201, 214, 215, 226
 Ivy League, 223

J

Jammeh, Yahya, 63
 Japan, 13, 21, 27, 38, 44, 78, 81, 83, 85, 91, 94–96, 98, 101, 109, 111, 118, 120, 121, 123, 141, 175, 183, 193–195, 215, 220–222, 232, 249
 John Paul II, Pope, 127
 Johns Hopkins University, 246
 Johnson, Boris, 78
 Johnson, Lyndon B.
 Great Society program, 34
 Jordan, 74, 101
 Juche, 55

K

Kahneman, Daniel, 8, 28
 Kalecki, Michał, 7, 41, 146
 Kast, Jose Antonio, 104
 Kazakhstan, 26, 39, 121
 Kenya, 61, 80, 201
 Keynesianism, 175
 Keynes, John Maynard, 7, 20, 41, 43, 216, 217
 Kieżun, Witold, 159–161, 170
 Kissinger, Henry, 133, 134, 219
 Kiszczak, Czesław, 175
 Knowledge society, 2, 5, 11, 28, 37, 41–43, 45, 53–55, 69, 101, 111, 113, 128, 146, 147, 166, 173, 179, 194, 213, 217, 245, 250
 Kohl, Helmut, 124
 Kołodko, Grzegorz W., 165, 169, 176
 Kornai, János, 135, 146–152, 163, 188–191

Kotoka, Emmanuel Kwasi, 59
 Kowalik, Tadeusz, 172
 Kozłowski, Paweł, 169, 173
 Kozminski University, ALK, 36, 174
 Kremlin, 26
 Król, Marcin, 171
 Kuponovka, ‘voucher privatization’, 169
 Kuroń, Jacek, 162, 172
 Kuwait, 74
 KwaZulu-Natal, 81

L

Labor costs, 38, 185
 Labor productivity, 22, 42, 204, 213, 229, 231, 240
 Lange, Oskar, 7, 146
 Laos, 80, 160, 163, 190, 210
 Latin America, 12, 74, 215, 219, 227
 Latvia, 87, 156, 200, 238, 241
 Leadership, 43, 77, 95, 98, 101, 131, 162, 223, 227, 245, 250, 253
 Legatum Prosperity Index, 35
 Legislative Council of Hong Kong (LegCo), The, 86
 Le Pen, Marine, 58
 Lesotho, 210
 LGBT, 74
 Liberalization
 foreign trade, 191
 political and economic, 134, 155
 Liberia, 63, 80, 210
 Libertarianism, 69, 173, 176
 Liechtenstein, 231, 239
 Life expectancy, 12, 13, 88, 91–93, 240
 Lifespan, 21
 Lindenberg, Grzegorz (Larry), 162
 Lin, Justin Yifu, 9, 22, 44, 189
 Lithuania, 36, 38, 156, 200, 228, 238, 239, 241
 Loans, 168, 191, 203, 204, 228
 Lobbyists, 5
 Logical fallacy, 38, 172, 174
 Low-Income Developing Countries, 120
 Lukashenko, Alexander, 56, 58, 61
 Lumumba, Patrice, 59

M

M16, 59
 Machiavelli, Niccolò, 104
 Macron, Emmanuel, 58, 78, 97
 Madagascar, 80, 210
 Magellan, Ferdinand, 210, 253

- Majority rule, 23, 24, 29, 30, 55, 58, 63, 83, 95, 96, 102, 141, 151, 174, 178, 179, 184, 218, 250
- Malawi, 80, 210
- Mali, 63, 80, 210, 232
- Manipulations
 market, 15, 24, 29, 57
 public media, 225
 public opinion, 24, 62, 95, 125, 225
- Maoism, 100
- Mao Zedong, 96, 104, 132, 137
- Marx, Karl, 7, 34, 163
- Massachusetts Institute of Technology (MIT), 9, 223
- Mauritania, 80
- Mauritius, 74, 210
- Mazowiecki, Tadeusz, 160, 161, 170, 172, 175, 210
- Media
 internet media, 206, 225
 media groups, 56, 126
 social media, 126
- Meritocracy, 62, 87, 94–98, 100, 101, 104, 137, 191, 222
- Merkel, Angela, 78, 225
- Messner, Zbigniew, 174
- Methane, CH₄, 117
- Methane emissions, 114
- Mexico, 22, 24, 62, 65, 67, 70–72, 76, 77, 87–91, 109, 120, 201, 215, 216
- Michnik, Adam, 162, 171
- Military expenditures, 122, 125, 226
- Miller, Leszek, 179
- Ministry of Finance, 175
- Ministry of International Trade and Industry (MITI), 101
- Misconstruction
 second-generation, 7
- Misery, 95, 135
- Misiąg, Wojciech, 175
- Mitterrand, François, 124
- Mobutu, Sese Seko, 59
- Modern Monetary Theory (MMT), 42
- Modi, Narendra, 78, 112
- Modzelewski, Karol, 172, 173
- Moldova, 161
- Mondialization, 210
- Monetarist doctrine, 193
- Monetarist theory of inflation, 202
- Monetary policy, 147, 192, 193, 204
- Monetary Policy Council, 147
- Money printing, 184, 192
- Mongolia, 65, 85, 160, 163
- Monopolies, 217
- Monopolization of economy, 170
- Morawiecki, Mateusz, 179
- Mosaddegh, Mohammad, 59
- Mozambique, 80, 104, 137
- Mursi, Muhammad, 60
- Musk, Elon, 253
- Mussolini, Benito, 104
- Myanmar, 62, 66, 80, 81, 83, 85, 137, 210
- N**
- Namibia, 210
- National Bank of Poland (NBP), 157, 195, 196, 205
- Nationalism, 20, 43, 214, 217, 225
- National Reconstruction Plans (NRPs), 203, 234
- Naxalites (Maoist guerrillas), 100
- Neo-colonialism, 57, 166
- Neo-Keynesianism, 175
- Neoliberalism
 neoliberal capitalism, 9, 11, 19, 21, 86, 152
 neoliberal democracy, 86
- Neom, 223
- Neo-progressivism, 9
- Nepal, 100
- Netherlands, The, 99, 215
- Newfoundland, vii
- New nationalism, 9, 18, 24, 174, 200
- New pragmatism, 1, 40, 44–46, 79, 102, 236, 250
- New World, 250
- New Zealand, 62, 76, 77, 87, 96, 120, 136, 201, 222
- Ngô Đình Diệm, the regime of, 59
- Nicaragua, 59, 61, 80
- Niger, 12, 63, 71, 80, 137, 231, 232
- Nigeria, 14, 22, 63, 65, 67, 70–72, 74, 87, 88, 90–92, 95, 210, 214, 216
- Niyazov, Saparmurat, 61
- Nkrumah, Kwame, 59
- Nobel Prize, 8, 141, 146, 174
- Nomenclature, 120
- Non-Governmental Organizations (NGOs), 1, 14, 126
- Non-renewable resources
 over-exploitation of, 17
- North America, 12, 27, 111, 118, 218
- North Atlantic Treaty Organization (NATO), 80, 81, 118, 123, 128, 226
- North, Douglass C., 7, 69

- North Korea, 55, 137, 152, 198
 Norway, 23, 36, 64–66, 71, 72, 78, 90, 137, 161, 239–242
 NUMBEO, 93, 95
 Nuti, Mario, 151, 164, 170, 172, 186, 190, 191
- O**
- Occupy London, 34
 Occupy Wall Street, 34
 Oil, 6, 14, 59, 67, 76, 112, 117, 146, 203, 240
 Oleksy, Józef, 179
 Oligarchization of economy, 170
 Oman, 104
 Opposition, 40, 58, 97, 139, 175, 205, 206, 225, 234
 Ordoliberalism, 9, 19, 31
 Organization for Economic Cooperation and Development (OECD), 35, 36, 119, 120, 156, 167, 194, 195
 Organization of American States (OAS), 64
 Ost, David, 164
 Ownership
 multiple forms of, 191
 of the means of production, 31, 54, 151, 190, 191
 of the media, 61
 private, 31, 54, 100, 131, 151, 191
 state, 54, 131, 147, 169, 190
 transformation of, 178
- P**
- Pahlavi, Reza, 59
 Pakistan, 22, 61, 65, 67, 70–72, 74, 88, 90
 Pandemic, 7, 41, 81, 89, 98, 99, 105, 109, 122, 128, 141, 183–185, 192, 194, 196, 198–204, 213, 215, 226, 235, 246, 249
 Papandreu, Andreas, 59
 Park Geun-hye, 81
 Pathology, 159, 160
 Paul VI, Pope, 126, 127
 Pawlak, Waldemar, 179
 Pazura, Ryszard, 174
 People's Republic of Poland (PRL), 164, 165, 171, 231, 235
 Perestroika, 133, 134, 138–140, 157
 Permafrost, 114
 Perón, Isabela, 59
 Peru, 23, 63, 64, 113
 Petty, William, 39
 Pfizer, 213
 Philip II, vii
 Philippines, 38, 63, 84, 85, 94, 103, 118, 210
 Pinochet, Augusto, 59
 PIT (tax), 121, 170
 Planetary pressures-adjusted Human Development Index (PHDI), 241, 242
 Plan for Responsible Development, 232
 PM2.5, particulate matter air concentration, 92, 93
 Podkaminer, Leon, 169, 170, 172
 Podsiadło, Andrzej, 175
 Poland
 interwar, 164
 Poland's Round Table negotiations, 133
 Polish Central Technical Organization (NOT), 167
 Polish government, 46
 Political rights, 64, 65
 Political system, 11, 26, 27, 55, 61, 62, 65, 67, 68, 72, 82, 85, 86, 90, 91, 94, 100, 101, 105, 132, 137, 142, 143, 148, 152, 163, 189, 191, 218, 227
 Politicians, 18, 24, 27, 33, 42, 43, 46, 54, 58, 60, 61, 76, 82, 86, 87, 95, 102, 103, 105, 110, 114, 115, 117, 124–127, 132, 144, 146, 148, 156, 159, 167, 168, 178, 206, 219, 221, 223, 225, 232, 237, 246, 248
 Pollution Index, 93
 Pol, Marek, 168
 Polonization, 233
 Popiwek (a super-normative wages tax), 168
 Population explosion, 219
 Population migrations, 219
 Populism, 18, 24, 33, 34, 97, 98, 125, 151, 173, 174, 179, 200, 214, 215, 217, 225, 233, 236, 248
 Porter-Szücs, Brian, 176
 Post-capitalism, 9, 25
 Post-Soviet republics, 63, 136, 137, 147, 155, 188
 Poverty
 extreme, 21, 88, 91, 92
 Pragmatism, 40, 46, 69, 98, 105, 125, 132, 223, 233, 234, 236, 250
 Prawo i Sprawiedliwość, PiS (the Law and Justice) party, 23
 Price liberalization, 138, 191
 Privatization

- “larcenous”, 144
 - rapid, 178
 - Production, 6, 11, 14–16, 20, 27, 34, 41, 54, 73, 74, 76, 80, 101, 110, 114, 116, 121, 124, 127, 139, 158, 159, 165, 168, 179, 184, 186, 187, 189, 191, 193–196, 198, 199, 201–203, 205, 212–214, 216, 217, 219, 231, 240
 - Production and distribution chains, 203
 - Production growth, 44, 69, 201
 - Progress
 - scientific and technological progress, 218, 223
 - technological progress, 24, 199, 212, 228, 236, 240
 - Progressivism, 9
 - Propaganda, 55, 82, 144
 - Prosperity, 32, 42, 45, 53, 54, 62, 69, 81, 102, 110, 124, 151, 214, 223, 249, 253
 - Protectionism, 18, 24, 41, 214, 218, 221, 225, 226, 248
 - Public expenditure, 99, 235
 - Public-private partnership, 14, 118, 144, 230
 - Public transport, 116, 121, 122
 - Putin, Vladimir, 26, 30, 97, 104, 146
- Q**
- Qatar, 75, 137
 - Quadrilateral Security Dialogue (QUAD), 141, 249
 - Quality of life, 16, 17, 36, 91, 95, 231, 236, 237, 239
 - Quality of Life Index, 237
 - Quantitative easing, 192
 - Quesnay, François, 39
- R**
- Rakowski, Mieczyslaw F., 174
 - Ramaphosa, Cyril, 81
 - Rating agencies, 170
 - Rationality, 7, 8, 29, 54, 71, 95–97, 101, 149, 152, 250
 - Rationing, 197
 - Reagan, Ronald, 20, 59, 187, 247
 - Real estate prices, 15, 184, 185, 202
 - Redistribution of income, 10
 - Referendum, 57, 62, 179, 227
 - Reforms
 - constitutional reforms, 96
 - economic reforms, 97, 132, 133, 138–140, 146, 147, 152, 157, 172, 175, 188, 223
 - structural reforms, 30, 74, 144, 146, 152, 167, 172, 175
 - Regime
 - hybrid regime, 66, 75, 101, 104
 - Regional Comprehensive Economic Partnership (RCEP), 222, 249
 - Regulation, 14, 17, 18, 20, 24, 29, 31, 33, 41, 46, 55, 69, 73, 87, 152, 164, 174, 191, 230, 233
 - Regulators, 18, 41, 70, 73, 75, 203
 - Re-industrialization, 168
 - Re-institutionalization of globalization, 26, 223
 - Renewable energy, 246
 - Renewable energy sources, 120, 234
 - Reproduction
 - macroeconomic, 179, 190
 - Reserve Bank of New Zealand, 193
 - Responsible Development Index (RDI), 238
 - Res Publica, 171
 - Retail price index of goods and services, 185
 - Retirement age, 97, 232
 - Revolution 4.0, the scientific and technological, 15, 16
 - Ricardo, David, 7, 211
 - Robinson, Joan, 9, 46, 69
 - Rocheffoucauld, François de La, 206
 - Roman Empire, 210
 - Romania, 38, 65, 147, 160, 163, 198–200, 231
 - Roosevelt, Franklin D., 43, 60
 - Roundtable, 33
 - Ruble, 124, 138
 - Rule of law, 64, 70, 73, 101, 103, 236
 - Russia, 10, 22, 25, 26, 61, 65, 67, 70–72, 77, 87–90, 94, 97, 99, 103, 104, 109, 111, 113, 116, 119, 122, 123, 128, 131, 132, 134–139, 141, 143–145, 147, 155–157, 161, 171, 174, 185, 188, 190, 192, 215, 219–221, 224, 226, 227, 247–249
 - Russophobia, 65
 - Rwanda, 61, 65, 74, 80
- S**
- Saakashvili, Mikheil, 74
 - Sachs, Jeffrey, 25, 161, 162, 168
 - Sadowski, Zdzisław, 174, 175

- Saied, Kais, 98
 Salaries, 236
 Salazar, Antonio, 104
 Salto Angel (Kerepakupai Merúby), 250
 Salzburg Seminar, 169
 Sanders, Bernie, 33
 São Tomé and Príncipe, 80
 Saudi Arabia, 26, 61, 74, 75, 87, 109, 119, 123, 137
 Saving rate, 185, 193, 196, 197, 229
 Savings
 excess, 194, 195, 198, 203
 forced, 184, 186, 187, 191–199, 201
 Scholz, Olaf, 78
 Security
 food, 110
 international, 123, 141
 telecommunications, 226
 Security services, 102, 185, 198, 199, 203, 235, 248
 Self-regulation, 113
 Selling off government property, 170
 Senegal, 62, 63, 80, 210
 Seychelles, 210
 Shock therapy, 138, 140, 158–162, 164, 166, 168–173, 179, 189, 205
 Shock without therapy, 164, 166, 170, 174, 191, 231
 Shortage, 11, 12, 27, 81, 138, 147–149, 151, 186, 188, 189, 191, 197–199, 203, 219, 223, 246
 Shortage, economy of, 150, 158
 Shortageflation
 shortageflation 1.0, 150, 188, 192
 shortageflation 2.0, 150, 188, 189, 192, 197
 shortageflation 3.0, 150, 197, 200
 Sierra Leone, 63, 80, 210
 Silicon Valley, 24, 223
 Singapore, 12, 39, 56, 70, 75, 85, 210, 214, 232, 238
 Sinophobia, 78, 247
 Slovakia, 36, 38, 66, 87, 156, 199, 200, 238
 Slovenia, 24, 76, 140, 156, 214
 Slum, 93
 Slumpflation, 158, 187–189, 206
 Small and Medium-sized Enterprises (SMEs), 158
 Smith, Adam, 6–8, 39, 211
 Smog, 120
 Social cohesion, 8, 17, 28, 31, 35, 97
 Social inequalities, 73
 Socialism
 real, 138, 149
 scientific, 163
 state, 19, 148, 156, 163, 191, 198
 with Chinese characteristics, 10, 93
 Social market economy, 9, 19, 21, 29, 31, 56, 102, 134, 152, 156, 160, 162, 163, 172, 173, 233, 236, 240
 Social minimum, 24, 42, 75, 110, 150
 Solidarity Electoral Action (AWS), 169, 170, 179
 Solidarity, 28, 32, 158, 162, 164, 169, 172, 174, 175, 179
 Somalia, 76, 80, 136
 Somoza, Anastasio, 60
 Soros, George, 161, 162
 Southern African Development Community (SADC), 210
 South Korea, Republic of Korea, 22, 77, 78, 81, 83, 85, 96, 109, 111, 123, 179, 215, 221, 222, 232, 249
 South Sudan, 76, 136, 231
 Soviet Union, 27, 39, 60, 132, 135, 139, 141, 143, 150, 156, 163, 165, 198, 221, 247. *See also* USSR
 Speculative bubble, 202
 Spotify, 7
 Sri Lanka, 104
 Stability and Growth Pact, 119
 Stabilization package, 188
 Stabilization policy, 158, 161, 164, 169, 177, 189, 191
 Stagflation, 187
 Stagnation, 98, 134, 138, 166, 218
 Stalinism, 163
 State Multiannual Financial Plan for 2021–2024, 234
 Stiglitz, Joseph E., 7, 20, 25, 29, 31, 33, 44, 178, 202
 Strategy for Poland, 159, 167, 169, 170, 172, 173, 178, 179, 205, 224, 233, 236
 Sudan, 66, 80, 137
 Suez Canal, 253
 Supply chains, 17, 41, 74, 200, 213, 214, 219, 249
 Supply-side economics, 20, 175, 176
 Suriname, 66
 Sustainable development, 28, 31, 36, 43–45, 54, 175, 216, 219, 223, 233, 242, 250
 Szydło, Beata, 179

T

Tajikistan, 74, 101, 137
 Tanzania, 62, 80, 210, 217
 Tax exemptions, 234
 Technocracy, 62, 95
 Technocrats, 54, 87, 98
 Technological innovation, 27, 100
 Technological revolution, 11, 15, 156, 211
 Thatcher, Margaret, 20, 177, 187
 Think tank, 102
 Thunberg, Greta, 115, 124
 Tiananmen, Square of the Heavenly Peace, 133
 Tigrayan people, 82
 TINA: There is no alternative, 177
 Tirole, Jean, 44
 Togo, 63, 74, 80, 210
 Totalitarianism, 56, 217
 Trade war, 24, 27, 37, 214, 219
 Transformation
 post-socialist transformation, 98, 145, 148, 160, 165, 166, 170, 226
 Transition recession, 188
 Transnational corporations, 17, 18, 45, 102, 213
 Transparency International, 76, 136
 Triple equilibrium, 34, 36, 40, 237, 242, 250
 Trška, Dušan, 169
 Trump, Donald, 19, 23, 24, 27, 38, 41, 56, 58, 78, 87, 121, 224, 226
 Trzeciakowski, Witold, 169
 Tsikhanouskaya, Sviatlana, 58
 Tsinghua, 223
 Tunisia, 98
 Turkey, 10, 38, 61, 62, 77, 103, 109, 119, 184, 214, 216, 217
 Turkmenistan, 61, 137
 Tusk, Donald, 171, 179
 Twain, Mark, 53
 Twitter, 102, 223
 Tyranny, 56, 96

U

Uber, 7
 Uganda, 80, 232
 Ukraine, 12, 18, 21, 22, 26, 30, 40, 65, 99, 121, 145, 157, 158, 161, 192, 203, 212, 214, 221, 224, 226, 232, 242, 248, 249
 Unemployment, 89, 98, 158, 159, 163, 164, 170, 178, 187, 189, 190, 192–194, 204, 205, 218

Unemployment rate, 89, 90, 149
 Union of Soviet Socialist Republics (USSR), 27, 39, 60, 131–133, 138–140, 142. *See also* Soviet Union
 United Arab Emirates, 60, 62, 67, 87
 United Kingdom (UK), 23, 74, 77, 119, 122, 128, 141, 187, 195, 217
 United Nations, 12, 18, 126, 142
 United Nations Development Program (UNDP), 35, 36, 71, 72, 90, 239–242
 United States Information Agency, 161
 United States of America (USA), 10, 19, 20, 22, 23, 36, 56, 58, 60, 69, 86, 112, 121, 149, 161, 163, 185, 187, 194, 215, 219, 220, 227, 238, 239, 247
 Universal Basic Income (UBI), 42
 Urbanization, 113
 Uruguay, 39, 74, 79
 Uzbekistan, 62, 101, 137

V

Vaccines, 80, 110, 213
 VAT (tax), 121, 205
 Venezuela, 60, 61, 184, 250
 Vespucci, Amerigo, vii
 Videla, Jorge, 59
 Vietnam, 22, 59, 62, 65–67, 70–72, 75, 76, 80, 87–91, 94, 139, 160, 163, 189, 190, 210
 Vikings, vii
 Vistula Spit, 225
 Voting rights, 56, 57

W

Wage, 21, 22, 33, 168, 185–187, 191, 224, 229, 237
 Wage spiral, 186, 203
 Walicki, Andrzej, 163, 169, 173
 Wall Street, 127, 223
 Wall Street Journal, 178
 Warren, Elizabeth, 33
 Washington consensus, 174, 177, 178, 189
 Welfare state, 10, 97
 Well-being, 5, 17, 30, 31, 41, 70, 110, 117, 242
 Western powers, 60
 White House, 33, 57, 58, 61, 64, 144, 193, 225, 226
 Williamson, John, 177
 Winiecki, Jan, 159, 178

Work, [2](#), [7](#), [12](#), [13](#), [15](#), [17](#), [19](#), [25](#), [28](#), [40](#),
[44](#), [63](#), [67](#), [69](#), [89](#), [101](#), [124](#), [134](#),
[138](#), [145–151](#), [156](#), [161](#), [171](#), [186](#),
[188](#), [190](#), [216](#), [218](#), [236](#), [247](#)

World Bank, [18](#), [73](#), [74](#), [79](#), [80](#), [89](#), [92](#), [118](#),
[119](#), [123](#), [145](#), [157](#), [158](#), [167](#), [177](#),
[178](#), [195](#), [220](#), [246](#), [248](#)

World Economic Forum (WEF), [75](#), [88](#)

World Institute for Development
Economics Research (WIDER),
UNU-WIDER, [150](#)

World output
cumulative GDP growth, [169](#)

World peace, [141](#)

World Trade Organization (WTO), [18](#), [157](#),
[248](#)

Wróblewski, Andrzej, [174](#)

X

Xi Jinping, [41](#), [80](#), [95](#), [97](#)

Y

Yale, [9](#), [223](#)

Yavlinsky, Grigory, [138](#)

Yellow vests (gilets jaunes), [35](#)

Yeltsin, Boris, [140](#), [146](#)

Yemen, [68](#), [80](#)

Yugoslavia, [139](#), [156](#), [163](#), [188](#)

Z

Zambia, [80](#), [210](#)

Zelaya, Manuel, [60](#)

Zimbabwe, [184](#), [210](#)

Zuma, Jacob, [81](#)