Abstract

From the beginning of transition in Poland one could observe two alternative views concerning its performing. The adherents of the formally proclaimed liberal model advised a primary role of competition and market mechanisms. However, the opponents insisted that neither the entire nor the partial rejection of government’s actions is possible under such a peculiar event as transition. The economists stipulating any forms of intervention are usually termed as Keynesians. Even if they do not explicitly refer to Keynes or hint at such distinct examples like social market economies they are labeled as exponents of Keynesian thought. The purpose of this paper is to depict Keynes’ reflections on the compulsion and means of guiding economic policy and compare them with those Polish economists’ attitudes who are commonly judged as Keynesians. It enables to reveal how Keynes’ theory is perceived and what does the term ‘Keynesianism’ mean in Poland.

I Introduction

Transition is a peculiar event the course of which is usually determined by a history of a given country and nation. Hence, it is very difficult to develop a simple and reliable plan of entire rebuilding of all the economic and social structures. Nevertheless, the economic theory could be very helpful in obtaining the answers concerning the most fundamental questions. It offers some advices how to form a consistent and sound vision of interdependent forces existing within each system.

Since the beginning of transition in Poland one could observe two alternative attitudes referring to leading economic paradigms. On the one hand, the followers of a widely viewed neoliberal stream suggest an increased economic competition governed by an ‘invisible hand’. In their opinion, market mechanisms are able to solve a great part of the problems typical of the system under transition. On the other hand, there are advocates of interventionism who claim that liberalism is too risky in the case of Poland, where market mechanisms are still imperfect. They often refer to the countries development of which is commonly attributed to the ‘Keynesian policy’. Therefore, the interventionists claim that employing Keynes’ theoretical achievements in Polish environment would result in equally favourable economic effects. However, such an opinion reveals two fundamental weaknesses. First, it is a mistake to identify Keynes’ attitude with Keynesians’ views. Already the first stage of the evolution of Keynesianism differed significantly from Keynes’ own intentions. Subsequent years yielded increasing number of various interpretations that had often little in common with their origin.
In the face of such broad and heterogeneous opinions included among Keynesian stream it is necessary to specify the term ‘Keynesian policy’. Second, little attention is often devoted to careful consideration whether the circumstances Keynes was interested in actually occur. Post-war history shows clearly that such unrestricted interpretations resulted in many misunderstandings and rather unconcerned application of Keynes’ practical advices to inadequate situations. In the 1960s the consequences of such a stroke were severely experienced by many countries.

The purpose of this paper is to present Keynes’ opinions on the necessity and means of guiding economic policy and compare them with those Polish economists’ standpoints who are commonly treated as Keynesians. It enables to show how Keynes’ theory is perceived and what does the term ‘Keynesianism’ mean in Poland. According to the assumed purpose, in the second part there are described Keynes’ ideas introduced in the General Theory that was published for the first time in Great Britain in 1936 as a response to the Great Depression. The third part presents some views of a number of Polish economists who propose a shape of Polish transition referring either explicitly to Keynes or only to the State’s intervention. In the latter case, however, they are also usually judged as Keynes’ adherents. The fourth part concludes all the considerations displayed in the paper.

II John Maynard Keynes

The General Theory (Keynes 1960) is traditionally treated as a comprehensive political guide. However, it must be pointed out that while Keynes presented a broad theoretical system, his opinions concerning the economic policy were very scarce. Victoria Chick (1983, p. 316) stated that:

> It is strange irony that ‘Keynesian economics’ is understood as a certain set of policy prescriptions, yet in the General Theory very little space is devoted to the implications of the theory for government policy.

Keynes expressed his intentions very clearly in the preface (1960, p. V):

> …its [the General Theory’s] main purpose is to deal with difficult questions of theory, and only in the second place with the applications of this theory to practice.

Accordingly, the book was not to play a role of a set of economic policy instructions. The remarks relevant to the specific government’s actions were rare and incomplete and introduced in addition to the theoretical considerations. The whole notion of Keynes’ practical advices can be seen after gathering all the scrappy suggestions together with the last chapter titled Concluding Notes on the Social Philosophy Towards Which the General Theory Might
However, the final result is still very general and cannot be regarded as a sequence of specific solutions.

Keynes was convinced that competitive markets cannot ensure the full employment of labor and capital resources. However, he was still an adherent of capitalist economic system that wanted, in his opinion, only some improvements. For Keynes the fundamental economic aim was to enlarge the effective demand in order to raise an income (nominal and real) and employment. All the advices exposed in the *General Theory* fell into line with this principal purpose.

The first (though not the most important) proposition of counteracting the lowered level of private investment (giving rise to a drop in the national income and employment) that appeared in the *General Theory* was to undertake the public works. Even if they seem to be useless from the social point of view, they enable unemployed workers to raise their income and create an additional demand. However, Keynes was very cautious about such a policy. He advised it only in a situation of unemployment growing dangerously. Otherwise, purchasing power would be created without simultaneous rise in the level of output. This would lead to inflationary tendencies. Keynes warned also against such a way of financing the public investment that would bring about an increase in the interest rate and in turn a decline in investment in other areas. Financing by the means of loans is equivalent to the enlargement in money supply, employment and prices that could cause a rise in the interest rate and decrease in the level of investment. Moreover, higher prices of employed investment goods mean a drop in their marginal efficiency. Together with upward tendency in the interest rate this would generate lower aggregated investment. Hence, the government undertaking public works should not simultaneously enlarge the general costs leading to the contraction in the investment inputs.

Keynes’ proposition of public works resulted from his general conviction that investing process cannot be controlled by only the public sector. Variable long-run expectations lead to the significant instability of marginal efficiency of capital that is difficult to offset by the changes in the interest rate alone. Government retains much more effective methods of defining and calculating long-run requirements in the terms of social gains than the private entrepreneurs. Hence, the authority should be responsible for organizing and supervising the investment. However, Keynes’ proposition of socializing the investment did not imply that production means should become governments’ property. Keynes was an advocate of neither general planning nor industry nationalization.
These suggestions became completed with considerations presented in the last chapter of the *General Theory*. Keynes stated there that policy of increasing the investment alone cannot be effective unless it is supplemented with actions towards raising the level of consumption (1960, p. 325):

Whilst aiming at a socially controlled rate of investment with a view to a progressive decline in the marginal efficiency of capital, I should support at the same time all sorts of policies for increasing the propensity to consume. For it is unlikely that full employment can be maintained, whatever we may do about investment, with the existing propensity to consume. There is room, therefore, for both policies to operate together; – to promote investment and, at the same time, to promote consumption, not merely to the level which with the existing propensity to consume would correspond to the increased investment, but to a higher level still.

Subsequent practical remarks displayed in the *General Theory* concerned the matter of monetary policy. However, they were rather critical and express many doubts about its potency. Keynes regarded the enlargement of money supply in order to maintain the interest rate at the lowest possible level as one of the most effective means of achieving prosperity. Since excessive liquidity preference has an adverse effect on the interest rate, the former should be decreased. In Keynes’ opinion excessive liquidity preference results from some peculiar features relevant to the gold money. Therefore, he accepted all the proposals restricting the extent of thesaurization and increasing the velocity of money. Above all he advised magnifying money supply in order to depreciate a currency and reduce the liquidity preference. Increased money supply could be obtained by lowering a central bank rate of discount which leads to increased number of bills rediscounted by commercial banks, cash reserves and bank money. On the other hand, similar result could be achieved by using open market operations. Keynes was aware of their negative impact on the currency stability but he was of opinion that during the depression monetary policy aims should be primary.

However, Keynes showed also the situation when even a very large money supply growth only lowers the interest rate a little. It occurs when this increase induces such an uncertainty that the liquidity preference is dominated by the precautionary motive and the whole money is thesaurized. Therefore, the increase in money supply would not lead to the lowered interest rate, if the liquidity preference rose more than the amount of money. Also the lowered interest rate, *ceteris paribus*, would not have to result in favourable effects, if the marginal efficiency of capital fell more than the interest rate. Keynes was conscious of the inefficiency of monetary policy under depression when the liquidity preference is high and the entrepreneurs’ expectations of profits are low.
According to his monetary policy proposals, Keynes was accused of advertising the inflation. However, it must be pointed out that he was of opinion that the inflation cannot be seen as a threat in a situation of underemployment. When resources are not fully employed the level of output is elastic and an increase in money supply affects effective demand rather than prices. As long as unemployment exists, a growth in money supply will have no significant impact on prices but will induce the employment to grow proportionally to the increase in effective demand produced by enlarged money supply. Prices and wages will not rise before full employment is reached.

It is also worth mentioning that Keynes is usually regarded as an advocate of discretionary monetary policy. However, one of his statements clearly denies such a view (1960, p. 203):

... Monetary policy which strikes public opinion as being experimental in character or easily liable to change may fail in its objective of greatly reducing the long-term rate of interest ... The same policy, on the other hand, may prove easily successful if it appeals to public opinion as being reasonable and practicable and in the public interest, rooted in strong conviction, and promoted by an authority unlikely to be superseded.

Subsequent proposition concerning the economic policy was to employ the progressive taxation of high incomes together with increased social services intended for the poorest. Since the propensity to consume is low at high levels of income, this taxation would only slightly diminish the amount of consumption, while reducing the amount of savings significantly. On the other hand, low incomes augmented by the transfers would increase consumption expenditures. However, Keynes pointed out that highly progressive taxes could restrain the amount of investments undertaken, even if the interest rate is low. To maintain the optimal level of investments, taxes should rise moderately.

Increased social services and only moderately progressive taxes together with proposed public investment must have spelt a budget deficit. Although Keynes warned against the crowding-out effect connected to the financing of public investments, he treated the rising budget deficit as a mean of necessary stimulation. In Keynes’ opinion, government could be indebted to commercial banks or directly to society by selling bonds. In the first case, there would be an increased credit money supply. In the second, government would use a part of society’s deposits. This way of covering the augmented expenditures and budget deficit leads to increased public debt. Keynes believed that this is one of the forms of redistribution, which would not diminish the social wealth, since only foreign indebtedness is a serious problem.

Instead of conclusion it is worth citing Keynes’ own words (1960, p. 377 – 378):
In some other respects the foregoing theory is moderately conservative in its implications. For whilst it indicates the vital importance of establishing certain central controls in matters which are now left in the main to individual initiative, there are wide fields of activity which are unaffected. The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative. But beyond this no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments the basic rate of reward to those who own them, it will have accomplished all that is necessary. Moreover, the necessary measures of socialization can be introduced gradually and without a break in the general traditions of society.

II Polish economists

Polish transition begun in 1989 and was carried out according to the liberal plan presented by Leszek Balcerowicz. Balcerowicz’s Plan was based on the following principal assumptions: balanced budget; tight monetary policy; stabilized rate of exchange and domestic exchangeability of money brought into practice; liberalization of prices; and restrictive income policy. One of the most important purposes of this Plan was to overcome the inflation that was seen as generated by excessive money supply. This programme illustrated an opinion prevailing at that time that under transition the only way is to implement a model of liberal economy. Hence, it was ascertained that there is no alternative but Balcerowicz’s Plan. Although a part of politicians and economists decided in Tadeusz Mazowiecki’s (the Prime Minister of the first government established after 1989) favour who was an adherent of social market economy, Balcerowicz’s Plan became an officially accepted and implemented solution.

According to Balcerowicz’s view that the most important reforms should be carried out as quickly as possible, the Polish transition was performed as a “shock therapy”. Since the accepted liberal attitude implied the fundamental meaning of market mechanisms, the role of the State’s actions became treated as second-order. Economic effectiveness was planned to be achieved by self-adjusting mechanisms, competition and economic freedom rather than government’s activity. Transition based on market regulations was to lead to the system
similar to the contemporarily existing liberal economies. The advocates of liberal standpoint focused especially on such its achievements as: defeating the hyperinflation by the means of tight monetary policy; acquiring the real structure of prices; money exchangeability; and approaching the equilibrium in many markets. Such liberal opinions were promoted especially by Waclaw Wilczyński, Jarosław Bauc, Bogusław Grabowski, Cezary Józefiak, Jan Winiecki, Janusz Beksiak, Stanislaw Gomulka (Łukawer 2002, p. 84 – 85, 102 – 104).

However, simultaneously with the accomplishments of liberalism arose such unfamiliar to the Polish socialist society phenomena as large-scale unemployment and rapid drop in incomes. They gave an incentive to the severe criticism of the liberal model of Polish transition. It must be pointed out, however, that critical opinions concerned the inconsiderable State’s role rather than market mechanism per se. Adversaries ascertained that in the case of transition the effectiveness cannot be ensured by the market mechanisms alone. Without government’s significant contribution such a crucial transformation of economic structure cannot be gained. Therefore, the proposals of minimal State’s interventions under transition should be treated as inadequate and damaging. This view was represented by for example Tadeusz Kowalik, Józef Kaleta, Zdzisław Sadowski, Stefan Marciniak, Paweł Bożyk, Jerzy Żyżyński, Mieczysław Nasiłowski, (Łukawer 2002, p. 102 – 105).

In Sadowski’s (1992) opinion the two approaches described above could be seen as reflecting one of the most fundamental division in the world economic theory. Liberal standpoint can be attached to Monetarists’ way of perceiving the real world. On the other hand, the adherents of interventionism represent the tradition initiated by John M. Keynes and Michał Kalecki. However, it is worth noting that only a part of interventionists refers explicitly to Keynes. The others, even if they do not mention Keynes’ achievements but follow the opinion of necessary State’s actions, are usually regarded as Keynesians. Since Keynes is commonly treated as an architect of the theory of interventionism, all the proposals of undertaking some actions by the government are seen as representing the Keynesian point of view.

One of the famous Polish economists who explicitly recommended Keynesian policy is Nasiłowski (1992). He stated that macroeconomic government policy must be based on the policy that patterns after New Keynesianism rather than liberal principles of Monetarism. Monetarists suggest a restrictive monetary policy in order to overcome inflation. In the case of Poland it confines the amount of credits offered by commercial banks, reduces public expenditures, decreases the aggregate demand and production process in public firms. This way liberalism creates a “grasping” capitalism that does not take into account the social costs.
Hence, such a policy is inconsistent with both long-run and short-run vision of effective market economy providing the necessary social services for the poorest. However, two years later Nasiłowski (1994) concluded that the reasoning based on Keynes’ theory cannot be fully justified under transition occurring after the „shock therapy”. In his opinion, firms’ capital equipment has been created according to different principles than those in market economies for years. Hence, its full utilization is not economically justified and part of the production capacity should be eliminated. Moreover, public firms that still make up a significant sector of economy are not able to adjust to the market behavior. Nasiłowski pointed also out that perfectly elastic short-run supply curve typical of Keynesian attitude implies a rigid level of prices and no inflation in turn. This statement is contradictory to the observed both expansive macroeconomic policy and powerful state monopoly firms that can raise their prices. In Nasiłowski’s opinion, one should entirely reject neither the Keynesian view nor the liberal one, but join their most promising ideas creating new pragmatic standpoint. This new policy should contain: careful liberalism in income growth restrictions; general reduction in taxes; specific reductions in taxes in the case of reinvested profits; credit guarantees for developing industries.

The economist who propagated Keynesianism univocally is Kaleta (2002). He was of opinion that every developed country, especially West European ones, Japan, United States and Canada, achieved a significant increase in economic growth owing to the New Keynesian rather than liberal policy. Therefore, he ascertained that Post Keynesian economic strategy ensures much higher economic effectiveness than the liberal one. In every developed capitalist economic system State’s interventions are used (on a different scale) owing to the public sector consisting of such industries as: engineering, gas, air, nuclear, shipbuilding, steel, telecommunication and banking. In Poland almost all these fields are subject to the privatization. Without active government’s actions, however, there is little hope for developmental transition from centrally managed economy to the market economy. In post-communist countries only State can assure civilized transformation of ownership, restructurization, demonopolization, reforms in finance and banks, creation of capital market. Kaleta (1994) proposed above all: reductions in taxes for investment projects; preferences in credits; government orders; budget subsidies for firms under restructurization; house-building; unemployment benefits; credits covering the wages paid to those employed in house-building who recruit from unemployment pool; reductions and dispensations in taxes in the case of investment, export and production quality improvements; reductions in income taxes for firms and individuals; budget expenses for public works, house-building, scientific research;
increase in money supply in order to induce investment and employment; low (even negative) interest rate.

Also in Bożyk’s (2001) opinion, to avoid large-scale pathological effects of transition one should have given up its pure liberal option. Instead of ‘invisible hand’, State should take a responsibility for the stabilization process. ‘Invisible hand’ is not able to assure long-run stabilizing tendencies in pathological circumstances (above all predominant public ownership and monopoly in production structure). In the other words, liberalization of economy can ensure short-run stabilization but cannot warrant long-run resisting of the factors that make stabilization difficult to attain (for example, inadequate production structure, lack of technological progress, inappropriate organization of economy). Hence, in the beginning of transition government should have undertaken typical Post Keynesian actions in order to induce investment, support restructurization of production, initiate a technological progress leading to higher labour productivity. State’s activities would be temporary. After the given industries attain competition, market mechanism would become the only regulator. In Bożyk’s opinion the observed actions caused a liberal economy in the nominal sense which is far from its real shape. On the other hand, the proposed solution based on Keynesian principles would confirm the consistence between real and nominal character of market economy.

The economist who calls himself an advocate of Keynesian view is Sadowski (2001). He asserted that a proper and effective State’s activity is a precondition of Poland’s development. He pointed out that proposition of introducing market mechanisms should mean government’s indirect influence on the market processes by the means of macroeconomic and structural policy rather than entire elimination of State’s interventions. The necessity of active government policy of improving allocation is commonly accepted and conducted also in those countries where the principles of a free market are predominant. State’s intervention is not assumed to replace market mechanisms. It should be complementary and help in those fields where market mechanism alone is not able to attain satisfactory effects. Self-adjusting market mechanisms need intervention especially in the case of economic growth expansion, competitiveness enlargement, structural reforms and fair income distribution. Sadowski (2002) proposed also specific interventions referring explicitly to the Keynesian tradition. He advised the development of house-building; budget expenditures inducing economic growth; moderate budget deficit and public debt resulting from development and domestic demand enlargement; low interest rates; encouraging the reforms in production structure, export, agriculture, infra-structure; active State’s role, reduced tariffs, advising services, covering
specific costs; overcoming the unemployment and poverty – reductions in labor costs, restrictions in too rapid growth in wages.

Except for those who directly refer to Keynes, there are also economists who do not call themselves Keynesians but propose some advices commonly identified with Keynesian stream. One of those economists is Marciniak (2001). He criticizes severely on macroeconomic policy pursued in accordance to Monetarists’ opinions, above all the statement that money is the main factor influencing the economy and that important structural reforms can be based on market mechanism alone. Observable differentiation in incomes, the level of poverty comparable to the situation in low-developed countries and structural deficits in foreign trade justify such a critique. In Marciniak’s opinion, one of the most efficient means of increasing aggregate demand and improving the economic situation are public works. They are a form of active overcoming the unemployment problem requiring, however, resolved and careful actions on the State’s side. In the case of Poland investment in cheap social houses, motor-ways, infra-structure and science would positively affect economic conditions and social welfare. Marciniak asserted that such interventions would not give rise to a crowding-out effect but would do just the opposite, namely induce the demand for private investment. Such a change in economic policy would require changes in a structure of budget expenditures. Also a central bank would have to be involved more efficiently in the development of the country using for example a part of its foreign currency reserves for investment in domestic establishments.

Another Polish economist associated to interventionists, and hence to Keynesians, is Żyżyński (2004). He is of opinion that the restored capitalism needs a strong State confirmed by a sound law, its effective enforcing and controlling the instruments of government. Considering State’s role it must be remembered that one of its most important tools are budget spending which are the transfers creating the incomes. Too rapid decrease in those expenses affects negatively the consumption demand causing a slump and lowering the entrepreneurs’ propensity to invest. Favourable circumstances and perspectives of the demand growth are the basic factors determining the level of investment together with credits available at low interest rates, other possibilities of external financing and tax incentives. However, Żyżyński pointed also out that part of budget outlay could be reduced, since they are borne uselessly.

III Concluding remarks
From the beginning of transition one could observe two alternative attitudes towards the realizing of this process. The followers of the formally announced liberal model suggested a
secondary State’s position and a predominant function of market mechanisms. On the other hand, the opponents maintained that it is impossible to exclude or substantially confine government’s actions in the case of transformation of economic system. Hence, they stipulated a leading State’s role. However, most of them did not question the necessity of encouraging the market mechanism but they indicated the inevitability of its supplementing and reinforcing, at least at the beginning.

One of the most striking features of the Polish literature is that those economists who postulate some forms of intervention are termed as Keynesians. Even if they do not explicitly allude to Keynes (Marciniak 2001, Żyżyński 2004) or mention such quite different examples like social market economies (e.g. Kowalik 2001) they are labeled as exponents of Keynesian thought. Keynes’ achievements are usually univocally identified with such expressions as government intervention, public works or the improvement of economic situation by the means of increased budget spending. However, it is rarely acknowledged that Keynes recommended very careful government’s actions pointing to their numerous limitations. Above all Keynes was of opinion that State should intervene only in a situation of a crisis caused by a considerable lack of demand. Keynes asserted that capitalism is the best economic system from society’s welfare point of view. However, since it does not posses self-acting forces bringing economic system to full employment, State should intervene in the situations of serious disturbances supporting its return to the equilibrium. Keynes analyzed a developed economy with the correct production structure and efficient financial markets that in the depression calls for some impulse coming from the government. Assuming proper microeconomic behavior he could presuppose that economic policy actions will have the desired effect. Keynes’ theory as a whole designed for well developed economies with solid structural fundaments seems to be inadequate to the Polish system that is still under transition. In Poland the problem is the lack of structural reforms and still incorrect microeconomic behavior, not the lack of effective demand that was a core in Keynes’ considerations. In the case of Polish system Keynes’ theory traditionally and selectively associated only with expansionary fiscal and monetary policy could easily generate inflationary tendencies.

Second, it must be pointed out that Polish economists often describe their intentions inaccurately. Many of them use interchangeably the terms Keynes’ theory, Post Keynesianism and New Keynesianism. However, far-reaching theoretical and political changes in Keynes’ theory within the range of almost 70 years prove clearly that interventionism intending to stabilize the economy proposed by Post and New Keynesians resembles Keynes’ genuine attitude inconsiderably. Often emphasized relations between them are based on some beliefs
traditionally cultivated by Keynesians who simultaneously interpret the General Theory individually and rather loosely. Such modified opinions became widespread accepted by many economists and politicians who often uncritically identify these with Keynes’ achievements. Hence, the term “Keynesian economic policy” results in many disagreements to the present day. The compared Keynes’ and many Post and New Keynesians’ opinions show clearly that continual critical changes in perceiving of Keynes’ purposes do not allow to identify modern stabilization tools with those presented in the General Theory. Therefore, referring to Keynes in contemporary political discussions is usually unjustified and implementing the so-called “Keynesian policy” calls for accurate defining that takes into account the actual economic circumstances.

Peculiar character of Polish transition does not allow drawing simple parallels, especially with theories originated over 50 years ago and created for the circumstances quite different from those observable in Poland nowadays. Polish situation calls for a sound analysis concerning the attainments of world economic practice and theory within the bounds of many decades. Danuta Hübner (1992) for example represents such a standpoint. She asserts that setting an accurate dividing line between State’s role under transition and market’s role cannot reflect any of existing theories. Instead it must result from a pragmatism supported by historical analysis of social experiences. Two kinds of forces should operate under transition: forces causing a change and forces preserving the change. In stabilized environment of market economy the government’s intervention acts as a preserving force. However, under transition the matters look different. State should create a change rather than follow it. State should get ahead of the change and initiate it. Hence, the government should create the environment ensuring the persistence of transition.

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