Henryk Wnorowski

University of Białystok

e-mail: h.wnorowski@wb.edu.pl

ORCID: 0000-0002-8038-2883

THE PROBLEM OF CHOOSING DEVELOPMENT PATHS

Abstract. We start from the assumption that the main problem, and at the same time the goal, is socio-economic development. We also assume that this pursuit is universal, development is the ambition of entities at all levels of aggregation, development is a desire of each country, as well as of business entities and individuals. From the other side, the governments create conditions for entities at the microeconomic level which generate additional value, that is, contribute to the creation of this development. Peculiar to them they are developmental paths. That's why, the main hypothesis of this article, as stating that the choice of economic policy financed by excessive public debt does not, in the long run, serve well real socio-economic development.

At the beginning of the 21st century, the vast majority of these countries had serious problems with public debt. These problems already had their history and were so serious that some efforts to discipline the forum of this group appeared. It is, in a sense, natural in the sense that integration itself is heading to a high degree of coordination and to the unification of all economic policies. The picture of public finances of the European Union does not look good despite the fact that this group can boast a long history of making efforts to control and monitor the budgets of its member states. Moreover, one can even talk about a certain intensification of this process, especially with respect to the euro area countries, but we still can not say that satisfactory results have been achieved.

Keywords: development paths, economic policy, excessive public debt, fiscal rules.

Introduction

In this study, we assume that the main problem, and at the same time the goal, is socio-economic development and, in principle, the need, the desire to develop, or if anyone so prefers, is striving for development. We also assume that this pursuit is universal, development is the ambition of entities at all levels of aggregation, development is a desire of each and every country, as well as of business entities and individuals. In this situation all are entrepreneurs regardless of the industry in which they operate. They are

also striving for development and are a part of the progress of the economies in which they are located. But the situation also looks similar with the creators of economic policy at the macroeconomic level. Governments create conditions for entities at the microeconomic level which generates additional value, that is, contribute to the creation of development. They are peculiar to them developmental paths.

The key to understanding the dynamics of the economic development process is to learn the meaning of human activities. Aristotle claimed that "(...) people take targeted actions because that is the nature of human action. It is difficult to imagine human beings who do not want to improve their living conditions" (Aristoteles, 2007). This claim is an axiom of praxeology, economics and sociology. People take action to satisfy first and foremost the needs of life, and then also the needs of a higher order. It aims to change the current state of affairs into a new one, which it considers more satisfactory. They constantly choose between different alternative goals, and the ways and means to implement them. They give up goods in order to obtain other goods better suited to their needs (papaj, 2010: 31–34)¹.

And here again all participants in the economic process, both at the micro and macro levels, make such choices. Our interest in this study naturally concentrates on macroeconomic choices, because in the title we have announced that the problem will concern the selection of development paths. First of all, the author wants to emphasize that such human decisions on the macro level are very important because they determine the possible environment in which microeconomic entities come into play. Man, is the cause of all order in the world, but unfortunately he is also the cause of all disorder. This reflects F. von Hayek's statement that the source of the most serious social problems is: "... there are effects of human actions that are not the result of human intentions" (von Hayek, 1967).

However, a multitude of examples of a similar type also leads us to reflect on the real possibilities of Man trying in different situations to influence the system he is a participant of, and which in a way is of his own authorship. In their declarations, if not in all, most governments take care of entrepreneurs. In practice it often looks completely different.

The author has no ambition to formulate comprehensive recommendations regarding the selection of all possible development paths. He will instead try to refer only to one, treating it as a kind of excuse to discuss the effectiveness of such a choice. At this point, the author formulates the main hypothesis of this article, as stating that the choice of economic policy financed by excessive public debt does not, in the long run, serve well real socio-economic development.

Theorists' views on the role of the state in the economy

Chronologically, the first fundamental principle enabling to explain everything that was happening in the economy was the principle of the “invisible hand” of the market formulated by Adam Smith. Individuals in society endeavour to use their skills and capital to maximize their income. Generally they are not much concerned about the public good and do not know much about how they influence the expansion of this good. Their main concern is their own safety and well-being.

In other words, an economic system that enables men and women to realize their own interests as part of natural freedom and competition will be the foundation of a self-regulating and prospering economy. Eliminating restrictions on imports, work and prices means the possibility of maximizing wealth through lower prices, higher wages and better products (Skousen, 2012: 42). In this way, a classical model was created, in which Smith proved that the democratic free capitalist economy fosters the generation of wealth and indicated three basic features of self-regulation of this system:

- freedom: the right to produce and exchange goods, work and capital in accordance with self-interest,
- competition: entities have the right to compete in the production and exchange of goods and services,
- justice: the actions of individuals must be fair and just, in accordance with social norms (Skousen, 2012: 42).

Adam Smith attracted many followers, and their views on the economy prevailed until the 1920s. His system of natural freedom, reconstructed by a marginalist revolution and perfected by Marshall and the Austrian School of Economics, was destroyed under heavy fire. The practice of the largest capitalist crisis in the history of economy resulted in the phenomena that it represented which contradicted what the followers of market self-regulation were saying through the invisible hand. Self-regulation, which has so far acted in a model way, has stopped working. Explanation of this state of affairs required a revolution of views, both the essence of the economic process and the role of the state in the economy, required finding a different development path.

This revolution was made by John Maynard Keynes, the leader of the Cambridge school. In his book from 1936, *The General Theory of Employment, Percentage and Money*, he argued that capitalism is unstable and that there is no natural tendency to provide full employment. Keynes became the first herald announcing the necessity of the state's participation in the economy.

The main issue for Keynes was the development of global demand at such a level that the economy would function using available production factors. When this demand is lacking, it is the government's duty to create it, for example by increasing budget expenditures. The above therapy shows that, in the assessment of misfortunes that the economy may experience, inflation – according to Keynes – is a lesser evil than unemployment (Zawiślak, 2011: 227).

Keynes may have created a cure for depression, but his theory has at the same time contributed to the creation of an atmosphere conducive to omnipresent state intervention, social programs and unlimited faith in the possibility of a large government. Keynes' theories encouraged unrestricted consumption, unfortunately financing through state indebtedness and progressive taxation, as opposed to savings, balanced budgets and low taxes. The critics saw in Keynes's theories a direct attack on traditional economic values and on the principles of economic freedom (Skousen, 2012: 437–438).

The representatives of the doctrine referred to as “supply side economics” saw these views differently and quite radically so (as did many representatives of other economic schools). Authors and proponents of this theory have argued that it is not demand, but supply that is the basic driving force in the dynamization of economic processes. They cut themselves off from interventionism, pointing out to Keynesians that the governmental interventions postulated by their doctrine in the affairs of the economy brought about disruptions in the functioning of the market and lowering the pace of economic development (Zawiślak, 2011: 226–227). They particularly underlined the loss of control over budget expenditure, which inevitably leads to over-indebtedness.

Public debt in the European Union

It seems it would be an exaggeration to formulate the hypothesis that the economic policies of the European Union member states were mainly based on the Keynesian doctrine; nevertheless, at the beginning of the 21st century, the vast majority of these countries had serious problems with public debt. These problems already had their history and were so serious that some efforts to discipline the forum of this group appeared. It is, in a sense, natural in the sense that integration itself is heading to a high degree of coordination and to the “unification of all economic policies (Trojanowska-Strzemboszewska, 2012: 51–52)².

Still, at the end of the last century, the idea of establishing fiscal rules for the countries of the future euro zone materialized, the aim of which

was to inhibit the aspirations to increase public debt. On 17 June 1997, the European Council accepted the adoption of a pact called the Stability and Growth Pact. Its specific provisions were included in two regulations of the Council of the European Union of July 7, 1997 (Kowalewski, Tchorka, Górski, 2011: 138–139).

It should be noted that the Stability and Growth Pact has clearly sharpened the requirements for all European Union member states regarding, above all, the control of the public sector deficit. According to it, all these countries should strictly avoid excessive deficits (i.e. exceeding 3% of GDP), under the threat of imposing quite significant (0.5% of GDP) financial penalties. Therefore, it is reasonable to reflect on the limited effectiveness of the Pact?

It seems that the key factor that significantly reduced the credibility of the Pact was the spectacular failure of the European Commission in a conflict with the political coalition of states. In 2005, under the influence of the position of the two main states – France and Germany – the provisions of the Pact were made more flexible. It was agreed that the excessive deficit procedure should not be triggered in a recession or in a long period of growth well below potential growth. As a result, no country has ever paid any penalty.

Today's attempts/efforts in the area of budget policy, so it cannot be surprising, have been taken earlier, today strengthening financial discipline in the EU has a special justification, but it is considering limited effectiveness.

The aforementioned specifics, or if you prefer the strength of justifying the fact of taking further steps³ towards further disciplining EU member states (those in the eurozone but also those outside it) results from the fact that the size of budget deficits and public debt are still high, and in the case of many countries exceed acceptable critical values (see Figure 1).

The means of controlling the financial crisis in Europe applied after 2008 did not meet expectations in principle, and public debt grew, despite public spending declarations or declarations being made; moreover, the economies of the euro area and individual countries have not received sufficient incentives to curb the slowdown or even the recession. With egoistic behavior of financial markets and the level of indebtedness, servicing the current public debt in many countries becomes impossible. It is assumed that with a public debt of 60% of GDP, the limit on government bonds that governments are able to handle is 7%. Any increase in debt over this amount results in inability to service, interest rates are rapidly increasing due to the possibility of service and the circle closes (Janiszewski, 2012).

Figure 1. Public debt and the public finance sector balance in 2017

Source: European Commission. Data from November 2017.

Of course, some successes in this area should be noted, debt relief takes place in the countries of Northern Europe. Impressive progress has been made in Ireland, significant in Germany, the Czech Republic, Denmark and the Netherlands. In other countries, public debt either stays on the same level for three years or grows. This applies especially to the most indebted countries: Belgium, Spain, France, Italy, Portugal and Slovenia. The indebtedness of the entire European Union increased from 60.7% in 2008 up to 85% in 2015. The indebtedness of the euro area increased during this period from 68.6% to 90.4%, France from 68% to 96.2%, Italy from 99.8% to 131.9%, Spain from 39.4% to 99.8%, Portugal from 69.2% to 129.0%, and Slovenia from 21.8% to 81.1% (Obserwator wwv).

Poland too is not in a position to boast of any spectacular achievements in the area of reducing public debt. Since 2001, the nominal value of Treasury liabilities has been reduced only twice. The first time was in 2014, which resulted from the takeover of assets from open pension funds, the second time in 2017, a decrease of 160 million, which while not spectacular, does have the effect of a real improvement in public finances (see Figure 2).

The situation of the Polish budget looks much better as the ratio of public debt to GDP in percentage terms (see Figure 3).

Figure 2. State Treasury debt at year-end 2013–2017

Source: A. Cieślak-Wróblewska, Gorzki for the budget beginning of the year, “Rzeczpospolita” on 1/03/2018.

Figure 3. Public debt of Poland in relation to GDP

Source: as in Figure 2.

Conclusion

The picture of public finances of the European Union does not look good despite the fact that this group can boast a long history of making efforts to control and monitor the budgets of its member states. Moreover, one can even talk about a certain intensification of this process, especially with respect to the euro area countries.

Why in that case can we not say that satisfactory results have been achieved. Probably the easiest answer would be a simple statement – unfortunately, there were some departures from disciplinary provisions. The European Commission, which after the financial crisis demanded that member states take energetic corrective actions, has softened its position. Both the Stability and Growth Pact and the Fiscal Compact predict penalties for violating the objectives agreed with the Union, but the EU authorities do not use these weapons, and countries with budget problems; France, Portugal, Italy and Spain in particular, have on several occasions now received the consent of the European Commission for the prolongation of corrective actions. Undoubtedly, there are a lot of reasons for that. However, it should be remembered that actions taken by individuals, groups or social institutions must be associated with the values from which the rules and principles are derived that control order and make predictability a reality.

It might seem that today in the European Union there is no alternative to budgetary discipline and this is an authentic discipline. However, the real attitude of the European Union bodies towards fiscal problems has not changed enough, as seen in the document “Implementation of the Stability and Growth Pact” of November 2016 prepared by the European Parliament on the basis of decisions and recommendations of the European Commission (Obserwator [www](http://www.obserwator.eu)). There are no announcements of actions to discipline countries that do not meet the objectives, and even countries in which the level of indebtedness is deserving of a positive assessment. This approach to financing budget expenditures in the author’s opinion determines that the EU economies do not belong to the leaders of global economic growth today.

NOTES

¹ The man described by Ludwig von Mises is a rational unit. All people must act. Resignation from taking up an activity, giving up or being driven by impulses is also an act just like saying words (e.g. in the form of an order or a request). To function, people necessarily value, choose the goals of their aspirations and decide on specific ways to achieve them. However, before any action is taken, the person must pass the three preceding stages. The first is the occurrence of discomfort, i.e. an undesirable state of affairs. Without any discomfort, no action will be taken, because under conditions of

full compliance any change in state could only worsen the situation of the subject. (...) In order for the action to be carried out, there must also be a conviction that it is purposeful, individual behaviour can at least satisfy the need to some extent (reduce discomfort). (...) The final decision to work will involve calculating if the effort of getting out of a hammock is worth less than the unpleasantness associated with the experience of a persistent buzzing. It is worth remembering the decisive role of the individual's belief in one's own agency and abilities to abstract thinking – if the cause of buzzing is not a mosquito and a flying plane, it does not preclude the top of action, but only causes other discomfort reduction measures – in this case these may be noise stoppers.

² In the preamble to the Treaty on European Union (TEU) adopted on 7 February 1992 in Maastricht, it was written that by appointing the European Union, its member states perceive their attachment to “the principles of liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law.” Appealing in the preamble of the treaty to these values was not without significance, but it was an indication of the basis on which it was intended to build a European community. In Article F of the then Treaty, it was assumed that the Union respects the rights guaranteed in the European Convention on the Protection of In the opinion of specialists in Community law, these provisions signified acknowledgment of fundamental rights as general principles of EU law, and to this extent were identical with the case law of the EU Court of Justice⁷. Literally, this issue it was only regulated by the provisions of the Treaty of Lisbon, according to which fundamental rights “form part of EU law as general principles of law”.

³ Using in this context the words ... further steps ..., means going further in the announcement of solutions (taking the next step) than those that took place until 2011, namely 1989 – Delors Report argues that discipline in fiscal policy is just as important for monetary union, such as a credible monetary policy, 1992 – the Maastricht Treaty and the introduction of fiscal criteria, and finally 1997 and the “most powerful” Stability and Growth Pact, unfortunately made more flexible in 2005.

REFERENCES

- Arystoteles, (2007) *Etyka nikomachejska*, Warszawa.
- Janiszewski H.A., Nieznośny ciężar długu, “Rzeczpospolita” 20.11.2012.
- Kowalewski P., G. Tchorka, J. Górski (eds.) (2011), *Mechanizmy funkcjonowania strefy euro*, Warszawa.
- Obserwator finansowy: <https://www.obserwatorfinansowy.pl/forma/rotator/europa-oddluza-sie-ale-bardzo-powoli/>
- Papaj L. (2010), *Koncepcja człowieka w pracach Ludwiga von Mieses*, Warszawa.
- Słojewska A., Dyscyplina budżetowa w zamian za solidarność, “Rzeczpospolita” 21.02.2013.
- Skousen M. (2012), *Narodziny współczesnej ekonomii: Życie i idee wielkich myślicieli*, Warszawa.
- Trojanowska-Strzęboszewska M. (2012), Aksjologiczny wymiar Unii Europejskiej, (in:) Sowiński S. (ed.), *Etyka w życiu publicznym*, Warszawa.
- von Hayek F. (1967), *Studium in Philosophy*, “Politics and Economics”, Chicago.

- Wnorowski H. (2013), Dyscyplina budżetowa w strefie euro – kontekst historyczny i ekonomiczny, (in:) A. F. Bocian (ed.), Globalizacja – polityka – etyka, Białystok.
- Wnorowski H. (2012), Dlaczego przedsiębiorcy nie lubią długu publicznego?, (in:) M. Poniatowicz (ed.), Finanse publiczne w warunkach międzynarodowego kryzysu finansowego, Białystok.
- Zawiślak A.M. (2011), O kwantach, rynkach i ekonomistach. Ikebana zdziwień i paradoksów, Warszawa.