

Institutional Change in Practice

Professor Jerzy Hausner's Statement, 2007*¹

In 2003, when we had begun working on the National Programme of Development (NPR) 2007–2013, I was wondering what could be done in order to prevent our political successors from wasting, after the parliamentary elections of 2005, what we would have achieved by that time. The main challenge to deal with was how to take advantage of EU membership and utilise EU structural instruments. It is rational, that a full cycle of development foreseen in such plan is carried out more for than a dozen years or so, that is, at least three to four government terms. I assumed that the most sensible solution would be to prepare a complete NPR and all the documents needed, but without passing them. Instead they were left for our successors for adjustments². I had thought that if the proceedings were fully transparent and accompanied with broad national debate, involving representatives of the opposition, then our successors would respect the outcome of such a collaboration and further use it. I also assumed that they would only change the details like titles, covers, reorganize something,

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¹ In 2007 Warsaw School of Economics has organized a conference concerning a book, *Circles of Development*, written by a renown reformer of Polish economy – Jerzy Hausner. Although four years have passed we have decided that it's worth to publish the speech he gave during the conference. He referred to many important issues regarding social partnership. We plan to publish a part of *Circles of Development* concerning Polish social dialogue in WFES no. 4 (editors' note).

² In my opinion, such conduct undermines the essence of good governance. We should not be surprised by the fact that we are unable to build highways or solve other important socio-economic problems. Generally, this is the theme of my book, *Circles of Development*. Having read the book, a well-known Polish journalist observed that it actually delivers a description of all serious problems that we, in Poland, are unable to solve. She added that it was a living proof of our inabilities and failures, and thereby very pessimistic.

but apart from that they would accept the Programme simply because they would not be able to develop anything entirely new on time. I was wrong, as it turned out. Almost everything was forsaken just because it was developed by the former, 'not right' government. Even the slightest traces of NPR disappeared from the site of the Ministry of Regional Development.

What can I say? The book, once published, lives a life of its own and I can do nothing about it. It was not my intention to blame or glorify, to proclaim a success or a failure? My sole purpose was to give a precise picture of the economic policy in our country. It was meant to be encouraging and helpful, thus optimistic.

Just think how the situation was back in 2001. A new leftwing government was just being formed, led by a strong leader, Leszek Miller, whose party had won 41% of votes in the parliamentary elections. Simultaneously, Aleksander Kwaśniewski, originating from the very same party, served as the President. One could have thought that Polish politics was finally on its track, yet the Polish economy was in a dramatic shape. Six years have passed. Now Polish politics is a mess, while we believe that the economy is founded on a solid basis and developing rapidly. Even if the picture is not absolutely accurate, the reversal of the situation is quite obvious.

So what was actually happening with economic policy? If we took a closer look, and asked of the most important factors affecting the economy in 2001, one could have listed three major challenges: getting the high economic growth back; joining the European Union on fair conditions and dealing with EU competition; and preventing the financial crisis of the state. In my opinion, we managed to deal with all of them. Our economic growth rate is high, Poland joined EU and is economically well off.

Should we be calm though? I do not think so, absolutely not. Although we are on the right track, we are not moving fast enough and are at risk of slipping off the road. The comparative advantages we enjoy today may easily be lost tomorrow. The question is whether we can replace our current comparative advantages with something else? The essence of the question is how we are working to overcome our structural weaknesses. Honestly, I cannot see that in current economic policy. My book was not intended to provide excuses for someone or something, or to discourage anyone. I just wanted to give a warning: the economy is better now, but unsolved problems are still there. One could deal with them, but it requires institutional changes and ameliorating the quality of institutions responsible for state policies, especially the economic ones. Even the worst political conditions do not mean that nothing constructive can be done. However, the changes will be more stable and

permanent, if they are deeply rooted in an efficient institutional background instead of depending on abilities and competencies of some individuals.

In my works on economic policy and public activity I wondered what should be done in order to prevent interest groups from slowing down the development while struggling to protect their privileges, to encourage them to collaborate instead of maintain *status quo*, to involve them in the dialogue having development in mind; to make them act more rationally and less egoistically. For me, the key to understand their attitude lies in their identity, in the way they define their interests in relation to interests of other groups. The problem of dialogue is that its participants' actions are determined by their short-term interests. For example, what are the demands of coal-miners, what are their expectations? In practice, everything comes down to higher wages, and nothing else matters. If our demands are not answered, we arrive in Warsaw and hold a demonstration. We, the miners, should have a separate pension system. Such an approach leaves no room for true partnership, long-term planning and reflection on the consequences of specific solutions. Thereby there is no development-oriented dialogue. The mining industry stumbles from one conflict to another, from a crisis to a crisis. As a result, the industry deteriorates rather than develops in any reasonable direction.

Can anything be done about it? I believe that it can. One possible solution would be, for example, introduction of different organisation model for mining companies, professionalisation of their management, getting rid of political nominations to the top-management posts, as well as tearing up the web of interdependency between companies' management and trade unions, changing labour law or opening for privatization. Broader inclusion of regional actors in economic restructuring of the mining sector could also help. Obviously, this would not be easy, but also not quite impossible to accomplish.

The example of coal-mining sector indicates the urgent need of action, that could possibly alter the identity of interest groups, making them a partner in a development-oriented dialogue, so they would no longer be mere agents fighting for their own corporate interests. The point is to enable those groups to secure their interests in a different formula. Not here and now, not 'yes or no', not in a zero-sum game, but in a longer run and with a broader perspective in mind, by involving imagination and actual beginning of dialogue with other social groups.

If we apply such terms as 'social partners', a 'party in dialogue', then we obviously perceive the dialogue from a social order perspective, as a form of social balance. Certainly, I do not mean to contradict this function of the dialogue, which cannot be replaced and must be preserved, even if it were the only outcome of the dialogue.

But the question remains: is it enough? Should we not shape the forms of social dialogue and its participants to make them more receptive to development and more responsible for it? From this point of view any form of dialogue that enables to skip the 'we demand' formula would be useful.

When we speak of Polish trade unions, their main problem seems their tendency to evolve in pathological way when they represent large and influential labour groups. For example, union activists in the national railways or in coal mining are paid by companies. Thereby, if we are dealing with trade unions, we often face not representatives of workers but in fact businessmen. I recall a situation when one of the union leaders from Silesia was instructing the Minister of Economy on how he should economic policy. I told him that he should make a choice on whether he wanted to be a private businessman, a party activist or a union representative. If he tries to enforce a specific policy line on the Minister, then he does not understand his role as a union representative.

This question is a fundamental one in the context of privatisation process in Poland. The major obstacle for privatisation is a functional pathology of trade unions. In my opinion, without privatisation we will not be able to deal with it. I will give another example, this time a positive one. While I participated in proceedings of the Tripartite Commission, as well as many sectoral commissions, I had never witnessed a situation, similar to the one I just mentioned, in the steel industry. But the sector had already undergone privatisation. Today, in this sector, the trade union members are more and more focused on autonomous dialogue with the employers rather than on exercising pressure on the Ministry or government. How different it is from shipbuilding or arms industry.

I never was nor I am opposed to employee ownership in public companies, but the formula is not well suited for major branches of economy. However, employee ownership is possible and useful in case of small enterprises.

I would like to refer to the question of the Constitution of 1997 and resilience of institutional order founded on its basis. I believe that we should stick to the Constitution not because it is perfect but because it is what we have finally got. Ten years age is still adolescence for a constitution. In my opinion, if we want to achieve anything, we need a base, a fundament we can stand on. We cannot change everything all at once. Even in case of a radical reorganisation we need a reference point. I believe so also because there is a difference between constitutional order and constitutional norm. Constitutional order needs time to develop basing on the content of a constitution.

Let us recall the absurd of struggles for control over Monetary Policy Council (Rada Polityki Pieniężnej, RPP), which took place in 2001–2002 and later in 2005.

The politicians fighting to seize control over RPP did not really care about the constitutional and systemic roles of the institution. The only thing that mattered was to be able to run it as they liked. They wanted either to eliminate the body or to have it subordinated. The problem is that either we are ready establish an independent organ responsible for running monetary policy, and consequently, we respect its decisions thus respect and stabilize a solution stipulated by the Constitution, or we are not, and thus implicitly accept institutional preconditions of weak currency and inflation tendencies. The institutional arrangement present in Poland is based on the assumption of a dialogue conducted between the government and RPP. Otherwise it would be hard to imagine their cooperation, indicated by the legal norms.

If this is the case, in my opinion, the questions of whether the Council is more or less radical in their conduct and of who serves as its Chair, are less important. What matters is that retaining actual political independence of the Council will protect us from inflation and currency problems. Personally, I did not agree with the Council's policy in 2000–2002, but I did not undermine its constitutional position. Even more, I was defending it at the time. Institutional development is not about throwing away arrangements introduced by the predecessors, but about strengthening and improving them. This is the way to create a solid a constitutional order. It needs adjustments, but firstly the institutions need to be capable of action, so their activity could be judged and functionally adjusted. The constitutional norms alone do not translate into a constitutional order. We will never achieve one if we care more about current political needs and interests.

Because of the same reasons no electronic media order can be established, if the parliamentary majority will change the law following each elections just to seize control over the National Broadcasting Council (Krajowa Rada Radiofonii i Telewizji, KRRiTV). Maybe it is better to get rid of the public media altogether and privatize them in their entirety, then further tolerate the situation that we see today. However, if we perceive the public media as an important element of media order, we should respect certain rules of conduct concerning KRRiTV. After some time we will learn from experience, how it should be run.

Another issue is the reform of the pensions system. I do not believe that everyone admires the reform implemented in Poland in 1997–1998. It was triggered very much by the debate about consequences, including demographic ones, for the future of pensions, had the current system remained in place. A group of people elaborated a concept of pension system reform. The concept became a topic of intense dialogue with social partners, especially trade unions. The dialogue took place especially via Tripartite Commission. After Andrzej Bączkowski, the Minister who initiated the

reform, passed away, I negotiated there the reform with, for example, Ewa Lewicka and Ewa Tomaszewska. Later on, Minister Lewicka took my place. I present this fact in order to picture the importance of institutional continuity for such a complex task as the pension system reform. Although it was not perfect, it kept progressing, while being corrected and supplemented.

Obviously, there were those who wanted to stop or even abandon the reform. For many politicians who face, or will face the necessity to limit public spending, will be tempted by the systematic money flowing from the Social Security Institution (Zakład Ubezpieczeń Społecznych, ZUS) to Open Pensions Funds (Otwarty Fundusz Emerytalny, OFE). It is a dozen or so billions of Polish Zloty per year. Through such means one can avoid unpopular decisions and buy social support. Nowadays such political manipulations are more difficult simply because people do not agree with them. They say: excuse me, these is our money, why do you want to take it away? The reform brought a collective actor to life, who became, in a way, a controller of power and will not give up their rights easily³.

I want to underline that not everything was well devised in our reform, nor worked well. For example, the Employee Pension Schemes (Pracownicze Programy Emerytalne, PPE) had become far less popular than expected. For that reason, few years ago another form of the Third Pillar of the pension system was introduced – Individual Pension Accounts (Indywidualne Konta Emerytalne, IKE). Few hundred thousand of such accounts were created, while we anticipated even two million. I believe that the stubbornness of the Ministry of Finance, which sturdily opposed any stronger financial incentives to allocate savings in IKE, is to blame. A typical short-term approach, which only leads to illusory savings and solutions.

Another problem lies in social policy. I do not believe in perfect markets, nor perfect states. I believe instead that contemporary civilizations have to develop complex systems of distribution of various goods, which are not given once and for all. New goods, services, professions, forms of organisation and entrepreneurship keep on emerging. This means that these systems must evolve and get adjusted. Unfortunately, mainstream economic theory of goods ignores that problem. It promotes interpretations that do not match changing realities.

Development depends on the level of social partners' activity. Those are motivated by values in their actions. Thereby, without axiological basis, no development will

³ These were the arguments of opponents of the changes in the system, introduced in 2011. Their resistance, including NSZZ „Solidarność” resulted in maintaining OFE in Poland, although the transfers were limited (editors' note).

take place. There is no universal axiology, though. We may talk about progress only in such a sense, that development is evaluated from the point of view of a specific axiology. That does not mean that development may be dominated by a given axiology. If the development, as a form of social change, is influenced by actions of many various actors, who share different systems of values, it is impossible to discuss the development as an objective and universal progress.

Consequently, I believe that it is impossible to run social policy that depends only on electoral mechanism, or more broadly, non-market mechanisms. Just like in case of economic policy, market mechanisms are as important as electoral mechanism for social policy. In my opinion, coordination of these is impossible, if the social policy is not proactive, does not direct people to the market. Thus it is oriented differently than in case of traditional 'welfare state': not from but toward the market.

The major features of such policy are as follows: vocational activation, developing equal opportunities, which include influencing banks to run credit policy that enables entrepreneurship and self-employment, social cohesion. Especially from the social cohesion perspective I am against the policy of high interest rates. It is obvious that they have to exist, but do not have to be so high that they guarantee income for owners of capital and block entrepreneurship in the same time.

Another component of proactive social policy is a public insurance system. It is crucial to arrange its components in such a way, that some part of it is public good while the rest is commercialized, but publicly regulated. This is the essence of modern multi-pillar pension systems. In the future we will probably go for their further individualization, but this requires a public component even more. In this context one shall reflect on the character of the Second Pillar in our pension system. The government was negotiating with Eurostat for quite a while whether the Second Pillar belonged to public or private domain. I believe that it belongs to both, so it is not feasible to decide whether it is more public or private.

I would also like to refer to our relations with the European Union, and especially the rationale of economic policy toward special economic zones. The arrangement was introduced by the government in the mid-1990s. I had impression it was unreasonable. In consequence of political inter-województwo deal (we had 49 województwa then) we had introduced 17 special economic zones. A lot of them proved ineffective. Only some became successful in attracting large investment, like the special economic zone in Mielec. The administration was incapable in dealing with the investors. One may have thought that the idea failed. It is worth mentioning that privileges the special economic zones offer may be abandoned due to EU regulations and Accession Treaty.

The European Union warned us not to introduce special economic zones, but we proceeded with the concept anyway. After a while, it turned out that we were right. By introducing 17 zones we had covered a large part of the country. They started to work in 2000, when Poland finally began to attract foreign investors. We were unable to create new zones, or to change their overall size, but we were able to redefine their borders. Suddenly it turned out that a part of Suwałki economic zone was present in the centre of the country. Underused parts of less attractive zones were moved to the locations where important investors needed them. What once had seemed to be an unreasonable solution, turned out to be positive for the Polish economy. Soon the zones will lose their importance, because fiscal incentives used there will vanish. A wise public authority should not wait till it happens, but instead think together with economic partners about new arrangements to replace this instrument of development policy, about how to attract investors, when the current instrument will not be as useful as it is today. The conclusion is quite simple. Together with local governments we should develop in different? Certain? parts of all wojewodships numerous 'industrial parks', smaller than economic zones with well developed and accessible investment territories, regulated property structure and professional boards ready to promote their offer and effectively deal with the investors. Thereby, we will be able to build a new advantage to replace the lost one and we will strengthen our competitive edge. Such a conduct does not require academic knowledge but vision, activity and entrepreneurship. One should expect such merits from the government. However, the government will be capable to achieve those goals only if it establishes a right partnership for development, involving key economic actors. Then it will be capable to notice in advance both chances as well as threats involving foreign cooperation.

One of the key problems in this respect is migration. We absolutely lack vision, reflection and, ultimately, policy regarding the fact that Poland inevitably becomes a country of mass outward migration and, as time passes, also immigration and re-emigration. If we do not notice this fact and are prepared in advance, our response will be chaotic, costly and ineffective. The current wave of outward migration cannot be stopped, but we can still keep its consequences under control and try to utilise the benefits it entails.

In conclusion, I would like to put emphasis on the importance of the debate and the role of social actors in development in all social problems mentioned above. A debate is always a basic condition. Without debate, exchange of opinions, opportunity to present different points of view, there is no platform for social communication, no place for social cooperation. Institutional development requires

social interaction. Thus it all begins in the sphere of public debate concerning key issue for the entire society. It is not about a single political campaign. It is about a debate as a rule of public life, regular and repeated. It allows its participants learning and developing their own reflective abilities. As a consequence, they will be able to modify own perspectives and actions, and to find new ways to react to inevitably raising challenges.

