Implications of the crisis for economics and the economy: a panel discussion at the Poznań University of Economics, 24 February 2011

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Rector Marian Gorynia: Ladies and gentlemen, the title of our panel discussion is very ambitious. Let me remind you that last year we held a similar debate, though at that time we talked about the two decades of Poland's transformation. Today, we'd like to take a little wider look, also outside Poland, first of all from the viewpoint of the economy, but also from the point of view of the discipline we study, namely, economics. Both the economy and the discipline of economics have experienced crises in recent years. It is our obligation as economists, representatives of this discipline, to take a stand on the latest crisis. Generally speaking, economics performs a cognitive and a prescriptive function. In its cognitive role, it should explain what has happened, and in its prescriptive version, it should put forward solutions which should handle the irregularities that may have occurred. There are, of course, many theories explaining the causes of both the crisis in the economy and the crisis in economics. Today, let's focus on the macroeconomic aspects of the crisis, without ignoring, as an economist would put it, the microeconomic foundations of macroeconomic phenomena.

I'll try to make my introduction to the debate as brief as possible, but let me say a few sentences to provide some background to and perspective on what members of our panel are going to say when questions are asked, and what we are going to say.

What was the economic background to the evolution of contemporary economics? We can say that the years 1945–1973, as well as recent years (up till 2007), were extremely good for the whole global economy. After 1945, for instance, the US experienced ten full business cycles with a small fluctuation amplitude. The average growth period was almost six times as long as the decline period. After World War II, the product worldwide grew faster than the population. One of the most important structural characteristics of the economy was an increased turnover in international trade, a turnover which also grew faster than the world product. Trade developed worldwide, especially on the scale of integration groupings. This allowed for a better allocation of resources, and for an increase in the average productivity of the factors of production. The development of trade relations was possible primarily thanks to successive rounds of liberalisation as part of the GATT. Besides, 1995 saw the establishment of the World Trade Organisation. An important event was China's joining the organisation in 2001.

As far as the evolution of contemporary economics is concerned, we can distinguish at least two periods after the war. The first one was 1945–1973; the other lasted from the mid-1970s until 2008. To make this introduction simple and brief, I'd like to say that the first period was dominated by various prescriptive trends of Keynesian economics, including welfare economics, the whole policy of recommendations relating to economic stability. That period, in the United States as well as Japan and Western Europe, was called the golden age of capitalism.

The other period started in the late 1970s, after the collapse of the Bretton Woods system. Here, opinions were much more polarised among economists, in the fields of both descriptive and prescriptive economics. To put it simply, the heart of a new consensus which was reached at that time over the understanding of the economy's macroeconomic mechanism was rational expectations and the conviction about the economic system's capability to make autonomous adjustments in reaction to supply and demand shocks. At that time, we also redefined the state's role in the economy, better understood and redefined the significance of institutional determinants, including the status of central banks, and changed our perception of the self-regulation abilities of the market system.

We can say, then, that before the outbreak of the 2007–2008 crisis the contemporary international economy was characterised by a very dynamic increase in trade. We could see an unusually high capital mobility and the dominance of a variable exchange-rate system. A typical feature of that period was a tendency to reduce the scope of the national discretional economic policy, which increased the role of autonomous market adjustments. The whole period led to the accumulation of various kinds of imbalances, both in particular countries and in the whole world economy. One of the main factors instrumental in creating these imbalances was the position of the People's Republic of China in international trade and foreign direct investment. China's joining the world economy caused an imbalance in that there were large surpluses in China's international trade. An inflow of foreign direct investment into that country created huge currency reserves which the Chinese decided to invest in US Treasury bonds and other financial assets. Excess liquidity in the US financial sector and in the world, as well as low real interest rates and a rapid development of the securitisation of financial innovation, were accompanied by a systematic growth in demand for property, whose prices, in consequence, increased.

The climax of various kinds of imbalance, only outlined here, was a global recession whose scale is comparable only to the Great Depression of 1930. However, from what Prof. Marek Belka has said today, it appears that the world economy has dealt with the crisis quite well.

This is the background to many detailed problems we could discuss today. I've provided the panel members with a list of the problems, and I'd like to discuss only some of them.

The first problem worth looking into is the potential consequences of the fact that the world economy's centre of gravity is moving to South Asia (i.e. to India) and East Asia (i.e. to China). It seems that in both the descriptive and the prescriptive approach it will be necessary to take into consideration other disciplines than just economics to find out and understand what is going on there. What I'm talking about is political science, economic psychology and sociology, first of all because of the lack of democratic institutions and a systemic backwardness in developing social-security infrastructure in the countries towards which global economic growth seems to be shifting. I'd like to ask our panel members: Is the world economy's centre of gravity really going to move towards India and China? Since there are conflicting views on the subject, we'd like to hear what you think. If possible, how to prevent an imbalance resulting from this process?

Now I'd like to ask each guest in turn to answer my questions. May I also ask you to keep your answers within a limit of 2–2.5 minutes per person?

Dr. Jacek Kseń: A simple answer to this question is "yes". Prof. Marek Belka talked about capital moving to countries where labour is cheaper, where conditions for doing business are better, to countries which are economically backward. This shift towards China and India will certainly continue for some time, until the markets find another direction, which, in my opinion, will be Africa. How to prevent these various kinds of imbalance? I don't think they have to be prevented, because this has been done for a long time, but initially America's deficit was financed in large part by Japan. Later on, when Japan entered a period of economic stagnation in the last decade, the deficit was financed mainly by China and other Asian countries which export with an artificially low exchange rate of their currency. Why not react to this? Because these countries – which have large assets, mainly in the form of American bonds and, since recently, also shares (but these are a bit different investors) – won't do anything to diminish the value of their assets, so they won't sell these dollars on a large scale. Since the dollar benefits from the fact that it's a reserve currency, the Fed and the United States take maximum advantage of this. As far as Chinese and, to some extent, Indian investments are concerned, what is happening now is similar to what Japan and, earlier, Europe did in the past, so it's nothing new. In previous decades these things did take place, which means this is a normal phenomenon of taking advantage of an imbalance in the economy, so if everything goes as before, we'll be able to deal with these different kinds of imbalance.

Prof. Stanisław Gomułka: At first I thought I'd have an opportunity to comment on the words of our moderator, who raised such fundamental issues as "Why do we have a crisis?" or "What will happen to our economy?". But then I was surprised by a different question. So I can't comment on that, though I have a different opinion on the matter. I'd only like to let you know that Americans have recently published a long, 600-page report by the Financial Crisis Inquiry Commission, a report which offers an interesting interpretation of what was going on there – and we are talking about very important things here. For the United States, the crisis means reducing the country's wealth by $11 trillion (million of millions) and losing 26 million jobs.

Going back to the question, we must obviously look at the world economy as it developed historically. In the nineteenth century, the most developed country was Great Britain. Around the turn of the twentieth century, the United States became the world's number one and remained dominant throughout the rest of the century. What is the current situation? The United States, Europe and Japan – technologically the most advanced countries – account for 15% of the world's population and 50%, or even 60%, of the national product.

At the same time, these countries introduce 90% of the most important innovations in the world. The innovation-development sector employs about 5% of the world's population. The countries in question have practically used up all their human resources that can introduce innovations. The situation won't change soon, although, throughout this century, it is going to change, but gradually.

On the other hand, countries such as China, India or the Indian Subcontinent in general represent about 50% of the world's population and 15% of GDP growth, so these figures are totally different from those of the most advanced countries. As you can see, we still have a vast pool of talented people who are not used in the economic process; and this is the basic source of the world economy's growth throughout this century.

There will be a duality between GDP per capita and the rate of growth – a relatively slow growth of about 1–2% per year in the most developed countries. By the way, Prof. Gorynia hasn't mentioned the fact that in the last 15–20 years the rate of growth in Europe and Japan has slowed down considerably, which is a significant feature of the world economy. Here, Europe and Japan converge with what's going on in the US. There seems to be a homogeneous area developing quite slowly in comparison with the world economy's average. In such countries as China, India and Brazil I expect a high rate of growth, two–three times as high as in the most developed countries, as well as an increasing part played in the world economy. However, this is going to happen gradually. It's not a matter of the next five, ten or even twenty years; we are talking here about a longer period of time.

Prof. Marek Ratajczak: I'd like to refer to what Prof. Gomułka has said. If history can teach us anything, it's definitely that nothing lasts forever. Europe, broadly understood because this applies also to countries which follow the European tradition, had its day for several centuries and we have to acknowledge that someone else is going to have their day now. It doesn't mean that our world must lie in ruins, but it will be a different world; and the signs are that this shift towards China, India or what I call 3A – Africa, Asia and Latin America – could be permanent.

If you ask about a related imbalance, its consequences and its prevention, I totally agree with what Prof. Belka has said. Peter Drucker once said that economists have knowledge and politicians have power, and that's the significant difference. The latest G-20 summit demonstrated this very clearly: they tried to make a list of various measures and indicators to be used in monitoring and solving the problem of imbalance. The summit ended in the way it did the moment the exchange-rate issue was raised. The Chinese said, "Either this issue is dropped and we have other things to talk about or, if you insist this is an important problem, see you at the next summit". That was a classic example showing that economics, obviously, has a lot of say and is at fault in the context of the recent crisis, but in actual fact the most important decisions are those made on the political scene, and economists have relatively little influence on them.

Dr. Andrzej Byrt: Two things: civilisation shifts, and "How can existing players on the world scene deal with potential and new sources of imbalance?".

The first issue: yesterday's *Rzeczpospolita* daily presented a report, probably by the World Bank, which confirms what has been said. In 2020, i.e. in nine years' time, China will overtake the United States in terms of GDP, and by 2050 India will have overtaken China, for the simple reason that there are no restrictions limiting population growth there. The number of children is a decisive factor in the long term, assuming that there is freedom to generate and implement ideas. All this may happen, but India and China will really be followed by Africa.

These fast population increases will also be a source of great tensions. Let me list just a few of them – in the 1960s the famous Rome report was published about the limits to growth. Today you can see clearly what China is doing by exploring Asia, Africa and South America, and intending to finance its fast growth at the same time. This leads to higher prices of raw materials, which will be a constant trend. As a result, the developed world – as well as China and later on India – will respond by introducing raw-material-saving technologies because that will be needed in order to survive. This truth will be understood by all those who refuse to accept it now, as the Chinese do for the time being. But there are also other elements of the crisis which may emerge. We can see this in the case of North Korea, and partly Pakistan and Iran since in the continuity of growth there appear critical moments thanks to technology and the perception of what technology does in democratic and non-democratic countries (see North Africa and the turmoil there). A consequence of this is a danger of power being seized by groups which may cause a nuclear conflict.

This is very hard to control, and though it escapes economists' attention, I'm sure it will indeed be the greatest danger in the years to come.

Prof. Waldemar Frąckowiak: Since Prof. Gorynia has encouraged us to dispute with each other, let me present my view in this spirit. I'd like to challenge the opinion that the world economy's centre of gravity is really moving to Asia. I'm not sure about that. The economy as such consists of at least three elements: supply sources and processes, manufacturing processes with labour processes, and selling processes. From this perspective, China, just as India, is indeed a country where cheap labour processes are being concentrated. On the other hand, half of the Chinese economy's supply sources are situated outside China, and 60–70% of its markets lie in North America and Western Europe. We can say, therefore, that China has become the world centre of the processing industry. It may be useful to provide some statistics: the United States' GDP is $14.6 bn, the European Union's is $16.1 bn, and China's $5.9 bn. If we accept Prof. Belka's growth forecasts (China 10%, US 3%, Western Europe 2%), the total GDP growth in Europe and the States is about $770 bn, and in China $600 bn, which would contradict the view that we are dealing with a significant shift.

Such a phenomenon, which took place in the past, doesn't really frighten me, and I fully subscribe to Dr. Kseń's view. Sectoral theory explains it very effectively. Using a binary system, today's America is an economy structured in such a way that at point zero it has, first of all, a strong food economy. At the other end, at point one, it has all the kinds of innovation advantage mentioned by Prof. Gomułka, namely, the aerospace industry, financial markets, banking, information technology, etc. The middle is virtually empty. America doesn't have industry – all this has moved somewhere else, just as Europe's industry moved to Maghreb and now is moving to Central and Eastern Europe. It's a natural phenomenon of looking for cheaper places of production. In effect, the overall picture is as follows: the US will continue to be the world's innovation centre, China is definitely becoming a processing-industry centre, and Europe is becoming a centre of local and imitating innovation, and of increasing hedonism.

We should repeat what has already been said here, namely, that two different worlds are definitely forming. On the one hand, there is a world of overconsumption and massive deficits; on the other, there is a world of underconsumption and huge surpluses. In this sense we can talk of financial centres and capital surpluses being transferred. If we were to predict now what it may be like in the future, we should make it absolutely clear: in the seventeenth and eighteenth centuries, after the fall of the Ming dynasty, China entered a period of isolationism, only to awake during the Opium Wars and the Boxer Uprising, when it found that the emperor had no clothes. Since that time, China has had high aspirations and, in the next 25–30 years, isn't going to give up its imperial and superpower ambitions. This is an objective process. What could the West possibly do about it? In my view, it should first of all limit its overconsumption and allocate the saved resources for the development of innovations in order to maintain its leadership in innovation.

Rector Marian Gorynia: Should any of you become more interested in the topic, I'd like to recommend a book by George Friedman, titled *The Next 100 Years*. It's obviously very hard to demonstrate convincingly today that, in a hundred years, the American economy will dominate the world and will enjoy supremacy, but such is the book's message. The main misgiving, about China's possible leading role, is related to Chinese hedonism, that is to the fact that the country will develop consumption aspirations which will threaten its competitiveness, among other things in the area of processing. Another threat to the Chinese economy's potential supremacy results from the country's geographical location and various limitations in terms of geography and resources.

This is a very interesting topic, but I'd like to move on to the next one, which is equally wide-ranging, though I'm going to narrow and simplify it. It seems, especially in the context of the latest crisis, that we should reinterpret central banks' position and scope of responsibility; this applies in equal measure to Poland and all other economies. With variable exchange rates and the low effectiveness of an active budget spending policy in an open economy, central banks seem to be institutions with potentially the greatest capability to influence economic processes. This entails many problems and questions. Let me put just one and ask you to answer it. What do you think about the idea of making it one of a central bank's aims to prevent the inflation of financial assets? We know that the functions of the Polish central bank have often been discussed by politicians from various parties.

Prof. Marek Ratajczak: In my view, a good answer doesn't exist because it depends on what you believe rather than what you know. In fact, it's an old question about whether central banks should clean up the mess left by bursting bubbles or pop the bubbles at the right time. There are many arguments in favour of the former and the latter. Can we treat innovativeness in certain areas as good by definition and worth supporting, or should we say, for instance, that, from the financial point of view, innovativeness and the resultant inflation of financial assets is something that by definition should be treated as something worrying, something that needs to be controlled more tightly?

It seems that, in the context of what has happened, the most important conclusion which will translate into various new regulatory solutions is that the mistake made in relation to both financial and non-financial markets – but it's particularly visible in the case of financial markets – was to equate a free market with an unregulated market. In fact, for several decades, the thinking was that, in principle, a free market precludes regulation, apart from regulations regarding criminal activity, which falls under criminal law.

I believe there will be no great reinterpretation of central banks' position or functions; rather, something we can already see happening: we should simply focus on what to do when about 80% of the world's financial flows have no real backing. There'll be simply looking for new regulations. I don't think it will lead to a revolutionary reinterpretation of the role central banks play in the economy.

Dr. Andrzej Byrt: Before the latest American crisis hit, we had a foretaste of this in the form of a super-instrument called "oscillator", invented by Mr Bagsik and others who, without realising what would happen in 10–20 years, started manipulating with money in a similar fashion. But a central bank should be an institution which stimulates the rationality of financial systems rather than creativity, because it's responsible for the value of the money entrusted to it by the national government. The problem is that, as we learned from the previous discussion, in a world structured like this, national banks retain their autonomy.

The first such attempt in Europe was creating the euro zone. Coordination is forced, but for the time being this is coordination rather than a global, or regional in this case, application of rules in order to burst the bubbles forming locally before they cause an international catastrophe. That's why the first step to prevent the situation we experienced two or three years ago from recurring should be another offer: a closer financial cooperation between central banks in Europe but also a real coordination of central bank policies across the world; but this is, unfortunately, the distant future because you can't achieve it within a few days or years.

Prof. Waldemar Frąckowiak: First a few words about the setting for the problem. What we see now is global capital flows and a weak local supervision in the regulatory system. On the other hand, we are dealing with a deep imbalance between money-money transactions, which account for 80% of total transactions, and commodity-money-commodity transactions, representing only 20% of the total.

And now we see the collapse of a doctrine based on two central assumptions: first, that there is a sufficiently strong relationship between commodity and financial markets; and second, that financial markets, through prices of financial instruments, accurately reflect the processes taking place in the commodity economy, in other words, that financial-market prices are sufficient for asset valuation in the commodity economy. This doctrine has failed miserably in a situation when 80% of transactions are of the money-money nature. In effect, believing in this doctrine, macroeconomists focused primarily on inflation targets and on aims relating to economic growth stimulation, while financiers believed in the information effectiveness of the capital market and in the role of financial innovations.

As we know, we are reconsidering the role of a central bank, and this role can't be considered without determining the place where this policy is to be carried out (country, international grouping, global or world scale), the instruments to be used by the bank depending on the aim ascribed to them, and the essential changes to be made in the banking sector itself. This is a complex of issues. Let me focus briefly on the functions of a central bank only. Here we have a dilemma: either an anti-inflation target, with or without taking into account changes in financial assets – this is the first element. Remember that the value of financial assets is $500 trillion – about ten times as much as the world's GDP – and the value of bond and share issues is growing twice as fast as the world's GDP. So with or without financial assets? If with financial assets, then how to express this as an interest, base or forecast rate? For the time being, we don't know how. Finally, does a central bank fulfil functions related to financial-system stabilisation? If so, its inflation targets would have to take into account financial assets' price movements.

Dr. Jacek Kseń: The crisis had many causes, one of which was a very weak oversight of financial institutions. Poland, for instance, used to have the ever-improving and increasingly well-trained General Inspectorate of Bank Supervision, which seems to have performed its functions very well. Unfortunately, politicians came up with an idea to ruin this and create the Polish Financial Supervision Authority (PFSA), a unified supervision combining stock-exchange, insurance, financial supervision and others. In effect, those specialists – who were trained for many years in Switzerland and other countries, who frequently visited banks and knew risk-management principles perfectly well – went separate ways, and the PFSA is dominated by the culture of formalism and red tape.

Had financial institutions been supervised properly, we might have partly escaped the crisis, because it definitely has its roots in mortgage loans, mainly in the United States. Prof. Belka has said that the crisis started somewhere between Wall Street and the City of London, which is obviously true. But that was only a consequence of the fact that those bad mortgage loans, made in the United States, had to be dealt with somehow. Prof. Belka has also said that the crisis started in the private sector. It's true that commercial banks participated in this, but it was the American government that – through its institutions, Fannie Mae and Freddie Mac – encouraged everyone to become a home owner, even if they couldn't afford that. A basic rule of mortgage loan making is that you have to contribute 15–20% of the amount you need, and the rest can be covered by the loan if your income allows you to repay it. However, in extreme cases in the States, someone who had no job, had a house worth $120,000 and had taken out a $100,000 loan, was encouraged by banks to increase the loan and borrow $20,000 more, even though they were unable to repay it.

As for Poland, our crisis wasn't so serious because the banks relaxed their policy of credit-risk management much later. In Poland it came to the point where clients received loans of 120% of the house value, while they should have obtained no more than 80%. A great aberration was providing loans in Swiss francs. At some point, 80% of loans made by Polish banks were in Swiss francs, which is insane because this currency can rocket up any time during a serious crisis. Generally, taking out a mortgage in a currency other than your earnings is a grave mistake, which means lack of oversight. That's why I strongly believe that – in addition to the currency, interest rates and so on – a central bank's responsibilities should also include professional supervision which will abide by basic rules of risk management, as in the past.

Prof. Stanisław Gomułka: In fact, what we see is not so much adding inflation of financial assets to central banks' scope of responsibility as narrowing that scope, because central banks have switched to the "direct inflation target" rather than controlling the growth of money supply. There are simply many monetary innovations, and the relationship between the amount of money and increasing prices has become less clear, hence the need to narrow central banks' scope of interest to prices of consumer goods and services. What most people are interested in is the consumer-price index rather than the behaviour of financial assets. Anyway, it would be hard to define inflation. It seems, therefore, that even though what's going on with financial assets will be of interest to us, it won't have a direct impact on interest rates in the near future.

Rector Marian Gorynia: Ladies and gentlemen, let me turn now to the third issue to be discussed today. It could be referred to as political control over economic processes, on a national-economy scale, integration-grouping scale and world-economy scale. Particularly notable is, on the one hand, the dominant role of those types of economy which are based, at least now, on the freedom of an individual, i.e. a liberal market economy. On the other hand, economies are emerging in non-democratic countries, such as China, whose systems are autocratic, but whose economies are based on market mechanisms and individual resourcefulness. In international markets we see an expansion of, or even a clash between, companies representing the first or the second type of economy. On the one hand, there are multinational corporations, often with a dispersed shareholding structure. On the other, there are emerging, capital-rich Chinese – but also Russian or Arab – companies whose strategic goals and current tactic reflect the geopolitical goals of the parties or political groups which govern these countries and control the main sectors of their economy. The question is as follows: What economic threats to our part of the world are posed by such asymmetrical behaviour on the part of basic actors of economic life, i.e. internationally operating corporations representing one or the other type of economy? If we recognise that these threats are real, what can, and should, we do to counter them?

Prof. Waldemar Frąckowiak: First of all, I'd like to stress that I can see some differences among the long-term strategies followed by China, Russia and Arab countries.

Russia is pursuing an aggressive neo-imperial policy towards the former Soviet republics and its foreign partners. By gaining control, it strives to make other economies dependent on it. What I mean is, first, upstream investments, especially in the gas industry. Russia is going to create an organisation modelled on OPEC, at the same time buying shares in gas distributing companies or investing in downstream investment projects such as gasworks in France, Germany, etc. The same is true of the food industry.

China, on the other hand, follows a policy of soft neocolonialism, which comes down to trying to achieve the dependence effect, but through mutual relationships. This involves gigantic Chinese investment projects in Africa and South America; unlike Russia, China also buys government bonds, most recently Spain's.

Finally, Arab countries, which set up national investment funds that systematically buy shares in large Western corporations in order to acquire a controlling interest in them. Arab countries have a different motivation because soon there will be only sand left there. Europe has already undergone one islamisation process – in the eighth century; until the fifteenth century Andalusia had seen forced islamisation. Now Europe is being systematically islamised, a process which is supported by those national investment funds. What Kosovo is building is mosques only.

What solutions are there? In practice, we can only seek reciprocal exchanges – you at our place, we at yours – and prohibit investment, just as Helmut Kohl once said: "Volkswagen is a national asset; it's not for sale".

Dr. Andrzej Byrt: Economic discontinuities, which result from the world's rapid development and from changes (albeit slow ones) in the leadership of large economic and national complexes, will certainly cause more conflicts in the future. We could wonder whether the existing system of regulations for both the virtual and the real financial world will be adequate. We can clearly see that it will not (see the establishment of the G-20 group, whose effectiveness, for the time being, is rather poor). It's hard to tell now whether it will improve. Yet the signs are that combining capital with political centres, especially in large groups of rich and developing countries, will necessitate creating new regulatory institutions.

After World War I, Bertrand Russell, a philosopher but also an eminent mathematician, suggested establishing a world government. The idea has been extensively discussed but never put into practice: neither the League of Nations nor the United Nations have performed that role. We are aware, however, that pressure from large conglomerates such as China or, quite soon maybe, Arab countries, which are prepared to join their efforts, will cause Western democratic countries to realise the need to set up a regulatory body which those new and strong ones will join. The result will be an exchange deal: making political concessions in return for creating steady-growth mechanisms. These large investment-financing centres are being created on a massive scale by China or even Arab countries such as Bahrain, which so badly wants to become a large financial centre. The first such fund was created by Norway, using deductions from every extracted cubic metre of gas and oil. The fund bought shares in the world's best-performing companies. The idea was picked up by others, whose intentions were different from Norway's.

What we need to do, then, is create a new regulatory system through pressure that countries such as China and its partners will exert on the "old and well-established".

Prof. Marek Ratajczak: War is said to be an extension of politics. In fact, the economy has been an extension of politics and a political tool for a long time. We simply don't like it that others use it more effectively than we do. There's been a turnaround or a shift in power, which is a normal thing.

From the viewpoint of pure economics, money or capital can't be labelled as non-democratic, authoritarian or democratic. It's simply money or capital. If the employees of a company on the verge of bankruptcy see that if the company is bought by the Chinese it may not go out of business, they don't want to listen to arguments that China is such an undemocratic country or that its money has a peculiar smell.

A question that hasn't been answered yet is whether, as some people say, the market will inevitably force political changes in some countries, following the example of what is referred to as *democracy* in Euro-American tradition. In many democratic countries you can increasingly hear those who say: maybe we should give up on traditional democracy and simply follow the example of those who are successful? But this is a question we can't answer today; I believe it will be a long time before we can.

Prof. Stanisław Gomułka: This question reminds me of Schumpeter's thesis or warning. At the beginning of the previous century, he said there were reasons to believe that, in time, particular countries' economies would be dominated by large corporations. As we know, that hypothesis proved to be false: with time, large corporations stop growing, encounter problems and go out of business. In the meantime, thousands, millions of new companies come into being and develop; and these small and medium-sized enterprises account for about two thirds of developed countries' GDP.

And there's no reason to fear that we'll be threatened by capital-rich companies pursuing a political agenda; of course, on condition that we ensure there is competition, that the companies can't monopolise the market or make big profits in this way. But if they can compete with others, they won't pose any threat. What I expect, however, is a democratisation process in China and elsewhere, Russia included. In effect, I expect those links between capital and politics, which are quite strong here and there, will be broken and the world economy democratised further. I don't think it will be necessary to give up on democracy in order to address the "Chinese threat".

Dr. Jacek Kseń: When I think of politics and economic processes, it seems to me that we should first of all distinguish between two things. Prof. Belka has said that politics dominates the economy – but these are political ideas, a political will to bring something into effect in the European Union, in the euro zone, or in trade. A completely different thing is the excessive role played by the government, government officials and supra-state institutions: all of them try to regulate things that shouldn't be regulated, thus making life difficult for business entities. These are two completely different things: government interference with the economy is one thing; politics and economic processes are another.

I'm afraid I can't agree with Prof. Ratajczak: for the time being, there is no reason to envy China or India because their average pay is at most $100 and it's not going to become more impressive any time soon. In Russia there is also a huge gap between oligarchs and the rest of the society. It seems, then, that it's not worth changing places yet; besides, if China does achieve great prosperity in fifty years, it will focus on consumption as well, and someone else will work as cheap labour, as the Chinese do today.

Rector Marian Gorynia: Ladies and gentlemen, to conclude, let me stress that the choice of discussion topics was, of course, subjective. I've tried to take into consideration international aspects that have a potentially big impact also on our country. I'd like to tell you that the list of potential topics included two other important issues, which we, sadly, haven't managed to discuss through lack of time. The first one is seeking new systemic solutions in the area of fiscal policy worldwide. The other important problem we've skipped today is seeking new systemic solutions in monetary policy. Each of us must have heard of currency dumping or currency wars, potential currency wars between countries.

I think we can leave these issues until our future debate to celebrate the fourth edition of Poznań University of Economics Days in 2012. I'd like to thank the audience for accepting our invitation to today's debate, and express my sincere gratitude to the distinguished members of our panel.