

## **SOCIAL MARKET ECONOMY USED TO SOLVE THE LACK OF SOCIO-ECONOMIC COHESION OF GLOBAL CAPITALISM. CONCLUSIONS FOR THE POST-SOCIALIST COUNTRIES**

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### **Introduction**

I assume that fundamental pointers to current institutional changes are the following: the revolution in telecommunications and information technology in relation to the real sphere and, as far as the sphere of regulations is concerned; the process of liberalization. In consequence of these linked processes, the past thirty years have seen increasingly rapid popularization of information and knowledge-based society, the spread of the same technological, organizational and regulatory standards, as well as consumption and living styles on a global scale. These processes implied the emergence of a new institutional order of global capitalism based on rules and ideas rooted in Anglo-Saxon liberalism. Nevertheless, while creating the rules of global capitalism it is said to be fraught with conflict of interests between new belief systems and local institutional changes. On these grounds, there are some conflicts to emerge that can disturb relationships between existing interests of policymakers, economic centers and social institutions. Resulting from this, the institutional changes have received considerable critical attention as they lead to an institutional inconsistency in their transitional period.

In this article, I prove that the course of the institutional change, as far as the global capitalism is concerned, is the source of socio-economic incohesion on a local and global scale. Therefore, there is a need for seeking alternative institutional solutions that would be able to harmonize economic and social criteria for social justice. Some economists argue that the main area of research interests should be shifted towards a market economy that is supported by centralized strategic coordination and oriented towards welding development of every sphere of life, well balanced development and socio-economic cohesion. Hence, the question arises with regards to the usefulness of institutional solutions of social market economy proposed by ordoliberalists as a way of problem solving in connection with socio-economic development in developing countries, hereby post-socialist countries. In the context of the aspects mentioned above, the major hypothesis of this article suggests that the institutional change should be subordinated to a pro-growth strategy and implemented through raising productivity, human capital development and justifiable social inequalities. It would enforce amendment regarding hierarchy of preferences as far as the goals of development deriving from the Lisbon Strategy are concerned and, consequently, it would lead to institutional adjustments. Not only are these corrections aimed at mitigating the paradoxes of human capital development and disproportion connected with distribution, they are also intended to anticipate the consequence of an oligopolistic competition in the global market and, from this resulting state responsibility for realigning competition in the domestic market. It is also necessary to create institutional circumstances that respect criteria of effectiveness for social policy and social responsibility in both local government and business environments.

**Threats of global capitalism deriving from institutional inconsistency**

Contemporary empirical evidence proves that intellectual capital is, indeed, considered to be an essential source of competitive advantage. Hence, some economists argue that knowledge-based economy has become a central issue and so have consumerism, information society and proconsumption. There are also new coordination structures based on networks and new kind of competition emerged on a global scale. Given an account of these processes, their fragmentary nature, after the collapse of old structures, has led to coexistence of both new and old belief systems and rules for acting.

Organizations, in the face of global competition, are thriving in a new environment characterized by its high risk nature, numerous mergers and acquisitions, and additionally by competition being distorted by transnational corporate business strategies. Therein lies the cause that relations between government, techno-structure and society are being changed. Hence, knowledge and access to information are thought of as key factors in recent times.<sup>1</sup> Market players who do not possess intellectual capital and access to information cannot gain the ascendancy which means that they are doomed to be excluded. Moreover, the economic networks create new organizational structures which could not be developed without an institutional environment entrenched in coherent legal system that integrate both internal and external norms. The accepted set of standards is well disposed towards cooperators. However, a clash of axiology of competitive order, with traditional norms based on values traced back to religion and customs, may create an environment where a deep distrust is aroused. The other implications of this can be as follows: the possibility of entering a dispute, increased socio-economic incohesion and a particular focus on institutional change which, in fact, has a hybrid nature and often does not meet the requirements of socio-economic cohesion in such circumstances.

In post-socialist countries, some additional reasons for institutional change might occur. Generally, they stem from the process of transformation, the EU integration and the EU accession process. However, the most striking problems that may emerge on this ground are, namely, institutional inconsistencies, the lack of capacity of abandoning the old habits of economic activity which ignore the effectiveness criteria, a considerable decline in living opportunism; paternalistic expectations and finally an issue of applying new rules for subsidizing by government which would not disturb a responsibility mechanism.

While regarding the institutional inconsistency, it is apparent that there are some natural differences in dynamics amending to norms that result in generation problems. In fact, many politics and managers try to find a solution to problems connected with socio-economic cohesion. However, they tend to neglect new challenges deriving from the fact that it is, indeed, a groundbreaking period, when new information society is formed, when the knowledge-based economy is to encounter a rapid development and finally when global corporate strategy is to receive a considerable attention while acting on the non-barrier markets. Hence, the countermeasure against these disproportions is not possible while looking at institutional order originated in the liberal Anglo-Saxon model.

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<sup>1</sup> See: A. Toftler (2003) *Zmiana władzy. Wiedza, bogactwo i przemoc u progu XXI stulecia*, Zysk i S-ka, Poznań; J.K. Galbriht (2005) *Gospodarka niewinnego oszustwa. Prawda naszych czasów*, MT Biznes, Warszawa.

Having been distorted by asymmetry of competition with reference to the remaining firms and other participants on the basis of socio-political system, free market ceased to emphasize on typical rational thinking and consistent actions. Consequently, the difference between competition and creative destruction has vanished; the democratic political arena has become a place of fierce competition and finally, the negative social capital has been recognized (the trust is limited to particular community's interest). In such a social environment, the domestic economy is not happened to be one of the fundamental elements of institutional and democratic orders in the market. Moreover, the process of institutionalization is related to global capitalism, and government has to share its power with global organizations (WTO, OECD, BŚ, EU's institutions aimed at the economic environment etc.)

The unfair competition has also had an effect on the sphere of international relationships and information infrastructure. It is said that the asymmetry of information is caused by information noise of modern media technologies, axiological relativism as well as ideological and theoretical simulacra.<sup>2</sup> Hence, the coherent structure of intellectual capital has been thought of as a key factor of competitive advantage that is structural capital, relationship capital and finally mutually linked and supportive elements of human capital.<sup>3</sup> According to J. Staniszkis, the old type of the state characterized by central planning and hierarchically organized procedures does not exist any more. It has become as a network state.<sup>4</sup> Drawing upon challenges of global capitalism, it is said that they do not match for the cooperation system in the market supported by typical for the EU strategic cooperation. In the course of real processes, the European model of a liberal market economy supported by centralized strategic coordination that can be achieved under the Lisbon Strategy and which respects the fundamental rules of institutional order that are characteristic of social market economy; seems to fail on the economic plane. In this case, according to supporters of neoliberalism, the institutional order of global capitalism is to be successful. On the contrary, the left-wing economists disagree with the problem mentioned above. Due to this discrepancy, it is suggested to refer to statistics.

### **Conclusions on the Lisbon Reform Programme**

The data produced by Eurostat in 2000 reveals that at the time of the Lisbon Strategy launch, the economic performance of the 15-EU (i.e. based on free markets but, at the same time, includes elements of social balancing) measured in terms of GDP per capita was 30 % lower than the GDP in the US where the economy has been rooted in Anglo-Saxon liberalism. However, while monitoring the indicators of the EU sustainable development strategy, the statistics show that an output per person employed was one-half of the above (i.e. 15 %) and whereas measured as an output per hour worked the labour productivity gap was only 8 %.<sup>5</sup> Regardless the scale of differences in development and effectiveness of economic system, it can be noticed that the aggregate level of labour productivity declined in the EU and the gap was widening. Hence, drawing upon these findings, it is suggested that the main reasons for the lower labour productivity and decreased utilization of human resources in the EU compared to the US were as follows:

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<sup>2</sup> J. Baudrillard (2005) *Symulakry i symulacje. Rzeczywistość nie istnieje*, Wyd. Sic!s.c., Warszawa.

<sup>3</sup> See: T. Bal-Woźniak (2006) *Współczesne problemy zarządzania*. Oficyna wyd. Politechniki Rzeszowskiej, Rzeszów.

<sup>4</sup> J. Staniszkis (2003) *Władza globalizacji*, Scholar, p.17.

<sup>5</sup> See: M. G. Woźniak (2006) *Spójność społeczno-ekonomiczna w Świetle strategii lizbońskiej*, w: *Systemy gospodarcze i ich ewolucja. Bilans pierwszych lat członkostwa w Unii Europejskiej*, (red) S. Swadźba, AE Katowice, p. 171.

- the average working hours per employed person were 14.3 % lower (1606 hours per year in the EU in comparison to 1835 hours per year in the US);
- the share of persons with higher education in the labour force was 16 % lower in the EU than of that in the US (respectively 21 % and 37 %);
- the EU rate of economically active population in productive age was 9 % lower compared to the US rate (64 % in the EU whereas 73 % in the US);
- fast ageing population in the EU in 2000 resulted in 9 % higher share of persons economically active was 9 % higher in the US than in the EU;
- a constant growth rate of unemployment from late '70s;
- high stability of unemployment rate (lack of possibility to find a job within one year by 46 % of unemployed persons in the EU whereas it is only 6 % in the US).

Despite these persistent weaknesses in the labour market the aggregated productivity in the EU was only 8 % lower compared to the USA rate.<sup>6</sup> It means that a technology gap reached only 27 % of development gap in GDP per capita between the EU and US. Hence, 73 % of the remaining gap in GDP per capita was explained by lower effectiveness of human resources.

In general, the lower productivity level of human resources whereas the welfare state exists, is regarded to be an implication of increased provision of welfare in society, i.e. higher public expenditure on consumption and social transfers, higher labour costs and, thus, the lower total productivity (Technology Economy Program). The data provided by Eurostat seem to confirm this. Namely, it was estimated that social protection transfers were 9.09 % higher compared to the US spending for social protection and so were public consumption expenditures 4.81 % higher. In connection with these factors, there was a growing share in total public spending. Consequently, in 2000 the EU public expenditures stood at more than 13 % compared to those of the US. Further to this, in the period of 1963-2000, there was an amount of more than USD 1 billion of the EU capital outflows, while in the US the foreign capital inflows reached about USD 400 milliard.

The quality of human capital in the EU has received a considerable attention. The statistics show that, in 2000, the percentage of persons by highest level of education attained was 16 % lower than it was in the US. Thus, it resulted in the higher unemployment rate and the growth of long term joblessness.

The ineffective way of how to utilize human resources in the EU, compared to the US statistics, cannot be explained by a delay of technology diffusion (ITC- Information and Communications Technology) or by a poor quality of human capital. There is no doubt that these arguments are true to some extent. However, the relatively inefficient use of capital could be caused by both social policy originated in the welfare state and the uncritical attitude of some politicians towards Keynes's policy aimed at stabilizing the economic situation and tackling unemployment. In addition, it must not be omitted that there is an impact of the institutions, especially when considering their structural inconsistency such as one occurs in the market economy supported by centralized strategic coordination oriented towards better social cohesion. In fact, social institutions can be in clash with new challenges that resulted from activities aimed at sustaining good economic performance. Additionally, it can be caused by a

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<sup>6</sup> Radło M. J., *Strategia Lizbońska 2005-2010: kluczowe wyzwania. Najważniejsze priorytety*, <http://www.pfsl.pl/pdf.php?id=188>

new type of competition derived from transnational corporations (TNC), liberalization, information revolution and finally telecommunications based revolution.

According to neoliberalism's supporters, the reasons for inconsistency, as far as EU's institutional structure and effectiveness are concerned, are embedded in overregulated markets, which is an obvious outcome of the welfare state policy. Hence, the whole of the norms aimed at implementation of basic social guarantees, social funds and provision of unemployment benefits created a situation in the EU's labour market where individuals, who did not attain a higher level of education or any other formal education, prefer to have a free time rather than work. Compared to the USA labour market, statistics indicate that a growth of long term joblessness is several times higher in the EU countries which result in depreciation of human capital. H. Siebert and S. Nickella point out that a consistent increase of unemployment rate in the EU countries has been always associated with improved employment legislation (higher minimum wages and unemployment benefits) and lower labour markets flexibility.<sup>7</sup> M. J. Radło claims that there are specific institutional settings, i.e. high level of income transfers, overregulation of the commodity market and employment protection rules, which created an environment in such a way that they dissuade people from finding a job and, consequently, they replace family income by various forms of benefits<sup>8</sup>.

Institutions and regulations influence not only the structure and the way how the resources at work and physical capital are used; they also have an impact on employing financial capital and soft factors of economic growth, such as technological and organizational development, social capital and an intellectual capital. Moreover, it is noticed that a stock market capitalization rate, an access to equity capital, and the possibility of mobilizing the foreign direct investment inflows (FDI) actually depend on the institutional framework for financial markets. The generalisability of much conducted empirical research on this issue confirms that fewer regulations in the commodity market and labour market, low entry and exit barriers and decreased importance of the state control are in favor of absorbing technological spillovers, new organizational and managerial cognition. Elsewhere, it is argued that the scope of deregulation expanded to large-scale affecting the biggest part of economy may enhance production efficiency.<sup>9</sup>

The report produced by Wim Kok indicates the EU's failure in catching up with the US as far as sustainable development strategy is concerned. He also points out that there is relatively low effectiveness of social policy in the EU. Following this, one question that needs to be asked is how to avoid the drawbacks associated with the model of socio-economic cohesion called for in the Lisbon Strategy. In reviewing the agenda in 2005, the spring European Council did not find any essential changes regarding the socio-economic cohesion. It only concentrated on the pursuit of full employment and greater social cohesion. And only one part of the Lisbon

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<sup>7</sup> Nicoletti G., Scarpetta S. (2003) *Regulation, Productivity and Growth: OECD Evidence* "Economic Development Working Paper", No. 347, OECD, Paris.

<sup>8</sup> Radło J.J. (2006) *Reformy gospodarcze Unii Europejskiej. Czy „lizbońska” Unia dogoni Stany Zjednoczone?*, [w:] *Amerykański model rozwoju gospodarczego. Istota, efektywność i możliwości zastosowania*, Bieńkowski W., Radło M. J. (red.) SGH, Warszawa, p. 278-279.

<sup>9</sup> Nicoletti G., Scarpetta S. (2003) *Regulation, Productivity and Growth: OECD Evidence* "Economic Department Working Paper", No. 374, OECD, Paris; Siebert H. (1997) *Labor Market Rigidities: At the Root of Unemployment in Europe*, "Journal of economic Perspectives", vol.11, No.3, Summer.

Strategy on the subject of economic cohesion was designed properly with relation to indicators which reflect the development in the knowledge-based economy.

By raising an issue of regulations, the Commission opted to keep the same level so now it means that the main reason of the Lisbon Strategy failure (i.e. excessive number of regulations leading to deregulation) is not taken into account. However, it is outlined that there is a need for reinforcing the European social model based on increased employment and greater social cohesion.

The assumption that a fundamental challenge of global capitalism is a competitive advantage cannot be omitted while aiming at achieving social cohesion. Therefore, the economic criteria for justifiable social inequality have to be reflected on social cohesion. It imposes policies and institutional solutions which are supposed to boost the growth of labour productivity through creating innovation-friendly and entrepreneur-friendly environment, through reducing bureaucracy and corruption, and finally through human capital development. Such a harmonization of the economic efficiency with justifiable inequalities has to guarantee effective legal protection against the unlawful acts which may persist when it comes to the competition. While preventing unfair practices, a special attention should be paid to the remnants from the central planned economy which may give rights to certain group of employees. There is also an issue of a fraud as far as acquiring pension rights and the other allowance benefits are concerned.

The policy of socio-economic cohesion cannot be associated with increased economic interventionism. In fact, it should be limited and consistent with the logics of sound economies. Otherwise, the whole economy and its markets could lose their competitive capacities, which would ruin every chance of making this policy successful. The only and acceptable solution to this problem is to suggest a policy that can absorb income inequalities supported by society's approval.

In relation to global capitalism, the main means for implementing the relevant goals of socio-economic policy pursued by the government are interventions meant to reinforce markets. As regards market performance, a special attention should be drawn to some areas where there is a lack of regulations over the institutional and infrastructural framework that facilitates effective competition. Consequently, it ought to eliminate information asymmetry and promulgate as follows: entrepreneurship, financial markets development, more flexible labour markets, more open trade, human resources development directed to understanding of the dynamics of the knowledge-based economy, improvement of the investment climate for technological absorption capacity and finally building institutional framework in an attempt to support innovations aiming at long-term development of a national ICT sector. Thus, the above mentioned state interventions should be based on holistic and system approach. It is necessary to address them to a broad vision of the economic development with reference to economic efficiency and criteria for justifiable social inequalities. It can be met by a strategy aimed at productivity (P), justifiable social inequalities, i.e. economically supported and accepted by a society (SI) and intellectual capital development (ICD)<sup>10</sup>. This three-element strategy

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<sup>10</sup> Woźniak M. G. (2005) *Priorytety i mechanizmy skutecznej strategii gospodarczej w: Nierówności społeczne a wzrost gospodarczy. Kapitał ludzki i intelektualny*, (red.) M.G. Woźniak, Katedra Teorii Ekonomii UR, Rzeszów, p. 9-17.

(P+SI+ICD) has to take into account a dual character of contemporary economy, namely the economic and social arguments for harmonization of traditional sectors and those established in the knowledge-based economy.

With reference to the economic policy, it should be remembered that a reduced impact of this policy on market-based activities, stabilization as well as fostering the economic growth and full employment can imply all social inequalities. Traditional social policy and its legislation governing the application of social security schemes to workers can threaten the competitiveness under actually existing global capitalism. Moreover, they cause a country's budget deficit, some additional costs of economic growth, lower profits and profitability of companies and a long-term decline in dynamics of GDP. On this ground, the question of new social policy arises with a view of making it consistent with the requirements for achieving competitive productivity.

In order to provide socio-economic cohesion, the institutional protection of justified inequalities is required due to the fact that only such inequalities make sense of the economic growth so people are keen to accelerate it, which can be then treated as an improvement of human well-being. As a result, both social capital and human capital are contributed to. Additionally, unproductive populist efforts and squandering of human resources with regard to excessive regulations can be relatively reduced.

Legal norms are the best guarantees for justified inequalities harmonized with the economic efficiency. In post-socialist countries, it is essential to undermine sources of distortion for competition and to focus on issues such as clearly defined customers' rights which are subjects to the highest level of safety and security for customers, the legal framework of ownership rights and their security schemes, the freedom of entrepreneurial actions, and finally the observance of agreements. In this framework, the centralized strategic coordination oriented towards development of knowledge-based economy plays a key role. Therefore, the focus on activities such as the full employment and the economic growth is widely applicable. Unfortunately, the part of the Lisbon Strategy regarding the social cohesion fails to resolve the problem connected with the need for harmonizing the application of legislation with economic issues. Unrealistic and excessive priorities with respect to social cohesion are included in this part of the agenda. Therein the inconsistency is found. It is noticed that mechanisms and instruments of social policy implementation are not in line with demands for increased competition and productivity.

In reviewing the Lisbon Strategy, it was found that the agenda seems to not eliminate the main reasons for failure of the strategic coordination at central level, which is an excessive number of accurate goals and regulations. The lack of effective instruments for implementation of these objectives was pointed out as well. Moreover, neither less regulation nor deregulation is the aim of the EU. Simultaneously, there is a need for reinforcing the European social model based on higher employment rate and greater social cohesion all the way through European Social Fund.

#### **Determinants of socio-economic cohesion**

In order to reduce social inequalities, the economic system ought to provide mechanisms for eliminating instances whereby individuals gain benefits which may lower benefits of the others. Such mechanisms should lead to the situation where the scope of activities of the microeconomic efficiency is narrowed to these activities which are not inconsistent with

lowering benefits of the other market players. It means that in prevailing market economy, social equality cannot be achieved unless it is a subject to the government interventions aimed at reducing distribution inequalities in the market. Following an approach rooted in ordoliberalism, the concept of the market social economy seems to be consistent with the above Pareto's emphasis on maximizing social welfare.

Not only is the main objective of the state to correct and adjust society's income, even though these actions can become prerequisite for providing a social protection for unemployed persons; but the government should pursue the equality policy and take care of its society in such a way that it creates situation where individuals live according to the highest values in every sphere of life. The other condition deriving from the prevailing economic system is that it gives equal chances for job seekers to receive information about job vacancies, which is followed by an assumption that the information is used properly in order to increase individual's welfare in a way which does not affect the possibilities of gaining benefits by the others. As regards market economy, legal norms play a key role in reducing the possibility of making the most of an opportunity which ill befits the equal rights. The motivation on individual income is pretty much popular and so is competition. It is spurring to take an advantage and become rich through the other members of a society who are lacking sufficient information and whose position in the market is weaker.

The equality principle, backed by thriving markets and democratic political structures which are not distorted by monopolistic practices, requires a broad access to education, health services and culture. Additionally, it needs to be outlined that the access to the goods mentioned above is gradually growing as a result of economic growth which is implied by effective resource management. Provided that these two conditions are fulfilled, i.e. the economic growth and microeconomic efficiency, there are enormous opportunities in the extension of material and technical base for educational institutions, health services, sciences and culture with the use of income tax expenditures and (or) personal expenditures. The above links between the economic growth, macroeconomic efficiency and social equality mean that the effective implementation of social policy can overcome the vicious circle of poverty and is possible to occur in social market economy, where the state is capable of providing the competitive order. In such an economic system, the responsibility for social equality and its execution is taken by the state, whereas citizens have unhindered rights to control the economic order according to constitutional rules.

The activities taken by the state in order to achieve social balance will not be effective if they result from giving in to the pressure from populist attitudes whereas dynamics of development seems to be weakened. Social equality is not supposed to take from the rich and give to the poor as its conditions imply the increase of labour productivity and assurance of raising income of the poor. The first condition is considered to be a result of effective markets and - which is consistent with their logics - the complementary economic policy. The second one, in turn, requires taking the responsibility by the state for creating the equal chances for all participants involved in economic activities in the market, seeing that it cannot be guaranteed by market mechanisms, especially due to the fact that they are being inefficient and continually building new markets in a post-socialist country.

Ineffective distribution, with driving forces rooted in licensing, in the lack of stable intervention rules, in unstable tax system and which are seen as a result of wrongly prepared and realized



health sector reforms, poor performance of institutions that are in charge for classifying invalidity pensions and those aimed at tackling with unemployment has to receive decisive and fast action of a parliament. Hence, neither public finance sector reform should be aimed at limiting the scope in the budget sphere nor the budget policy should seek to cover its budget expenditures through manipulating taxes. Therefore, from the point of view of economic efficiency and creation of the equal chances, the public expenditures ought to be allocated regardless of public finances balance.

It means that the basic condition and the marginal conditions of socio-economic cohesion simultaneously should be imposed in order to limit ineffective distribution through conforming public expenditures with economic efficiency and finally by creating a situation where equal chances do exist. The state ignorance of the above mentioned obligations with regards to promotion of equal chances is against the EU's principle of subsidiarity and the social market economy which are here applicable and constitutionally guaranteed. Hence, the equality policy is no less important than activities intended to fulfill fiscal and monetary convergence criteria.

Moreover, there is an argument on social welfare ground that factors such as a corruption and an easy way of increasing the welfare at the expense of the other market participants do not provide stimuli for availing market opportunities which can then guarantee more stable and dynamic development. On the contrary; they can increase instability and threaten the economic growth due to frustrations, social unrest, loss of motivation and many other threats to human capital development. In such conditions, there is a great number of market participants looking for an easy way to improve their financial situation by taking an advantage of weaker market players and benefits offered by the state institutions as these are mainly focused on claims and protective activities. Consequently, seeing that so much effort of society is put into appropriating other people's property and defending their own, it cannot sufficiently raise an output.

Overall, the policy designed to lessen social inequalities and lower poverty has a considerable impact on stabilizing and, perhaps, on reducing trade deficit. Fast growth of household income and slow income growth of the poorest class of society put a constraint on the role of domestic consumption demand aimed at stimulating economic dynamics. Resulting from this, the slower consumption dynamics rather than GDP dynamics, rather surprisingly, does not limit the pressure on consumption commodity import in that it is stimulated by fast growing income of the richest people. Simultaneously, such an income policy lessens the extent to which productive potentials are used in agriculture, food industry and in many other sectors manufacturing everyday items. However, an alternative policy pursuing a reduction in social inequalities through faster income growth of the poorest classes of society indicates a raise in demand for basic commodities, mainly manufactured in a country, especially in branches where there are production capacities available. Hence, it should not increase the risks associated with higher current account deficit. Though, the policymakers are required to create necessary conditions for branch development which delivers everyday items in order to provide their competitiveness as well as for development of agriculture sector. Consequently, the second pillar of industrial policy - aside from high technology industry - would mitigate pressure on the labour market and underpin the mobilization in regions.

**Conclusions from Social Market Economy concept**

There is not the only one concept of social market economy (SME) and similarly there is not the only one concept of capitalism. The diversity in the SME models regards the following aspects:

- the scope of strategic coordination at central level;
- the structure and social objectives hierarchy in pursuit of sustainable development;
- the priorities in relation to economic effectiveness and social justice;
- the constitutional and institutional guarantees for socio-economic cohesion;
- the instruments of socio-economic cohesion policy.

Based on the genetic-causal approach, it is outlined that strategic coordination at central level is expected to build competitive order and protect market from distortions caused by the influence of the state interventions (i.e. elimination of inappropriate resource allocation decisions and excessive control of the state). Following the rules (with reference to competitive order) is regarded as a sine qua non of effective performance of economic system. In this framework, institutions protecting private property and reinforcing the competitive order are considered to be a fundamental basis for the institutional order. Hence, the strategic coordination at central level is supposed to persuade all market players to respect the necessary requirements for achieving economic efficiency, as well as for using a common sense while taking responsibility for the economic decisions.

According to the genetic-causal approach, the other pillar of sound economic system points to institutions pursuing the social goals which cannot be accomplished by markets mechanisms as they are not capable of giving effective system for distribution. In addition, these mechanisms themselves cannot meet social objectives. Admittedly, the criteria for distribution have to consider the economic efficiency but, in this case, it does not determine distribution equality in a sufficient way.

Further to the genetic-causal approach, the fair distribution is rooted in liberty, equality and solidarity that in Europe have been cultivated for 250 years. From the axiological point of view, it points at human dignity traced back in Christian religion. It is necessary to highlight that European Social Charter and the Universal Declaration of Human Rights dwell on Christian concept of human dignity; however, they do not exhaust the topic. While agreeing with criteria of effectiveness, it is suggested to take into account the principle of subsidiary in non-market coordination of socio-economic cohesion.

However, pursuing the principle of subsidiary might be based on diversified institutional solutions. In practice, social market economy can be deemed as an economic system consistent with principles of liberal market economy, notwithstanding it respects strategic coordination at central level with relation to these social objectives of development, which cannot be achieved by market mechanisms and hinder socio-economic cohesion. There are also some solutions possible, as far as social market economy is concerned, that violate the principles of economic efficiency inasmuch as the global economic competitiveness is reduced. Susceptibility to belittling the economic efficiency and worsening the conditions of global competition seem to be its immanent feature. It is resulted from the state responsibility for competitive order and social objectives aimed at development issues that are set whereas negotiations and consultations are conducted. Hence, it is necessary to move a robust implementation of socio-

economic cohesion policy seeing that the government has to fulfill its obligations. Nevertheless, the essentials of this policy depend on political party line-up. Thus, between countries and throughout different terms of office of each political party, as well as in context of global competition rules, there can be a variety of tools and institutions for policymakers to manage ineffective performance of markets and protect economy against excessive etatism. In addition to this, some differences may exist in scale, scope or direction of state interventions and with relation to the type of social policy.

Globalization sets new requirements for economic efficiency, global competitiveness, and innovations, human and social capital. Competitive advantage of transnational corporations acting in the global market requires adjusting regimes in order to increase economic efficiency. For this reason, countries may encounter lower capacities as it comes to the scope of activities pointed to social cohesion according to standards inherited from the period of the classic welfare state. In order to meet the requirements of globalization, it seems that reduction of taxes and non-productive public expenditures are necessary. However, an increased state role regarding the scope of the competitive order comes across obstacles, as it may be inconsistent with goals set by transnational corporations in the global market.

A nation state, on account of an economic power of TNC and their natural tendency to look for a place for production that can provide lower costs of production as well as taxes and low-cost market, where wages are relatively high to generate demand and a share in the greatest income; can be devoid of financial capability to build socio-economic cohesion. Therefore, further research should be done to investigate social standards which can indeed facilitate competitiveness. There is also a need for a deregulation in areas where elimination of non-productive public expenditures is possible.

Strengthened competitive order cannot only result from institutional improvements undertaken at national level. In order to prevent inefficient competition under existing global capitalism, it is necessary to put much effort on an international scale, not only through WTO.

### **Lessons for the future**

On the question of what the role of the economic system which harmonizes economic efficiency and social equality is, it is deemed that a full answer cannot be found in institutional solutions and economic strategies of signatory to the EU. Namely, it is due to the fact that over last years, the labour productivity in Europe has been catching-up the US productivity growth. Hence, the other question that needs to be asked is why a productivity gap is being continuously increasing, notwithstanding the attempts to implement the objectives set in the Lisbon Strategy, which are based on a concept of socio-economic cohesion. At this point, it seems that W. W. Lewis' approach is accurate. He claims that the importance of the highest level of education attained is overestimated and it does not guarantee high productivity rate. Hence, no matter what the level of formal education is, firms can provide a necessary training on the job which leads to labour productivity growth.<sup>11</sup> These kinds of training are always synchronized with a demand for particular qualifications and are definitely cheaper.

Also, high minimal wages are not considered to be an effective way to implement accurate social objectives. Here, it seems that a system of tax deductions is a better alternative (e.g. expenditures connected with human capital investments). The other problem is that there is an ageing society which is typically associated with higher costs of financing for European social

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<sup>11</sup> W. W. Lewis (2005) *Potega wydajności*. Wyd. Cedetu.PL, Warszawa, p. 106-112.

programs realization, human capital depreciation and difficulties with its modernization that enables functioning in sectors in a knowledge-based economy.

The reason for the lack of possibility for implementing a variety of necessary reforms required for an increased productivity are, namely, structural obstacles associated with ill-functioning institutional order which brings pressure to bear on politicians regarding insubordination. For instance, such an event took place in France in March 2006. Additionally, transformation of the political scene into a market reflecting particular interests can adversely affect the reforms. Currently, Poland is suffering from this. The findings show that the main source of these problems is not only due to the lack of developed institutions in a citizen society but it is generally caused by lack of institutional limits on ignoring other people's rights and institutions. Furthermore, in the face of all connections between politicians and businesses, the society lacks effective communication practices. Hence, markets together with a democratic political order are regarded as necessary but not sufficient conditions for effective utilization of human capital in order to facilitate a multidimensional development of individuals and the whole of the society. The asymmetry of competitiveness in common with countable social costs (the so-called Harberger's costs) is associated with creation such conditions that widespread negative values regarding market behavior, hereby as follows: unfair advertising, less freedom in choosing consumer and expansion of non-elementary needs which seem to be in favor of consumer style of life, unfair distribution, unfair competition and so on.

Supporters of axiological standards of the Anglo-Saxon liberalism argue that the EU introduces some distortions in the market in its pursuit of the social goals. Liberalism does not deprive the government of the right to grant subsidies for individuals in need, it does not exclude active policy of the state aimed at human capital development, health care concerns, maintenance grants for the youth in attaining education and so on. Enhancing opportunities for achieving the social goals, the above mentioned activities of the state policy as well as many others should not use such instruments that can adversely affect the performance of markets and responsibility of individuals for their own success. Bureaucratic proceedings regarding the principle of subsidiarity are associated with flawed instruments for their implementation, which is deeply inconsistent with the logics of market performance. This discrepancy is in favor of 'rent seeking'; thereby it acts to the detriments of the common good.

The economic progress and development cannot lead one to deny intellectual potentials based on economic theory due to the fact that it may it produce egoistic intensives. It should be also pointed out that altruism does work as far as family functioning and small groups are concerned, where the costs of job sharing are not growing fast enough. Moreover, it would be naïve to claim that pure love or a sense of duty is enough to achieve effectiveness and socio-economic development. A creation of institutional basis for "homo oeconomicus" is more important than it may seem. It motivates human capital to become more aware and responsible. The other interesting solution appears to be in connection with investments in axiological development as well as development of one mind and creating intellectual intensives that produce mechanisms and set principles of a valued way of life. If such a method of rational and moral decision-making came into light, there would be a substantial improvement in conditions for standards of behavior with the purpose of curbing desire of negative axiological values, and, consequently, disharmony between effectiveness and justice, as well as between self-responsibility of individuals and social responsibility of the state.

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## Summary

The author proves that both global capitalism and centralized strategic coordination are not able to face up to new challenges as far as the issue of harmonizing economic efficiency with social justice is concerned. It can be assumed, therefore, that a solution to this problem is to be found in the market social economy that seems to be adjusted to challenges of global capitalism. In the concept of SME the whole of the actions regarding socio-economic cohesion are accomplished through decision-making anchored in social values and provided within an institutional framework. In the face of specific conditions in the post-socialist countries and global capitalism, the centralized strategic coordination ought to be aimed at accelerating economic efficiency through human capital development and justifiable social inequalities.