Prof. Marianna Księżyk
The School of Banking and Management

BASIC REASONS AND SOCIAL AND ECONOMIC EFFECTS OF LOW SALARIES IN POLAND – A EU MEMBER STATE

Introduction

The economic crisis that started in Europe in 2008 (and 2007 in the USA) shows that countries which ignored the fundamental rules of economy (i.e. among others: the principle that the welfare of any society comes from the work and production of goods that meet the needs of the citizens and there is no such thing as free lunch[1]) and based their management on neoliberal theories, do not reach a sustainable growth or – as declared by EU – the social and economic cohesion. Poland is among such countries, which is indicated by a high long-term unemployment and continuously decreasing standard of living of numerous social groups (there is an increase of the working and the excluded who live in poverty)

Following the basic principles of economy means that the income of all the participants of economic processes depends on the results of their work. In practice, it should mean that the salaries of all wage workers as well as of other participants of the economic process (managers, members of Boards, people employed to serve the process) are related both to their contribution in generating the goods that meet their needs and in the results of the units that employ them. That principle should also apply to the employment and remuneration in public administration; the functions of the state and the type of public goods should determine the level of employment and salaries in public administration. That is not the case in Poland after 1990, where the social and economic functions of the state are being restricted and the administration is expanding. Consequently, a party-biased, hierarchical state is being formed that accepts extreme differences in income and the development of poverty areas. If one is to follow the rules of economy, one must not forget that remuneration should provide each participant of the economic process with decent living conditions. This was already pointed out by the 18th century liberal economist A.Smith : “there is, however, a certain rate, below which it seems impossible to reduce, for any considerable time, the ordinary wages even of the lowest species of labor. A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more,

[1] E.V. Bowden, J.H. Bowden call them the economic laws in: E.V. Bowden, J.H. Bowden, Ekonomia nauka zdrowego rozsądku (Economy: The Science of Common Sense) Wyd. Innowacja, Warszawa 2002.

otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation. (…) Even the lowest species of common labourers must everywhere earn at least double their own maintenance, in order that, one with another, they may be enabled to bring up two children." [2].

The above statements indicate the necessity to conduct regular and complex research on labor market. Thus, such an assumption means that a micro-economic approach of such research would be inappropriate as it makes it impossible to notice that the negative effects of an economic process, which show – among others – in high unemployment and an increasing number of the employed in poverty, are the result of the accepted model of economy. Consequently, they cannot be analyzed and solved separately; it should be done in a complex way.

In the investigations that refer to remuneration the complexity means treating particular elements of economy as the cohesive elements of a system and with the consideration of the continuity of economic processes. First of all, they should aim at the identification of the basic sources and social and economic effects of low salaries.

1. Necessity to eradicate the sources of low pay of wage workers in Poland – a EU member state

The Polish present-day capitalism, which is based on the neoliberal doctrine, created a facade (for the sake of elections) and not a civic democracy, whose fundamental rules are freedom, equality and justice. That is indicated by the lack of the solution to the basic problems that were already mentioned by J.M.Keynes, who stated that the two most significant drawbacks of the social and economic system that he lived in were the inability to achieve full employment and an arbitrary and unjust division of wealth and income[3]. M.Kalecki also saw these flaws of capitalism and warned; "If capitalism is able to adjust to full employment, it will mean that it has been reformed. Otherwise, it will appear to be an old-fashioned system to be rejected"[4].

Both in the Treaty establishing a Constitution for Europe (2004) and in the Treaty of Lisbon (2007) there are statements that EU operates for a constant development of Europe that is based on balanced economic growth and highly competitive social market economy

[2] A. Smith, Badania nad naturą i przyczynami bogactwa narodów (An Inquiry into the Nature and Causes of the Wealth of Nations) , PWN, Warszawa 1957, p. 386.
[3] J.M. Keynes, Ogólna teoria zatrudnienia, procentu i pieniądza (General History of Employment, Interest and Money) , PWN, Warszawa 2003, p. 483.
[4] M. Kalecki, Kapitalizm, koniunktura, zatrudnienie, Dzieła Vol. 1, PWE, 1979, p. 706.

aiming at full employment and social progress[5]. It can be concluded, that the principles of efficiency and social justice cannot be treated in Poland – a EU member state – separately, but must be considered as a whole.

At present, the achievement of the EU targets is very difficult for Poland due to its neglecting the basic economy rules which clearly state that income comes from the production of goods that meet the needs; this means that we cannot be paid more than we produce. If we all want to earn more, we have to produce more. Moreover, following the basic rules of economy indicates that low work efficiency, low quality of goods and the lack of competiveness should not have an impact solely on the workers and their pay. As the decisions regarding the goods to be manufactured, the way it has to be done and the target customers, are made by managers and the public administration determines the principles of business, people on management positions and in public administration should bear the results of their decisions and, consequently, their salaries should be related to the results of their work.

Low employee salaries pose a danger to the country which may find itself in a trap. When salaries are low, the domestic demand for goods does not increase; and the lower the demand, the lower output, employment and investments as there is no need to invest if there is no one to sell the products to. The economic growth is weaker, the tax revenue to the budget decreases, while the public debt and unemployment go up. That was already proved by M.Kałecki, who pointed out that if capitalists raise their profit margin by lowering the salaries, the income decreases significantly[6]. In such cases, even lowering credit prices does not encourage crediting and investing in the production of goods. It can be concluded that if EU countries want to overcome the crisis, they do not need a strategy of balancing the budget but a strategy that would increase the demand by rising employee salaries and employment in branches that produce goods meeting the social needs. Such a strategy is not only supported by top global economists but also by some German politicians[7]. For example, P.Steinbruck states that "what we should do is to raise the purchasing capacity of the Germans by increasing their salaries"[8].

---

[5] Treaty establishing Constitution for Europe , Dz. Urz.(Journal of Laws UE C310, Vol. 47, 16 December 2004; Dz. Urz. UE C 306, Vol. 50, 15 December 2007.

[6] M. Kalecki, Dzieła Vol.1, Kapitalizm, koniunktura i zatrudnienie, PWE Warszawa 1979.

[7] J.E. Stiglitz, Freefall. Jazda bez trzymanki. Ameryka, wolne rynki i tonięcie gospodarki światowej, PTE, Warszawa, 2010, pp. 69 – 71.

[8] W. Smoczyński in his talk with P. Steinbruck, the candidate for chancelorship of the SPD on: Germans are not the monsters of Europe (Niemcy nie są potworem Europy), „Polityka", No 22 (2909), 27.05 – 4.06.2013, p. 45.

Polish managers and politicians do not notice the trap of low salaries that threatens the country as they accept “junk” contracts and a widely flexible labor market. They behave as if there was an ideal competition on the labor market and low employee salaries led to company success. A.Smith knew that perfect competition had never existed and it could not exist on the labor market[9]. There is no such thing as corporate social responsibility that would be detached from the main target of a corporation, i.e. a chase for profit. According to J.Bakan, corporations are designed to implement the interests of their owners. From the corporations’ legally defined mandate it can be concluded that “corporate social responsibility is an oxymoron”, just like the idea that one could expect (as in the case of government institutions) corporations to favor public interest. They have only one duty – to pursue the interest of the corporation and its owners. They have no means (and their management has no powers) to be guided by an authentic sense of social responsibility[10]. Present-day corporations, which are managed by hired managers and have an anonymous and dispersed capital ownership, are not run by such businessmen as H.Ford who – as the owner and manager till 1916 – paid his employees 30% more than they could earn with any other employers since he followed the principle that only highly paid workers are able to work efficiently and manufacture high quality goods. [11].

The evaluation of the hitherto achievements of both theory and practice indicates that the eradication of the sources of low pay in Poland – a EU member-state – is indispensible if the country is to develop and meet the basic EU targets.

2. The sources and social and economic effects of low salaries in Poland – a EU member state – that result from fundamental errors in the economic transformation

People who conducted the transformation of Polish economy shared the idea and some of them still abide by it (including L.Balcerowicz, who as a minister of finance and deputy prime-minister administered the “shock therapy”) that there was a choice only between Soviet-type socialism that led to disaster and a laissez faire market economy that generated wealth. They believed and still do that all the failures in achieving the growth result from the lack of free markets and it is the will to liberalize and privatize and not the assistance of the

[9] A. Smith, Badania nad natura i przyczynami bogactwa narodów(An Inquiry into the Nature and Causes of the Wealth of Nations), PWN, Warszawa 1957, pp. 386 – 38
[10] J. Bakan, Korporacje. Patologiczna pogoń za zyskiem i władzą,(The Corporation: The Pathological Pursuit of Profit and Power) PWN, Warszawa 2006, p. 130.
[11] J. Bakan , op. cit., p. 386 – 387.

state that is indispensible. Even J.Sachs (the founder of the "shock therapy" program for Poland) states that such arguments are "utterly unsupportable by evidence or good economic reasoning"[12].

As the implementation of the „shock therapy" program in Poland means that the transformation of economy is based on the doctrine of neo-liberalism and not on the ideas of liberalism, the differences between the two should be explained. The lack of distinguishing the two notions results in the lack of understanding how contemporary economic systems, EU economic systems including, function. "Liberalism means freedom (including economic freedom), freedom of choice, democracy, pluralism, private ownership, entrepreneurship and competition. (…). *Liberal* means progressive, it is supporting freedom, market economy and democracy. (…) In American literature neo-liberalism is often referred to as contemporary laissez-faire or neo-conservatism. (…) Neo-liberalism should also be distinguished from libertarianism or – even further – anarcho-capitalism. (…) Neo-liberalism is more dangerous as it is calculated and cynical, while libertarianism and anarcho-capitalism are first of all dogmatic or – to say it bluntly – primitive" [13]. It should be added that nowhere in the world was an economic system built that would had the features of socialism since socialism – as it was stated by Blank (1811-1882) already in the 19th century and has been well known for years to the historians of economic thought – is a system where all individuals have a job that provides them with fair pay and where the principle *from each according to his ability, to each according to his needs*[14] is applied. The analyses of economic systems also show that in all countries with the so called market economy one economic system has not been implemented. Quite the contrary. Present-day capitalism has several shapes. That is due to the fact that countries accept different economic doctrines for the foundations of their economic policies. According to B.Amble, even in the EU countries there is no one but four economic systems, i.e. the market-based liberal model (in UK and Ireland), the social democratic economy (Scandinavia), the Continental European model (dominantly German) and the Mediterranean (patrimonial) model[15].

In the course of the transformation of Polish economy, the so called „shock therapy" (which is called the *L.Balcerowicz's plan* in Poland), several fundamental mistakes were

[12] J. Sachs, Koniec z nędzą. Zadanie dla naszego pokolenia (The End of Poverty. Economic Possibilities for our Time) , Wyd. Nauk. PWN, Warszawa 2006, p. 319.
[13] G. W. Kołodko, Dokąd zmierza świat. Ekonomia polityczna przyszłości, Prószyński i S-ka, Warszawa 2013, p.35.
[14] T. Kowalik, Współczesne systemy gospodarcze. Powstanie, ewolucja, kryzys, Wyd. Wyższej Szkoły Przedsiębiorczości i Zarządzania im. Leona Koźmińskiego, Warszawa 2000.
[15] B. Amble, The Diversity of Modern Capitalism, Oxford 2003.

made, which had a negative impact on the realization of the targets of the economic process (stated in the constitutions of the Republic of Poland and EU), e.g. the transformation had a negative impact on the correct functioning of the labor market. In 1990-2005 almost 5 million workplaces were lost, while the population at working age increased by 2 million; the employment rate decreased from 80% to 54%; a constant long-term unemployment (12%) and a high unemployment rate among the young appeared (35%-40%)[16]. Moreover, employee wages were established on a low level and a significant wage differentials emerged(Poland belongs to EU countries with the highest wage differentials).

It is crucial to point out to the fundamental mistakes of the transformation, not only with the aim to identify the reason of low employee wages in Poland but also to show that there is a continuity of management processes and that the economy cannot function properly as a system (i.e. to achieve an adequate social and economic growth and development) unless all its elements function properly, which was emphasized by M.Levinson, who also recommended perceiving economy as a system[17]. The mistakes of the transformation are a proof that the M.Levinson's basic recommendation were not followed in Poland.

When analyzing the transformation process of Polish economy, the first cardinal mistake to be mentioned by authors refers to the lack of a long-term strategy of the social and economic development of the country that would constitute the transformation fundamentals. Such a strategy, which should have been created before the transformation was commenced, ought to indicate clearly the targets of the management, the means and methods of their achievement both in the country's economy (as a system) and in its particular sub-systems as well as the social and economic results of the process. When reforming the economy without a strategy that would ensure social and economic development, Eastern Europe plunged into democracy[18], unaware of the consequences of the neo-liberal transformation and the long-term social and economic effects. After the first ten years of transformation That statement was confirmed by T.Mazowiecki (the prime-minister of the so-called first non-communist government) who said at the Warsaw University that "if I had known, that the unemployment rate would have reached 19%, it would have taken me long to decide on the economic transformation" [19]. One can conclude from his statement and the decisions of the "Round

[16] T. Kowalik, WWW.Polska transformacja.pl, Warszawskie Wydawnictwo Literackie Muza S.A., Warszawa 2009, p. 6.
[17] M. Levinson, Nie tylko rynek, PWN, Warszawa 1990.
[18] J. Sachs, op. cit., p. 313.
[19] T. Kowalik, op. cit., pp. 6 – 7.

Table" that the decision makers assumed " the introduction of an economical system that would be based on the principles of co-operation and social-democracy, promising a mixed-type economy with a high degree of employee participation and the policy of full employment, which would be close to the Austrian and Swedish solutions" [20].

In Poland, due to the policy that lacked a clearly defined pro-development strategy as the basis for the transformation, an economy emerged that is not independent and plays the role of a sub-supplier. It lacks the scientific and research background of companies and attracts investments that mainly value cheap workforce. We are known for the production of furniture, roof windows and car upholstery which is not a target for the generation that should build a knowledge-based economy. According to H.Ratajczak, Poland is among the countries that rank last as regards the share of innovation costs in their GDP (only Bulgaria, Romania, Malta and Cyprus are behind). At the beginning of the transformation process Poland devoted 0.76% on science; the government of J.K.Bielecki and L.Balcerowicz decreased the figure in 1991 to 0.48% of GDP; in 2013 6 thousand million zlotys were devoted to science, which accounted for only 0.48% of GDP, while the budget of the Ministry of Defense in 2013 was 31.17 thousand million zlotys. It seems that we have other priorities than the developed EU countries, where for many years over 2% of GDP have been spent on scientific research. France can serve as a good example; in the last few years 40 000 million Euros have been spent on the construction of 5 ultra-modern research centers that closely cooperate with the modern economy. It is clear that French politicians understand the significance of the development of a knowledge-based economy and are willing to contribute to it. As opposed to French politicians, Polish influential politicians want to allocate special means of 130 000 million zlotys on armaments and not on R&D centers[21]. If the Polish government does not increase significantly the expenditure on science and it does not support consistently the development of innovative branches and it does not back the creation of national business with its own scientific and research facilities, Polish economy will get stuck in unprofitable imitations, with extremely long working time and low wages. The country itself will be in a difficult trap. The increase of the Polish government spending on research and development is indispensible since there are no big national companies in Poland with a substantial research and scientific base as it is the case in the EU-15.

The second cardinal mistake of the transformation that was in line with the so called Balcerowicz plan was the acceptance of free market and the liberalization of capital markets

[20] T. Kowalik, op. cit., p. 51
[21] H. Ratajczak, Armia cenniejsza niż myślenie, „Przegląd", 15 – 21. 07. 2013, pp. 32 – 34.

as the fundamental rules on which Polish economy was to be based. Such rules indicate that Polish neo-liberals that conducted the transformation were utopians deluding themselves and the society that there may exist free market and perfect competitiveness in the time of globalization and when present-day capitalism is dominated by great corporations The process and the social and economic results of the transformation were also influenced by a faulty claim that bigger income and pay equality could not be accompanied by efficiency. The idea that a capitalist social state is more effective than the one that follows neo-liberal concepts has been proved by empirical data regarding economic growth, unemployment and salaries in egalitarian countries. One should mention here Sweden, Denmark, Finland, Japan (where social –liberal labor code was introduced after World War II) , South Korea and Western European countries, which in the period after the World War II till mid 1970s based their economies on Keynesian ideas. That is the reason why these countries did not face any crises then and their unemployment was almost close to zero. (in 1960s it was as little as 0.5% in West Germany and 0.9% in 1973), their economic growth was high (the average GDP was 4.9% in West Germany in the 1960s and 1970s), and the wage differential was low (the remuneration of managers was 2.5 – 4 times higher than the salaries of the staff employed in the same companies), while in the USA – where the economic system was based on the liberal market doctrine – the economic growth amounted to 2.2% of GDP, the official unemployment rate was at least six times higher than in West Germany and the hourly rates in West Germany and the USA were $31.78 and $17.74, respectively. In addition, the salary of 27% of employees in the USA were below the official poverty line[22]. The return of the Western Europe to market liberalism resulted in cyclical crises, mass unemployment and a substantial (200- and even 500-fold) wage differentials. Such problems appear now in Poland, where – in the course of the transformation process " an unprecedented in the time of peace income revolution took place that changed the social structure; it gave the beginning of a new social order with the application of primary capital accumulation. In an unprecedented time, the number of people in Poland living in extreme poverty (from 4.3% to 12%) increased dramatically. (…) It is a scandal and disgrace that subsequent governments are passive as regards such processes, the more so as the tax regulation favor the rich"[23].

[22] O. Gedymin, Kapitalizm niemiecki. Szkice o genezie, rozwoju i teraźniejszości, Wyższa Szkoła Finansów i Zarządzania, Białystok 2002.
[23] T. Kowalik, op. cit., pp. 25 – 26.

The "shock therapy" that was applied in the course of the transformation of Polish economy favored the interests of the new moneyed class. The beneficiaries of the transformation include, apart from managers and individual owners of fortunes, two social groups: people associated with political power and state administration and the petty middle class with its base in small business. As a result the Polish version of capitalism, according to D.Ost, does not meet the minimum democratic and liberal criteria[24]. Poland, as opposed to the majority of EU countries, the Republic of Czech and Slovenia including, belongs to countries with a faulty, if not incomplete democracy, which is indicated by the Democracy Index (DI) [25].

When implementing the „shock therapy" program in an indiscriminate way and constructing an economic system based on the neo-liberal doctrine, the support of the liberal economists was sought although there was no justification for such choice. It was typical that Z.Gilowska (the minister of finance and depute-prime minister in the PiS government) was often wrong to invoke F.A.von Hayek as it was him to warn politicians as regards the transformation from war to market economy. In his *The Road to Serfdom* he states that a rapid return to free economy cannot mean the removal of all wartime limitations in one moment; nothing would discredit a system of free entrepreneurship more than a dramatic dislocation or instability caused by such actions; the question is what type of system should be transformed into a stable structure as a result of a well planned policy of a gradual decrease of control, which would have to be extended for years. The only thing that a present-day democracy would not bear is the necessity to decrease the standard of living in the time of peace[26]. The presentation of his words can be justified by the fact that before the transformation the countries of Eastern and Central Europe had several features of wartime, and not socialist, economies. Their main drawback (according to Berliner and the others) did not lay in the form of ownership – as it was perceived by Polish politicians and neo-liberal economists (L.Balcerowicz including) – but in the lack of real prices, which made it impossible for business to make rational decisions, in the practice of planning, the monopoly in foreign trade, the centralized management and a bureaucratic system of investment allocation[27].

Another cardinal mistake of the transformation was a naive belief that the institutions that are required in a market economy would be established instantly and then function

[24] D. Ost, Klęska"Solidarności". Gniew i polityka w postkomunistycznej Europie, Warszawa 2007, pp. 33 – 34.
[25] http://www.economist.com/media/pdf/Democracy_Index 2010_v3.pdf
[26] F. A. von Hayek, Droga do zniewolenia (The Road to Serfdom), Kraków 1966, pp. 210 – 211.
[27] T. Kowalik, op. cit., p. 147.

properly although J.Drewnowski – an economist who knows the reality of market economy very well – recommended slow changes[28].

One more cardinal mistake of the transformation, which had an impact on the Poland's extreme wage differential and low employee wages, was the poorly conducted privatization and the purposeful destruction of the state-owned collective farms (PGR) which - as it was rightly admitted by G.W.Kołodko – could have been transformed into large-scale employee partnerships and other capitalist structures[29]. The privatization process consisted in giving away the national property. It was conducted without any legal grounds, i.e. without an act that would clearly define the principles and directions of the privatization as well as the degree of control over the strategically important economic and financial structures on the part of the state and, consequently, that would secure the interests of the state and the society. None of the parliamentary groups or governments have made an attempt to have such an act passed. The sales of company flats together with the companies was an outrageous example of the lack of care over the interests of the society. The flats should have been conveyed to the employees as it was them who built them at the cost of lower wages and profit contribution. The course of the privatization indicates that government institutions focused mainly on the pace of the process by outselling the best Polish companies to foreign capital. When selling their assets, state-owned companies behaved more like liquidators of the state resources than organizers of a process that should support the creation of lasting and competitive business entities in Poland. "One of the classical examples of pathological sell-outs of Polish assets is the privatization of the paper and cellulose manufacturer in Kwidzyń. It was one of the numerous investments started in the time of E.Gierek's rule and finished in 1980s. The ultra-modern facilities that were indispensible for the manufacturing process were purchased in Canada for 400 million US dollars in the late 1970s. The same figure was paid for the land, buildings, the infrastructure and the sewage system. The company produced half of the newspaper paper in Poland and was the biggest cellulose producer in Europe with 3600 employees. In 1990 it was bought by the American International Paper Group INC on the condition that 80% of the shares for 129 million dollars went to the American buyer together with a few year exemption from tax, while the staff received 20% of the shares. Three years later, in 1993, C.C. Elary, the Development Director of the International Paper Group INC happily stated in the interview for the Journal of Business Strategy (March - April) : the price

[28] J. Drewnowski, Ku demokracji i gospodarce rynkowej. Tezy o zasadach transformacji, „Ekonomista" 1995, No 1 – 2, pp. 69 – 73.
[29] G.W. Kołodko, Świat na wyciągnięcie myśli, Prószyński i S-ka, Warszawa 2010, p. 67.

was on such a level that we believe to have a good income. (…) The Polish government spent probably three or four times more to build the plant and today it would be impossible to replace it for such a price anywhere in the word. The plant as a whole is modern and designed to the latest western standards that we would expect from any plant in the world”[30].

In the sell-out process it was ignored that in the developed countries with market economies business entities of the private, state, co-operative and municipal sectors have equal rights. Moreover, it was not taken into consideration, although facts – even from the pre-war Poland – have proved it, that it is not the form of ownership but the way of management that influences company efficiency. The idea that the management and not the ownership type decides about the success is also proved by the fact that small Slovenia (with 2 million inhabitants) sold only 10-15% of its banks and companies to foreign capital and at present its GNP per capita is almost twice as big as that of Poland, its currency is Euro and the state has over 40 plants and business representatives offices in Poland[31].

When assessing the Polish privatization, it has to be added that S.Dunin-Wąsowicz (an expert in the strategies of multinationals) was right to say that “ western corporations, when participating in the privatization of Polish companies, took advantage of the lack of experience and knowledge of Polish politicians. As a result, the majority of markets in Poland were divided between global corporations that define the strategies of product and services development, the distribution channels and prices”[32]. Polish economy has been transformed into a subsidiary economy; it functions as a sub-supplier[33]. The share of imports at 56% of sales on the domestic market places Poland among countries with relatively the highest imports penetration in Europe. The poor position of high-tech products and other knowledge-based goods indicates a domination of imitation processes and underdevelopment of a sector that would be capable to compete as regards innovations[34]. The transformation process in Poland showed that an uncontrolled influx of foreign capital and a complete opening of the economy to all kind of foreign investment is not beneficial to the society and does not result in the country’s development. State-owned companies should not have been sold at low prices to foreign capital and foreign buyers should not have been exempt from taxation for 5 – 8 years. they should have been commercialized and be the subject to the rules similar to the ones that applied to private business, instead.

[30] W. Kieżun, Patologia transformacji, Poltext, Warszawa 2012, pp. 140 – 141.
[31] K. Zaręba, Prywatyzacyjne bezprawie, „Przegląd”, 1 March 2009, p. 50.
[32] S. Dunin – Wąsowicz, Blaski i cienie gospodarki oddziałów, „Rzeczpospolita”, 29 – 30 September 2001.
[33] S. Dunin – Wąsowicz, Komplikacje pooperacyjne, „Rzeczpospolita”, 8 – 9 December 2001.
[34] A. Karpiński, Przemiany strukturalne w procesie transformacji Polski 1989 – 2003 – 2025, SGH, Warszawa 2009, pp. 233 – 234.

The cardinal mistakes of the Polish transformation process are presented by J.Tittenbrun, who unveils the three main myths concerning the forms of ownership:

1. The myth of modernization and innovativeness of the Polish economy through privatization processes. Empirical data indicate that the majority of foreign companies allocated less than 1% of their income in R&D in Poland. Foreign companies usually closed down the R&D facilities in the privatized (sold to foreign capital) companies and did not establish any new base. As a result Polish economy is becoming Europe's workshop and can only compete throuogh low labor costs and low prices of the manufactured goods;
2. The myth of recovery by privatizing weak companies, which was to improve their management. That is not true, as usually the best and most profitable companies were sold;
3. The myth of the guarantee of the access to new technologies and further development by means of privatization. The results of the privatization of the state-owned companies were quite the contrary: the Elwro company in Wrocław, one of the most modern companies in Poland which was taken over by Siemens and then completely destroyed, serves as a good example unveiling the myth[35].

The above main myths regarding the change in the type of ownership make it clear that the lack of the adequate policy towards foreign capital is the cardinal mistake of the transformation. That includes the failure to determine the structures and types of production where foreign capital should enter and the failure to address it to investments that would ensure the creation and implementation of innovations and, consequently, the creation of the basis for a sustainable development and social and economical cohesion. Michał Kalecki and Ignacy Sachs already expressed some words of warning against a chaotic influx of investment to countries that are less developed and possess unexploited production factors: "foreign investments should not be treated with a doctrinarian attitude assuming that the investment of foreign private capital are on definition rational and necessary"[36]. The hopes associated with direct foreign investments proved to be completely unjustified and naïve as, after the 20 years of the transformation of Polish economy, the foreign investment in modern industry sectors accounted for as little as 4% of its whole value.

One of the cardinal mistakes of the transformation that impeded a sustainable development in Poland was the sale of over 80% of Polish state-owned banks to foreign

[35] J. Tittenbrun, Z deszczu pod rynnę. Meandry polskiej prywatyzacji, Vol. 1 – 4, Poznań 2007.
[36] M. Kalecki, I. Sachs, Z zagadnień finansowania krajów o gospodarce mieszanej, PWN, Warszawa 1967, p. 64.

capital and - surprisingly- at the price that considered only the real estate value. In addition, the NBP National Bank of Poland introduced a very restrictive money policy and it based the rate of exchange of zloty on the US dollar instead of the basket of currencies. The case of Argentina, where the privatization of banks was followed by the reduction of the financial capital flow from banks to business, was not a sufficient warning for Poland. The sales of banks was justified in Poland by the protection of deposits. That argument is not convincing as it was proved by the present and 1990s crises. When selling the banks to foreign capital, the significant rise in the credit costs and the increased difficulty in their availability were not taken into consideration. As a result, several investment projects, despite their rationality, cannot be financed. The sales of banks resulted in an obvious way to the emergence of a financial and investment barrier. Business is particularly affected by the lack of a steady flow of financial capital from the bank system at prices similar to the ones in EU-15, not speaking of China, which – due to its own currency and state-owned banks – have had a high economic growth for the last 30 years. In the process of selling the banks, there was no awareness of the fact that companies, even rich in assets and human capital, will die when there are no financial means (adequate credits from the bank system) to maintain their operations. By selling the banks to foreign capital, Poland – contrary to small Slovenia, where the share of foreign capital in its banks system amounts to 10% - became completely dependent on the foreign financial capital and subdued to its requirements. Consequently, the standard of living of the majority of inhabitants has lowered and the process of economic and financial destruction is continuing, which is proved by the huge and still growing public debt that exerts a pressure on the sale of the remaining national wealth. High prices of credits to be obtained from the branches of foreign banks in Poland and their difficult availability do not only limit any investments and the creation of new job places but also result in a prompt increase of the indebtedness of people, which equaled 450,000 m zlotys at the end of 2010[37] and is still rising fast mainly due to the lack of cheap credits from the bank system, the necessity to take usurious loans and the variability in foreign currency rates, especially of the Swiss franc.

The presented above cardinal mistakes of transformation emphasize the significance of the economic doctrine that is accepted as the basis for the country's economy and its economic policy. Moreover, they show the consequences of ignoring the continuity of economic processes and destructing the material acquis of previous generations. In addition,

[37] G.W. Kołodko, Świat na wyciągnięcie myśli, op. cit., p. 265.

they prove that the acceptance of assumptions that contradict the reality is bound to result in poor effects of economic processes. They also show the results of the rule of politicians that have no adequate knowledge on the functioning of present-day market economy and sufficient professional experience to manage contemporary economic processes. The lack of suitable qualifications and professional experience that are necessary for their positions results in the fact that such politicians – according to M. Kalecki – follow the economists of the previous generation. It is the Polish neo-liberals, who are the economists of the previous generation and present the 19th century theories of the free, self-regulatory market and perfect competitiveness that do not conform to the reality of the present-day monopolized and globalized economy. As it has been well known for many years now, free market and perfect competitiveness existed - if at all - only at the beginning of capitalism and very soon monopolies appeared. What is more, as it is known from the Keynesian approach that has been also proved empirically, market equilibrium is achieved coincidentally and due to that fact, markets require an efficient state that would be capable of a correct assessment of the condition of the economy and society; a state that possesses a vision, a measure of the targets and disposable resources as well as the ability to correct the mistakes of the market in good time. The administration of the state cannot develop enormously as it is happening in Poland (450 thousand employees in public administration) while at the same time the social and economic functions of the state are being reduced according to the neo-liberal slogan: *Hands off the economy.* The size of the employment in the state administration should be related closely to the responsibilities of the state towards the society.

3. The basic reasons and social and economic effects of low employee wages in Poland as a EU country that result from ignoring the fundamental principles of economy and basing it on the neo-liberal doctrine

The present-day monopolized capitalism that is based on the neo-liberal doctrine has not solved two crucial problems: the issue of complete employment and the unlimited and unjust division of wealth and income. The inability of the contemporary neo-liberal capitalism to solve those problems, which results in high unemployment, social exclusion and poverty, is – as it has been said before – the effect of ignoring the fundamental principles of economy according to which the prosperity of the society originates from work and the production of material goods, and there is no such thing as free lunch. Some economists who take into consideration the significance of these principles even call them the economic laws[38].

Ignoring such fundamental principles or economic laws results in the loss of interest, first in the USA and then in other countries, to use the financial capital in sectors that manufacture goods which meet social needs. Instead, it is turned into money that seeks profits on capital markets. Consequently, a casino or stock exchange capitalism[39] emerged, where banks, stock exchanges and financial markets alienated themselves from economy as a system composed of adequate (i.e. serving the social and economic development of countries) elements and they no longer play their original service role. Their functions expanded and the financial system became an independent element of economy. Stock game, and not the production of material goods, became the way to multiply the capital - *finances finance mainly the finances*[40]. Thus, high income is generated without manufacturing goods that meet the needs, which means gaining benefits from the so called free lunch; it is the adherence to the principle of maximum financial effect and not the principle of the growth of efficiency or productivity. It became unimportant whether a company into which investments are made on capital markets makes any profits. It is crucial to sell its shares promptly with a profit. As a result, financial markets are used rather for a speculation game than assist in countries' development and they impose the sense of instability to the world. The myth of risk management became more important than the management of economy as a system consisting of several elements. This statement is in line with the data published in the report of the Club of Rome: *Money and Sustainability – The Missing Link* according to which over 95% of the turnover on financial markets has nothing to do with economy and is pure speculation[41]. Despite that, as the anti-crisis operations in the US and EU show, the politicians behave as if they were not aware of the fact that a market without labor and investment in goods meeting the needs is an economic absurd. Moreover, they seem to neglect the fact that the target of economy is to achieve the social and economic development of the country and the increase of the prosperity of its inhabitants, and that GDP itself is not the target.

In economies that aim at a constant increase in the welfare of societies, and such is the target of EU, the remuneration of all the participants of economic processes should be related

---

[38] E.V. Bowden, J.H. Bowden, Ekonomia nauka zdrowego rozsądku (Economics: The Science of Common Sense),, Wyd. Fundacja Innowacja, Warszawa 2002, pp. 7 – 8.
[39] S. Strange, Casino capitalism, London, 1986.
[40] T. Kowalik, Kapitalizm kasyna, w: Kryzys, Krytyka Polityczna, Warszawa 2009, sp 13.
[41] L. Pawłowski, Pazerna finansjera, „Przegląd", 23 – 29.09.2013, p. 46.

to the effects of their work and the results of the entities that produce goods meeting the needs of country's inhabitants. Moreover, the lowest employee remuneration should be at least on the level of a fair wage, which – according to the provisions of the Council of Europe Committee of Experts – should amount to 68% of the country's average pay. During the whole period of the transformation, the minimal gross monthly wage in Poland accounts for 31%-40% of the average monthly pay, while in the majority of EU countries it is not below 50% [42]. Poland's low employee wages, the minimal salary including, are not justified by labor costs, time of work and its efficiency. Quite the contrary. In comparison to EU countries, the labor costs in Poland are not high, the work time is one of the longest in Europe and the efficiency in industry is comparable to the one achieved in EU-15. For example, the labor costs in Poland are over five times lower than in Belgium. Only some of the new EU member-states, i.e. Bulgaria, Latvia, Lithuania and Romania have lower labor costs than Poland.

When comparing to other EU countries, the level of remuneration in Poland, minimal wages including, one should not consider the gross wage level but its net value, i.e. after the personal income taxation. The comparison of net wages is right due to a significant diversification of tax systems in EU countries. For example, in EU-15 there are numerous – in comparison to the new EU member states – tax thresholds (e.g. 17 in Luxemburg, 5 in Belgium and France), the income taxation is progressive (high tax rates for high income and low rates for low income) and the system of tax exemptions is well developed, which results in the fact that individuals with low income do not pay tax at all. In contrast to EU-15, in the new member-states there are few tax thresholds, only very low income is zero-taxed, the taxation rates of low income are relatively high, while they are relatively low in the case of high income. In addition, there is a flat-rate tax – which in socially unjust - in such countries as Bulgaria, the Czech Republic , Estonia, Latvia, Romania, Hungary and Slovakia[43].

In spite of the fact that the advantages of progressive taxation were emphasized by several Polish economists (e.g. A.Krajewska[44]), there are only two tax rates (18% and 32%) in the Polish PIT system, which results in the rejection of the principle of justice that has been accepted for years as one of the basic principles of a fair tax. It was advocated already by the first liberals A.Smith and J.S. Mill. According to A.Smith " the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to

[42] M. Księżyk, J. Duda, Płace minimalne w Polsce zaprzeczeniem realizacji podstawowych celów Unii Europejskiej, „AGH Managerial Economics", 2012 No 11, p. 44.
[43] http://ec.europa.eu/ taxation_customs/taxin/welcom,(Accessed: 26.05.2013)
[44] A. Krajewska, Podatki w Unii Europejskiej, PWE, Warszawa 2010.

their respective abilities" [45]. J.S. Mill expressed the same opinion stating that a 10 % income tax for public expenses cannot be imposed both on a rich person and the one living in poverty as the sacrifice required from the latter would be entirely incommensurable with that imposed on the first and would devoid him of the means of existence. Tax should be imposed starting from a certain untaxed minimum of income that is sufficient to provide with everything that is necessary to live and protect against suffering , but without any indulgence[46].

Tax systems of all EU countries should follow solutions that ensure a just division of tax burdens and should eliminate the unjust, i.e. inconsistent with the principles of economy, division of wealth and income. The function of the personal income tax should be to protect income against the decline below a fair pay and to provide its growth relatively to the efficiency and effectiveness of labor, with regard to an equitable tax burden. That would indicate an active role of the state in its struggle with poverty and the participation of its citizens in the effects of the economic growth as – according to J.E.Stiglitz – it is not a growth when the society does not participate in it; it is the standard of living which is significant and not the average income per head[47].

The analysis of employee wages, the minimal pays and income taxes indicates that Poland's integration with EU is conducted without the convergence as regards the standard of living of Polish citizens and that the solutions applied are not in line with the Constitution of the Republic of Poland, Article 2, which says that *The Republic of Poland shall be a democratic state ruled by law and implementing the principles of social justice*[48].

With the consideration of the fundamental principles of economy and the aims of EU that imply the need to construct the bases for a modern and egalitarian society, the necessity arises to alter remuneration systems as the policy currently applied in Poland and other EU countries *of low employee wages and high management salaries results in the instability of consumer expenditure, which tends to be higher in non-egalitarian economies and makes them more vulnerable to economic fluctuations*[49]. It true to state that high concentration of

[45] A. Smith, Badania nad naturą i przyczynami bogactwa narodów (*An Inquiry into the Nature and Causes of the Wealth of Nations*, PWN, Warszawa 1957, p. 584.
[46] J.S. Mill, Zasady ekonomii politycznej (*Principles of Political Economy*) , Book 2, PWE, Warszawa 1966, p. 586.
[47] J.E. Stiglitz, Wizja sprawiedliwej globalizacji. Propozycje usprawnień, Wyd. Nauk. PWN, Warszawa 2007.
[48] Dz.U. (Journal of Laws), No. 78, item 483 (1997).
[49] T. Kowalik, Systemowe źródła obecnego kryzysu, Master of Business Administration, 2009 No 5(97) September – October, p. 16.

income and wealth, together with an advancing increase of wage differential, is the cause of instability and slumps on financial markets[50].

Despite the fact that there was a feeling that income differentials should be reduced, they actually increased. In the USA, the country that built the "casino capitalism" in 1976-1998, real wages of employees fell by 14%, while in the case of management they went up by 200%. "While in the late 1970s a Chairman of the Board earned four times as much as a worker with the smallest wages, in 1990s his income became 200 hundred times higher than his employee's"[51]. The FED pointed out to the extreme income differentials in the USA and stated (in its 1992 report) that if the property of the 10% of the richest Americans was divided between the remaining 90%, each family would receive 137 thousand USD[52]. The EU countries followed promptly the US example as regards the income differential. In France and Britain the income of CEOs reached approx. 3.1 m USD and in Germany they received 1 m USD on the average[53]. The years of the present crisis show a further growth of income differentials.

Income differentials, although already so high, still increase and that does not happen only in the so called rich countries but also in the ones considered to be poor, including the new EU countries – especially Poland, which till 1990 was an egalitarian country with a fairly poor society with slightly diversified income. At present "the fortunes of rich Poles are equal to the ones of the financial European elite. However, the situation of the moderately rich and poor (the unemployed, the poor-employed and their families) is definitely worse in comparison to their counterparts in the majority of the EU countries"[54].

The research presented above indicates that the creation of conditions that would support the increase of social demand is indispensible for Poland and other EU countries to pursue sustainable development. That requires both focusing on the investment in sectors that meet the needs of inhabitants and following basic rules of economy in managing the country; consequently, it means the reduction of the number of "leisure class" representatives (the term first used by T.Veblen, an American institutionalist) in various states and EU institutions which are too big and overstaffed in relation to their functions. It is strange that economic sciences ignore that problem in their investigations despite the fact that the doctrine of institutionalism has its long history.

---

[50] M. Otte, Kiedy nadchodzi kryzys. Co powinniśmy zrobić, aby wyjść obronną ręką z obecnego kryzysu gospodarczego, Studio EMKA, Warszawa 2009, p. 137
[51] M. Otte, op. cit., p.136.
[52] T. Kowalik, Systemowe źródła kryzysu…, op. cit., p. 16.
[53] M. Otte, op.cit., pp. 136 – 137.
[54] E. Polak, Globalizacja a zróżnicowanie społeczno – ekonomiczne, Difin, Warszawa 2009, p. 9.

Conclusion

The research leads to the following final conclusions :

1. The basic sources of low employee wages in Poland as an EU–country consist in ignoring the fundamentals of economy, i.e. the welfare of a society is the result of the work and production of goods that meet the needs of the country inhabitants and there is no such thing as free lunch, which means that income without work is a pure absurd, and in basing the economy processes on the neo-liberal doctrine;
2. The neo-liberal doctrine as the basis for the economic policy should be rejected and an active policy of the state should be introduced aiming at the development by the stimulation of investment and employment
3. Low employee wages are unjustified as they cause a demand barrier, which constitutes a significant factor restricting the entrepreneurship and economic development of the country;
4. Labor market policy should aim at reducing (and not increasing) the growth of inequality and poverty;
5. Low employee wages in Poland and the increasing liberalization of the labor market result in the outflow of qualified people to the countries with higher wages and better social benefits, and, consequently, in the reduction of the economic growth and development.

Bibliography

[1] Amble B., *The Diversity of Modern Capitalism*, Oxford, 2003.

[2] Bakan J., *Korporacje. Patologiczna pogoń za zyskiem i władzą*, Wyd. Lepszy Świat, Warszawa 2006.

[3] Bowden E.V.,. Bowden J.H, *Ekonomia nauka zdrowego rozsądku*, Wyd. Fund. Innowacja, Warszawa 2002.

[4] Drewnowski J., *Ku demokracji i gospodarce rynkowej. Tezy o zasadach transformacji*, „Ekonomista” 1995, n. 1- 2.

[5] Dunin – Wąsowicz S., *Blaski i cienie gospodarki oddziałów*, „Rzeczpospolita”, 29 – 30 September 2001

[6] Dunin – Wąsowicz S., *Komplikacje pooperacyjne*, „Rzeczpospolita", 8 – 9 December 2001.

[7] Dz. Urz. (Official Journal of UE) C310, Vol. 47, 16 December 2004.

[8] Dz. Urz.(Official Journal of EU) C306, Vol. 50, 15 December 2007.

[9] Dz. Urz. (Journal of Laws) No 78 item 483, 1997 .

[10] Gedymin O., *Kapitalizm niemiecki. Szkice o genezie, rozwoju i teraźniejszości*, Wyższa Szkoła Finansów i Zarządzania, Białystok 2002.

[11] Hayek F.A. von, *Droga do zniewolenia*, PWN Kraków 1966 .

[12] http://www.economist.com/media/pdf/Demokracy_Index2010.

[13] http:// ec,europe.eu/taxation_customs/taxin/Welcom, (Accessed: 26.05.2013)

[14] Kalecki M., *Dzieła Vol.1, Kapitalizm, koniunktura, zatrudnienie*, PWE, Warszawa 1979.

[15] Kalecki M., Sachs I., *Z zagadnień finansowania krajów o gospodarce mieszanej*, PWN Warszawa, 1967.

[16] Karpiński A., *Przemiany strukturalne w procesie transformacji Polski 1989 – 2003 – 2025*, Wyd. SGH, Warszawa 2008.

[17] Kieżun W., *Patologia transformacji*, Poltext, Warszawa 2012.

[18] Keynes J.M,., *Ogólna teoria zatrudnienia, procentu i pieniądza*, PWN, Warszawa 2003.

[19] Kołodko G.W., *Świat na wyciągnięcie myśli*, Prószyński i S-ka, Warszawa 2010.

[20] Kołodko G.W., *Dokąd zmierza świat. Ekonomia polityczna przyszłości*, Prószyński i S – ka, Warszawa 2013.

[21] Kowalik T., *Współczesne systemy gospodarcze. Powstanie, ewolucja, kryzys*, Wyd. Wyższej Szkoły Przedsiębiorczości i Zarządzania im. Leona Koźmińskiego, Warszawa 2000.

[22] Kowalik T., *Systemowe źródła obecnego kryzysu*, „Master of Business Administration", 2009, No 5(97) September-October.

[23] Kowalik T., *Kapitalizm kasyna, w: Kryzys*, Wyd. Krytyka Polityczna, Warszawa 2009.

[24] Kowalik T., WWW.Polskatransformacja.pl, Wyd. Literackie Muza SA, Warszawa 2009.

[25] Krajewska A., *Podatki w Unii Europejskiej*, PWE, Warszawa 2010.

[26] Księżyk M., Duda J., *Płace minimalne w Polsce zaprzeczeniem realizacji podstawowych celów Unii Europejskiej*, „:AGH Managerial Economics", 2012, No 11.
[27] Landreth H., Colander D.C., *Historia myśli ekonomicznej*, PWN, Warszawa 2005.
[28] Levinson M., *Nie tylko rynek*, PWN, Warszawa 1990.
[29] Mill J.S., *Zasady ekonomii politycznej*, Vol. 2, PWE, Warszawa 1966.
[30] Otte M., *Kiedy nadchodzi kryzys. Co powinniśmy zrobić aby wyjść obronną ręką z obecnego kryzysu gospodarczego*, Wyd. Studio EMKA, Warszawa 2009.
[31] Ost D., *Klęska „Solidarności". Gniew i polityka w postkomunistycznej Europie*, PWE Warszawa 2007.
[32] Pawłowska L., *Pazerna finansjera*, „Przegląd", 23 – 29. 09. 2013.
[33] Polak E., *Globalizacja a zróżnicowanie społeczno – ekonomiczne*, Difin, Warszawa 2009.
[34] Ratajczak H., *Armia cenniejsza niż myślenie*, „Przegląd", 15 – 21.07.2013.
[35] Sachs J., *Koniec z nędzą. Zadanie dla naszego pokolenia*, Wyd. Nauk. PWN, Warszawa 2006.
[36] Smith A., *Badania nad natura i przyczynami bogactwa narodów*, PWN, Warszawa, 1957.
[37] Smoczyński W., (In the interview with Steinbruck*), Niemcy nie są potworem Europy*, „Polityka", No 22 (2909), 27.05 – 4.06.2013.
[38] Stiglitz J.E., *Wizja sprawiedliwej globalizacji. Propozycje usprawnień*, Wyd. Nauk. PWN, Warszawa 2007.
[39] Stiglitz J.E., *Freefall. Jazda bez trzymanki. Ameryka, wolne rynki i tonięcie gospodarki świata*, PTE, Warszawa 2010.
[40] Strange S., *Casino capitalism*, London 1986.
[41] Tittenbrun J., *Z deszczu pod rynnę. Meandry polskiej prywatyzacji*, Vol. 1 – 4, Poznań 2007.
[42] Zaremba K., *Prywatyzacyjne bezprawie*, „Przegląd", 1 March 2009.

Abstract

The paper deals with the identification, systematics and characteristics of the fundamental sources of low employee wages in Poland as a EU member-state and their economic and social effects. The following assumption constitutes the theoretical basis for the

research: in the course of the investigations the country's economic system should be treated as a system made of adequate elements and the researchers should consider the continuity of economic processes. The acceptance of that assumption indicates a complex – and not just a micro-economical – analysis of issues regarding the research in question. The results of the research as regards the sources and social and economic effects of low wages of Poland as an EU member-state are presented in the following two approaches: (1) the sources and social and economic effects of low wages in Poland that result from cardinal mistakes of the market-oriented transformation of Polish economy and (2) the sources and social and economic effects of low wages that result from neglecting the basic principles of economy and following the neo-liberal doctrine in the country's economic policy.