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## **ANTIDOTE TO CURRENT PROBLEMS OF WORLD'S ECONOMY: NEOLIBERALISM OR CENTRALLY PLANNED SYSTEM?**

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### **Abstract**

*The article presents the assumptions for the major economies of the world tackling the problems and issues of the world economy and the possible solutions that come to mind. The paper scrutinizes the existing streams of thought and notes that there are two contradicting systems in the world economy that can be described as pure capitalism and pure socialism. However, we argue that most existing economic systems are actually the mixed systems embedding the features from both. The paper runs a critical analysis and emphasized that they have different uses and different effects depending on the country concerned.*

**Keywords:** economy transformation, neoliberal system, capitalism, transformation economy.

**JEL classification:** D20, D82, L22

### **Introduction**

The issue of an optimal and universal model of economy is always a current problem regardless the development level of a given country or economic system. Moreover, the opinions on the optimal model of economic systems are strongly dependent on the resources of a country, historical experiences, and the level of independence as well as the ultimately subjective convictions of its leaders. It seems paradoxical that on the world's map there are countries whose extremely diverse systems are regarded as optimal for economic development. Additionally, they have equally strong economic grounds, taking into consideration substantive statements of renowned economists of a certain country. Assuming the accuracy of the thesis concerning strong variety of factors shaping the economic model desirable from the point of view of a country, it must be stated that the optimal economic system does not exist. It will always have to be corrected by characteristic elements resulting from geographical limitations, natural resources as well as national features shaping development priorities of a given country. Following this line of thought, it seems desirable to define the influence of elements characterizing certain countries on elements of the economic model. Moreover, it should be pointed out that features of the economic system have direct influence on microeconomic sphere, forming behaviors of commercial organizations of a country applying a certain economic system.

### **Main economic systems**

Analyzing the issue of economic systems of the world countries, it can be noticed that there occur two superior economic systems defined simply as socialism and capitalism. Referring

to the latter, there has been a number of synonyms developed in the theory of economy, which are commonly used, such as market economy or private economy (Ehrenberger et al., 2015; Brodzicki, 2015). Capitalism, regardless the nomenclature, has been strongly rooted in the mind of Polish people since 1989, and seems to be regarded as a natural alternative for the economic system known as socialism. It is worth pointing out that the term 'capitalism' is not often used in economy directly – one might get the impression that this system is treated primarily in relation to other economic systems, as *a priori*. By people in countries, which have relatively recently undergone economic transformation, it is considered to be the only desirable economic system (Fedorova, 2013; Nawrot, 2014). Therefore, we can come across expressions such as market and free market economy more frequently. From the scientific point of view, this approach does not seem to be fully correct due to the fact that within the notion 'capitalism' or 'market economy' there are a lot of diversified models of how the economy works. Identifying solutions adopted by a given country simply as free market economy, even if it has most features of such a system, is an oversimplification due to the unlimited number of modifications of the free market model. It must be pointed out that elements of free market economy, which characterize capitalism, have existed for thousands of years. However, they are not the very beginnings of capitalism, whose creation should be considered from the moment when free labor force appeared, understood as not connected to means of production and taking up independent work resulting from economic necessity. The presence of free human capital and considering it a resource in the process of producing goods by 'organizers' and capital owners is the main element of capitalism. Among many definitions describing the discussed system in specialists' writings the following one might be quoted; capitalism is a system whose main motive of economic activity is profit, and the main mechanism that coordinates this system is competition and market. The social base of capitalism is the social class system, which is divided into capital owners and employees, who sell their services under contract (Kowalik, 2005). An essential element of capitalism is market and competition. These parameters are not always perfect i.e. market is not always free and competition is not always unlimited. In modern economic models there are, for instance, regulations regarding interventionism of the country aimed at protecting the interest of a certain group of market entities. Such elements are the factors disrupting the model of capitalism and support the general thesis, presented in the beginning of the article, which states that the optimal economic model does not exist (the country interventionism is intended to stem from essential economic reasons). Analyzing the issue of free market systems it should be noted that they have one more characteristic feature – a strong ability to develop. Analyzing historical development of the world, not only in the economic aspect but also social and technological, it is difficult to undermine the fact that the mechanism of development based on constant improvement is the basic mechanism leading to added value. Moving to microeconomic level, it is worth noticing the success of Japanese philosophy of marketing based on complex quality management, which contributed significantly to the economic development of Japan, especially in the post-war period. One of the main elements of this system was constant improvement in the cost and functional sphere of product, but also the social one. Going back to the level of macroeconomic and modern bases of capitalism, it should be noted that it is concentrated to a great extent on financial development of entities operating within its range. Even if we consider functional development of a product, it has to contribute to the increase of consumerism and as a result to the rise of financial performance (Białowas, 2017). Synthetizing the above mentioned qualities a reference to the theory of economy formulated by Schumpeter can be made. He pointed out that the essence of capitalism is constant revolutionizing of its economic structure – this phenomenon is known in economy as 'creative destruction'. It means that the inclination to innovation and development has greater importance in the free market system than optimal use of existing

resources (Kowalik, 2005). Obviously, one may argue with Schumpeter's theory formulated in the beginning of the XX century, if only due to the fact, which is difficult to explain, that in the 1960s and 1970s the world economy developed substantially. It seems that in Schumpeter's theory one important mechanism connected with development of science and technology was underestimated, which contributed greatly to the economic development. In the process of immense technological development of the modern world in the post-war period the demand for capital increased, which contributed to market development and creating speculative capital (what is interesting, on the turn of XX and XXI century daily transactions on the world capital markets exceeded by a few times Polish GDP in the 1990s). It seems that in modern economic systems based on models connected to the capitalistic Economy cause and effect connections are formed, which are linked to the development of capital priorities in the Economy with the process of its globalization. It is confirmed in specialists' writings, where terms for current free market systems such as casino capitalism or stock market capitalism can be found (Strange, 1986). The big role of capital markets was characteristic for the Economy of the USA in the 1970s and it seems to have been later transferred to the level of worldwide economy.

Undoubtedly, the system based on socialistic assumptions is antagonistic to free market economy. In its pure form it can be described as a set of rules concentrating around central planning and centralization of ownership at national level. Obviously, like in case of free market systems, we can talk about versified models of its operation, which, according to the author, must have been determined by economic, historical and social factors or resulted from the attractiveness of natural resources of a given country. It must be noted that the system spread around the world, not to such a great extend as free market economy, including not only the former Soviet Union but also central Europe, big part of Asia as well as the third world countries. Not trying to judge the effects of pure free market and centrally planned systems, it must be pointed out that their implementation took place in different conditions. According to the author, a prominent example of implementing a centrally planned economic system is Cuba. From the perspective of central European countries, including the ones which have recently undergone transformation of economic system, Cuba is viewed as a country being in economic crisis, especially taking into consideration the living standard of its citizens. The result of implementing the described system in this country is a clear division into two areas; the external one comprising tourism, production and exporting luxurious goods (mainly medical) within the countries of Central America, which is relatively efficient, and the internal one comprising production and distribution of goods for the local society – ineffective and causing numerous social and economic problems. Discussing the conditions for implementing the economic system, the Republic of Cuba cannot be judged without reference to the situation that took place before 1959 (this is the year when economic system was changed into socialism as a result of taking power by Fidel Castro, the former president of the Republic of Cuba, through revolution. It was preceded by the removal of Fulgencio Batista, who was supported by the USA). Until this year Cuba was characterized by strong economic dependence, ultimately low level of living standards, extremely high level of illiteracy and practically no medical care. After decades of functioning of the centrally-planned economy Cuba is, apart from the undoubtedly objectively negative economic effects, a country where there is no illiteracy and it is the world leader in medical developments, which is a result of a very high level of education on all stages. It is not the author's intention to glorify the implemented solutions, but only point out the necessity of considering a wider, multifaceted evaluation of economic systems instead of evaluating them through a few chosen parameters such as GDP indicator, which is often considered controversial. Paradoxically, the confirmation of this thesis is the relatively high dynamics of GDP indicator increase in Cuba (in 2008 it was 4.3% (average rate of GDP increase of the USA in 1948-2000 was 2.3%.) with

the inflation level -0.1. To compare, in 2010 the inflation rate was 1.4 (data based on Central Statistics Office of the Republic of Cuba, Yearbook 2010). The unemployment rate was 1%, obviously as a result of hidden unemployment. What is interesting, Cuba maintains good cooperation with countries like Spain in the area of tourism and Italy in the area of telecommunication. Canada is also an important investor.

Referring to the effects of political changes based on centrally planned systems, it cannot be underestimated that within them the USSR, along with the USA, became a military superpower with substantial military base which, without a doubt, resulted from connecting centralized political authority with nationalizing the means of production. It resulted in full control over economic activity. It should be also noted that with the development of industrialization, and therefore complications of the mechanisms functioning in the Economy, the system started to become chaotic.

### **Economic subsystems**

As previously stated, it is difficult to form optimal ('pure') economical models. Therefore it is worth noting a few merged models, which successfully function in certain countries. The Swedish model is an interesting example. It was of big interest to economists back in the 1980s, especially with regard to alternative ways of political transformations from centrally-planned systems to liberal economies. The Swedish model is based to a great extent on social egalitarianism and the country's interventionism in numerous areas of activity. The result of these activities is, for instance, strong regulation of the financial sector, which can, for example, limit the risk of negative consequences of the speculation capital. Swedish Economy was built on a number of social agreements, which result in economic stability; at the same time limiting liberalism in some areas of economy (the areas in which it might have negative social consequences). A characteristic feature of this model is, among others, stimulating the Economy in periods of economic slowdown by increasing expenditures from the country's budget. Another example of diversified approaches to economic models is Asian systems including Japan. It is worth noting that Japan, like the Republic of Cuba, is an interesting example of implementing the economic system (obviously different from the socialistic model) in specific conditions. The country was heavily destroyed right after World War II, its Economy was ruined and it was not associated worldwide with high quality technologically advanced products. Elements of company management, which, paradoxically, were implemented by economists and managers from the USA, changed the economic position of Japan in the world for decades. One of the characteristic elements of how Japanese Economy was organized was the model of functioning companies as 'mini countries' within which mechanisms such as financing investments were created. These entities served social functions for years to their employees, who usually stayed in the company their all working lives. It was one of the reasons why the contribution of the country's budget in GDP was among the lowest for years.

### **Conclusions**

Characterizing certain economic models, one can assume, in a way - a priori, their consequences on the microeconomic level. It is also difficult to describe within this short article all the consequences of economic model in the same way, as it is impossible to characterize in detail economic systems of the world's countries within one study. Therefore, the information contained is, to great extent, only an indication of the issue. However, the dynamics of observed changes in the last decades must be noted. Indicators of the important role of liberal systems based on free market economy (and their consequences) can be noticed

while observing the changes of attitude towards managing Japanese organizations. They are slowly beginning to question pro-social management of companies in the face of substantial changes on the market and difficulties in staying in business. Rejecting deeply-rooted values in Japanese culture is, according to the author, very significant and might bring further dynamics of disseminating radical approach to company management in most countries, which do not have pro-social values so deeply-rooted in their culture. As it might be predicted, these activities will be supported by further dynamic development of technology, which also makes it possible to shape organizational structures freely. It is difficult to predict what the future of developing the world economies will be and what consequences there will be on the microeconomic sphere. It seems likely, however, that the elements of the quoted Schumpeter theory might be still up-to-date.

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