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Comment: An Economist's Reflections on Individuality, Human & Social Capital & the Responsibility of Academia:
The Case of Poland and Central-Eastern Europe

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Abstract

Human capital and social capital are gaining significance in economic development theory supported by mounting evidence from different parts of the world. The case of successful systemic transformation in Poland and Central and Eastern Europe (CEE) provides evidence as to how important investment is in human capital and social capital to overcome the systemic crisis, complete the transformation to democracy and move toward sustainable development. Twenty years of experience with the implementation of the CEE model of transformation also show the need for continuing investments in both forms of capital and the critical role of academia in building appropriate human capital and social capital to meet the challenges of the fast changing world of 21st Century.

1. Introduction

Individuality, human and social capital represent the core interests of the World Academy of Art and Science (WAAS) in research and educational activities (Giarini et al., 2012; Jacobs & Šlaus, 2011). For that reason it will be interesting to observe how these theoretical concepts evolved and shaped an original economic development model of systemic transformation from a totalitarian political and centrally planned system to a democracy and market economy in Central-Eastern Europe (CEE). Although some economists ignored the specificity of the CEE transformation (e.g. Stiglitz, 1999, 2001) focusing only on Russian (or post-Soviet) and Chinese models, some others appreciated the distinguished features of the CEE model which depended heavily on individuality, and human and social capital (Dabrowski et al., 2001; Archibald et al., 2006). Contrary to Chinese and post-Soviet models (implemented mainly in Russia and in former Soviet republics except the three Baltic states Estonia, Latvia and Lithuania), which are still evolving, the CEE model was completed by accession to the European Union (EU) in eight of the CEE countries (CEEC) in 2004 and two others (Bulgaria and Romania) in 2007. This is also a more comprehensive model because it includes not only economic transformation but also radical political and environmental transformation, contrary to the post-Soviet and Chinese models.

Among the ten states of CEEC which joined the EU, Poland has arguably undergone the most substantial social, economic and environmental transformation and integration with the global economy over the last twenty three years starting with parliamentary election on June 4, 1989, which marked the beginning of transition from communist to Solidarity-led governance. This process comprised a set of challenges and opportunities for governance processes in the state, in particular mechanisms to enhance the legitimacy of decision-making by the government, toward informing public policies and improving public service delivery. Poland started with this process earlier than the other CEEC states marked by establishing an independent and self-governing Solidarity trade union in August 1980, which soon became a powerful social movement of over 10 million members. Although after 18 months of "co-habitation" with the communist-led government Solidarity was crushed by the introduction of Martial Law on December 13, 1981, the lessons were learned and a new human and social capital emerged. For instance, the two jointly developed by Solidarity and government laws *(On State Enterprise and On Self-government in the State Enterprise* in September 1981) representing the most radical change toward decentralized economy in the whole Soviet-bloc started to shape new entrepreneurship in the business sector. Although some governance provisions were suspended during the Martial Law in the *State Enterprise Law,* the process of learning of self-reliance in enterprises started and never died despite political barriers until the break in 1989. Simultaneously went the process of political learning led by the underground Solidarity with thousands of different illegal publications produced systematically by its activists. Despite governmental repressions and economic difficulties the process of building new human and social capital took place and Solidarity elites, as well as the majority of the population, were better prepared when the government offered "Round-table Negotiations" in Spring 1989 leading to a peaceful transition of political power. Polish investment in human and social capital has been identified as a core component of Poland's design of the radical transformation process in Balcerowicz's Plan at its center leading to faster recovery in 1992 and engine-like growth and relative economic stability throughout the global economic crisis. The most critical was the social capital, particularly the unconditional trust and confidence in the first democratically elected government after WWII, which offered a very painful transformation package with radical liberalization and stabilization policies leading to the abolition of most of the subsidies to reach the world market prices and thus increasing initial prices several hundred points overnight (e.g. energy prices have increased about 600%).

These investments have also strengthened processes and enabled non-executive actors at multiple levels to hold the state to account for its actions and performance. This relationship – or social contract – between the government and the governed is a constitutive process for power, which shapes and is shaped by human and social capital, which in turn inform the communication and collaboration which establish and maintain the basic political and juridical institutions of effective and authoritative decision-making. In short, the Polish experience teaches us that investments in human and social capital can be self-reinforcing. Unfortunately, as economic categories both capitals require continuing investment to rebuild "wear and gear" and adjust to new conditions. This simple economic lesson was better studied and implemented by the Polish society than by the new Solidarity-based elites. The society invested very well in human capital producing a five fold increase in college enrollment but 17 fold in business and economic education, which was the most deficient at the beginning of transformation (Bochniarz, 2006). Former opposition-based politicians started to fight each other soon after they got rid of communists from government leading to faster deterioration of the Solidarity-linked social capital and thus opening the door to a post-communist government in the Fall of 1993. Fortunately, the leaders of the Left Democratic Alliance (SLD) learned their lessons too and did not try to reverse the major design of the transformation process of 1989, which had already started producing first economic benefits thus cementing their political base.

My intention is to share the lessons – positive and negative – from CEE, and particularly from the Polish transformation showing which investments in human and social capital – with an emphasis on investments in education and increase in the supply and skills of the labor force – contributed to the country's explosive growth in the past two decades. Of key importance could be lessons parsed from the Polish experience by the academia, in particular for students of economics and public administration, which might inform the development of new curricula and research toward the achievement of better understanding about how institutional innovations can contribute to economic growth and even blunt the effect of a global financial crisis.

2. Some Context: The State of Poland Before and After 1989

Poland is rich in natural resources, for both agriculture and extractives (chiefly coal). Prior to World War II Poland was Europe's breadbasket, and boasted a strong industrial sector. Following World War II, the communist social and political reorganization brought an inefficient, centralized bureaucracy which controlled production (by now focused primarily on heavy industry), isolated the Polish economy through high dependence on the Soviet-dominated, non-competitive Council for Mutual Economic Assistance (CMEA) market, and effectively ignored market fundamentals.

The 1970s and 1980s brought some reforms which granted some additional revenue-generating power to the small number of non-state enterprises, but the overall economy was one of stagnation and continuing decline due to a chronic shortage of consumer and capital goods, high level external debt, social apathy, and poor public health due to high levels of industrial pollution. In short, by the late 1980s, Poland was a veritable disabling environment for growth and development.

The mid-1989 installation of a noncommunist government led by PM Mazowiecki brought the so-called 'shock therapy' reforms, including government decentralization, market liberalization, stabilization policy (e.g. In the 2^{nd} half of 1989, inflation reached 600%) and broad institutional changes, including privatization. As expected, introducing new policy and institutions, and abolishing the old ones including interruption of traditional supply chains could not produce economic growth but painful price hikes, bankruptcies and unknown-for-decades high open unemployment. However, Poland experienced the shortest recession and relative economic stabilization and the first positive economic growth arrived in 1992. Despite all these economic and social hardships, the Polish Parliament addressed the needs of the deteriorating environment causing terrible human suffering and losses of high value ecosystems by introducing the very ambitious and original National Policy for Sustainable Development in May 1991, which was later implemented quite smoothly by four other governments from left to right parties.

The country now boasts of well-functioning democratic traditions, including a strong, decentralized government with peaceful power transitions, a profitable and well run banking sector (without fiscal crises, bankruptcies or "toxic assets"), and a diversified economy, which has seen living standards rise to the level of Western Europe, thanks to the explosive economic growth throughout the last twenty years. Poland is now among the EU's fastest growing economies, with a steady annual growth that ranged between 3.5% and 4.3% through early 2012. While in 2009 growth was chiefly realized from increases in net exports, it was driven by growing domestic demand (which itself was driven by long term efforts to enhance the overall resilience of the labor market) in 2010, as well as strategic support to strengthen private consumption, encourage investment in the stock market, and to proliferate bank credit to a broader section of the public.

Starting in 2009, Poland was the only country in the EU to sidestep an economic decline. While growth has slowed, it has not halted as in other EU states and hovered between 2% and 2.5% in 2012 even as growth rates in the EU declined.

3. Considering the Contribution of Human and Social Capital Investments in the Rise of Poland

Poland's population has slightly declined from 39 million people to approximately 38 million people over the past two decades. Over the same time frame, Poland's Gross Domestic Product (GDP) per capita, adjusted by purchasing power parity (PPP) – despite being an imperfect measure of economic development – is nevertheless telling; between 1991 and 2011, GDP per capita PPP grew from approximately USD $5,700 to USD $20,200. Put the other way, Poland, according to the Organization for Economic Cooperation and Development (OECD), has become a high-income country.

Among the several lessons which academia may draw from the Polish experience are the relative contributions of human and social capital to national growth and stability. These are well accepted economic concepts boosted by Nobel Prize winners such as Becker, Lucas and Schultz, showing that investing in deficient human capital produces increasing returns. This emerged from the recognition that physical capital – man-made and natural – is far from the sum total of a state's total capital, which directly conditions a state's level of economic development.

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From classical economists such as Adam Smith through neoclassical economists such as G. Becker and T. Schultz, capital is mainly defined as a stock of abilities to produce benefits – revenues, incomes or profits. Human Capital (HC) presents the unique form of capital that has the ability to put other forms of capital – tools, infrastructure (man-made capital) and land (natural capital) – in motion to produce goods & services and thus to create new values. The value of HC depends on the previous investments in developing new and useful knowledge, skills and attitudes.

Like any other capital, it requires continuing investment in developing new knowledge and skills. Academia plays an enormous role in building new human capital but its effectiveness depends on many other factors, including political system and culture, which could encourage or suppress critical thinking and creativity – the unlimited ability of this capital to create values.

Social Capital (SC) describes a stock of norms, rules and connections (networks) that allow building trust within communities and between those participating in economic or political activities – the fundamental factor of success. Academia plays an important role in shaping the right attitude, including openness, positive thinking, and collaborative behavior which are the foundation for building social capital. SC represents the economic value of intangible aspects of human relationships, customs, and social institutions, including norms and networks, which inform and condition community-level capacity to work together to meet collective needs and achieve common goals. While this necessitates investment in academic institutions to encourage critical thinking, other factors, such as the political environment, culture and taboo, the strength of public networks, social cohesion or solidarity, access to information and communication, also directly impact the economic value of social capital. These two forms of capital are themselves interconnected, as the quality of one can help or hinder the quality of the other.

The recent economic slowdown is an example, since the relative health of a state's labor market is a frontline indicator of overall economic health. Long term human and social capital investments, for example in Poland's education and health, positively impacted employment and ultimately reduced national economic vulnerability when the crisis erupted.

For example, over the last two decades, Poland's education system benefited from substantial investments in terms of financing and administration. This process was a targeted one, deliberately designed to strengthen the state's market economy. The process started in the early 1990s with administrative decentralization to enable focused, local (poviat and gmina-level) education management. By the late 1990s, reforms of secondary education and postponement of vocational training were implemented to enable students to broaden their horizons through expanded general education. This investment yielded a more skilled workforce, technological advancements, and the generation of new knowledge.

Poland's health sector inherited from the past a universal health care system with a centralized bureaucracy focused only on the number of available doctors and hospital beds rather than on health outcomes. Considerable reforms, including privatization and investment, particularly in human capital and technology in the same period led to a decentralized universal health insurance by the late 1990s by the center-right coalition. The new system focused on health outcomes and provided for outpatient care, a robust network of general practitioners, mostly private hospitals. Unfortunately, the election victory of the SLD in 2001 led again to centralization of the financing system with many negative consequences. For that reason, the health care reform in Poland is not yet a finished process but the private sector is getting stronger and effectively competes with the public system with reasonable price rates, quality services and accessibility. There have been some significant changes in the Poles' behavior, particularly in diet – about 50% of the men quit smoking and reduced significantly hard alcohol drinking – and recreation activities that led to further improvements in the national health. As a result of joint efforts, – individuals and families, government and business sectors – the national health has greatly improved; indeed it is roughly equivalent to the rest of the euro zone and as a result the workforce is working harder, living an average of three years longer, and works more hours than the rest of the euro zone. A possibly relevant indication of the success of these reforms is that the country has recently implemented a phased process to raise the retirement age for men (from 65 to 67 by 2020) and women (from 60 to 67 by 2040).

While these and other investments in human and social capital have supported economic growth in Poland, it is important to note that there is substantial room for growth and improvement in these services. This is particularly true for the education and health sectors, where more efficient management of resources and the improvement of equitable access to services toward the further strengthening of the country's economic health are needed.

4. Challenges and Opportunities for Academia

Multilateral development banks and non-government organizations are heavily interested in analyses of the development impact and outcomes of particular investments, reform processes, and governance regimes. While several of these organizations and institutions produce high-value analyses, there is nevertheless a need for an even more comprehensive research agenda and the development of operational models for economic growth and sustainable development, in light of the pressing need for scalable models, for comprehensive implementation. The OECD tells us that by 2050, the global population will be 9.2 billion, primarily in the developed world, which will require 80% more energy (mostly extractives) than is being generated today. The global economic powers will fall substantially short of achieving the Millennium Development Goals. These realities collectively comprise a desperate call to action for scholars around the world to take up analyses of good practices in governance reforms and drivers of economic growth, to parse replicable lessons and hopefully enable humanity to achieve widespread sustainable development.

The Polish and CEE experiences in particular present pedagogues with the opportunity for deep exploration, toward the identification of possible development dividends associated with economic and governance reforms, including the impact of investments in human and social capital. In exploring the last two decades of Poland's growth and development, it might be possible to examine certain complementary forces that were behind those achievements. The academic community is perfectly placed to undertake the careful collection and interrogation of data emerging from this exploration, to extrapolate lessons concerning possible causal relationships between human and social capital and certain development and economic outcomes.

It seems to be no coincidence that the common feature of the most innovative and competitive economies – those rich in human and social capital – is the deliberate establishment of a strong enabling environment for academic institutions. Nordic economies, for example, successfully combined a high level of research and development with investments in education and information communication technology, while maintaining a high level of social capital and cluster-based development policies. Similar patterns have been followed by Switzerland, Singapore, the Netherlands and the United States. A more robust analysis of this phenomenon, with academia in a leading role, could better enable government actors and development practitioners to undertake supply-side reforms to strengthen the governance ecosystem, which take into account the effect of cultural patterns, harness the potential of new technology, and encourage the development and operationalization of better policies to customize observed successes.

Through conferences and collective analyses, academia could also facilitate open dialogue and productive interchange on the demand side – scholars, civil society, and the private sector, among others – to surface and test new ideas and create solutions to enduring problems. Where success is defined – for example, where strategies might enable a sustainable balance between consumption of raw materials and the achievement of a decent standard of living – and might be observed, academia could glean lessons and good practices toward wholesaling this success through replication and scaled implementation. This could enable communities around the world to benefit from sustainable models.

In the classroom, academia could likewise design and develop balanced programs which integrate lessons from rigorous analysis into the role of social and human capital in sustainable economic development. This might include a more holistic approach to curriculum development, which prioritizes the right proportion of capacity development between technical knowledge, practical skills, and attitude-development. We have learned from the Polish experience that this approach could be particularly important for public and business administration officers. More diverse points of view could be surfaced through more faculty exchanges and joint programs through universities from the top competitive economies. At the institutional level, faculty should be motivated to conduct applied research on the role of social and human capital in the relative levels of innovation and competitiveness in their own communities, cities and regions. Normative integration of certain additional conditions into tenure-track promotion criteria could even require faculty to demonstrate achievements in developing or implementing innovative models in this space for advancement.

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5. Conclusion

The CEE transformation model, and its particular implementation in Poland teaches us that performance of strategic priorities, equipped in appropriate human and social capital and technology, can facilitate change for recovery and prosperity. Indeed, long-term strategic investments in social and human capital in particular have been said to have important and lasting constructive outcomes. Extrapolating from this experience, we also learn that sustainability of systemic transformation can mean the process has reached a "critical mass" and cannot be reversed in the foreseeable future; strategic investments in human and social capital can strengthen civic society to the point that a post-Soviet society (or other transitioning country) can avoid backsliding into an authoritarian regime, that a market economy can avoid being replaced by a centrally planned or heavily regulated economy, and that improved basic ecosystems cannot be endangered by a nation's policy; has initiated movement along the path of sustainable development. This experience has much to teach actors on the supply-side and demand-side of governance and development. More knowledge and practitioner engagement is needed in this crucial space, especially in light of the recent global financial crisis and continuing recession across regions and lingering environmental and social crises. This calls for visionary leadership in mobilizing factors to generate sound economic development strategies, innovations, entrepreneurship, for converting disadvantages into advantages, and weaknesses into strength. Academia and their alumni should be first to answer this call.

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