

BOOK REVIEW

Management and Economic Policy for Development

Editors: Grzegorz W. Kolodko (Kozminski University, Warszawa, Poland)

1. Goal and importance of the topic of the book

Management and Economic Policy for Development, published by Nova in New York, has an important message: not just economics is interdisciplinary, but the management as well. To be successful in the managing of a state, a private company or an NGO, one has to look into the interconnections with other disciplines to “avoid losing sight of what matters”. One may agree on Professor Grzegorz W. Kolodko, the editor of the book, thoughts “that a sound economic policy and a good company management must be based on proper theory, and on the other hand that a good theory must rely on critical observation and an analyses of practice”.

2. Authors

The authors of the book are distinguished professors and academics in the field of economics and management sciences from: Columbia University, Corvinus University of Budapest, European Foundation for Management Development, Kozminski University of Warsaw, “La Sapienza” University of Rome, Moscow School of Economics, Szczecin University, TRIUM Global EMBA, World Bank in Warsaw and Wroclaw University of Economics. Furthermore, high level managers of private enterprises as Deutsche Bank and Simon-Kucher & Partners Strategy and Marketing Consultants were included into the preparation of the book, as co-authors.

We have to highlight the participation of the Nobel Prize Laureate Edmund S. Phelps and the editor of the book Prof. Grzegorz W. Kolodko.

3. Book Review

The multi- and interdisciplinary approach in field of economics and management is more important than before due to Prof. Grzegorz W. Kolodko. His first question is whether a future economist should be a bit of a sociologist, a psychologist, a political scientist and a historian, an anthropologist and a cultural expert, mathematician and IT specialist with a spectrum of research methods as statistics and econometrics? Perhaps not, but it should be able to focus on a specific research topic without losing sight of the fast-changing global context of technology, politics and management methods. His second question is how should we take the most advantage of globalization rather than be taken advantage of? The answer is competitiveness of entrepreneurs, sectors, national economies and integrations. But on what depend the competitiveness. Next to the technology, human capital, R&D, quality of government etc. what counts the most is: management.

Nobel Prize awarded Professor Edmund S. Phelps quotes his book *Mass Flourishing*, which highlights the importance of innovation in the prosperity from the 19th century until nowadays. In the 19th century the mass innovation was indigenous economy was rich in dynamism, which required entrepreneurship and innovatorship, and breaking conventional thinking and traditional ties; and sees roots of dynamism in the modern values as individualism. It lists evidences of a decline of innovation in the American economy, among this in the 1960's rise of traditional values as solidarity, social protection and security which led to entitlements and disincentives to work. An other factor, it shows, is the emergence of new corporatism. As a conclusion it expresses the worry of rising materialism and an "intellectual movement away from the modern notion of good life", he thinks that the strengthening of the concept of good life (creation, exploration and personal growth) together with the smaller state is the key to clear away the barriers to innovation.

Polish Academy of Sciences member Andrzej Kozminski examines the managerial contribution to growth in transition economies. To reach fully competitiveness these markets need to go through radical changes and adjustments labelled as restructuring. According to Kozminski's grandiose surveys and interviews combining the 5 unique skills of transformational leadership (anticipating, visioning, value congruence, mobilisation & empowerment and self-understanding skills) with the well-orchestrated support of direct subordinate teams (from analytical staff through PR to communications specialists) can cause in post-socialist environments cultural change promotion and changing environments where new values and behavioural patterns are intertwined with the old ones.

Hermann Simon's chapter reveals the importance of 'Hidden Champions' (company which is one of the top three in its global market with less than 5 billion € revenue, and may be less known by public) in the XXI century's export structure. For smaller and emerging countries it seems illusory to develop their own 'Fortune Global 500' firm out of nowhere, but to build up a Hidden Champion with knowledge transfer, hard work and effective local cooperation could be once achieved. The author also proves that even politicians, entrepreneurs and other companies can learn from the Hidden Champions, because they do almost everything differently from large corporations. Among the most important characteristics he mentions loyal and highly qualified employees, extremely ambitious goals for themselves to growth, globalisation of focus markets, and to spend a lot on high quality innovations to be able to dominate the market.

The chapter about the effects of FDI inflows on domestic entrepreneurship for both developed and developing economies was written by Professor Saul Estrin from London School of Economics. As a result of a precise and coherent econometric analysis he found that FDI has a negative and significant effect on domestic entrepreneurship at an aggregated level both for developed and developing countries. In practice this amount is quantitatively is quite small. This suggests that policy makers considering policies to encourage foreign investors could simultaneously act to offset the relatively modest negative impact on domestic entrepreneurship by providing support for domestic entrepreneurs.

The article of Mariola Ciszewska-Mlinaric and Krzysztof Obloj from Kozminski University, Poland focusing on the goals and effects of internationalization of Polish companies through export and FDI, furthermore, on the significance of those strategies for business and the entire economy. Their analysis made an effort to demonstrate the systemic effects of internationalization of business operations by

pointing out 3 effects at firm level (efficiency improvement, resource development and learning) and one effect at the level of domestic environment (diffusion - spillover effects). As a result productivity may improve as well as the quality of Polish products and the overall economic performance.

Jerzy Cieslik's thoughts from Kozminski University, Poland lead us to the middle of today's debate on the relationship between entrepreneurship and employment. The crucial methodological dilemma of treating the 'solo entrepreneurs' brought to surface some alternative measuring methods of employment growth. After the past years of global crisis has shown that unemployment remains a serious issue of development and economics both in undeveloped and developed countries. There is still no obvious answer for the question: 'Who shall create jobs?', but there is a conclusion that the key to effective employment policies is a better identification of the internal structure of the business sector.

Russia's economy has arrived to a crossroad. Against the still volatile and generally negative global backdrop, the country's economy is growing, but it is strongly relying on oil, gas and other resources, and it is still not clear what kind of capitalism is waiting for Russia in the nearest future. The article's vision is obvious, put stakes on financing education and sciences, material and technical infrastructure shall be renovated as well as the control over speculative financial operations. The author, Ruslan Grinberg from Moskow School of Economics believes there is still a little bit more hope than despair in the future story of Russia's economy.

The world economy changed rapidly and dramatically after the crisis, and according to Stanislaw Flejterski and Malgorzata Porada-Rochon from Szczecin University, Poland, the formulation of accurate diagnoses, predictions and remedies has become more of an art than a craft. The dilemma of being efficient or being safety for the financing institutions and banks is undefinable; the optimal allocation is still a mystery. The authors could not draw universal and timeless conclusions, but did a substantial and well-founded theoretical analysis about the optimum seeking process and the safety versus efficiency dilemma.

Krzysztof Kalicki and Jan Antczak did an extensive macroeconomic analysis about the impact of Basel III/CRD4 in the banking sector. As the financial crises were costly for the whole society, the purpose of new regulations is to reduce systemic risk for the global economy. After introducing and analysing the new system, the authors stated that the costs of new regulatory burden do not only affect banks, but also society as a whole – by slowing down economic growth, causing a decline in funding and adversely affecting employment. Also demand for loans will also be under pressure due to the rising cost of bank margins.

The interconnection of fiscal policy, entrepreneurship and equitable growth is at the centre of the analyses of Professor Vito Tanzi. The expression of *equitable growth* is not commonly known, so its definition is of academic importance, an inclusive, environmentally and socially sustainable growth which is also "pro-poor". In the shadow of the crisis we may agree on the authors' remarks that the financial sector turned from banks managing the local saving and investments to a global, transnational industry covered by modern laws and rules, which "replaced the need to follow "morally-based" behaviour with "legally-based" behaviour. This led to actions of banks which considered by many people "immoral" however not punishable. Prof. Tanzi's thoughts are leading us to a distinction

between “economic growth” and “development”, which he uses to highlight the importance of equitable growth.

The professor of “La Sapienza” University of Rome, D. Mario Nutti is analysing one of the biggest economic question of our times in a different way: austerity vs development. He acknowledges that the theory and practice collided in the recent world economic crisis and that “fiscal consolidation can and often does generate a vicious circle that makes public debt more and more unsustainable”. Furthermore, he states that fiscal consolidation has to be avoided absolutely as long as the GDP/debt ratio is smaller than the fiscal multiplier, which is a unique and controversial statement, lot of academics will discuss it for a long time.

The contribution of Prof. Grzegorz W. Kolodko is directing our sight into the future of economics: pragmatism or principles? He thinks that an economically, socially and environmentally balanced development is possible and could merge the two seemingly contradicting approaches. He raises the question of income distribution and growth dynamics, and states that countries should lower inequality (measured by Gini coefficient) at the cost of “traditionally measured” GDP growth, because unjustified inequality weakens the mutual trust in the society, which hurts the economy. He criticises the consumption aspiration and calls for moderation for the economy of the future. Furthermore, he questions the neoliberal “laissez fair” dogmatism and highlights the need for a moral, moderate, humanist, market economic way of life: called ‘New Pragmatism’ and suggests a different economic progress metric: the “Integrated Success Index”.

Prof. Csaba’s thoughts lead us to a new territory of political economy, namely the sustainability of the growth model of transition in Central Eastern Europe and partially in Southern Europe. His list of failures of transition includes: lack of structural reforms (including the unsustainable welfare system), insufficient consolidation of finances (lack of control and management public and private sector finances), expectation of “automatic” convergence of NMS to the EU average, “crisis of crisis management” (little sign of EU policies to catalyse growth). But he also gives possible therapy in the way of a “new political economy approach” based on a mix of functioning best practices and the lessons learnt by committed errors including old and new values, which could give a “framework for the policies that may induce higher growth”.

The chapter about Kozminski University Index of Balanced Economic and Social Development for Poland (IBESD) is an innovative initiative by the university’s academics (namely Andrzej Kozminski, Adam Noga, Katarzyna Piotrowska and Krzysztof Zagórski) to create a complex quantitative indicator that could measure socio-economic conditions and changes. The composition of the index is very complex, and its calculation requires a lots of data sources, and presumably partially because of this complexity the timeframe starts at 2000. An interesting result is that the 2000-2001 sharp decline in the economic indexes was not followed by the social indexes; however the “euphoria” and growth after the EU accession until 2008 can be observed clearly in the graphs, which are reflected in changes of the IBESD as well. The relevance of the IBESD is clear; however its reliability will be shown by the future, as that of any ex ante-prediction composite indexes.

The chapter on income inequality by Professor Jacek Tomkiewicz leads us back to the thoughts of Professor Vito Tanzi. The income inequalities are growing with the advance of globalization, which

even more effects the emerging economies. The Gini-coefficient of China is now higher than that of the US. The process of outsourcing and offshoring to low-cost (low-wage) countries, the liberal free trade, the lower interest-enforcement capacity of workers caused by the changing work-culture (project jobs, new IT-technologies, weaker trade unions); all contributed to the growing income inequality which causes not just social, but political and economic turmoil shown in the world economic crisis.

Does really exist a “new European growth model”? Following Professor Marcin Piatkowski’s contribution it does. The unprecedented growth of the most of the CEE countries (even during the crisis years) is clear evidence for him. He projects economic growth numbers until 2060 based on UECD and EC data. Then he suddenly makes an honest statement: “Economists do not know what drives economic growth... or at least no precisely”. He lists ten growth pillars, but adds that GDP growth constructs together with Well-being and Happiness a “Golden Growth Triangle”, and this is what he calls the “Warsaw consensus”, a new economic model for Europe.

4. Conclusion and whom to recommend the book

The book is a collection of excellent articles and analyses but lacks a bit of cohesion in terms of the followed academic principles or theories. Some articles are very critical and calling for a new area of economics, others are ultraliberals and calling for the maintenance of the recent structures with some corrections. The book is however an interesting mixture of ideas and recommendations and contains a lot of ideas, “methodological innovation” (as the IBESD index) and recommendations regarding various phenomenon: from the income inequality and equitable growth through the sustainability of the growth model of CEE countries, to the “rise” of Hidden Champions.

We highly recommend the book to anyone interested in new ideas in economics, or in the debate whether economics should become more “socially responsible” and “socially sensitive” or not?

Review provided by NAGY, Sándor Gyula. PhD, associate professor, Corvinus University of Budapest Department of World Economics

STUKOVSKY, Tamás. PhD-candidate and lecturer, Corvinus University of Budapest Department of World Economics