2

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MARKET AND STATE UNDER CONDITIONS OF ECONOMY'S CYCLICITY

1. Institutional pillars of the economy

Economists more and more often emphasize a huge role of institutions in the economy. The notion 'institutions matter' appears in many publications. Rutherford, 1996; Iwanek and Wilkin, 1998; Stiglitz, 2000; Williamson, 2000; North, 2002; Rodrik, 2003; Furubotn and Richter, 2005; Stankiewicz, 2007; Lissowska, 2008; Wojtyna, 2008, write about it, to name a few.

What are these institutions? There are many definitions of this phrase. One of the most popular is the one proposed by North (2002, p. 3). He calls the institutions the rules of conduct creating basic structures. With the use of these structures, people built the order enabling to lessen the anxiety connected with business processes in all periods of their history. Institutions create human relations of political, social and economic character. Another very valuable definition of an institution is a synthetic definition by Rutherford (1996, p.182) which precisely defines institution as a regularity of human behaviour or a rule in particular situations and is generally accepted by members of the social group which defines their behaviour in particular situations. It is followed by them voluntarily or executed by external power.

The most important institutions include the market and the state. Both have an important impact on functioning of the economy, both during the period of prosperity and decline. It can be assumed (in the context of North's definition) that the mar-

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ket and the state in an institutional dimension set rules for themselves as well as for the socioeconomic system functioning within its boundaries.

Also the market is a concept defined in literature in many ways. Its synthetic definition was presented by Menard (1995, pp.161-182) according to which: '*Market is a specific institutional arrangement consisting of rules and conventions that make possible a large number of voluntary transfer of property rights on a regular basis; these reversible transfers are implemented and enforced through a specific mechanism of regulation, a competitive price system'*. In turn, it can be assumed after Samuelson and Nordhaus (1989, p.39) that the market is a process through which the mutual interactions between the buyers and sellers of a particular good lead to defining its price and quantity.

The market is then an economic category permanently bound to production and goods exchange. It has to be stressed that under market economy conditions the reach of market relations and binding is very broad. They exert influence over the majority of dependencies among participants of economic turnover. Outside the market, there are legal and administrative norms and other norms regulating social and political life.

The market is an institution creating conditions for widely understood relations between producers and consumers. Its basic function gets down to regulation of supply and demand. It happens that the market fails, which is due to its inclination to generate unfavorable phenomena, often socially unacceptable, in the economy. The weaknesses of the market were very clearly presented by Samuelson and Nordhaus (1989, pp. 43-48) who mention its three ineffectivenesses: inefficiency, inequality, instability. Then the state intervention is necessary.
"*The state*", as it is defined by Wilkin (1995, pp. 121-122) "*is an institution (a set of institutions) whose function is to control the functions of all remaining subjects. Being the biggest collective economic entity, it creates institutional frames for other subjects' activities, influencing their current behavior.* "According to Maritain *(1993, p. 19)" the state is a part separated to take care over people's business. It is not a man or a group of people; it is a set of institutions creating together a machine of capital significance; a work of art created by human, which uses human brains and energy and without a man is nothing but makes a higher incarnation of reason, impersonal, solid structure whose way of functioning can be called second-class rationality, as a reason, tied by law and the system of common rules, works in a more abstract way, carefully straining out random experiences, at the same time being more ruthless than it is in an individual life*".

A considerable number of economists, which signals Domańska (1992, p. 116), think that the state intervention to the economy is one of the most important factors shaping the business opportunities in countries with market economy. Many also claim, which points out Morawski (2003, p. 14), that regularities of development of a capitalist economy can be guaranteed only by a free market, and crises can clean and put the economy in order. They reveal indispensability of some economic ventures

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and products, they prick 'speculation bubbles' verifying the output of previous periods of good economic situation.

The economists are still troubled by the question: How much market and how much state in the economy? It is difficult to answer this question and to give an unambiguous answer.

2. Relations market – state in a crisis

Samuelson and Nordhaus (1989, pp. 40-43) stress that the task of a market mechanism – economic organization in which individual consumers and individual enterprises cooperate – is solving three fundamental economic problems: What (goods) should be manufactured and in what quantities? How should the goods be manufactured? For whom are they going to be produced? The realization of the above--mentioned functions for different kinds of economies is a key concept. It appears that in the 21st century there is no 100% market economy, and the society functions in a mixed system with elements of market, command and tradition.

The market economy fosters subconscious coordination of individuals and enterprises through a system of prices and markets. It is a communication mechanism, enabling to concentrate knowledge and actions of millions of various human entities into a whole. Without superior intelligence it solves problems which include millions of unknown variables and dependencies. The market economy appears as a result of evolution and it still undergoes changes. The rules of its existence are the effect of the struggle of an 'invisible hand' in the approach of A. Smith. Smithsonian discovery that the market mechanism controls the economy became an inspiration for the development of an economic thought, both for advocates of capitalism and for its critics. After over two centuries of experience and considerations, the economists realize the coverage and real limitations of market mechanism. Most of them recognise the thesis of how disappointing the market can be and do not doubt that the countries with market economy are plagued by disabilities of the market. As a result, they are endangered by many periodical inflations and unemployment explosions and the income distribution is not always socially acceptable. Because of these flaws of the 'invisible hand' mechanism contemporary economies are a mixture of markets and state cooperation (Samuelson and Nordhaus, 1989, pp. 39-43).

The market mechanism delivers an admirable method of manufacturing and allocating goods. Despite this, it still threatened by many stubborn infirmities, especially interconnectivity, injustice and instability. The state should deal with and correct these imperfections. When examining the functions of a state, it is generally assumed that it defines 'rules of the game'. The actions of a government are usually limited to restricting monopolistic practices. The governmental plans designed to eliminate injustice are aimed at preventing pauperism of a society (redistribution of income to take

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care of the poor, or the disadvantaged). The job of a stabilization policy is reduction of 'peaks' and 'valleys' of an economic cycle by limiting unemployment and inflation and promotion of economic growth – state has a function of macroeconomic guardian of economic stability. The market and the government have fundamental significance in a fight with economic difficulties, and the development of an economy without simultaneous influence of state and market 'is like clapping with one hand' (Samuelson and Nordhaus, 1989, pp. 37-42).

Barber (2009, pp. 97-107) signalizes that modern capitalism is like a spoiled child who, without a strong discipline from its democratic parent, is dangerous for itself. To improve a free market, it has to be disciplined by democratic institutions. The capitalism as we know today is auto-destructive. Its recovery can be assured by: transparency of power actions, responsibility to the voters and regulation. In the case of crises '*constantly important is the Keynesian idea of the role of a state as a good parent who ensures his or her child a happy childhood. A happy childhood is such in which parents, on the one hand, leave their childen much freedom, let them develop individually, do not pose any unnecessary limits leading to a dramatic teenage rebellion but, on the other hand, they control the children's animal symptoms, driving them to irrational, overly risky or harmful behavior'* (Shiller, 2009).

The matter of influence of market and state in the economic sphere is also widely discussed by many other economists. We can quote here considerations presented among other things by Krugman,s, Phelps's or Shiller's.

Krugman (2008) analyzing the economy from a historical perspective proves that the coexistence of market and state is indispensable for proper functioning of an economy. Considering the question of its regulation or deregulation, he draws our attention to the need for both actions in an economy. In his opinion, the level of regulation or deregulation depends on the economic situation during a given period of time.

Phelps (2008) convinces that a dynamically developing economy must undergo fluctuations of the total economic situation. A crisis is part of an economic situation cycle, and its character depends on the number of mistakes made during a preceding period. He considers the state intervention indispensable, proving that the market left to itself generates phenomena which in time generate crises. He stresses, however, that it is not easy to build such tools of governmental intervention that, while correcting the market, will strengthen it and not spoil it. In his opinion, it is recommended to seek such solutions that minimize the consequences of mistakes, at the same time removing their causes. It creates new opportunities for an economic policy based on solid scientific foundations.

Shiller (2009) sees the source of economic turmoil mostly in human psyche or human animal nature. He convinces that imperfection of a market is, to a great extent, the symptom of a sociological factor that pushes people into irrational behavior and taking irrational market decisions. Excessive trust in the market and unlimited faith in

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rationality of the behavior of other members of a society are the foundation of the herd instinct creating destructive bubbles (especially on stock market, property market, on raw materials markets or currency markets). Most of them appear and burst, before they take a significant meaning. The real problem is posed by those bubbles that do not burst automatically. Then the excessive trust in the market is displaced by a shortage of trust. It shows that the dominant position of a free market can be restored by the state whose impact on the economy exerts a considerable influence on an improvement in the functioning of the market mechanism.

It should not be forgotten what the essence of the capitalist system is. The capitalist economy, whose pillars are private property and free market, requires the existence of the state to perform many important functions. It is essential: 1) on account of the necessity of ensuring the basic institutional order for the society and the economy to function properly; 2) owing to the so-called market failures and the need to correct them (Wilkin, 2008, p. 6).

A determinant for both functions is the protection of the future of capitalism. It is important to eliminate opportunistic behavior and different forms of moral hazard which manifest themselves in a form of a desire for material goods. A greedy individual, what is stressed by Levine (2000, pp. 131-140), is still aware of the danger of loss and that is why he tries to take away from the others before he loses. The desire to earn big money was especially visible among the American financiers and was named by economy analysts the peak of human greed.

It often happens that greed brings big individual and group profits and the whole society pays for the mistakes. In connection with this essential issue of diminishing negative effects of turbulence in the economy – the need to define the degree of responsibility for improperly conducted activities becomes crucial.

Kornai (2009), delving deeply into history, stresses that at the early stage of capitalism the business failure had not only serious material consequences but also ruined the bankrupt's reputation. A vision of pernicious effects of awkward way of running a company forced entrepreneurs to extreme caution. The early capitalism generously rewarded successful people but punished severely for failures. With time, the system of awards developed considerably (the principle of limited liability was sanctioned) and the punishment system became less severe. The specified circumstances weaken businessmen's motivation for effective actions; at the same time, they encourage them to take irresponsible decisions on loans, investments and economic expansion. Such actions wind up the spiral of crisis.

It is worth emphasizing that irresponsibility of capital owners causes hatred for the capitalist system among the worst-off in the society. Then the ironic perception of this socioeconomic system becomes visible. The loss of security and faith in justice shakes the foundations of capitalism and poses a threat of a system desintegration.

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2. Quo vadis, capitalism?

Despite evident imperfections in the functioning of the market economy, there is no alternative for the capitalistic system. There are no contemporarily competitive economic systems in relation to capitalism. It appears that the system which is the most helpful for economic development is capitalism – a system with the biggest elasticity. The character of an economic system decides about the level of development of individual countries. Examples taken from economic history show that some of its varieties foster creation of wealth and others lead to economic decline and economic disarray.

The key feature differentiating capitalism from other economic systems is its constant ability to generate and quickly promote changes in all spheres of socioeconomic life: technology, economy, politics. Phelps (2008) convinces that the phenomenon, beauty and strength of a capitalist system lie in creating space in which new forces can appear, develop, and push the world forward. They are the source of development. That is why they should be allowed to act. At the same time, he stresses that there is no "safe driving" in the economy and that there is always a risk.

It seems then, which is pointed out by Piontek and Szafraniec (2009, p.7) that the necessary condition for keeping the decent speed of economic development is the existence of economic freedom, which is guaranteed by freedom and constraint from a law and order abiding state. The place of market and state in the economy are very well expressed in the words of Wiklin's (2007, p. 43): "*Relations between the state and the market can be compared to relations between three kinds of power in a system of democracy, so we have legislative, executive and judicial power. The Americans refer to these relations as checks and balances. The fundamental condition for keeping a democratic government is a balance between these three kinds of power. If the position of one of them is excessive, so it can take control over the others, then the foundation of democracy is broken. In a democratic system three kinds of power complement and control each other. Equally fundamental role for functioning of democratic capitalism has an appropriate relation between the market and the state. Economic freedom, which is ensured by freely operating market, is an indispensable element of a democratic system. It has not been possible so far to build a democratic state without a market economy, but it has to be remembered that a market economy cannot guarantee democracy on its own. What is left is a difficult task of building appropriate balance between a state and a market based on the principle of check and balance.*"

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A market mechanism should be the regulator of most economic processes. It happens, however, that in a market mechanism there are shortcomings, forcing the

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government to correct and supplement them. A market simulation is especially important in a situation when the adverse economic phenomena build up in an economy (e.g. unrestrained desire to multiply material goods, which is difficult to control for market players) and overcoming them cannot happen automatically with the help of an "invisible hand."

In conditions of a market cyclicity the question: How much market and how much state is still up to date. The answer is not a simple one. It is still important for a market – state relation not to create pathology, reflection of which can be an excessive subordination of one institution to the other. The actions of market mechanisms and the state in an economy should complement each other, and the institutional solutions accepted in a given country should guard capitalism. Then, the economy can be more resistant to crisis phenomena.

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