

**Management and Economic Policy for Development. Economic Issues,
Problems and Perspectives**

Edited by Grzegorz W. Kołodko

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It is clear that we are far from having a ready-to-use model for initiating or maintaining socio-economic development, and probably, there will never be such a model because of the basic indeterminism and unpredictability of structural changes in complex, dynamic systems. However, as the book under review, edited by the famous Polish economist, Grzegorz W. Kołodko, argues, by linking management and economic policy together, governments have the opportunity to emit right signals, in the right measures, in the right place and at the right time.

The book is barded with the views of two dozen prominent scholars and practitioners on growth and socio-economic development. Their views offer an intellectual joyride that is able to take even the lay readers to some kind of game-changing thinking with respect to socio-economic development. In so doing, the book argues that pursuing *new pragmatism* is a must, which embraces not only the quantitatively measurable aspects of our existence, but also the qualitative parts of our socio-economic development. The book is organized around two main sections covering the issues of management for development as well as

economic policy for development. Since it is impossible to review such a rich book in its entirety, below we briefly outline its basic messages from the chapters and we also reflect upon some issues where more emphatic treatment might have been instructive.

The first two chapters are by Kołodko and the Nobel-laureate Edmund S. Phelps and lay down the basic considerations of the book. In *Chapter 1* Kołodko emphasizes the role of continuous learning based on the perpetual refinement of our theories stemming from critical analysis of what really happens in the economy. Learning is what good management depends upon. This explicitly resonates with the reasoning of Phelps in *Chapter 2* when he introduces his latest book, *Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge, and Change*. Kołodko touches implicitly upon the issue of uncertainty which has become a decisive feature of the modern economy. Growing uncertainty relates to megatrends such as demographic challenge, sovereign debt crisis, climate change, and, as Phelps documented, the decline of innovativeness. These are in turn coupled with rising expectations from the side of the public on the timing of governmental interventions. Consequently, the age of immediacy is here to stay. Undoubtedly, uncertainty is a key driving force of bottom up innovations (*grassroots innovation*) that have triggered development throughout modern history as Phelps shows. An implicit, but subtle message of Chapter 1 and 2 is the increasing role of *innovativeness, smart adaptation, imitation* required in management practices (in the public sector as well) which are of key importance in cultivating grassroots innovations, and thus the dynamism of socio-economic development.

Part I (Chapters 3-12) devotes attention to the issue of *microeconomic management* which is crucial from the aspect of *good macroeconomic governance* and ultimately that of *good socio-economic performance*. In Chapter 3, Andrzej K. Koźmiński provides a relatively new slant on an old saying of “management matters” by bridging the gap between macroeconomic and microeconomic knowledge (including management and organizational change aspects) in case of the transition countries. Koźmiński outlines *inter alia* the mechanism of adopting management practices and value development in explaining success and failures of transition countries “the day after communism” (p. 23). *Chapter 4*, by Hermann Simon, sheds light on the importance of export-orientation in the ever-globalised world (“*Globalia*”). As the paper reveals, despite the fact that normally there is a strong correlation between the number of large firms and exports, Germany and China can be seen as outliers in this regard. The author argues that exceptional export performance in these countries requires large firms to be embedded into a well-grounded cohort of mid-sized exporters. In *Chapter 5*, Saul Estrin investigates the effects of foreign direct investment (FDI) inflows on domestic entrepreneurship by using an unbalanced micro-panel of more than two thousand

individuals from seventy countries between 2000 and 2009. He finds evidence that inflowing FDI affected domestic entrepreneurship negatively (i.e. FDI had a crowding out effect). Let us note that, albeit Estrin deals with the issue with meticulous care, the analysis may omit the importance of the long term effect of FDI, which may, among others, ameliorate the tangible and intangible asset base of the host economy by extending innovativeness and productivity. *Chapter 6* is dedicated to the issue of internationalisation, particularly in case of Polish enterprises and addresses its systemic effect. The authors, Mariola Ciszewska-Mlinarič and Krzysztof Oblój accentuate that efficiency improvement, development of resources, more intensive learning and spillover can be reached through internationalisation. Let us raise the issue whether internationalising companies have from the onset such an open minded, transformational-like leadership and management that is of essence in every further step of entrepreneurship.

The education of management represents a challenge in modern economy. *Chapter 7*, written by Eric Cornuel, calls for modernising management curricula to keep abreast with time. As he points out, putting focus especially on (i) inter-enterprise mobility, (ii) managers' qualifications, and (iii) managers' evaluations would be of paramount importance even for the development of small and medium sized enterprises (SMEs). *Chapter 8*, by Jerzy Cieřlik, considers the relationship between entrepreneurship and job creation. Cieřlik argues that methodological shortcomings heavily influence our understanding of this relationship, which is justified in case of Poland (i.e. lack of uniformed standards, variety of concepts used to define the entrepreneur, and different methods to measure employment growth allocation according to size classes of enterprises etc.). The article can be considered as a clarion call for a more nuanced view of entrepreneurship by policymakers. *Chapter 9*, prepared by Dominika Latusek-Jurczak, looks at the experience of Silicon Valley, often considered as a fertile ground for reaching rapid growth rates. The author devotes attention to the Polish companies which have been relocated there, and discusses the major impediments to becoming hyper-growth companies in the Polish ecosystem. The presence of Poles in Silicon Valley is on the one hand forward looking, however, their management practices are still showing a great deal of risk aversion.

In *Chapter 10*, Ruslan Grinberg offers an accurate picture about the current economic status and perspectives of the Russian economy. It is an outstandingly timely analysis considering the Ukrainian-Russian conflict. The Russian economy faces the gargantuan task of structural reforms necessitated by well-described internal conditions. Grinberg illustrates the necessity of reforms with impeccable clarity by arguing *inter alia* that the Russian "asocial" (p. 140) economy has an inherent myopia in the sense that effective socio-economic development is sacrificed at the altar of immediate gains and profits. *Chapter 11* and *12* are devoted

mainly to the domains of the finance and banking sector. Stanisław Flejterski and Małgorzata Porada-Rochoń state in *Chapter 11* that increasing uncertainty is associated with significant decline in the trust base of citizens towards governmental and financial institutions by being a harbinger of more stringent regulations. The authors review the evidence on the financial crises and the current situation by taking into account the issue of some kind of optimal regulation. Let us note that although the authors approach the issue from a broader perspective, they fall short in considering whether financial crises are endogenous features of capitalism. *Chapter 12* prepared by Krzysztof Kalicki and Jan Antczak, argues that appropriate management decisions can dampen the increased costs of new regulations.

Part II is dedicated to the issue of economic policy for development. In *Chapter 13*, Vito Tanzi presents the main arguments behind the necessity for fiscal sustainability which cultivates macroeconomic stability which is a *conditio sine qua non* of healthy entrepreneurship. Without fiscal sustainability, the achievability of sustained, inclusive, and equitable growth can easily become a category of bucolic wish. Fiscal sustainability often needs fiscal consolidations, which is tackled in *chapter 14* by D. Mario Nuti. He places the issue of austerity under the loupe of whether government is to stabilize *via* revenue hikes or extensive expenditure cuts. Nuti expresses his arguments under the pretext of non-keynesian fiscal adjustment by looking at recent experiences. He stresses that the evidence on this topic is rather elusive. Nuti joins the line of thinking that there is no single relationship between debt and growth implying that believing in a simple standard and unified threshold for debt ratios of which after growth declines would be naïveté.

Chapter 15, by Kołodko, introduces the thought-provoking concept of New Pragmatism in which the term “economics of moderation” plays a central role. “The economics of moderation means adapting the volume of human, natural, financial and material flows to the requirement to keep a dynamic balance” (p. 231). This line of thinking embraces the values of sustainable development and pursues a socially sustainable distribution of income, participatory globalization, and inclusive institutions that have pro-growth features. This concept goes beyond traditional economics by denying the sustainability of constant quantitative growth and recognizes that more qualitative growth is of paramount importance. With *Chapter 16*, László Csaba organically connects his arguments to Kołodko. Csaba attributes the impaired growth performance neither to coincidental factors nor to lackluster policies (mistakes), but to the phenomena that the entire growth model has reached its limits. Csaba enumerates the main lessons learnt in the course of development economics by emphasizing the merits of applying new political economic views as well. To this end, he juxtaposes the fads and foibles

of earlier expectations from the European integration in case of New Member States. *Chapter 17*, prepared by Andrzej K. Koźmiński, Adam Noga, Katarzyna Piotrowska and Krzysztof Zagórski, introduces the Index of Balanced Economic and Social Development (IBESD) and applies it to the Polish case. The paper outlines the basic methodological considerations and its usability (e.g. to capture human life development, p. 266). The following chapter addresses the environmental dimension and the role of the state in greening the economy. *Chapter 18*, authored by Bogusław Fiedor, extensively describes this topic by leading through the evolution of environmental policy. The paper suggests that the idea of sustainable development is in conflict with the liberal approach to market economy (p. 289). *Chapter 19* reflects upon one of the previous messages, namely that inclusive growth is needed because of increasing income inequality. Jacek Tomkiewicz shows how globalization contributed to rising inequality over time. A broad based understanding of inequality is offered by mentioning various trends affecting income inequality. We share the author's view, but would add that the recent crisis is not rooted in income inequality, rather this is just a symptom of deeper structural phenomena in the developed world. Income inequality may be the result of a series of highly interrelated and mutually reinforcing phenomena being part and parcel of the current new techno-economic paradigm. In *Chapter 20*, Marcin Piatkowski, concentrates on the convergence of Eastern and Central European Member States to Western Europe. The paper argues that the convergence process will continue in the aftermath of the recent financial and economic crisis, however in a slightly moderated way. A new growth model (Warsaw Consensus) is required to reinvigorate post-crisis growth being based on 10 policy pillars (p. 323) pervaded by a policy triad of experimentation, evaluation and pragmatism.

The concluding part of the book was written by Koźmiński, who argued that the right inference of the discussed papers should be the recognition that reinvigorating growth and development relies on continuous innovation, grassroots entrepreneurship. In this respect the quality of management and organisational cultures, as well as the quality of government policies are heavily appreciating. It is noted that psychological and motivational grounds of innovation and entrepreneurship need to be addressed more attentively.

This compellingly edited and written book will surely be an instructive eye-opening reading experience not only for academics, but also to economic practitioners.

Olivér Kovács
Research Fellow, ICEG European Center
E-mail: okovacs@icegec.hu