

Wacław WILCZYŃSKI  
The Poznań University of Economics

## Third ways and economics

### 1. Basic concepts and classification

“Third ways” are most often and most generally interpreted as searching for an economic system which would best exploit the advantages of market capitalism and a centralised socialist (communist) economy, at the same time eliminating the weaknesses of the two systems. Such an economy is often referred to as mixed, one that combines elements of a centralised state economy restricting the role of the market with economic individualism and private ownership. Given the above opposites, it is of course possible to construct a wide range of systemic (institutional, constitutional) and structural (functional) solutions. However, each of these implies the coexistence of two or more different systems of preferences, decision-making structures and rules of the game because, as we know, the preferences of those in command will always be different from the preferences of those under their control.

From the point of view of a specific economic system then, the “third way” is an ambiguous term. Of course, all known conceptions of the “third way” are prescriptive towards economic policies, which are sometimes systemic, but more often regulatory. However, from the point of view of the scientific achievements of economics, these conceptions have rather weak foundations. Concepts used in economic theory to describe an economic system, such as “market economy” or “centralized economy”, are regarded by “third way” proponents as extreme and ineffective. This statement provides a foundation for a search for models promising a greater socio-economic effectiveness than market capitalism or non-market socialism. However, the sympathies of the supporters of these ideas clearly lie with socialism rather than capitalism.

Just how wide the range of “third ways” is can be seen if we compare their initial understanding in the spirit of the convergence theory and the nationalizing tendencies in Western Europe after the Second World War with Blair and Schröder’s manifesto<sup>1</sup> *Europe – The Third Way – A New Centre*, or with a book by

---

<sup>1</sup> T. Blair, G. Schröder, *Europa – trzecia droga – nowy środek*, Gazeta Wyborcza, July 10-11 1999, pp. 9-11.

A. Giddens<sup>2</sup> called *The Third Way. The Renaissance of Social Democracy*. The French or British “third way” from the post-1945 period of fascination with the Soviet Union’s victory has very little in common with Blair and Schröder’s proclamation of the return of economic individualism, or market, as the main economic mechanism. A. Touraine goes so far as to claim that today’s Left protects the individual. At the same time, however, theories discredited by science and practice – with no prospect of success – have not disappeared, especially in countries undergoing political and economic transformation.

In view of these inconsistencies and numerous misunderstandings, it seems justifiable to examine and try to evaluate these ideas. Classifying “third ways” requires using at least several criteria. First of all, a distinction should be made between the “third way” as a process, a way to a desired economic system, and the “third way” as an idea put into practice already, a goal already achieved. This is why the classifying criteria have the form of relations showing the degree to which a given goal has been achieved. They include:

1. degree of nationalisation (or other forms of national ownership),
2. range of state control and degree of its directness,
3. degree of legislative and regulatory interference,
4. rate of GDP redistribution,
5. degree of interference in distribution relations (earnings, profits),
6. share of the non-market economy (non-market sector) in the generation of GDP, etc.

The higher the degree to which these criteria are met, the closer we are to a centralised economy.

A natural feature and consequence of nearly every “third way” is differentiating between various business entities or individuals. This means the absence of universal rules, or discriminating against someone and favouring someone else. In extreme cases, coexistence of different criteria and rules in economic policy leads to the division of the economy into the “market sector” and the “non-market sector” or, at least, to the exemption of some industries or business entities from market rules, as is the case in Poland today.

A feature of those “third ways” which retain private ownership but restrict economic freedom and excessively interfere in distribution relations is counting either on entrepreneurs’ altruism and sacrifice or on the effectiveness of such restrictions. Underlying these ideas is a thesis, which originates from welfare economics, that the total losses suffered by individuals as a result of the restriction of economic freedom will be lower than the total of social and global benefits brought by this restriction.

As has been mentioned, the conceptions of the “third way” have been evolving over the last 30-40 years. From a clear fascination with the centralised economy

---

<sup>2</sup> A. Giddens, *Trzecia droga. Odnowa socjaldemokracji*, KiW, 1999.

of the Soviet Union and a resultant wave of nationalisation in France, Great Britain or Italy, Western Europe has gone through a long process of renouncing state control and excessive state interference in private enterprise. The “natural” inefficiency of the state-controlled economy was aggravated by such consequences of the neo-Keynesian policy as an increase in the budget deficit, in public debt and in inflation rate. In the late 1970s, when even in the USA the inflation rate reached the level of 10%, it became clear that state control and neo-Keynesianism were things of the past.

The process of abandoning the original, very socialist, conceptions of “third ways” was accelerated in the last two decades by the economic failure of the “socialist camp” and the demise of the Soviet Union. The disintegration of the USSR spelt a definite failure of leftist radicalism and was a contributing factor behind the abandonment of the search for economic efficiency outside, or without, the market. The idea of equal earnings was replaced by that of equal opportunities. In this way, modern conceptions of the “third way” have been in large measure reduced to a call for a higher redistribution of GDP and a broader scope of budgetary and legislative protection by the state.

The “third way” issue in countries whose command economies are being transformed into one or another version of the modern market economy is an important part of this evolution. These countries’ economies and their citizens’ mentality are characterised by numerous relics of the previous system; besides, a willingness to change centralism for the market is by no means universal. Newspaper reports about Poland’s 54th position in an economic freedom ranking (October 2000) testify to considerable delays in the country’s transformation process and to the country’s succumbing to “third way” temptations. This is proved also by a limited popularity of neoliberalism, despite its undeniable economic success, and a propensity to accept social-democratic conceptions as ideas defining the goal of the transformation. Such attitudes involve a preference for the welfare state, in spite of clear signs that the idea is in decline. Accompanying this are strong reservations about the privatisation of some industries and institutions. The societies of countries undergoing transformation tend to show relatively little interest in economic efficiency and microeconomisation, or individualisation, of the economy. Demands for benefits are made on a mass scale, especially in the non-market sector and regardless of economic results.

Last but not least, the persistence of the indispensability-of-the-third-way syndrome has its roots, among others, in an ideologically-motivated negation of neoliberalism by people with moral authority, but also in misconceptions about the causes of poverty and ways of eradicating it in the modern world. Very often, fighting material inequality is wrongly considered the best way of fighting poverty. All these factors account for a continuing relevance of, and a need for, an analytical examination of “third ways” as alternative economic systems.

## 2. The origins and current conceptions of “third ways”

Thanks to historical experience and economic theory we can identify the phenomena and factors which gave rise to the birth of the conception of the “third way” as a model intermediate between free market capitalism, condemned by Marxism, and centralised non-market socialism, or communism, which from the very beginning did not promise freedom. It seems reasonable to look for the beginnings of the “third way” ideology in *The Foundations of Socialism and the Duties of Social Democracy* of 1898 by E. Bernstein<sup>3</sup>. It was this publication that served as the basis for the opinion that socialist revolution does not pay from the social point of view, that it is necessary to focus on improving distribution relations and redistributing the social product in the interest of the proletariat. A large proportion of social democrats agreed at that time that parliamentary methods are more effective than revolution.

The Soviet Union’s New Economic Policy (NEP) of the years 1921-1927 could be regarded as another historical contribution to today’s search for “third ways”. Despite claims that it was only a temporary measure, the NEP was proof of admitting that the non-market economy introduced in 1917 was a failure. It was also an attempt to reconcile centralism with private enterprise and free-market mechanisms. At the same time, it is a well-known fact that the decisive factor behind ending the NEP was Stalin’s wish, not rational arguments.

However, the “three-sector economy” of Communist Poland in the years 1945-1948 can hardly be considered an attempt to search for the “third way” because it was deliberately designed as a preparation for a totally centralised economy.

Today, while examining the causes of the recurring relevance of the “third way” issue, one could mention especially:

1. discontent with economic systems characterised by either left-wing or right-wing fundamentalism, or by one-sided perception and treatment of socio-economic problems,
2. objective losses inherent in such systems, for example unemployment and excessive social contrasts in capitalism on the one hand, and extreme economic inefficiency accompanied by lack of freedom on the other,
3. disbelief (having its origins in Saint-Simon’s writings) in the benefits and effectiveness of self-regulating economic mechanisms combined with a conviction about the superiority of a central brains trust in decision-making,
4. natural desire to find an optimum system, whose scientific manifestations were, among others, J. Tinbergen’s<sup>4</sup> convergence theory and, in the area of performance of economic systems, Oscar Lange’s concept of micro-economisation through

---

<sup>3</sup> E. Bernstein, *Die Voraussetzungen des Sozialismus und die Aufgaben der Sozialdemokratie*, 1898.

<sup>4</sup> J. Tinbergen, *Economic policy. Principles and design*, Amsterdam, Nort-Holland Publishing Company 1967.

central parameterisation of a socialist economy<sup>5</sup>. There seems to be a link between these ideas and efforts to introduce works councils in the 1980s Poland in the hope of softening centralism and starting micro-economisation based on collective ownership.

As we know, all attempts to carry out reforms in socialist countries were finally abandoned or thwarted by various modifications being introduced lest the ruling Communist party lose power. China, with all unknowns typical of it, seems to be an exception in this respect. There is no doubt, however, that a market economy may “dangerously” lead to democracy.

Efforts to find models combining capitalism with socialist ideals have so far ended in failure, even in such countries enjoying high levels of social support as Sweden, considered for many years as a perfect example of the “third way”. This was demonstrated by the financial and monetary crisis of the early 1990s and by Sweden’s slippage down in per-capita GDP rankings.

In Western Europe, the softening of the social market economy by social democrats in the 1960s and the 1970s always led to an almost across-the-board increase in budget deficits and public debt. A symptom of this process was the 1973 demonetisation of gold, an ore considered in Bretton Woods as a pillar of the monetary system.

As has been mentioned, Blair and Schröder’s social-democratic manifesto was unique confirmation of the economic failure of social-democratic “third ways”. A consequence of this failure is that the latest proposals to reform market capitalism are free of a fundamentalist refutation of the market. Now the subject of debate is the progressive tax or the size of public debt. Proponents of “third ways”, such as B. Barber<sup>6</sup>, admit that big democratic welfare states make their citizens dependent and lethargic and reinforce people’s expectations of the government. Such a situation would be far from what is meant by “civic society”.

Authors like B. Barber and G. Soros focus on the need to eliminate the contradiction between, on the one hand, the expansion of capital and the globalisation of the market and the economy and, on the other, the fact that civic and social policy institutions remain on the national level, in the hands of particular states. These authors seem to believe that poverty in many areas of our globe is caused by market globalisation not being accompanied by a simultaneous globalisation of democratic and civic institutions, which could balance these processes, reduce excessive disparities and redistribute wealth more justly. According to Barber, civic society has suffered, and still suffers, losses to the state and the market. The market, however, is, in his opinion, more dangerous than the state because, unlike the state, it “subdues in velvet gloves”. Barber finds a remedy for this in the development of civic institutions of a very vague nature. That they would be mainly leftist is shown by

---

<sup>5</sup> O. Lange, *Zagadnienie rachunku gospodarczego w ustroju socjalistycznym*, *Ekonomista*, No 4, 1936.

<sup>6</sup> B.R. Barber, *Globalny dzinn*, *Gazeta Wyborcza*, July 1-2 2000, pp. 12-14.

his regret, expressed on another occasion, over the removal of the Communists from the French government under American pressure in the 1950s. It is not clear, then, what Barber meant by his proposal to “democratise” the International Monetary Fund and the World Bank.

A similar line of thought is adopted by G. Soros<sup>7</sup> who, while accepting economic efficiency of the market, restricts himself to some general proposals concerning redistribution and philanthropy. Soros is an author prone to simplistic generalisations in the area of the philosophy of history, which is demonstrated even by the title of a book of his *The Crisis of World Capitalism*, which resembles well-known Soviet-era publications about a “general crisis of capitalism”.

It is worth mentioning at this point that Barber’s response to Blair and Schröder’s manifesto is not free of fundamental misunderstandings of a historical and theoretical nature. Using “the market” and “capitalism” as interchangeable terms, Barber claims, contrary to the facts, that it was the democracy formed at the turn of the 19th century that was the basis, or the starting point, for capitalism. In actual fact, however, it was the other way around. It was the development of the world market and market capitalism in England and in Holland that broke down feudal barriers and paved the way for democracy and freedom.

Despite unquestionable achievements of the market revolution, the decade of Poland’s transformation (1990-2000) abounded in manifestations of dissatisfaction with the market economy and in demands for a system that would perform numerous functions of “the state as a manager” of the national economy burdened with various protective obligations. In Poland, there is still a strong “non-market sector”, which does not follow market rules. It includes both loss-making state-owned manufacturing companies and farming, with its subsidies in the shape of “farmers’ pensions” and subsidised purchasing prices, which sometimes exceed world prices. The rate of GDP redistribution is still too high, stifling investment. The state’s involvement in the distribution process (e.g. through its involvement in the trilateral commission) continues to be too close. This is manifested in the efforts to maintain wage indexation, which is incompatible with the essence of the market economy. There is too much faulty legislation and regulation on the part of the state, which, at the same time, neglects the natural areas of its activity like spatial management, protection of the environment and natural resources, and supra-regional infrastructure. There is also too much tolerance for monopolistic practices in various industries.

The oft-repeated statement that Poland’s present economy is neoliberal is therefore totally unfounded. In many respects, this economy has features of a “third way” supported by bureaucratic interventionism - which does not boost social integration - and highly susceptible to populism because of the social climate of distrust.

---

<sup>7</sup> G. Soros, *Kryzys światowego kapitalizmu*, Warszawa 1999.

Poland's "third way" is not a deliberately adopted system. It is rather a product of different economic, social and political forces. So far, it has been an incoherent, clearly temporary system whose ultimate preferences are not unequivocally stated.

### **3. "Third ways" – characteristics and features**

The range of structural and corrective conceptions and undertakings referred to as the "third way" is very broad and difficult to classify or qualify. On the one hand, there are holistic undertakings, directed towards structural goals of a constitutional and institutional character, which entail certain functional transformations. On the other hand, there are selective undertakings, motivated by specific preferences, which seemingly do not spoil the essence of the system, a good example of which is continuous institutionalised support for the farming industry.

Holistic conceptions of the "third way", which suggest keeping a certain level of state ownership, direct and indirect state control, the state's interference in distribution relations, a high rate of GDP redistribution, etc., are often adopted in countries undergoing structural transformation. They are usually a reaction to a painful revolution or a radical therapy and its short-term social consequences. The efficiency of the proposed mixed economy is a minor issue in such cases. People simply want the old system back, even though it collapsed. As for Sweden's social-democratic market economy, it has its origins in the above-mentioned conviction that macro-economic and social benefits stemming from some restriction of economic freedom will be greater than the resultant losses suffered by individuals.

Selective conceptions of the "third way" are characterised by exempting a sector of the economy, or a group of entities, from market rules or by treating them preferentially from the point of view of budget revenues and expenditure, e.g. through fiscal policies. It is often emphasised that these preferences do not spoil the essence of the system or economic mechanisms, or do not adversely affect the economic environment. Developed countries' experience shows that, for some time, an economy can accept such interference. Only after a longer period of time, however, do its harmful effects crop up in the shape of an increased public debt, a high rate of unemployment, etc. Owing to its non-structural character, this interference can be discontinued, which is now the case in a number of West European countries.

This is why the term "third way" seems to apply only to the kind of interference which significantly affects the economy as a whole, and whose influence cannot be absorbed or neutralised by the healthy performance of the rest of the economy. The holistic character of these changes does not, obviously, change the fact that they are stimulated by various pressure groups having a vested interest hidden behind noble slogans. This phenomenon is, by the way, quite typical of state interventionism.

As has already been mentioned, “third ways” are motivated by search for a system better than those which the ordinary market economy offers, especially in the area of distribution, and by the belief that such systems are feasible and can be efficient. The leading, though not the only, motive behind the search for “third ways” is undoubtedly the need to fight poverty. Unfortunately, this just proposal is almost immediately supplemented with slogans against material inequality and so-called social injustice. These problems have both a local dimension, restricted to one country, and a global one. Barber claims that, since economic and market globalisation is outpacing social and civic globalisation, it is necessary to counter-balance the hegemony of the market by creating world institutions of civic society equipped with supra-national powers. People’s demands on the national level are limited and, as such, preclude a global fight against poverty in the face of national selfishness. Therefore, according to Barber, we need a “third way” on the global scale, at least to overcome the widest social and material disparities. But while Barber and most social democrats regard the market economy as an essential element of the present time, the orthodox Left rejects the market economy altogether for ideological reasons, considering its acceptance by social democrats as a betrayal of their ideals. Numerous protests of anarchists (Seattle, Prague, Nice, Genoa) against globalisation and the market show that there is still an anti-capitalist fringe with very vague and contradictory programmes.

A common feature of most of today’s “third ways” is to negate the global success of the market economy, deny obvious facts in this field, and blame the market economy for all possible failures. The market economy is blamed for poverty and starvation, with careless disregard for the validity of such conclusions. While the blame for the absurdities and sins of non-market socialism is usually laid on the incompetence and criminality of individual people, the shortcomings of the market economy are readily exaggerated, putting the blame on the system as a whole. The authors of “third ways”, therefore, cannot be expected to show scientific objectivity, either in their evaluation of facts or in the matters of theory and programme. On the theoretical level, advocates of “third ways” either contrast the social optimum with the economic optimum or present some vaguely defined social optimum as a precondition for the economic optimum. The relativisation of these concepts has led “third way” proponents to believe that fighting material disparities is a basic condition for an effective fight against poverty. Naturally, such a *iunctim* does not hold water because, as is well known, the acceptance of material disparities and discrepancies in earnings is one of the strongest stimuli to global progress and development, a prerequisite of efficiency, which ultimately benefits also the poor. Refuting material disparities implies, which is easy to understand, disparaging the achievements of economics as a science. This is very close to an apotheosis of egalitarianism, which is founded on the “social optimum”, allegedly more important than the economic one. It has to be observed at this point that the “new civic order” based

on egalitarianism would inevitably be a totalitarian “order”, stifling individualism and dissent. Proponents of “third ways” regard the market as a negative fetish, not as an economic category that can be realistically understood and evaluated.

It is obvious that today’s social democracy will have no truck with such a negative attitude to the market and the market economy. But, as Blair and Schröder’s manifesto shows, it is only recently that social democrats have realised the danger connected with too high a rate of GDP redistribution as a form of introducing egalitarianism and as an impediment to investment. The impossibility of ensuring the social optimum or achieving success in social welfare without attaining economic success is increasingly accepted by the present-day social democracy.

#### **4. “Third ways” in the light of economic principles**

Economics as a science has practically no points of reference on which a theoretical model of the third way as a system could be constructed. Numerous attempts to classify what are called economic models are incompatible with the dichotomy between micro- and macroeconomics<sup>8</sup>. Past attempts to model asymmetrical situations with one entity having an advantage over others did not produce satisfactory results.

Microeconomics, or microeconomic optimisation, is, if not totally rejected, then at least ignored by the advocates of “third ways”. “Third ways” are not interested in the economic situation of an individual, a company, or its optimum. “Third way” motivation is dominated by the mentality and interests of the weak and passive elements of the economy, rather than the active and creative ones.

Macroeconomics is looked at by “third ways” not so much from the point of view of the conditions of economic growth, of creating the national product and balance, as from the point of view of national product redistribution. The efficiency of an economic system is not a matter of great concern. What these conceptions find relevant is the efficiency of an economic system from the point of view of the goal set (usually a non-economic one) rather than a favourable relationship between the result and the outlay. Searching for relatively efficient economic solutions is conducted at the level of implementation, not goal selection. This may lead to situations found in centralised economies, where first a wrong and wasteful allocation decision is made and then it is supposed to be implemented in the most economical way.

As “third ways” retain the diversification of business entities while differentiating between them in terms of conditions and preferences offered, they do not ensure the inner harmony of the whole system. The state, with all its known weaknesses,

---

<sup>8</sup> J. Drewnowski, *Próba ogólnej teorii gospodarki planowej*, wyd. 2, Biblioteka SGHW, Seria 1, nr 3, Warszawa 1947.

remains to a large extent the manager of the economy. At the same time acting as the sovereign of the economy, making laws and enforcing them on other business entities, it automatically yields to the temptation of discriminating against some and favouring others. Decisions made under the banner of socially attractive issues are usually prompted by some selfish motives.

There is no doubt, however, that at present, as has been mentioned, the focal point of “third ways” is shifting from system choices, or ideas for a separate economic system, to redistribution within the framework of the market economy. This is so because a mixed economy, combining the market with non-market management, has proved inefficient.

A classic example of how difficult it is to create mixed models, with the state controlling low-level entities, is the issue of “dual prices”<sup>9</sup>, which are supposed to ensure proper market pricing and stimulate producers without respecting market rules. O. Lange<sup>10</sup> and K. Porwit<sup>11</sup> demonstrated that, with central control and the diversification of business entities, the same prices cannot be used for measurement and stimulation if some elements of the market are still at work. Only in an ordinary market economy can the same prices simultaneously measure expenditure and results, and stimulate the behavior and decisions of business entities.

Third ways clash with modern micro- and macroeconomics, for they imply abandoning the principle of the universality and uniformity of assumptions and conditions of decision-making. “Third way” conceptions are characterised by wishful thinking because they are a product of not so much a constructive structural programme as the refutation of the market economy and its structural features. Because of these characteristics, third ways are incompatible with the axiology of optimum-searching economics. Otherwise, economics would have to leave the plane of comparable values analysis.

The historical experience of “third ways” – understood as either structural undertakings or undertakings restricted to introducing a high redistribution rate in order to correct distribution relations – is rather negative. Efforts to combine state control with the market economy are, as a rule, very costly. The cost of stimulation is nearly always greater than the results achieved, as Poland’s experience with the “non-market sector” demonstrates. As has been mentioned, economic failure of state-owned companies in Western Europe led to their denationalisation. Exceptions like monopolistic *Electricité de France* only prove the rule.

Shifting the focal point of “third ways” from the development of a state-owned and state-controlled sector to the redistribution of the national product has eliminated direct losses, but has not solved the problem as such. In accordance with a well-

---

<sup>9</sup> K. Porwit, *Zagadnienie rachunku ekonomicznego w planie centralnym*, Warszawa 1964; O. Lange, op.cit.

<sup>10</sup> O. Lange, op.cit.

<sup>11</sup> K. Porwit, op.cit.

known rule (the higher the rate of redistribution, the lower the rate of investment), a high rate of redistribution, sometimes exceeding 50%, has limited the rate of investment and makes a sufficient reduction in the unemployment rate impossible. This weakens the dynamics of economic growth and it is here that we should look for the causes of the sharp fall in the exchange rate of the euro against the dollar in the last two years (1999-2000).

In Western Europe, unlike the USA, where stopping the arms race in the 1990s produced considerable budget surpluses, state-activating neo-Keynesian policies resulted in further growth in public debt. In Germany, for instance, public-debt servicing accounts for 25% of government spending.

A synthetic expression of the economic imperfection of “third ways” is their generally negative evaluation from the viewpoint of criteria for evaluating economic systems.

**First** – “third ways” reduce the economic rationality of resource allocation by increasing the GDP redistribution rate and, consequently, lowering the investment rate.

**Second** – through a relatively high unemployment rate “third ways” reduce the extent to which the human and material potential can be exploited.

**Third** – in the face of a heavy tax burden and a preference for the stability of social conditions at the expense of economic growth, they reduce in some measure the demand for innovation.

**Fourth** – market equilibrium mechanisms are not accompanied by the public finance equilibrium.

**Fifth** – the decision-making process is under closer control than, for instance, in the US, and is slowed down by excessive government interference and red tape.

**Sixth** – egalitarian pressure is much stronger, restricting the dynamic of individuals.

The failure of “third ways” so far stems, first of all, from their inconsistency, their efforts to reconcile opposite ideas and solutions. The market is accepted only to a certain extent – as an auxiliary mechanism rather than the main form of the economy’s performance. The market is unappreciated as a device for measuring, verifying and stimulating economic results. It is very easy to quote examples of so-called “market failures” in areas to the regulation of which the market does not aspire in the first place. Neoliberalism is totally unjustly accused of making an absolute of the market in all areas of life, although it is widely known that in such areas as infrastructure, environmental protection or spatial management this is not the case. In the United States, thanks to its high level of per capita GDP, a 30-percent redistribution rate is sufficient to solve many social problems much more effectively than in less wealthy countries with high redistribution rates.

Advocates of “third ways” tend to overestimate the possibilities of a centrally controlled economy. They overestimate both the government’s competence and

goodwill, and the altruism and dedication of the governed. There is supposed to be a dichotomy in society between the active and the passive, who expect benefits. What is ignored, however, is the cost of central economic stimulation of those implementing the government's programmes. It is said that the best deals are those made with the state and at the cost of the state. One cannot help concluding, then, that "third way" proponents are characterised by general apriorism, a tendency to make accusations against the market economy and a belief in the benefits of interventionism.

## 5. If not the "third way", then what?

In the light of historical experience, it is obvious that "third ways" do not foster a fast economic growth or necessary structural transformations. A high rate of redistribution to satisfy short-term needs takes priority over the stimulation of investment and long-term projects. Hence the tendency, prevalent among nearly all "third way" countries (except those undergoing transformation), to retreat, to reduce the rate of redistribution, to rehabilitate economic individualism. In this respect, the Blair and Schröder manifesto is a very representative document. One can only quote F. Fukuyama<sup>12</sup>, who says that the world evolves not towards socialism but towards liberal democracy and the capitalist market economy. Let us hope that the twentieth century saw the last dangerous attempts against democracy and the market.

In the year 2000, therefore, "third ways" can no longer be recommended as a recipe for a good economic system. What seemed possible in 1945, the time of fascination with the Soviet Union's war success, would be a harmful anachronism today. "Third ways" do not offer a realistic answer to the key problems of the present and the future, namely to globalisation on the one hand and poverty on the other.

Globalisation means crossing national borders and transcending the narrow national interest, at the same time creating opportunities for small communities, who have been thwarted in their aspirations by local state centralism. Naturally, globalisation is a threat to isolationist organisms and to systemic and political particularism. It is also a chance to overcome the remnants of totalitarianism and xenophobia in people's minds. Where there are no artificial barriers, the economy develops and so does democracy. This is why opening globally, through the market, is so crucial, and why opposing globalisation should be regarded not only as defending the last bastion of conservatism and traditionalism but also as depriving

---

<sup>12</sup> F. Fukuyama, *Globalizacja bez końca*, Gazeta Wyborcza, November 25-26 2000, p. 23; A. Filas, *Koniec polityki*, Wprost nr 49/2000, *Globalizacja do bicia*, Gazeta Wyborcza, July 1-2 2000, p. 14.

poor countries of chances to develop, chances created by opening to the world and by destroying despotic regimes in countries like Zaire, Angola, Uganda and many others which got out of colonial rule only to experience years of regression. It is worth reminding that the direct consequences of decolonisation included a rapid growth in arms import and ensuing debts.

Globalisation is an opportunity to eliminate warring blocs, an opportunity to overcome numerous barriers between people. It is a process that never ends, an interaction between millions of people. Modern state organisms and institutions should support adjustment processes facilitating integration rather than encourage becoming closed to the world, which is of no avail anyway, considering the globalisation of scientific and technological progress. Presenting the fight against globalisation as the defending of some fundamental values is therefore a misunderstanding, if not abuse.

Obviously, globalisation in itself does not mean eliminating poverty in today's world, so, although the real causes of poverty lie somewhere else, it is an easy target for attacks from the orthodox left and from anarchists. It is true that poverty and excessive material disparities are problems requiring special care in adopting the right remedial measures, in accordance with the *primum non nocere* principle, for the issue of poverty arouses a lot of controversy both over theory and over recipes for economic and social policies.

Let us repeat, then, that it is not true that reducing or eradicating material inequality is a sine qua non for an effective fight against poverty and for a general improvement in living standards. A right to material success and differences in income and earnings are in themselves powerful incentives to innovativeness and economic development. Without this stimulus of growth, there would be nothing to distribute. Material inequality must not be regarded as a social evil. What is evil is poverty, not material inequality. It is thanks to material inequality that mankind has achieved so much that today it can assume the moral duty of fighting poverty. It is demagogic to condemn huge fortunes amassed by today's billionaires, or to play up the discrepancy between their incomes and the earnings of common people. Experience shows that billionaires usually live more modestly than movie stars, that the state invests money less successfully than capitalists do, and that resource allocation in the "socialist bloc" was wasteful compared to investment decisions in the market economy.

The moral imperative of fighting poverty encourages spontaneous emergency actions in this area. The actions are often spectacular and histrionic. An effective fight with poverty, however, is a long-term venture, much more serious than sending aid convoys or providing money in extreme situations. Giving fish is a temporary solution. A more important thing is to find finance for buying fishing-rods and for supporting rational fish-breeding. This requires structural solutions, sometimes even an international consensus. Naturally, the point is not just to provide money

for an authoritarian regime inclined to import arms or luxury goods, but to make sure that the money is well spent. One has to agree with B. Barber here that an effective fight against poverty requires that market globalisation be supplemented with global civic and social policy institutions. A matter of the utmost importance is creating a climate of trust transcending the immediate environment.

Therefore, a rational alternative to “third ways” is the market economy – modern, based on solid legislation and on the rule of law, creating opportunities for everyone, rewarding success, and requiring ethical behaviour. Its origins can be found both in American neoliberalism and in Germany’s social market economy, which evolved from ordoliberalism. (Let us mention it only as an aside that the creators of *Soziale Marktwirtschaft* successfully resisted the wave of nationalisation and prevented the formation of a French- or British-style state sector in post-war Germany.)

The market economy is an economic system, because its essential features have a structural character and are usually specified in the constitution. These features include a good currency, protected by an independent central bank, but also microeconomic rationality, based on the predominance of private ownership, and the market mechanism as the main form of the economy’s performance, as a visible expression of economic freedom and reliable verification of economic decisions. An economy lacking any of these features cannot be regarded as a market economy.

In the market economy, the state has to perform certain essential duties, which result from its being the common good, and simultaneously protect this good. They manifest themselves in healthy public finance and budget, in the central bank’s monetary policy, in the care for a rational spatial management, for environmental protection and for supra-regional infrastructure. These duties should not be considered instances of state interventionism as a feature allegedly inherent in a modern economy. They are natural functions of the state, arising from its very essence. Interventionism is dangerous to the economy when the state restricts the market mechanism, interferes too much in the conditions of business activity, directly or indirectly makes or stimulates decisions that transcend the public sector. What is of fundamental significance in the market economy, though, is the state’s structural and legislative strategy.

As we know, national product redistribution plays a special role in the state’s economic policy. The higher the redistribution rate, the greater the state’s interference in the economy by means of non-market methods, and the lower the rate of investment. The choice of a redistribution rate exerts a key influence on the willingness to invest, on the general conditions of doing business, and on the country’s reputation as a place with good or bad investment opportunities. This is why countries with a low level of per-capita GDP should not yield to the fiscal temptation or increase the rate of redistribution. There is a relationship between per-capita GDP and a maximum rate of redistribution, hence the tendency to reduce the role of direct taxes and their investment-inhibiting progression. Although indirect-tax

increases are not welcome either, they are less harmful from the point of view of the willingness to invest.

The market economy also needs a good structure of budget expenditure. It is significant whether public funds are allocated for subsidies, social security benefits and various forms of consumption support or for scientific research and eco-friendly infrastructural investments, which support the economy. Unfortunately, Poland's budget expenditure cannot be rated highly on account of a high rate of redistribution and a disastrous structure of government spending. The latter is a product of pressure from various vested interests rather than of a rational choice.

The "third way" is not a path to affluence or to the eradication of poverty. It is the market, supported by a wise government, that is the best method of reconciling individual interests with social ones. Here, arbitrary discrimination and privileges are the smallest. The chances of abolishing poverty – the greatest.

## ***References***

- Barber B.R. (2000), *Globalny dzinn*, Gazeta Wyborcza, 1-2 lipca
- Bernstein E. (1898), *Die Voraussetzungen des Sozialismus und die Aufgaben der Sozialdemokratie*
- Blair T., Schröder G. (1999), *Europa – trzecia droga – nowy środek*, Gazeta Wyborcza, 10-11 lipca
- Drewnowski J. (1947), *Próba ogólnej teorii gospodarki planowej*, wyd. 2, Biblioteka SGH, Seria 1, nr 3, Warszawa, s. 68
- Fukuyama F. (2000), *Globalizacja bez końca*, Gazeta Wyborcza, 25-26 listopada
- Filas A. (2000), *Koniec polityki*, Wprost nr 49
- Giddens A. (1999), *Trzecia droga. Odnowa socjaldemokracji*, KiW, Warszawa
- Globalizacja do bicia* (2000), Gazeta Wyborcza, 1-2 lipca
- Lange O. (1936), *Zagadnienie rachunku gospodarczego w ustroju socjalistycznym*, Ekonomista, nr 4
- Porwit K. (1964), *Zagadnienie rachunku ekonomicznego w planie centralnym*, Warszawa
- Soros G. (1999), *Kryzys światowego kapitalizmu*, Warszawa
- Tinbergen J. (1967), *Economic policy. Principles and design*, Nort-Holland Publishing Company, Amsterdam 1967