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## **ECONOMY MODELS – AN ATTEMPT TO FIND OPTIMAL SOLUTIONS**

The issue of optimal and universal model of the economy is topical regardless of the level of development of a country or economic system. Problems of this type are usually also of interest to political parties, which not always, as experience has shown, leads to a beneficial effect on the economy. Opinions on optimal model of economic systems are in addition highly dependent on the resources of the country, the historical experience level of its independence and finally- on extremely subjective beliefs of leaders. The paradox is that somehow on the world map there are countries where extremely different systems are considered optimal for economic development. In addition, they possess equally strong economic justification, considering the factual statements of recognized economists from the country.

Analyzing the model economies of the world, one can notice the presence of two main economic systems which include family of systems referred to simply as socialism and capitalism. Referring to the second system, in economic theory large number of synonyms used colloquially has developed, in which terms such as market economy or private economy are included. Capitalism, regardless of the used nomenclature, rooted strongly in the minds of Poles after 1989 and seems to be perceived as a natural alternative to the economic system known as the socialist system. In the consciousness of the societies of countries that relatively recently made economic transformation it is to the considerable degree seen as the only desirable economic system<sup>1</sup>. Identifying solutions adopted in a given country simply as a market economy, even if it possesses many of the attributes of such a system is, according to the author, too simplistic due to the occurring unlimited number of modifications to the model of the free market. One should note that elements of the market economy characterizing capitalism have existed for thousands of years, however they are not the first cause of capitalism, for its rise should be noticed from the emergence of free labor, not related to the means of production and taking up an independent, resulting from economic necessity work. The presence of free human capital and taking it into account as a resource in the production of goods by the “organizers” and the holders of capital is the main element of capitalism.

Of the many definitions describing the discussed economic system in literature, one may cite a definition indicating that capitalism is a political system in which the primary business motive is profit, while the main mechanisms that coordinate the system are competition and market. The social basis of capitalism is the class division of society, which is divided into those holding capital and employees who sell their power under the contract<sup>2</sup>. An important element of capitalism is the market and competition. These parameters are not always perfect, i.e. the market is not always fully free and competition is not always unlimited. There are regulations known even in modern economic models related to state intervention in order to protect the interests of a group of market players. Such factors disrupt the model of capitalism and constitute a confirmation of the general thesis formulated at the beginning of the article in terms of the lack of optimal model of the economy (state intervention is assumed a result from the important economic reasons). Analyzing the problem of free-market systems, attention should be drawn to another characteristic feature - these systems have strong development potential. Analyzing the historical development of the world, not only in the economic but also social and technological aspect, it is difficult to dispute that the mechanism of development based on continuous improvement is not an elementary mechanism leading to obtaining an added value. Going back to the level of macro-economic

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<sup>1</sup> The remark particularly applies to Poland.

<sup>2</sup> Cf . Kowalik T., Systemy gospodarcze – efekty i defekty reform i zmian ustrojowych. Fundacja innowacja i wyższa szkoła społeczno-ekonomiczna, 2005

analysis and modern framework of capitalism, one has to note that it focuses to a very large extent on the development of financial entities existing within it. Even if we talk about the development of a functional product, to a large extent it is to be a contribution to the growth of consumerism and consequently to an increase in financial results.

Synthesizing the above-mentioned characteristics, one can refer to the theory formulated by Schumpeter. He stated that the essence of capitalism is constantly revolutionizing its economic structure – the phenomenon in economics functions as the so-called "creative destruction". It specifies the fact that the tendency to innovation and development in a market system is more important than optimal use of already existing resources<sup>3</sup>. Of course, the theory of Schumpeter formulated at the beginning of the last century can be argued with, even given the fact of significant development of the economies of the world in the 60s and 70s, which is difficult to explain in this aspect.

It seems that in theory of Schumpeter one important mechanism associated with the development of science and technology was underestimated, which significantly contributed to economic development. Alongside the enormous technological development of the modern world in the postwar period the demand for capital has also increased, which in turn has contributed to the development of capital markets and the creation of speculative capital<sup>4</sup>. Undoubtedly, free market economy is antagonized by a system based on the socialist assumptions. In its pure form it can be defined as a set of rules focused around central planning processes and the centralization of ownership on the level of the state. Of course, again, as in the case of free-market systems one can talk about different models of its operation, which, according to the author's opinion, had to be determined by economic historical and social factors, or even due to the attractiveness of natural resources of a given country. One should pay attention to the fact that the system became widespread in the world maybe not so much as a free market economy, but embraced, along the former Soviet Union - Central Europe, a large part of Asia and many countries in the so-called "third world". Not trying to evaluate the effects of pure free-market system and centrally planned models, we must remember that their implementation occurred in different conditions. The classic example, according to the author, is the implementation of a system based on the assumptions of the centrally planned economy of the Republic of Cuba, assessed from the point of view of Central Europe, including countries that have relatively recently undergone a transformation of the political system as a country that is in economic crisis, especially considering the standard of living . The result of the implementation of this system in this country is a clear division into two areas: the outer covering tourism, production and export of luxury goods and services exports (mostly medical) within the Central American countries - relatively efficient; internal involving production and distribution of goods for local population - inefficient and causing a number of socio-economic problems. Speaking of the conditions for the implementation of the economic system one cannot judge the Republic of Cuba without reference to the situation as occurred before the year 1959<sup>5</sup>. Until this year, the Republic of Cuba was characterized by strong economic dependence, extremely low levels of society, extremely high rate of illiteracy and virtually no medical care. After several years of a centrally planned economy Cuba, next to objective negative economic consequences, is the country in which there is no illiteracy and it is a world leader in medical achievements, which is due to very high level of the education system at all levels. It is not the aim of the author to glorify the applied solutions, only to draw attention to the need for a broader - multifaceted assessment of economic systems and not just their evaluation through the prism of a few selected parameters often quite controversial such as the GDP index. Paradoxically, the confirmation of this thesis is the

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<sup>3</sup> Cf. Kowalik T., *Systemy gospodarcze – efekty i defekty reform i zmian ustrojowych*, Fundacja innowacja i Wyższa Szkoła społeczno-ekonomiczna, 2005, pp. 37-38.

<sup>4</sup> It is interesting that at the turn of XX and XXI century, daily transactions on the World markets exceeded several times the GDP of Poland in the 90s of the last century.

<sup>5</sup> From this year on, change of socialistic system followed as a result of arrival in power of Fidel Castro, the former president of the Republic of Cuba. The arrival in power was succeeded by the removal of Fulgencio Batista, supported by the USA.

relatively high growth rate of GDP, for example, in 2008 at 4.3%<sup>6</sup> with a negative level of inflation rate in this year at -0,1. In 2010 the inflation rate was equaled 1,4<sup>7</sup>. The unemployment rate is at 1% of course due to hidden unemployment. Interestingly, Cuba maintains a very good economic cooperation with countries such as Spain in the field of tourism and Italy in the field of telecommunication. It is also a significant investor in Canada. Referring to the effects of political changes based on centrally planned systems one cannot also underestimate the fact that under the centrally planned system, the Soviet Union became the military superpower with a significant industrial base, next to the US, which certainly was possible through a combination of centralized political power with the nationalization of production measures. This resulted in complete control over an economic activity. It should be noted that with the progress of industrialization and thus, complicating the mechanisms functioning in the economy, the system has begun to undergo chaos.

As has been emphasized many times, it is difficult to formulate optimal ("clean") models of the economy. It is worth noting several hybrid models, which have been successfully applied in some countries. One interesting example is the Swedish model, which already in the 80s of the last century attracted a lot of interest of economists, particularly with regard to alternative means of political transformation from a centrally planned system to liberal economies. The model of the Swedish economy relies heavily on social egalitarianism and state intervention on a number of areas. The result of these activities is, for example, strong regulation of the financial sector, which, for example, can reduce the risk of negative effects of speculative capital. The Swedish economy has been built on a series of social agreements that lead to economic stability by limiting liberalism in some areas of economy (where it could have negative social effects). A characteristic feature of this model is among other things stimulation of the economy during the economic slowdown by increasing expenditures from the state budget. Another example of a differentiated approach to the economic model systems are Asian systems including Japan. It should be noted that Japan is, as the Republic of Cuba, an interesting example of the implementation of the economy model (of course different from the socialist system) implemented in specific conditions. Immediately after the Second World War the country was heavily damaged with a ruined economy and did not remind the world of the high quality and technologically advanced products. The elements of corporate governance, which, paradoxically, have been implemented by economists and managers in the United States, for several decades, changed the economic position of Japan in the world. One of the characteristic elements of the organization of the Japanese economy was the model of the enterprise as a "mini-state" within which mechanisms of financing, among others, were built. Because of this, among others, participation of the state budget in GDP in Japan was for years one of the lowest in the world.

There are many models of economy. It is worth noting that their implementation often encounters restrictions on the social level. Poland may be an example, where it would be difficult to implement an economic model similar to, for instance, to the Swedish one, bearing in mind the history of political changes in the country. One of the main barriers would be how to foresee difficulties in establishing social agreement among members of the society who at that period wanted capitalist values, strictly based on liberalism (payroll, product, etc.). The second barrier to the use of the Swedish model was a historical egalitarianism of Swedes, who have not experienced in the history of their country feudal system, characteristic for most European countries.

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<sup>6</sup> Average increase of GDP of the United States in years 1948-2000 equals 2,3%.

<sup>7</sup> Data on the basis of Central Statistical Office of Cuba, Statistical yearbook, 2010.