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Competitiveness of Post-Socialist Economy – the Importance of Institutions

Introduction

Since 1990, countries in Central and Eastern Europe have been facing the dilemma of how to shape their socio-economic systems and what kind of socio-economic policy to use in order to assure quick and effective transformation in the systemic area. Simultaneously, these countries have been facing complex problems connected with liberalization and globalization processes. These processes are perceived as a chance for quicker development, however under one condition – proper competitiveness of national economy. Accordingly, the next challenge for post-socialist countries is to build competitive economy.

In the 90s Poland was the leader and an example of transformation in this part of Europe, but after 2000, the Polish economy lost its dynamics. At this moment, in the age of globalization and integration with the European Union, the problem of choosing strategy and instruments for Polish economic policy development has returned – and there is a need to overcome this dilemma in order to take advantage of the traditional growth factors and to ensure that the new growth determinants will be created. The aim of such strategy should be to build an economy that, in a relatively short time, would be able to diminish the development gap with respect to countries from the Organisation for Economic Cooperation and Development (OECD).

Nowadays, national competitiveness and associated-development is no longer recognised to be a result of trade exchange, but is a complex compilation of different relations. This paper tries to show this point of view and draw attention to the underestimated role of institutions – as a factor of competitiveness of post-socialist economy. This aspect is very crucial for Poland because one of the main challenges that this country now encounters is the quality improvement process of institutional environment and economic policy.

Part I. Theoretical Aspects

1. Concept of National Competitiveness

The term "international competitiveness" is not a concept invented by theoreticians, but by practical people close to the policy-making process.[1] Traditionally, the term "competitiveness" was associated with the microeconomic sphere; the increase in interest in competitiveness at the macro level could be connected first of all with the economic hardship of the 60s and 70s, which signified the end of prosperity in capitalist economies. Secondly, the term "competitiveness" is also connected with current worldwide processes of liberalization of free movement of goods and capital, increased activity of transnational corporations, and the telecommunication revolution that influenced the internationalisation of world economy (closer and real consolidation of world economies).

Originally, economy competitiveness was linked to outcomes of foreign trade but with time it became associated with the ability to increase national wealth and maintenance environment that is conducive to healthy competition between companies.[2]

The analysis of competitiveness reaches a deeper sense – among the traditional determinants like quantities and resources, it has also been linked with the quality of resources, that is connected to structural changes, technological development, market activity, socio-economical system or economy policy.

Considering post-socialist economies, we should talk not about international competitiveness but about competitive capacity – this term does not refer to a real phenomenon but to an economic system and economic policy. The idea is to prepare, at present and in the future, institutions and companies to gain benefits from international work division – international trade.[3] The very important matter is to shape capacity that will ensure the biggest development advantages in the long term, through multilateral connections of national economy with its environment.

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[1] J. Fagerberg, *Technology and competitiveness*, "Oxford Review of Economic Policy" 1996, vol. 12, no. 3, p. 39.

[2] See: *European Competitiveness Report 2001*, European Commission, Luxembourg 2001, p. 19; S. Garelli, *Competitiveness of nations: the fundamentals*, [in:] *World Competitiveness Yearbook 2003*, IMD, Lausanne 2003, p. 702.

[3] Cf. J. Bossak, *Międzynarodowa konkurencyjność gospodarki kraju i przedsiębiorstwa. Zagadnienia teoretyczne i metodologiczne*, [in:] *Konkurencyjność gospodarki Polski w dobie integracji z Unią Europejską i globalizacji*, J. Bossak, W. Bieńkowski (eds), vol. I, SGH, Warszawa 2001, p. 49.

2. The Role of Institutions in Growth and Transformation

There are countries and societies that are able to succeed in the sphere of economy, and on the other hand there are states that continuously must cope with economic difficulties. The search for an answer to this disparity has led to the emergence of a new process called new institutional economics.[4] It is – in contrast to the many earlier attempts to overturn or replace the neo-classical theory – built on modifying and extending neo-classical theory to permit it to come to grips and deal with an entire range of issues.[5]

What the new institutional economics abandons is instrumental rationality – the assumption of neo-classical economics that has made it an institution-free theory.[6] If this assumption is rejected it has serious consequences: transaction costs cannot amount to zero, and therefore the quality of institution is crucial for economic activity outcomes. The transactional cost becomes a mechanism due to the direct and indirect[7] influence of institutions on economic development; which could be understood as a development cost of the operating process.

The transactional costs consist of costs of finding information and potential partners, negotiation costs of contract conditions, legal costs (in case of contract claims) and costs connected with market uncertainty (e.g., price changes, deliverer bankruptcy, etc.).[8]

On the contrary, institutions are humanly devised constraints that structure human interaction. They are made up of formal constraints (e.g., rules, laws, constitutions), informal constraints (e.g., norms of behaviour, conventions, self-imposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure for societies and specifically economies.[9] At the same time the difference between the terms: institutions and organisations should be clearly underlined. If institutions are the rules of the game, organizations and their entrepreneurs are the players.[10]

In explaining economy development, the new institutionalism theory stresses the coordination of human activity and adaptive effectiveness as conditions for

[4] The most famous representatives of this approach are: R.H. Coase, D.C. North, O.E. Williamson.

[5] Cf. D.C. North, *The new institutional economics and development*, www.econ.iastate.edu/tesfasti/NewInstE.North.pdf

[6] *Ibidem.*

[7] T. Dołęgowski, *Konkurencyjność instytucjonalna i systemowa w warunkach gospodarki globalnej: implikacje dla sektora usług*, Monografie i Opracowania 505, SGH, Warszawa 2002, p. 75.

[8] J. Godłów-Legiędź, *Nowa ekonomia instytucjonalna: nowe spojrzenie na istotę gospodarowania i rozwój*, [in:] *Współczesne problemy gospodarki światowej*, Acta Universitatis Lodziensis, Folia Oeconomica 169, Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2003, p. 69.

[9] D.C. North, *Economic performance through time*, "The American Economic Review" 1994, vol. 84, no. 3, p. 360.

[10] *Ibidem*, p. 361.

success. North considers that the neoclassical explanation and its accent on locational effectiveness is not a comprehensive approach and therefore it leads to wrong conclusions. Effectiveness is still the most important criterion of new institutionalists, but it is not ordinary locational effectiveness (optimalization of relationships between expenditures and effects through optimal allocation of existing resources at defined time, place and institutional environment). The crucial meaning has adaptative effectiveness that is linked with the flexibility of institutional structure. It emerges in the long-term perspective as an ability for creation of new forms of cooperation and creative attitudes, which promote the development of wealth.[11]

2.1. The Determinants of Systemic Competitiveness – Implications for Post-Socialist Countries

There has recently been a growth in importance of "institutional' quality", that is perceived as one of the competitiveness determinants of national economy. At present, in the age when there are no barriers to free movement of goods, capital and services, when transnational corporations have big influence on national economies, in the age of fast diffusion of technology and knowledge, the traditional government's means of protection (e.g. custom, quotas, non-tariffs restraints, subventions, industry policy) are losing power. However, the government may switch its activity to other areas in order to improve growth and development conditions for the economy's participants, e.g. through institutional solutions (that lower transactional costs, and at the same time also increase competitiveness of the whole economy[12]).

This way, competitiveness is often perceived through the quality of institutions. Many authors pay attention to the fact that defined countries and regions compete with each other in terms of broadly defined quality of institutions. The quality of institutional environment has very big influence on the economy's innovation, productivity, and its attractiveness for mobile production factors.

One of the examples can be J.H. Hämäläinen's approach that distinguishes seven determinants of economic competitiveness and growth (see Figure): (1) produce resources; (2) technologies; (3) organizational efficiency; (4) product market characteristics; (5) external business activities; (6) institutional framework; (7) government activities.

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[11] J. Godłów-Legiędź, *op. cit.*, p. 74.

[12] Cf. W. Bieńkowski, *Konkurencyjność gospodarki polskiej w przededniu wejścia do Unii Europejskiej. Czy rząd może być bardziej aktywny?*, [in:] *Unia Europejska wobec procesów integracyjnych – wyzwania dla Polski. Materiały z konferencji międzynarodowej zorganizowanej w Warszawie 25 listopada 1999*, Elipsa 2000, p. 99.

The competitiveness and growth of an economic system is shaped by the system's external economic and social relationships, and by the social and economic role of the government and the institutional framework as well. All three of these factors also influence the nature of the national resource base, technological capabilities, organizational arrangements and product market characteristics. The system's external relationships also tend to have an effect on government policies and, through them, on the institutional framework.

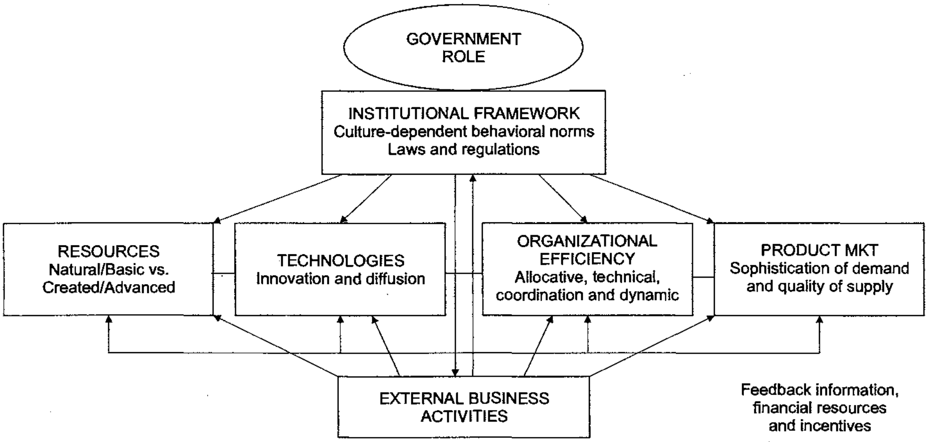

Figure. Determinants of economic competitiveness and growth
Source: T.J. Hämäläinen, *National Competitiveness and Economic Growth. The Changing Determinants of Economic Performance in the World Economy*, Edward Elgar Pub, Cheltenham, Northampton 2003, p. 26.

As shown above – national competitiveness does not emerge spontaneously, as an outcome of changes in macroeconomic conditions, nor is a self-contained product of entrepreneurship (at the micro level). It is rather a result of complex and dynamic interaction between the government, companies, institutions (at the intermediate level) and the organisational efficiency of society.

Such defined competitiveness is called "systemic competitiveness", because of the mutual linkages between all its determinants, and because these factors create kind of the system and connection with the socio-political and economic systems in a given country.[13] It should be simultaneously underlined that term „system" is much broader than the term "institution" (institutions reflect the nature of the system[14]).

[13] *Ibidem*, p. 83.

[14] T. Dołęgowski, *Unia Europejska a Polska. Konkurencyjność i instytucje*, [in:] *Polska w Unii Europejskiej. Uwarunkowania i możliwości po 2004 roku*, G. Wojtkowska-Łodej (ed.), SGH, Warszawa 2003, p. 59.

Taking into consideration the above information, one may come to interesting conclusions – very important for post-socialist countries. In Poland's case, it should be noted that crucial changes occurred in the post 1989 period in the area of formal institutions. At the same time it has not been possible to overcome obstacles in the area of informal institutions. Meanwhile, according to institutionalists, the most important factor for the market mechanism is institutional basis; it means that first of all everything is focused on people, who should be prepared to accept the logic and consequences of the market economy.

One may notice that reforms in Poland – started after 1989 – were generally introduced in accordance with the International Monetary Fund and the World Bank indications. These organizations recommend the so-called Washington Consensus. However followers of the institutional perspective are in favour of a different kind of transformation than supporter of World Bank (see Table 1).

Table 1. A simplified presentation of two different visions of transition

	Washington Consensus View	Evolutionary-Institutionalist Perspective
1. Political economy of reforms and reform strategies		
Attitude toward uncertainty	Insistence on sure efficiency gains; faith in societal engineering	Insistence on aggregate uncertainty; skepticism toward societal engineering
Political economy emphasis	Use window of opportunity to create irreversibility	Ensure continuous and growing support for reforms
View of partial reforms	Create rents that block further reform progress	Depends on sequencing: can either create momentum or stall reform process
View of reform complementarities	Of absolute importance. Necessity to jump-start the market economy by simultaneous introduction of all main reforms	Very important but comprehensiveness of initial reforms not necessary, provided initial reforms can create momentum for further reforms; transitional institutions can develop and evolve gradually toward more perfect institutions
Main support group for reforms	Owners of privatized enterprises	Middle class and new private sector
Focus of reforms	Liberalization, stabilization, privatization	Create institutional underpinnings of markets to encourage strong entrepreneurial entry

Table 1 – cont.

	Washington Consensus View	Evolutionary-Institutionalist Perspective
Attitude toward institutional change	Emphasis on adoption of laws	Comprehensive: legal and financial change, law enforcement, reform of organization of government, development of self-enforcing social norms
Attitude toward initial conditions	Create "clean slate" conditions by breaking existing Communist state structure	Use existing institutions to prevent economic disruption and social unrest while developing new institutions
2. Allocative changes		
Main view of markets and liberalization	Markets will develop spontaneously provided government does not intervene; supply and demand as focus of analysis	Importance of institutional underpinnings needed to enhance market growth: minimum legal and contracting environment, law enforcement, political stability, building of business networks and long-term partnerships; contracting agents and their institutional environment as unit of analysis
Main attitude toward inefficient state-owned enterprises	Aggressive closing down	Containment and politically feasible downsizing; rely on evolutionary development of private sector to shrink state sector
Main view of government	Weaken it as much as possible to prevent intervention in markets	Role of government in law enforcement and in securing property rights
3. Governance changes		
Focus of privatization	Fast transfer of ownership to private hands via mass privatization to break government power and jump-start market economy; faith in market to ensure efficient resale	Emphasis on organic development of private sector; emphasis on sales to outsiders to achieve efficient transfer of ownership from the start

Table 1 – cont.

	Washington Consensus View	Evolutionary-Institutionalist Perspective
Main emphasis of government reform	Main emphasis is shrinking the size of government	Reform in the organization of government so as to align as much as possible the interests of government bureaucrats with the development of markets
Hardening budget constraints	Exogenous policy choice that depends on political will	Endogenous outcome of institutional changes

Source: G. Roland, *Ten Years After... Transition and Economics*, "IMF Staff Papers" 2001, vol. 48, Special Issue, www.imf.org/External/Pubs/FT/staffp/2001/04/pdf/roland.pdf, pp. 34–35.

According to G. Roland, there is an increasing consensus among professional economists that the Washington Consensus view with its so-called trinity of transition (liberalization, stabilization, and privatization) is a misguided recipe for a successful transition. While professional economists do not deny the need to liberalize, stabilize, and privatize, at the same time they increasingly recognize that such policies cannot achieve their goals without the existence of institutional underpinnings of capitalism, appropriate to the specific conditions of each country.[15]

At present the interest in institutional determinants, as a factor of successful transformation, is more and more popular among theorists.

Part II. Case of Poland

1. Polish Economy on the Verge of Membership in the European Union

In the 90s Poland was the leader and an example of changes among post-socialist countries. Looking at Table 2 that presents main macroeconomic indicators in Poland in comparison to other countries in Central-East Europe, the striking fact is that in 1990–2001 the Polish economy reached the highest development growth – 4.5%. Nevertheless at present this country has the highest unemployment rate; moreover – the Polish export share in technologically advanced goods is at a very low level.

[15] Cf. G. Roland, *Ten Years After... Transition and Economics*, "IMF Staff Papers" 2001, vol. 48, Special Issue, www.imf.org/External/Pubs/FT/staffp/2001/04/pdf/roland.pdf, p. 33.

Table 2. Economic performance of selected Central and Eastern European countries

Country	(1) PPP gross national income *per capita* ($) 2001	(2) Gross domestic product (average annual % growth) 1990–2001	(3) Inward FDI stocks as a percentage of gross domestic product 2002	(4) Consumer Price index (annual percent change) 2002	(5) Unemployment (in % of economically active population) 2002	(6) High-technology exports (% of manufactured exports) 2001
Bulgaria	6740	–1.2	24.0	5.8	17.8	2
Czech Republic	14 320	1.2	54.8	1.8	7.3	10
Estonia	9650	0.2	65.9	3.6	10.3	19
Hungary	11 990	1.9	38.2	5.3	5.8	23
Latvia	7760	–2.2	32.4	1.9	12.0	3
Lithuania	8350	–2.2	31.4	0.3	13.8	5
Moldova	2300	–8.4	45.0	5.3	n.a.	n.a.
Poland	9370	4.5	23.9	1.9	19.9	3
Romania	5780	–0.4	20.5	22.5	8.4	6
Slovak Republic	11 780	2.1	43.2	3.3	18.5	4
Ukraine	4270	–7.9	12.9	0.8	11.1*	n.a.

Note: n.a. – not available; * – for the year 2001.

Sources: (1), (2), (6) – *World Development Indicators 2003*, World Bank; (3) – *World Investment Report 2003. FDI Policies for Development: National and International Perspectives*, UNCTAD, New York and Geneva 2003, pp. 287–288; (4) – *World Economic Outlook. Public Debt in Emerging Markets*, International Monetary Fund, September 2003, p. 191; (5) – *Statistical Yearbook of the Republic of Poland 2003*, Central Statistical Office, Warsaw 2003, p. 673.

According to Wojtyna, the slowest economic development (real GDP) in Poland in 2001–2002 (in 2001 real GDP increase by 1%, and in 2002 by 1.4%)[16] was caused by the gradual deterioration of institutional environment. A lot of conveniences for start-ups that used to be some of the features during the Polish transformation, no longer distinguish Poland's model of transformation.[17]

[16] Source: *World Economic Outlook. Public Debt in Emerging Markets*, International Monetary Fund, September 2003, p. 183.

[17] Cf. A. Wojtyna, *Nowe kierunki badań nad rolą instytucji we wzroście i transformacji*, „Gospodarka Narodowa" 2002, nr 10, pp. 1–2.

The analysis of the World Economic Forum also confirms this fact. In 2002, according to ranking on public institutions, Poland was classified (in comparison to 2001) at position 61. It was the biggest drop by 21 positions among the 80 interviewed countries (cf. Table 3).

Table 3. Components of Growth Competitiveness Index in Central and Eastern European countries

Country	Growth Competitiveness Index ranking	Technology Index ranking	Public Institutions Index ranking	Macroeconomic Environment Index ranking
Estonia	26	14	28	46
Hungary	29	21	30	49
Lithuania	36	40	36	45
Czech Republic	40	20	50	59
Latvia	44	29	52	55
Slovak Republic	49	34	53	64
Poland	51	36	61	54
Bulgaria	62	56	47	75
Romania	66	55	67	58
Ukraine	77	72	72	77

Source: P.K. Cornelius, *Executive Summary*, [in:] *The Global Competitiveness Report 2002–2003*, P.K. Cornelius (ed.), World Economic Forum, Oxford University Press, New York, Oxford 2003, p. xvi.

2. Quality of Governance and Institutions

Generally speaking, the effectiveness of the systemic reforms introduced in Poland at the turn of the 90s could be estimated dually, with respect to the economy or political and social order. While the development successes are noticeable, in the sphere of politics the progress is not so obvious – according to J. Paradowska, who writes that since 1991 there has been a permanent decrease in the number of parliamentary debates; and as a consequence also the quality of public debate is low. Each successive parliament has been worse than the previous one, worse in the sense of legislation (nobody has been paying attention to the alarms of the Ombudsman of Constitutional Tribunal in this case), in the sense of meritoric quality of disagreement and in the sense of parliamentary culture and behaviour.[18] The main problem of Poland is that further development is threatened by the compilation of low quality political elites and low level of social activity among citizens.[19] Only 25%

[18] J. Paradowska, *Izba poniżeń*, „Polityka" 2002, no. 10, http://polityka.onet.pl/artykul.asp?DB=162&ITEM=1078317& MP=1

[19] Cf. *Meandry instytucjonalizacji: Dostosowanie Polski do Unii Europejskiej*, M. Maroda, J. Wilkin (eds), EU-monitoring VI, Małopolska Szkoła Administracji Publicznej, Fundacja im. Friedricha Eberta, Kraków 2002, p. 137.

of Poles declared membership of voluntary organisations in contract to 57% Czechs, 29% Hungarians and 34% Ukrainians.[20]

Table 4 presents changes in different institutional dimensions between 1996–2002. At first it is worth noting that countries that join the EU on 1 May 2004 (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovak Republic)[21] are characterized by better indicators than Bulgaria, Moldova, Romania and Ukraine. Among the future members, a small improvement can be noticed in terms of quality of regulations and governance. This might be connected with pre-accession negotiations and incorporation of *acquis communautaire.*

Poland does not differ considerably in this analysis from the rest of the "new European members", nevertheless it should be noticed that among these countries, Poland has the worst notes of political stability and regulatory quality. The research carried by Kaufmann, Kraag, and Mastruzzi indicates that a crucial problem in most Central and Eastern European countries is red tape (the best score in this aspect has Estonia and Hungary).

The question is whether Poland will be able to benefit from EU's *acquis communautaire*, or maybe the Union law will become an obstacle in developing Poland's competitiveness; this question may concern for example institutions of the labour market. Institutional adjustments that must take place in Poland with respect to its membership are not a problem of building or adapting to defined organizations that already exist in the EU. In the Polish legal system both, the newly created, and already existant and incorporated, institutions will not act in a vacuum, but they ought to be connected with already existing structures.[22]

3. Institutions at the Local Level

Nowadays, it seems to be that the role of the Polish state in shaping economic reality is limited and the region is more important. It could be connected with event in 1998, when the new 16 voivodships were introduced (partially as an outcome of close Polish alliance within the EU's structures), and when the act on regional self-government was adopted.

The truth is that the role of the region in shaping institutional reality grows and the government role is indirect – its policy is not a main source of systemic advantage; it can only be a kind of a supportive determinant that aids (or interferes) in creating the mentioned advantage. So the role of the Polish government in this aspect is to influence the rest of the main determinants.

[20] J. Bartkowski, A. Jasińska-Kania, *Organizacje dobrowolne a rozwój społeczeństwa obywatelskiego*, [in:] *Polacy wśród Europejczyków*, A. Jasińska-Kania, M. Maroda (eds), Scholar, Warszawa 2002, p. 75.

[21] There were not taken into consideration in the table all countries that join the European Union on 1 May 2004.

[22] Cf. *Meandry...*, p. 135.

Table 4. Governance indicators

Country	Voice and accountability				Political stability			
	2002	2000	1998	1996	2002	2000	1998	1996
Bulgaria	0.56	0.51	0.40	0.16	0.56	0.30	0.39	0.20
Czech Republic	0.90	0.99	1.14	1.01	1.02	0.85	0.95	0.95
Estonia	1.05	0.89	0.82	0.74	0.98	0.79	0.84	0.74
Hungary	1.17	1.14	1.15	1.01	1.08	0.80	1.27	0.67
Latvia	0.91	0.76	0.72	0.50	0.82	0.60	0.51	0.67
Lithuania	0.89	0.95	0.84	0.72	0.93	0.43	0.38	0.57
Moldova	–0.30	–0.01	0.03	–0.19	–0.12	–0.13	0.02	–0.25
Poland	1.11	1.12	1.01	0.95	0.71	0.83	0.85	0.53
Romania	0.38	0.43	0.24	0.03	0.42	0.01	0.20	0.54
Slovak Republic	0.92	0.90	0.45	0.36	1.01	0.69	0.87	0.44
Ukraine	–0.59	–0.39	–0.14	–0.37	0.14	–0.51	–0.13	–0.25

Country	Government effectiveness				Regulatory quality			
	2002	2000	1998	1996	2002	2000	1998	1996
Bulgaria	–0.06	–0.13	–0.97	–0.44	0.62	0.21	0.47	–0.12
Czech Republic	0.70	0.71	0.72	0.60	1.12	0.66	0.78	0.98
Estonia	0.78	1.02	0.42	0.45	1.35	1.30	1.06	1.18
Hungary	0.78	0.83	0.78	0.45	1.21	1.09	1.15	0.47
Latvia	0.67	0.35	0.18	–0.02	0.86	0.52	0.72	0.41
Lithuania	0.61	0.38	0.17	0.05	0.98	0.51	0.21	0.27
Moldova	–0.63	–1.06	–0.51	–0.49	–0.17	–1.09	–0.39	0.01
Poland	0.61	0.39	0.86	0.47	0.67	0.60	0.83	0.34
Romania	–0.33	–0.58	–0.63	–0.53	0.04	–0.27	0.30	–0.43
Slovak Republic	0.40	0.28	0.07	0.18	0.76	0.36	0.29	0.18
Ukraine	–0.74	–0.78	–1.00	–0.59	–0.62	–1.19	–0.89	–0.57

Country	Rule of law				Control of corruption			
	2002	2000	1998	1996	2002	2000	1998	1996
Bulgaria	0.05	–0.11	–0.22	–0.09	–0.17	–0.15	–0.50	–0.62
Czech Republic	0.74	0.60	0.62	0.61	0.38	0.38	0.35	0.55
Estonia	0.80	0.73	0.54	0.33	0.66	0.76	0.49	0.05
Hungary	0.90	0.85	0.78	0.62	0.60	0.76	0.69	0.59
Latvia	0.46	0.25	0.08	0.18	0.09	0.01	–0.10	–0.52
Lithuania	0.48	0.27	0.19	–0.14	0.25	0.27	0.07	–0.12
Moldova	–0.49	–0.54	–0.13	–0.19	–0.89	–0.87	–0.51	–0.19
Poland	0.65	0.64	0.57	0.44	0.39	0.47	0.49	0.38
Romania	–0.12	–0.21	–0.25	–0.27	–0.34	–0.48	–0.38	–0.17
Slovak Republic	0.40	0.32	0.13	0.11	0.28	0.25	–0.08	0.39
Ukraine	–0.79	–0.71	–0.76	–0.64	–0.69	–0.98	–0.89	–0.69

Each index varies between –2.5 and 2.5, with higher numbers indicating better governance.
Source: D. Kaufmann, A. Kraay, M. Mastruzzi, *Governance Matters III: Governance Indicators for 1996–2002*, World Bank Policy Research Working Paper 3106, 2003, www.worldbank.org/wbi/governance/pubs/govmatters3.html.

Obviously it is difficult to judge what should be done in order to make the economy, also Polish, successful. However, one may consider that a lot depends on local community and the region's participants.

Thus it can be concluded that a defined society within the region is significant in building economic growth, but at the same time it must be added that first of all the crucial role is played by people's habits. In this place it is worth to stress, according to Cook and his view of "happy community", the very important feature of such community – reflexivity. Especially, if Polish people could recognise their habits (primarily this not desirabled), they would be able to change conventions, because if people are aware of their actions that may not be appropriate in creating a competitive economy there is a possibility that they can change. It is called "collective consciousness" and this feature does not only refer to individuals but also to the existing within a region organisations, agencies – they are able to be reflexive, to learn and to change conventions, in order to create a booming economy. Such situation has not emerged in Poland yet.

While it is true that the Polish economy should be seen also as people, there is also a fact that social classes and local elites are strategic; an especially crucial role is ascribed to the elites. The answer to the question why elites are so important in creating unique area is not complicated – because they know a lot about their country, about the specific region (what it needs, about its strengths and weaknesses) and on the basis of such knowledge they try to draw attention and attract potential investors. Therefore thanks not only to the elites' knowledge, but also their power and determination it could be possible in Poland's case not only to find new or original solutions but also put them into effect – what is utmost important in shaping competitive economy.

Considering Poland's possibilities to overcome post-socialist order one should also pay attention to another dilemma – unfortunately in Poland's there are differences within communities, localities, and at the same time there is wrong governance. All this interferes in creating a successful economy. It is obvious that in Poland, in most cases, institutions of regional development are to constitute the basis for efficient system that deal with the issues of regional development. However these institutions are not efficient in their work; moreover most of them exist only to exist, omit people's initiative and do not stimulate the region's participants enough. In this place it must be underlined that stimulation of the Polish community is desirable because of the country's history and connected with it socialistic planning, where there was almost no initiative left for the individuals. Close to this agenda are problems of communities and networks of practice. In Polish reality it is still difficult to obtain such connections, however there are many initiatives that aim to encourage mutual cooperation.

In both of the above aspects one may agree with Amin and Thrift, who stress the same issues by considering the importance of inclusiveness within the region's associations.[23] It seems that the authors' strategy is also one of the essential ways in order to build a competitive economy. A lot of researchers say that the success of many economies was possible due to mutual understanding, cooperation and trust. Thus one may advise that Polish institutions should be built in an open, inclusive way in order to be more important for the region's governance capacity than the actual existing institutions themselves; for this reasons they can be created on the basis of attempts of interactive negotiations, and may include different participants, who are able to satisfy their needs and realise their ideas and interests in the region.

Each country is able to create its own uniqueness, is able to be competitive. According to Markusen,[24] the role of big companies is very important in creating booming area. Indeed, but it is not enough. The Polish region needs something more; for this reason presence of not only big, but also small and medium sized companies could be perceived as one of the first steps.

To some extent, Porter's point of view about firms and clusters[25] – competitive units that operate within a region – is significant in understanding these difficulties. According to the author's management thinking,[26] in order to be competitive you need unique – strategic resources. This also applies to regions – regions might be unique if they possess unique resources. In this aspect to achieve competitive advantage, continuously improvement is needed; and the region in order to obtain such competitive advantage in some industry (or in some product or service) need resources not easily copied by competitors (it means unique). Everything that is not tacit is easily copied, and everything that is tacit and creates regional mystery has its origin in people, in local community – in local institutions.

Last but not least, according to Brown and Duguid,[27] there is also the unquestionable need to ensure the accumulation of knowledge transfer among communities and firm networks. In Poland's case it could be possible thanks to the mentioned associations, whose aim should be to encourage learning and adaptation across the whole region. Consequently this way, local path dependencies can be built. All mentioned issues may produce needs for more fully integrated chains between firms (not only inter-firm production but also to obtain knowledge-trans-

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[23] A. Amin, N. Thrift, *Institutional issues for European regions: From market and plans to socioeconomics and powers of associations*, [in:] T.J. Barnes, M.S. Gertler, *The New Industrial Geography: Regions, and Institutions*, Routledge, London 1999, p. 305.

[24] A. Markusen, *Sticky places in slippery space – a typology of industrial districts*, "Economic Geography" 1996, vol. 72, no. 3, p. 293.

[25] M. Porter, *Locations, clusters and company strategy*, [in:] G. Clark, M. Feldman, M. Gertler, *The Oxford Handbook of Economic Geography*, Oxford University Press, Oxford 2000, p. 253.

[26] *Ibidem*, p. 256.

[27] J.S. Brown, P. Duguid, *Mysteries of the Region. Knowledge Dynamics in Silicon Valley*, [in:] *The Silicon Valley Edge: A Habitat for Innovation and Entrepreneurship*, Stanford University Press, 2000, p. 25.

fer networks). Such chains may specifically centre on a selected region of industry (product/service) with deep enough roots in the local context to secure competitive advantage. At present in Poland the fact is that unfortunately firms still only compete with each other, and do not see a common interest in mutual cooperation; however such cooperation can be noticed, but till now it is rather an exception than the rule. This way a vicious circle is created.

The above agenda is once again connected with the already mentioned matter of a need for complex support of organisational systems that can keep networks of firms innovative. Networks of institutions can be build up of a quality and their sum would be greater than the pure sum of all parts – there is always an effect of synergy → 2 + 2 = 5. Such regions with their networks are "a magnet" for companies and people, which can be seen e.g. the case of United States and the Silicon Valley (e.g. attract the best world scientists).

Conclusions

Post-socialist countries have a lot in common, first of all they are facing the same problems and the same challenges. In spite of this fact there is also a need for individual approach to analysis of the economic situation in each country, moreover this also concerns the importance of institutions in developing strategies. The institutions and associated new institutional economics have crucial merit for understanding systemic competitiveness.

According to North, one may come to conclusions that the aforementioned conception encounters some problems. The truth is that transferring formal political and economic rules from successful Western market economies to Eastern European economies is not a sufficient condition for good economic performance. Formal rules are not enough because the support from informal rules and people's beliefs is needed as well. While the formal rules can be changed overnight, the informal norms change only gradually.

Another dilemma is that policies significantly shape economic performance because they define and enforce the economic rules. Therefore an essential part of development policy is the creation of policies that will create and enforce efficient property rights. However, we know very little about how to perform such policies because the new political economy has been largely focused on developing problems.

Moreover talking about efficiency, the stress should be put on adaptive rather than allocative efficiency that is the key to long-run economic growth. The problem is that we do not know how to create adaptive efficiency in the short run.

At present in Poland, the socio-economic situation and linked with it data show that the institutional sphere was underestimated. It concerns the whole society, also at the regional and local level.

One of the formally defined main aims of Polish regional policy is the development of individual areas of the country, and state and regional budget resources can be allocated to the e.g. institutional buildings or studies and research; however there is still a lot to be done. Some researchers claim that big progress can be made when Poland joins the European Union (what they connect with financial assistance), some consider that it is only possible with generational change. Opponents claim that it is difficult to build a competitive economy in Poland, which is connected with the country's history that also had a crucial influence on the people's way of thinking. For this reason a second option may be more viable – because as was said at the beginning – the old way of thinking predominates among local communities and despite of changes it is not possible to rethink and react according to the response to new changes, *ad hoc*. It will not happen overnight because there is no place for simple imitation or replication and each region should have enough time in order to "grow up" with its citizens who will be devoted to their region and will be able to "fight" for the region's uniqueness.

Each country can create its own, unique, irreplicable economy. However it takes time, efforts, trials and common involvement among all "members" – not only citizens, who of course play the most important role, but also local elites and companies are crucial in this aspect. Together they create a whole. Successful, competitive economy is a very unique feature – each country is unique and needs individual treatment. Following this way of thinking, the same also concerns Poland. Neither requirements nor steps are able to assure that Polish economy will become "a magnet" because real "success lies with [...] the country [...] that innovates, that keeps one step ahead of the action".[28]

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