

# NBP

## Narodowy Bank Polski

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**Report on the debate**

**On the latest book of Prof. Kazimierz Łaski**

**“Myths and reality in economic policy and teaching of economics”  
which took place on the 26<sup>th</sup> of November 2009 at the headquarters of  
the Polish Economic Society in Warsaw at Nowy Świat 49**

**Introduction to the debate was made by:**

Prof. Kazimierz Łaski, the author

Prof. Jerzy Osiatyński – the Institute of Economic Sciences, Polish Academy of Sciences (INE PAN)

Prof. Andrzej Wernik – member of the Council of Science at the Polish Economic Society

Prof. Jerzy Żyżyński – Warsaw University

**The debate was chaired by:** Prof. Zdzisław Sadowski – Honorary President of the Polish Economic Society

Prof. K. Łaski said in his address that he wrote the book in order to raise general interest in certain fundamental issues of effective demand, the theory that was so far neglected. The recent crisis demonstrated the weakness of mainstream economics. The repair actions undertaken by governments had nothing in common with mainstream economics because they involved old instruments based on theories of Keynes and Kalecki. The actions increased liquidity of the banking system and prevented the collapse of banks etc. The collapse of Lehman Brothers was the price that had to be paid in order to have the US Congress proclaim immense money transfers. Considerable part of the book deals with the budget deficit from which the said transfers come. The author endeavours to “break the spell” of the budget deficit. In fact, the

deficit is necessary since the private sector saves more than it can invest. The resulting surplus must be taken over by the government sector in form of budget deficit. The author criticised the present pension system in Poland. Direct foreign investments are profitable mainly for investors, although, when well allocated may also bring benefits for Poland (nothing is for free). The speculative capital is however, the worst and must be curbed.

Prof. J. Osiatyński, the editor of the book, opened his address with a remark that the insufficient employment of creative potential of the economy during the whole length of the business cycle is the keynote of the book. The third chapter of the book, on myths and real problems of economic policy is particularly interesting. For an example, when the production apparatus (potential) is fully employed any budget deficit must translate into higher inflation. But the same result may be produced by increased private investment or any other component of global demand. "Pushing investment" is another myth. If the banking sector is lending money to the government then it is not in a position to lend more to entrepreneurs or households. The volume of the public debt is another myth.

Prof. A. Wernik also provided his comments on the budget deficit, asking whether it meant living beyond one's means or a necessity, concluding that it was rather a necessity, but not in every phase of business cycle. Useful here are the notions of structural deficit and cyclical deficit. Prof. A. Wernik is also against demonising the public deficit as a result of high deficits— mainly because this debt does not have to be repaid. It is like a financial pyramid. One should be cautious not to be obsessively afraid of deficit. Prof. Wernik declares himself in favour of constraining the capitalised pension system.

Prof. J. Żyżkiewicz shares Prof. Wernik's opinion on pension system. He thinks there is a harmful tendency to copy household-common-sense thinking onto macroeconomics. It is not true that the public debt means getting into debt with future generations. In his opinion savings usually exceed investments hence government should collect this surplus and allocate to economy especially in the situation of crisis.

Seven discussants took part in an animated discussion following the addresses. They commented on countries that are not afraid of getting indebted (e.g. Germany) but at the same time it is seldom possible to decrease the debt (Belgium). It is not true that financing the debt with bonds leads to uneven distribution of effects since everybody pays taxes and only a few take advantage of bond interest. After all, the debt produces certain capital (schools, hospitals, roads)

that we all use. The theories of economics employ aggregated values that do not allow to analyse particular components of these aggregates. Hence, the future of the theory of economics lies in disaggregation of particular fields of study. Theoretically, the deficit volume depends on economic situation, but since the prosperous economy of the 1970s it has been followed by high unemployment. Economics is a strange science, there emerge contradictory trends, fashion is changing and we move to a new trend because the old one was senseless and after some time we come back to the old one because the new one is absurd too. We have granted ourselves an immense crisis based on conviction that it was possible to make something from nothing.