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I. INAUGURAL LECTURE FOR OPENING THE ACADEMIC YEAR 2016/2017

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NEW CHALLENGES FOR ECONOMIC SCIENCES IN POLAND AND CENTRAL EUROPE

1. GLOBAL SHIFT FROM BIPOLARITY TO MULTIPOLARITY

During the life of one generation we have been witnessing several immense geopolitical shifts whose significance cannot be overestimated. My generation was born in a bipolar world. We had been living in such a world until 1989. Two poles of reality were constituted by two blocs – the West led by the USA, and the East – dominated by the USSR. The states beyond those blocs were called unaligned countries or "The Third World".

After the collapse of the Eastern Bloc the world became unipolar for a while. A gigantic geopolitical vacuum emerged, the consequences of which were major shifts in many areas of life. Some theoreticians, who showed a lack of sufficient knowledge of history, heralded its end. A liberal variety of democracy and a more liberal variety of economics were promoted by the representatives of the International Monetary Fund, the World Bank and the State Department of the USA. Those institutions would offer support conditioned on applicants implementing most (and sometimes all) of ten policy recommendations known as the Washington Consensus.

After some time the picture of the world became more complicated. The United States spent a gigantic amount of money on the Gulf War which significantly weakened the largest power state and permanently destabilized the region of the Near East. After the shock following the dissolution of the USSR, Russia commenced its internal stabilization. The European Union expanded through the accession of thirteen new member states from central Europe. In the meantime however, China relentlessly advanced, first its economic power, and then its military and political standing.

A traditional Asia–Europe summit was held in 2008, with Presidents, Prime Ministers and business representatives meeting in Beijing. At that

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time, Europe strongly promoted the development of democracy and respect for human rights after the 2004 enlargement of the European Union, whereas the representatives of the Asian countries informed the audience (more than 2,000 delegates) that they had decided on a completely different way and did not want to be instructed. Malaysia's Prime Minister, Mahathir bin Mohamad, proclaimed that Europe has its values and Asia has its own, i.e. Asiatic, values. This statement was just a diplomatic introduction preceding a subsequent, much stronger announcement. A Professor of the State University in Singapore explicitly stated in his speech: "Good governance is more important than democracy". The delegates from the EU were shocked by the statement, and in my opinion, they still are in shock.

In fact, a multipolar world is now emerging. The process will last for about ten to twenty years, and if not interrupted by a preventative war, it will certainly constitute a new geopolitical reality in about 2030.

2. CHALLENGES FOR ECONOMIC SCIENCES IN POLAND AND IN CENTRAL EUROPE

Considering the above-mentioned context, let us go back to the title of this lecture: "New challenges for economic sciences in Poland and Central Europe". In previous eras, due to various reasons, we used to be dominated by economic doctrines derived from various ideas, ideologies and specific interests coming from the East or from the West. The current geopolitical changes I mentioned at the beginning of this lecture, as well as increasing global criticism of many popular – or even imposed – economic policies, including mainly the consequences of implementing the Washington Consensus, create a good environment for developing local science that is able to put forward the best local economic policies. We are encouraged to do so by Jan V. Rostowski, known for quite liberal economic standpoint, who stated: "The lessons taught by years of crisis show that it is not enough to be a good learner of those who have more advanced economies. Sometimes their recommendations better safeguard the interests of teachers than the interests of learners".

The current geopolitical situation of the world, and locally the crisis of the European Union, which needs a redefinition, have created a unique environment for economic sciences in Poland and in Central Europe that enables taking the lead and being responsible for economic policies appropriate for Poland and our region. We are witnessing the end of the era in which one dominating economic doctrine was being popularised across the world according to the ‘one-size-fits-all’ rule. Various influences will certainly continue, but globally there are enough centres openly declaring: “these doctrines safeguard a special interest – not our interest, therefore we do not intend to implement economic policies following their recommendations”.

Economics is one science, but the recipes concerning individual economies are different. One science of economics, but various economic policies. It is worth noting, more precisely than before, that the development points of Poland and other countries in Central Europe are completely unlike those of the leading economies in Western Europe. If the world undergoes fragmentation, economic sciences should also undergo fragmentation in the sense that the existing theoretical underpinnings are used to solve specific economic problems characteristic for Poland and other countries in our region.

The theories guiding social sciences do not have to be universal if we want them to be socially valuable. If they respond well to regional problems, if they offer a good basis to formulate social and economic policies, they are valuable and appropriate. We do not ask for an absolute truth, instead we need theories developed on the basis of scientific research and logical conclusions to create economic policies which contribute to the better lives of the surrounding communities – including in the first place the inhabitants of Poland and Central Europe.

3. CHANGES IN TECHNOLOGY AND EVOLUTION OF A GLOBAL CAPITALIST SYSTEM

In the context of the current challenges faced by the world of science, it is worth considering the changes in the area of technology, which often generate changes in business models. More than 90 per cent of the audience here use the Microsoft Windows system. I am also quite confident to estimate that more than 90 per cent of you use Google’s web search engine. During the last 30 years, for the first time in our history, branches and segments emerged where a global leader has more than 80 per cent of a market share, in many cases this is almost a monopoly which imposes the conditions on other market participants, including its own customers.

First of all, however, global changes in technology originate new business models. Google’s business model assumes that the company offers many ‘free’ services that improve the quality of life of people using computers and mobile devices all over the world. At the same time, Google earns more than 75 billion dollars (almost 290 billion złotys) from the annual sales of services such as information positioning and Internet advertising. Google's earnings flow from countries all over the world, while the taxes paid are relatively low. The popular media maintain that the major share of Google's profits is located in so-called tax havens.

Another great challenge regarding the distribution of value is posed by business models in a so-called sharing economy, e.g. the business model of Uber Technologies Inc. In an average European city of half a million inhabitants, there are typically several local taxicab corporations. Their business models are quite similar and assume that a dozen operators collect passengers' orders and enter the orders to the system, while taxi drivers call, pick up the orders and carry the passengers. About 75 per cent of the payment represents the earnings of the taxi driver who is the owner of the taxicab. The remaining 25 per cent covers the cost of the company (especially the call centre, the wages of employees living in the given city or its outskirts, local services, renting property, etc.).

Uber's model is similar – customers order the transportation service using an online application, the application sends data to drivers who provide the service using their own cars. However there are some fundamental differences. In the traditional model, the payment for the service provided by a local taxicab is made to the taxi driver who hands a fiscal receipt to the passenger, whereas Uber generates a bill and charges the passenger's card. The amount paid is transferred to Uber's account in the Netherlands, where 25 per cent is retained and the residual 75 per cent transferred back to the taxi driver.

The main difference is that the 25 per cent of the payment earned by a local taxicab corporation in the traditional model stays in the city where the company operates, whereas in Uber's model this amount of money leaves the city and the country without delay and for good.

Let us now imagine the possible influence of this event on the economy of a given city. If 25 per cent of all payments for taxicab services flow abroad, it will be the financial consequence of new technologies and the resultant new business models. There is no trade exchange typical for imports and exports. There is even no equivalent exchange, despite the voluntary nature of individual transactions. Such a model underpins a gigantic business on a global scale. Uber is the most popular taxicab application in 108 countries in the world. It covers more than 600 big cities globally and earns 20 to 25 per cent of payments for the services provided by its taxicabs.

Now questions emerge. How do business models strictly related to new technologies influence the economic situation of people in given cities and countries? Where do such changes in transfer of values lead? What recommendations should be formulated by the science of economics and addressed to local governments if we consider the fact that those values have no impact on the development of the region or the country?

The global capitalist system over the last 30 years has been evolving towards the emergence of greater and greater economic entities at the expense of local communities. Most of them are generated by the coincidence of several factors, such as the unprecedented decrease in trade barriers on a global scale, the significant depreciation of various non-tariff barriers to trade in many markets, and consolidation processes in particular sectors. As a result of these processes, gigantic economic entities have emerged whose business operations generate incomes greater than the GDPs of most of the countries in the world. Their evolution has been following naturally according to the capitalist system. They gained a dominating influence on the governments of states where they were born – best exemplified by the USA and also, to a lesser degree, by Germany, the United Kingdom, France and Japan. Yet these "organisms" keep growing and try to acquire rights on a global scale – both as regards other countries and the respective communities. As a result, the so-called trade treaties are being proposed such as NAFTA, TTIP or CETA. They are not just trade agreements - in the first place they aim to secure a competitive and legal advantage in the host countries. Investor-state dispute settlement (ISDS) is the best known and one of the most extreme examples of provisions through which individual investors can sue countries for alleged discriminatory practices. If a change in a country's law causes a decline of an investor's profit, then he/she can sue the country before a court of international arbitration and get a large compensation. However, this provision favours just foreign investors, whereas domestic companies in their own country are put at a disadvantage vis-à-vis their foreign competitors. Capitalism is a tough game of interests.

Representatives of local sciences of economics will be more often than ever required to examine how the evolution of the world's capitalist system influences the well-being of local communities, and to put forward economic policies best suited for a given region. If science fails to accomplish this task and politicians do not follow, the ballot will show, otherwise the "street" will make all the difference.

4. INNOVATIVENESS OF COMPANIES AND THE MIDDLE PRODUCT TRAP

There are two mega regions where centres with the largest amounts of innovations are located. First, the highly advanced industrial countries in Western Europe, the USA and Canada with Japan and South Korea. All of these countries represent the most advanced development of industry, highest R&D spending, large numbers of scientists, developed cooperation of industry with scholars (this cooperation is a powerful leverage of science and technology). A customer in this region expects high quality products and is ready to pay for them.

The second mega region with a centre of global innovations are countries once called The Third World, today they are referred to as developing countries. A customer there has a very small income at his/her disposal but has access to information and knows about new products, services and technological solutions in the world. This customer is able to pay for much fewer functions of a product, but these precise functions are essential for the customer. As a result, a lot of new products were developed in this poorer world which are overlooked or even despised by the West, but they have significantly increased the growth rate of many economies and hundreds of millions of people have improved their standard of living. These products are functional and easier to repair than the advanced products of Western technologies, easier to use, and yet they take advantage of the latest scientific achievements. The best known solutions of this type include medical diagnostic devices, radio receivers powered by solar batteries, ultra-cheap cellular phones, and similarly cheap machine tools for industry.

A basic barrier to the progress of innovations in Poland is the fact that our country does not belong either to the first world with the most advanced technologies, the largest numbers of scholars and big research institutes, or to the second – poorer world which runs to catch up while developing along its own, technologically different, paths. Evidently, the direction of developing Poland's science, innovations, technologies, and industry is obvious – we want to compete with the best who were more lucky in their history and were able to build their realms of science, technique and technology for longer than several decades or even centuries.

At present, many state-owned and private companies owe their market positions to the development of technologies during the previous 25 years. The most successful Polish companies, as well as those typical ones, have already reached the limits of the traditional growth model, which consisted in cost competition while the offered products were technologically average as regards their complexity and advancement. Such products were sold under typically positioned brand names or under other firms' brand names. The limits to the success stories of domestic companies are currently determined by such products as locomotives, carriages, buses, trams, yachts, skylights, furniture, medium-advanced machines and devices, food industry products and generic medicines. I listed on purpose only those product groups whose volumes in Poland's exports are significant. Certainly we also have in our country a few technological gems, i.e. companies offering some very advanced products, but their influence on our foreign trade balance so far has been minimal. Nowadays many Polish companies realize that the next 10 years will decide whether they get stuck in the middle product trap or after a long-term effort they move forward to the next, higher stage. Unfortunately, in addition to the middle product trap there are also other traps waiting: the middle and decreasing margin trap, and the medium-advanced region trap as the region of Central Europe does not generate strong development incentives.

Therefore, the best of such companies redefine their strategies so as to reach the most difficult world's markets and the most demanding customers, to meet the highest requirements, and thus successfully offer their products and solutions. Polish companies will increasingly seek their chances to develop new products and assembly techniques, to increase the efficiency of business processes, because the growth rate of their competitiveness will determine their *raison d'être*. This challenge ahead of Poland's business community is also an attractive field for management science, whose representatives should assist Polish companies in developing some appropriate strategies aimed at increasing their competitiveness on a global scale. Any original research papers written in collaboration with business will have a much wider impact than just a number of citations.

5. BIG COMPANIES VS. THE STRENGTH OF THE STATE IN THE INTERNATIONAL ARENA

The identity of a particular state on a global scale is determined by many factors, including the efficiency of its institutions, the strength of its army, and the affluence of its citizens. Let us focus on the economic strength, especially on the number and the size of large companies which alone are capable of a wide market expansion.

In today's globalized world the economic strength of a country is directly correlated with the international economic power of other firms established in that state, especially large companies and exporters in particular. The United States, key member states of the European Union, the BRIC states, or generally, the G20 states, act effectively so as to enable the development of their companies and to support their interests on a global scale. A similar practice is also followed by South Korea and Turkey. Economically strong Germany presents a better choice to Ukraine than Poland does, because Germany entered the Ukrainian market earlier and in spite of evident obstacles to all investors, Germany's position in construction and in process manufacturing is quite lucrative. As a result, Germany is an active player in Ukraine. In addition, Poland's foreign policy could be much more effective if we had a group of some 200 companies ready to be involved much deeper than today in the markets of Ukraine, Byelorussia, Georgia and the Visegrad Group countries.

Unfortunately, during the 25 years of economic and political freedom in Poland nobody asked the question in public debate regarding the role and significance of large Polish companies in the process of building the position of the state both regionally and globally. This aspect is extremely significant because large companies are capable of efficiently operating on a regional or a global scale are granted a considerable number of global patents for their inventions, and also, due to economies of scale, shape the environment of their partners – hundreds of small and medium-sized companies. They generate many well-paid jobs for employees in management, technology, research and development, sales and marketing. Such firms are also significant exporters, thus increasing the number of jobs as a result of satisfying the needs of foreign markets. In addition, those entities are able to effectively support many local initiatives and they have resources to process inventions, innovations and new ideas into a fully mature product. As a result, their economic and social significance is much more than just the amount of their sales and profits.

The global economic game is a fight for profits, and the market itself does not like constraints in its effort to maximise them. We cannot help but actively participate in this game whose rules are not dictated by us. For this reason, when I am asked why we need large Polish companies, I usually answer that we need them to generate profits and to have a higher share in the international distribution of profits, which is equally important as the international division of labour.

For that reason Polish companies building their competitive edge in Europe and elsewhere in the world should be seen as our national good. This is precisely the thinking of all the G20 states, where such companies are also a strategic resource. The amount of those resources is limited in each country. That is why all governments in the world are very cautious when it comes to selling domestic companies to foreign owners, and they often intervene in such transactions regardless whether the company to be sold is state-owned or private. Such is the practice even in such liberal states as the United States and the United Kingdom. In each country there are regulations allowing the government to prevent the transaction. In Europe, Germany and the Netherlands are the best protectors of domestic ownership of companies, whereas German and Dutch companies are supported by their governments when they attempt to take over firms in Poland and in other countries of our region.

There are not many large domestic companies in Poland, therefore we need to make a more strenuous effort. The fundamental challenge is: What industrial and economic policy should be implemented so that over the next decade we could see the emergence of at least 150-200 new companies, each generating revenues of at least PLN 1 billion? In the first place, I am addressing this question to you, Ladies and Gentlemen, as representatives of economic sciences. Developing a package of economic policies explicitly aimed to meet this objective is a real need for contemporary Poland.

Your Magnificence, Ladies and Gentlemen, given the time of my lecture, I was only able to explain a limited number of issues. The unprecedented pace of growth of the modern economy creates an unlimited list of new and very interesting research problems. The students who are entering today their academic life will live in a world of new technologies, new business models and challenges that are completely different than those that accompanied previous generations over the past 50 years. This is my greatest wish to all of you that your scientific commitment to the economics of the 21st century may translate into the increased well-being of the citizens of Poland and Europe.