PAWEŁ GRATA I JAROSŁAW KINAL

WHAT DOES ECONOMIC HISTORY TEACH US?

12 CONVERSATIONS FOR DIFFICULT TIMES

WYDAWNICTWO UNIWERSYTETU RZESZOWSKIEGO

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Paweł Grata
Jarosław Kinal

WHAT IS ECONOMIC HISTORY AND WHAT DOES IT TEACH US?

Economic history is an interdisciplinary field of knowledge that studies the development of the economy, economic systems and economic institutions in the context of changing social, political and cultural conditions. As a sub-discipline of history (a discipline of the humanities) and economics (a discipline of the social sciences), economic history does not merely analyze numbers or statistics, but also seeks to understand the mechanisms that guided people, organizations and entire societies in the past. Its main purpose is not only to document economic changes, but also to draw conclusions that can be useful in understanding contemporary economic processes.

Economic history allows us to look at the past in a systematic and analytical way. An example is the study of the Industrial Revolution, which revolutionized production, trade and labor relations in the 18th and 19th centuries. The invention of the steam engine by James Watt in 1769 radically increased the efficiency of production, enabling the development of the textile industry in Great Britain (Mokyr, 2009). As a result, the country's economy became internationally dominant. The development of railroads, initiated in the 1830s, was equally important. After all, railroads shortened the time it took to transport goods and people, revolutionizing domestic and international trade (Puffert, 2009). These innovations not only fueled economic development, but also led to social changes, such as the migration of people to cities and the development of new industrial occupations.

Based on research conducted within the framework of economic history, we can discover how technological innovations affected the dynamics of migration, urbanization or globalization processes. It is from the perspective of economic history that we are able to see how the same processes that brought economic benefits also led to exploitation, marginalization of social groups or environmental degradation. Rapid industrialization, so beneficial to modernization processes, simultaneously contributed to the deterioration of working conditions in factories and the exclusion of many social groups from the benefits of economic development (Hobsbawm, 1962).

Economic history teaches us that economic development is not a linear process. Economic crises, with the Great Depression of the 1930s, provide numerous examples of the consequences of excessive investment expansion, speculation and lack of financial regulation. In 1929, when the Dow Jones index fell more than 25% in a matter of days, millions of people lost their savings and unemployment in the United States rose to more than 25% (Kindleberger, 1973). These events highlighted the need for reforms such as the Glass-Steagall Act of 1933, which separated commercial and investment banking, reducing the risk of excessive speculation. Similarly, the 2008 financial crisis, which began with the bursting of the real estate bubble, demonstrated the global interdependence of financial systems. The collapse of Lehman Brothers in 2008 and the global recession highlighted the lack of adequate regulation in the banking sector and the effects of excessive debt (Roubini & Mihm, 2010). These experiences resulted, among other things, in the introduction of the Dodd-Frank Act regulations in the US, aimed at increasing transparency in the financial market.

Additionally, economic history helps to understand the role of institutions in stabilizing or destabilizing economic systems. For example, the creation of the International Monetary Fund and the International Bank for Reconstruction and Development (later the World Bank) after World War II was aimed at preventing future crises by promoting global economic and financial stability (Eichengreen, 1996).

Economic history is not limited to material aspects. The economy has always been linked to culture, religion and ideology. For

example, the Protestant ethic, as described by Max Weber, was an important factor in shaping capitalism in Western European countries (Weber, 1905). Weber emphasized that values such as industriousness, thrift and rationality, rooted in Protestantism, fostered the development of capitalism as an economic system. Similarly, in the case of East Asian economies, the influence of Confucianism was extremely important. Confucianism, promoting social hierarchy, loyalty to the community and the importance of education, laid the groundwork for long-term planning and investment in human capital (Rozman, 1991).

Economic history also makes it possible to study how perceptions of labor, wealth or consumption have changed during different historical periods. In the 19th century, for example, it was physical labor that was equated with virtue, while in the modern world there is an increasing emphasis on creativity, innovation and digital competence (Florida, 2002).

One of the most important aspects of economic history is its ability to predict the future based on past trends. For example, the study of the effects of colonialism and natural resource exploitation helps to understand contemporary problems of global inequality (Acemoglu & Robinson, 2012). Analyzing historical paths of technological development helps predict what changes the modern digital revolution and automation may bring.

An example of contemporary economic policies that draw on the lessons of history are the economic recovery programs following the COVID-19 pandemic. Many countries, including the United States and European Union countries, applied elements inspired by the New Deal policies of the 1930s to counter the effects of the recession (Tooze, 2021). These measures included significant investment in infrastructure, support for small and medium-sized businesses and expansion of social programs. The New Deal analogy shows how the experiences of the past can be adapted to new challenges.

Economic history is not only a story of the ups and downs of economic systems, but also a study of human creativity, mistakes and adaptability. It teaches us that the economy is not an autonomous entity, but is deeply rooted in the social, cultural and political

environment. It allows us to better understand the mechanisms that govern the modern world and shows us how we can avoid repeating the mistakes of the past. It also has important applications in education. Analysis of historical economic processes helps develop critical thinking skills and understanding of complex economic relationships. In schools and universities, it can be used to illustrate the effects of political decisions or global economic trends, allowing pupils and students to better understand contemporary challenges.

In public policy, economic history provides practical guidance for creating effective development strategies. For example, analysis of successful reforms, such as the Marshall Plan, can inspire economic recovery programs in regions affected by conflict or natural disasters. In addition, studying past economic crises, such as the Great Depression or the 2008 recession, allows us to better prepare for and more effectively counter potential threats.

This publication is a transcript of conversations conducted and published by the University of Rzeszow in the course of the project "What does economic history teach us? 12 Conversations for Difficult Times" within the framework of the Ministry of Science and Higher Education's 'Social Responsibility of Science' program. The talks were attended by prominent economic historians, who answered a number of fundamental questions about the conclusions for the modern world arising from the past. Conclusions that are particularly relevant in the context of the crises that have regularly appeared in recent years, at the same time, conclusions that are extremely relevant in terms of the recommendations for the present and future that flow from the experience of the past. Each of the conversations was a real intellectual adventure, and our excellent interlocutors, whom we sincerely thank at this point, were (in alphabetical order): Prof. Dr. Piotr Franaszek (Jagiellonian University in Cracow), Dr. Joanna Jaroszyk Adam Mickiewicz University in Poznan), Prof. Dr. Slawomir Kamosinski (Kazimierz Wielki University in Bydgoszcz), Dr. Kamil Kowalski (University of Lodz), Dr. hab. Cecylia Leszczynska, prof. UW (University of Warsaw), prof. dr. Wojciech Morawski (Warsaw School of Economics), prof. dr. Andrzej Pieczewski, prof. UŁ

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Paweł Grata
Wojciech Morawski

MONEY, MONETARY SYSTEMS AND THEIR FUNCTIONING PAST AND PRESENT

PAWEŁ GRATA: Good morning. Welcome to the latest conversation in the series "What does economic history teach us? 12 Conversations for difficult times", part of a project under the same title funded by the Ministry of Science and Higher Education as part of The Social Responsibility of Science programme. The topic of today's discussion will be money, monetary systems and their functioning in the past and today. My guest is Professor Wojciech Morawski, an economist from the Warsaw School of Economics, head of the Department of Economic and Social History. Good morning, Professor.

WOJCIECH MORAWSKI: Good morning, and welcome.

Professor, I would like to talk about money. About something that really interests us all, concerns us, spins us around and often controls our lives. But also about how this money was created, what it is made of and what role it plays today, based on historical experience. What is the monetary system? This is where we need to start, to explain the basic concept.

For a long time, people have felt the need for some measure of value that is neutral to other goods and is a convenient means of exchange. There are certain commodities that lend themselves to

this. These goods must have certain characteristics. Firstly, they should not break down, they should be durable. So, for example, it cannot be bread that goes stale. Secondly, they should be easily divisible into smaller pieces so that you can give out the rest. The ideal commodity of this kind, when things go wrong, is spirits. Spirits then enter the role of money and from various wartime circumstances we know this phenomenon. A bit of tobacco too. These are the commodities that have this function. Money in the form of a metal disc, which we associate with today's coins, appeared in the 7th century BC in Greek culture, but not in Greece, but in present-day Turkey, where there was a state called Lydia. The ruler of this Lydia was Croesus and he began to mint money from such a natural alloy of silver and gold. Then it became popular, for centuries money was bullion money, so that we understand what that means. If I hold in my hand a silver 5 French franc from 1842, that meant, at least in theory, that I was holding a piece of silver that was worth 5 francs. If this silver had not been in the form of a coin, but had been an irregular lump, it would have cost 5 francs, because that is how much silver costs 5 francs. That is, bullion money represented value not conventionally somehow, but as literally as possible. It's worth 5 francs. Of course, even such money was spoilt, that is, it was subject to all sorts of inflationary processes. For a long time, it consisted of rulers spoiling money. The rulers withdrew the money from circulation, minted it anew and either added a little copper in place of the silver or made the money a little smaller. And in this way, they cheated, because they took a million out of circulation and put a million and a hundred thousand back into circulation. This, of course, had to be accepted from the ruler at face value, and if it was then worth less, the ruler didn't care. He didn't care until he received taxes in such corrupted money. That's when he started to care again. But it worked like that for many years. And generally, the theory that people had was that if there was something wrong with the money, then it was being corrupted. The rulers are spoiling it. This corruption sometimes went to extremes. In the 13th century, such money appeared in Europe, which was called *bracteates*, or leaves in Latin. These were such thin sheets of metal that only one side could be bent, because if you bent one side, you could still see the other side. Of course, after

every such bending, some reform came along that introduced more decent money back in and everyone breathed a sigh of relief. But that's how it rocked for centuries.

Something new in this area started in the 16th century. The Spaniards gained a colony in South America and it turned out that there were huge reserves of silver there. They started importing this silver to Europe and began minting such large, decent money, thalers. That's when the name thaler appeared, from which today's dollar is derived. And these thalers were very decent money, they certainly weren't spoiled, and yet they caused inflation. At that time, the idea dawned on people that perhaps money would lose value not because there was something wrong with it, but because there was simply too much of it. The quantitative theory of money was born at this point. It was Copernicus who had something to do with this, because he was pondering the monetary system at this very time.

Another breakthrough in this area took place in the 17th century and in our immediate vicinity. After those wars, which we know as the "Deluge", both Poland and Sweden were broke, badly ruined financially by the war effort. We got out of it in the traditional way, that is, the king leased the mint to Andrzej Tymf, and he started minting such money, which formally was Polish gold. The Polish zloty before the partitions had 30 groszy and on the tymfs it was written that it was 30 Polish groszy, but in fact there were 13 groszy for 13, that is silver for 13 groszy. We were spoiling as we had for centuries. The Swedes came up with something much more original. They had little silver, little gold, but a lot of copper. They came up with the idea of including copper as a third bullion in the bullion money system. The problem was just to get it right. It wasn't about the appearance of a perfunctory kind of contractual money, copper money, such as we also have in our purses today, five-penny notes and lower. The idea was to incorporate copper into the bullion money system, i.e. the stock of bullion in a coin is to correspond to its nominal value. And since copper was, however, much cheaper than both other bullions, I will show you what the Swedes got out of it. They started to get this kind of money out of it. It's called platment, that's the natural size of this sheet. it's about two centimetres thick and weighs 20 kilograms. And it's 10 thalers, there's a stamp here in a few places that says it's 10 tha-

lers. In theory, the idea of including copper in the bullion system was great, because there was a lot of copper, you could expand the system. In practice, however, it was immediately unusable, because if we told ourselves at the outset what conditions money had to fulfil, there was one more thing we expected from it: that it should be easy to carry around. Money that weighs a tonne and stands in front of the entrance to my house, what am I supposed to do with it next? And the platitudes began to pose such a problem. It was 10 thalers, imagine being paid 120 for some reason, and you were cooked, there were no cars. The Swedes constructed these toboggans, they pulled these platments behind them on the toboggans, there are engravings of that. But it was a kind of madness. That forced another invention soon afterwards. The Swedes set up a Swedish state bank, the Sverige Riksbank, and this bank started accepting these platments from them and issuing them with receipts that they really had it. With these receipts you could go to the bank at any time and collect your copper. But because these receipts were bearer, the Swedes started paying themselves with these receipts and not bothering to go and get the copper. This is why Sweden became the home of paper money, at any rate within European culture, because the Chinese had older experience in this area. It was Marco Polo who described Chinese paper money, and he went into great detail about it.

And this is where the next thought immediately occurred to me. There was a separate lecture on banking systems. Banks actually operate and make money by under-covering their liabilities. Banks assume that, after all, all customers will not come to collect their liabilities at the same time. Therefore, you can create a little more credit than you have cash. If they don't all come at once, we can manage. If they come, then it will be a disaster, but that is unlikely. And with this invention we are talking about, it immediately started to be the same. That is to say, the thought arose that, after all, they won't all come for their platments at the same time. And that means that the coverage doesn't have to be 100 per cent. If we have one million platments, we can spend the notes, print three million, and it will work. And that's how the circulating money system looked in the following centuries, until the Great Depression of

the 1930s. It was still said that there was gold currency, but that did not mean that people had gold money in their pockets. People had more or less the same thing in their pockets as we do, which is banknotes, coins, they didn't have cards of course, because those were still not those times, except that those banknotes at the central bank could be exchanged for bullion. And what's more, there was a statutory link between the bullion stock at the central bank and the size of the monetary circulation. And the central bank could print more by how much, but not more than what the law said. Usually it was this coverage around 30%.

Did this Swedish experiment, which was successful, find imitators?

It found one immediately. When the English saw that it worked so well, they started to do the same thing, only no longer with copper, but with gold. At the end of the 17th century, the Bank of England was established. The Bank of England started to have the same fun with gold. And then others followed the same path.

But not everyone seems to have succeeded.

The advantage of this monetary system was that it was much more robust than our monetary system today. It was much more resilient to inflation. The disadvantage was that ultimately the size of the monetary circulation depended on a force majeure, i.e. the bullion stock. And this could not be artificially multiplied. Alchemists tried, but it turned out not to be possible. This could mean that in certain situations the monetary circulation was too narrow for the needs of the economy and the economy was being suffocated by deflation. There were, therefore, various ideas at the price of how to widen and loosen this without giving up this main advantage. One such idea was the bimetallic system, that is, to include both gold and silver in circulation as issue cover. This was cool because more money could be made. It wasn't cool because in order to set up such a system, you had to agree on some kind of rigid ratio of the value of silver to gold. And that relationship fluctuated according to supply and demand and didn't correspond to our rigid one. And there were terrible problems with that. In gen-

eral, bimetallism failed. At the end of the nineteenth century, the situation was outlined that if any countries wanted to play in the top league and be taken seriously, they had a gold currency. All of Europe switched to gold currency in the 1900s. Russia did it, in 1900 quite late the Americans did it. When Japan wanted to signal that it was a premier superpower, it too made a gold yen. Silver, on the other hand, was used by Asian countries and these countries were getting poorer relative to Europe. British India, French Indochina, there were silver currencies everywhere, and silver was cheapening relative to gold. As silver cheapened, these nations became poorer relative to Europeans. It was such a monetary manifestation of colonialism.

This all changed during the Great Depression. Deflation was the main problem during the Great Depression. The economy was being suffocated by too narrow a monetary circuit. An idea such as state interventionism, i.e., an active economic role for the state, emerged. What followed? An unbalanced budget, which we will discuss separately in a moment. This meant that gold could not be a cover for money issue. There must be some other system, and gold must be excluded from that. In general, the principle adopted was that this cover for the issue is the sovereign debt. The more the state is in debt, the more money can be issued and, in a sense, by issuing money we cover the budget deficit. There was a danger that this would turn into a huge inflation, so somehow, we had to put the brakes on it after all. I think that when we talk about the budget, we will talk about these brakes. In any case, we entered the post-war period with such a system that individual countries were no longer required to convert to gold, but the Americans, who after the Second World War had more than half of the gold in their hands, it was all gathered in one place, in a military base like Fort Knox, a little bit as part of such propaganda, showing off, declared that they were exchanging dollars for gold. Not to everyone, just to the central banks. In any case, the Americans have made a promise that they are exchanging for gold. And what's more, they exchange for gold at a fixed rate like before the war, that is, $35 per ounce. This at some point turned against the Americans, because people realised that gold was unnaturally cheap. And what's more, it was the Americans who, for prestige reasons, got themselves into such a situation that they had to defend the low price of gold. But

the Americans will not be able to do this indefinitely. One day they will break and then gold will get very expensive. you should take the opportunity to buy into that gold while the Americans are still holding out. And in the 1960s there was talk of something like bleeding the dollar, that is, that gold was fleeing Fort Knox. The Americans were quite powerless against it. They should have devalued the dollar, but they had previously let slip the saying that the dollar was as good as gold. If we have always said that the dollar is as good as gold, then we can't devalue it because people will stop believing it. This went on until 1971, when Richard Nixon finally decided to suspend. That's what we used to say suspend back then. It was propaganda of success. It was rather known that it was forever, this convertibility. That was when the monetary system actually broke with gold. This was finally cemented in 1976, at the Monetary Fund conference in Kingston, Jamaica, where gold was demonetised. Since 1976, it has not been allowed. No official parity in gold is simply allowed to be set. The monetary system is to have nothing to do with gold. Gold, of course, is still in the world, it has its value, it has its market price, but that price has no more to do with the currency system than the price of oil, gas and a few other things. It is simply a commodity, such a unique quite commodity. By the way, just to give you an idea of the volumes we are talking about, I found an estimate somewhere that all the gold mined and used up to now by humanity is a cube of 33 metres. A sizable chunk and it weighs a lot, but nevertheless so conceivable for us.

What impact did the gold demonetisation process have on exchange rates? money was based on gold, then exchange rates were quite rigid. Here gold cost the same everywhere, depending on the value of the currency. By contrast, later on, when that gold went away.

So that's the breakthrough I was talking about, that breakthrough in the early 1970s was to move to a floating exchange rate system. It was recognised that rigid exchange rates were something that got in the way. and that in the name of freedom, either we had rigid exchange rates or we had, for example, the freedom to move capital around the world. It is better to have this freedom of capital movement. It is impossible to have both of these things at the same time. In general, the 1970s, as this system unravelled, were years

of quite high inflation. Then there was an attempt to somehow bring it under control. There was a policy in the 1980s. There was a turnaround in the macroeconomic policies of individual countries. That is, monetarism emerged. Monetarism was the belief that inflation was the greatest evil. And first and foremost, the government's job is to fight for macroeconomic stability, as it used to say, which means that we fight inflation first and foremost. At the expense of other things. If it has to be at the cost of increasing unemployment, then tough. We would rather not have inflation than have high unemployment. That was the mindset. This way of thinking spread gradually. The stabilisation reforms in the post-communist countries were based on just such assumptions. The Balcerowicz Plan, or other such plans, were based on monetarist assumptions. This way of thinking triumphed in the 1990s, when it seemed to be the only right one, and was put to quite a severe test in 2008. In 2008 came such a crisis of monetarism. It turned out that this policy can be dangerous, it can generate financial crises and it does not safeguard against them. And, in fact, some competing great economic doctrine should have emerged at that point to replace monetarism. It has not emerged yet. It has not emerged, I think, mainly because a new problem has appeared on the whole economic policy scene that was ignored by everyone before, namely the ecological barrier. For example, boosting the economy at the expense of expanding industry at all costs encounters a barrier in the form of environmental destruction, and one simply cannot go too far in this direction. This new doctrine should somehow take this into account, but so far no one has come up with it yet. Whoever comes up with it will surely get the Nobel Prize.

The only question is whether he will live to see it.... There is no new doctrine, but the essence of money is changing. It is no longer just paper money, bullion money, which is long gone, but there are various new forms of money. There is a certain expansion of forms of payment.

This has all been controlled by central banks. From what we have said, and from what Professor Leszczyńska has probably also said, it follows that banks have the ability to multiply money. This means that for a long time now, people have known that money is

not just these coins and notes. Money is also what banks are able to add to it, because banks operate on the principle of incomplete coverage, that is, if they have a million, they make three out of it, because they have their ways of doing that. Well, and the central banks have steered it a little bit, that is, the central banks have learnt to slow down or to drive this inflation, to somehow influence the behaviour of the commercial banks. From this point of view, 1966 was a turning point, when a trial of strength took place in the United States between the central bank, the Federal Reserve, and the commercial banks. The Federal Reserve decided that inflation had to be fought because it was too high, and American banks then discovered something like the euro-dollar market, that is, they moved their dollar-denominated business to Western Europe. It turned out that US banks thus escaped the power of any central bank. Because let's imagine, a US bank opened a branch in Amsterdam and started doing business in dollars on a large scale. The Dutch central bank looked at this and came to the conclusion that it was responsible for the condition of the guilder, which is what the Dutch currency used to be called. And since what is happening is in dollars, we won't go into that. The US Federal Reserve would have loved to deal with it, but its authority ended at the US border. That's when this kind of extraterritorial banking emerged, which virtually no one controls. Then the problem of tax havens and so on began. I mean it was such a step towards globalisation. This finance became so international that no national authorities could control it alone. And then there was also a technical issue, that is, the moment it became electronic and not analogue, so to speak, well that makes it all the more difficult to control. In fact, no one in the world controls global finance. They are autonomous to themselves to a large extent. And this, of course, boosts the economy, it is an important part of our modern prosperity, but it is also a source of danger, because things can happen there which, like in 2008, happened in this sphere. In any case, many things have changed, because it used to be that if a bank went bankrupt, there would be a queue in front of the bank, and the bank would say at some point that we have run out of cash and we are going bankrupt. Today this is hard to imagine. Today it would probably involve turning off the ATMs, whereby they wouldn't tell us that this is a financial

problem. They would tell us that it is a technical problem and we are working on it and tomorrow everything will be fine.

What is the future for money ? And for monetary systems ?

I do not believe in such predictions that we are moving towards a single global currency. That would not make sense. The security of the currency system should be somewhat aligned with the wealth of the society. Poorer societies want easier access to credit at the expense of possibly lower security standards. The richer a society is, the more it values the security of the system. From this point of view, the Euro was already a risky idea, because it combined the German society, a wealthy one, with the Greek society, a much poorer one, and an equal level of security had to be included for these two. And it turned out,, that this is already causing tensions. The world is even more diverse than Europe, so this is unlikely to work on a global scale.

But will money survive or will it be replaced?

It will survive, of course, but what is it supposed to be replaced by?

Cryptocurrencies?

No, I find it difficult to take it seriously. It's speculative in nature. Someone will get really dinged on it, because it's like any speculation, but in my opinion it's not more.

That is, the monetary system created by the evolution we have been talking about should be in place for decades to come.

At least... Yes, it will change, but the essence will remain.

It is changing, it is changing, but it will continue to be the bloodstream of economic life.

That's right.

Paweł Grata
Cecylia Leszczyńska

WHAT IS THE BANKING SYSTEM AND HOW HAS IT EVOLVED?

PAWEŁ GRATA: Welcome to the next podcast in the series 'What does economic history teach us? 12 conversations for difficult times". The series is part of a project under the same title, funded by the Ministry of Science and Higher Education under The Social Responsibility of Science programme. Our guest today is Professor Cecylia Leszczyńska, an economist from the University of Warsaw, a specialist in banking, finance and monetary policy. The topic of our meeting will be the banking system and its evolutionary path. So what is the banking system? We must start by defining the basic concept.

CECYLIA LESZCZYŃSKA: We have two parts to this phrase – 'system' and 'banking'. Banking, of course, we presume, means banks, although in this system, I will come to the word 'system', there are also other, so-called financial intermediaries, although their role is usually much weaker in banking systems than in banks themselves. The word system presupposes that we are dealing with some sort of orderly structure, so we have a fiscal system, a political system, a treasury system, and so on. This word system assumes that the structure in which these entities function, between which there are some relations, all this is somehow regulated, ordered. In a word, we have certain interactions and their ordering. This is usually done through regulation, regulators who create the legal framework within which this banking system operates. That is, we have banking

law, of course, in the background civil law, which applies to all economic entities, or historically commercial law, company codes and so on. Thus, the banking system is a set of entities that function in the money market, where money is traded, let's say colloquially, and relations, rules of functioning, functions, activities. At the same time, the organisation of these entities is somehow ordered and this orderer is the state, is the regulator, who does it on the basis of laws. The basic law is usually the banking law and it defines the framework for the functioning of this system. This system has been called, since the second half of the 19th century, the two-tier system. The two-tier system assumes that there are two structures operating side by side and within this two-tier system we have, on the one hand, the central bank and, on the other hand, what is called commercial banking, i.e. various types of entities operating in the market. And here again, the relationship between the central bank and commercial banking is a product of history, and along with the evolution of economic systems, certain changes are also taking place here.

We will, of course, come back to this, how it works today. The aim of our meetings is to show how the past determines current economic solutions and how it affects society today. The banking system is something very important and determines how we function in the market, in a market economy. So where did banks come from? What is the genesis of their creation and this evolution leading to the formation of this modern banking system in the 19th century?

When we say banks, we usually think of commercial banks. And at the moment when the Professor asks about the roots, I have to point out or make a certain distinction here, because these roots have a different nature, a different character in the case of the different components of this banking system, these commercial banks. In a certain simplification we can say that we have classical commercial banks, historically they were called merchant banks, we have cooperative banking, there were also separate municipal banks, separate mortgage banks, land credit societies, municipal credit societies. In a word, this system was quite diverse. With the passage of time, it has become a kind of homogenisation, per-

haps not completely, but nevertheless today's cooperative banks remind us to some extent of such standard commercial banks. Historically, of course, they were different. And this process of change has led to, so to speak, a kind of homogenisation of these institutions in terms of their scope of activities. However, their organisational structure is still different to some extent. And to the question of what were the sources, where did banks come from, of course, here a distinction should be made with regard to these particular types of banks, because the sources of these banks were different. Standard commercial banking, that is the term I will use, interchangeably, as I said, it was called commercial banking. The adjective 'commercial' explains well the genesis of these banks. They arose, as it were, on the periphery of commercial operations. One could say that banks grew out of commercial intermediation. When, in commercial intermediation involving purchase and sale transactions, the money economy emerged, money appeared, specialised institutions began to emerge, specialised precisely in money transactions, although for a long time these commercial operations and money operations were concentrated in one institution. In a nutshell, one could say that banks emerged from the thicket of intermediaries of various kinds, at the moment when it became profitable to handle money exclusively. That is to say, the scale of economic operations had already expanded to such an extent that institutions acting exclusively as "traders", as intermediaries, as money handlers, could emerge from it. And therefore this is the genesis of merchant banks. It is obvious that they will emerge in centres of trade, whether centres of local trade or international trade. It is no coincidence, by the way, that European banking is thought to have been born in Italian cities. Florence, Venice, Genoa and other cities, i.e. centres of international trade between Europe and Asia, are where the first banks were established. Anyway, we have a number of terms that functioned in old banking, such as 'giro', 'banco' (that's a bench) and so on, so the whole origin comes from that region. And later, in other parts of the world, where international and local trade was developing, banking was also emerging, so the Dutch cities, the cities of southern England. In modern times, when trade was concentrated in these centres, great merchants were active, instruments such as bills of exchange,

money broking, handling transactions, also on an international scale, began to emerge there. For a very long time they were just called merchant banks, later adapting to the scale of operations and the type of economic operations they began to specialise. For example, clearing banks. They performed a number of functions, but among others, they cleared, intermediated commercial transactions between entities A, B, C, D, E. And so they were clearing more than just trade and they were doing it with more specialised instruments. So here we have this evolution, this type, that discount banks, for example in London, city banks, in Amsterdam and so on. Here there was some specificity, these institutions were not yet homogeneous. It was only later that they started to resemble each other.

The genesis of cooperative banks was different. They were established in our part of Europe, and here our region, I would say, did some work in Central and Eastern Europe. They came into being as an expression of the need for local credit. We know here the history of Raiffeisen-type cooperative banking, or Schulze-type cooperative banking. They came to our part of Europe from German countries, and we can say that the roots of this were precisely in the needs of local communities that had no credit. They did not have sources of credit, sometimes they already had some surplus savings and these savings were kept at home. And co-operative banks enabled these two groups of actors to meet - those with surplus savings and those who needed the money. Only that it was on a local scale. The idea was that these entities should have simple procedures, uncomplicated, adapted to the needs of these local communities. This is how people's banks came into being in Wielkopolska. They are of this nature.

Then in the Russian partition, in the Kingdom of Poland, cooperatives are established, sometimes called associations. They do not yet have regulated legal principles, they are based on statutes created by the founders, and only in time will regulations for their functioning emerge. In Galicia it would be the Kasy Stefczyka and so on. So we have a slightly different source. It can be said, as an aside, that somewhere out there, far away, one can look for some analogies in the so-called *montes pietatis*, mountains of charity, or so-called pious banks functioning like pawnshops. I don't know if such pawnshops still function today, where you go to get money by

pawning some durable goods. And these were set up in the late Middle Ages precisely to enable people, usually poor people with no monetary resources, to borrow money by pawning it. Here I would add another interesting thing, namely that the functioning of banking has always involved a certain problem under the title of interest rates. The issue of usury, the prohibition of interest rates in the Middle Ages and earlier times. For those who are interested, I refer you to the writings of Jacques Le Goff, who brilliantly described, using the example of medieval France, how this problem of the prohibition of lending at any interest rate worked.

Well, going further, when I mentioned that each of these types of banks had a slightly different genesis, and sometimes more different, we can recall the credit societies. Those of the nineteenth century, which, in turn, came into being as a response to the demand for credit of large landowners, indebted, with liabilities, well, with no money. And they came up with something excellent, which was actually only later abolished finally in 1948, as part of the banking reform of 1948. So a group, that's again, a society, that is some company, some association, of people who have land, who have large properties, but they also have the problem of obtaining money. Well, because it can only be obtained by selling goods, and they are in debt for "fairy tale sums" and they come up with the idea that they form an association. We form an association, we call it a credit society, we issue mortgage bonds. These are the bonds of today. The collateral for these mortgage bonds is our property, so the collateral is good. The only question is who will buy these mortgage bonds. This is where the state comes in, steps in, creates regulations, and assumes that, for example, the Bank of Poland should buy them. These letters can go on the open market, but first you always have to overcome this barrier of uncertainty, the risk of those who could potentially buy such mortgage bonds. And this succeeds. And it succeeds, these letters are interest-bearing, those who have savings can buy these letters, but mainly, however, they are bought by public institutions. For some, it is a form of storage, of investing savings, while others raise money in this way. What then, if the landowner in question defaults on his obligations? It comes to auctioning off the property. Because this association is, we have to say, full participation, and these people agree in this

association that if these letters are not redeemed, just like bonds are redeemed in specific cycles according to the rules of issuance, there was a so-called drawing of these mortgage bonds, they were bought, and if someone does not participate in the creation of the fund from which these letters are redeemed, well, unfortunately, their property is subject to auction. This is how the funds for redemption are obtained. The state savings banks, for example, have yet another source of origin. These were established by the state in the 19th century in many countries. You could say, as a kind of filling such a gap, where people, people have some savings, they don't trust the banks, they don't trust the credit unions or, the cooperative banks, or they, these cooperative banks are somewhere in some distance. And here is the state stepping in and offering citizens safe saving, in a state-owned fund. We have a Galician bank, it has temporary problems, the business is not going well there, but then when the state enters, well, so to speak, with its security, the certainty that the state is behind the institution, it allows people to invest savings in a safe way, to transfer savings to this bank. And interestingly, as we know, these credit unions do not have a branch structure. They therefore operate through post offices. That is why later on there will be the name Postal Savings Bank. What does this fund do with these savings of the population? It buys government bonds, thus financing the public debt, the term pupillary, i.e. safe, securities is created. There are as yet no rating institutions to indicate what is safe and what is not. Here, however, the state, through these very institutions, provides these guarantees of security. This is becoming a bit of a competitor for cooperative banks. There is one more thing I should add about cooperative banks, and that is that they are associations where local farmers, craftsmen, entrepreneurs, I would like to say the small and medium-sized enterprise sector, contribute shares, that is, they, through their shares, a kind of company, create such an institution, which means participation in shares, in the capital of this enterprise, which gives the right to later participate, to obtain cheap, simple loans.

Exactly, by the way, cheap, simple credit. Bank and credit are two concepts that are inextricably linked. Today, after all, the interest rate, the level of this interest rate, is a very important determinant

of both consumption and investment opportunities. and investment opportunities. How expensive credit was in the 19th century, when these banking systems, these different types of banks were coming of age. How would that compare with today?

Yes, these interest rates were quite stable. Of course, they wobbled in periods of turbulence, such as financial crises, or political crises, wars, but here rather Europe in the 19th century after the Napoleonic wars was quite calm. Somewhere there was the Crimean War, somewhere there was the Spring of Nations, something was happening in France and so on. But nevertheless, internationally there were no major conflicts until the First World War. There were, of course, banking crises and these made the uncertainty about stability, about deposit guarantees, difficult. As for interest rates themselves, I must return to usury for a moment. We must remember that all monotheistic religions in the Middle Ages and later, Islam to this day after all, applied restrictions on lending at interest. Originally, these restrictions were very radical, that is, any interest rate on loan interest was considered forbidden from the point of view of the religious canons. Of course, this inhibited credit, because the interest rate, we say is the remuneration for lending money, is a bit of a risk response. The higher the credit risk, the higher the interest rate. And the ban on charging interest at all was a killer for banking. Banks therefore learned to get around it. They used all sorts of workarounds that would nevertheless justify the charging of the interest rate, here citing Saint Thomas Aquinas, who created so-called gateways to capitalism by interpreting the fair price etc. Then the states began to apply the principle of the maximum rate. That is to say, it is permissible to interest a loan, but up to a certain level, i.e. a maximum level. And these maximum levels were already applied in either municipal legislation, it depends on the political structure of the area, or in state law. And these interest rates, so-called maximum rates, were of the order of 6–7–8%. And they were stable for long, long years. In the 19th century, when the belief that the economy should be more market-based, unregulated, we have Adam Smith, we have the Physiocrats saying that this market should be free, some countries withdraw from interest rate regulation. And here we have a far-reaching variety, that is, where

this market we have already said through financial institutions is filled, this supply of credit is relatively satisfactory, this credit is of the order of 5–6%. This is called the interest margin, that is, you pay 3–4% to the depositor, well we have a spread, the difference between the interest rate and the lending rate and this is usually 2–3 percentage points. So the interest rate on this loan is 6–7%, so it's a bit like that historically formed through state regulation. On the other hand, where these credit risks are either high, because the borrowers are unknown, or have not been in business, or have gone bankrupt frequently, well these interest rates reach 8–9%. And in some regions, as we often hear, especially somewhere in rural or small-town environments, where these institutions are few in number, where they serve farmers, where these farmers have quite unstable incomes, because they depend on the price of crops, on harvests, on various things, then usury reappears. And then, in part, the states step in again to regulate the level of interest, but no longer through separate legislation on the maximum rate, but through civil and criminal legislation. And then a justification is introduced, which worked a little in Poland in the 1990s, derived somewhat from the category of fair price. Because isn't it taking advantage of the borrower's difficult position in order to, precisely through a high interest rate on the loan, "make money" on this situation of an unequal, shall we say, relationship between the borrower and the lender. Let us add that in inter-war Poland, for example, in 1924, as part of Grabski's reforms, anti-lichvar legislation was introduced. And then at the beginning the maximum rate is 24%. This shows that the market rate was definitely higher, since 24% was in the legislation. On the other hand, the Minister of the Treasury had a separate right to determine the maximum rate for banks. At that time, the Bank of Poland, for example, applied a rate of 12%, a credit rate, other banks, it depends, twenty-something percent, but they could not go beyond twenty-four, so they were looking for some tools to possibly exceed that twenty-four. But they had to stick to that maximum, and then it was gradually lifted and lifted, and by the end of the twenties the credit in commercial banks is already on the order of nine, ten, eleven percent, and during the crisis of the thirties it goes down to the level of a few percent. But of course there is no single rate. You can analyse some

sort of average with these loans. Estimates showed that it was eight to nine per cent when you took into account all the banking institutions operating in the market.

Which shows that several hundred years of evolution did not necessarily have a great impact on interest rates, because today these rates are also at a fairly similar level. But if interest rates, then the central bank. What is the origin of the central bank and what was behind its creation?

The central bank is in general a late institution, yes, it is a late institution, and by the way, for a long time there was the term bank of issue, because the term "central bank" means that it occupies some central position in the financial system, in the banking system. On the other hand, there were no 'central' banks for whole centuries. The first, as we know, bank that is believed to have created such a model of central banking is the Bank of England, end of the 17th century, 1790s. The Bank of Sweden is established a little earlier, but it is short-lived. The origin of a central bank, or a bank of issue, is the need to create an institution to finance the public debt of the state. And we must remember that a central bank is an institution that markets paper money. Monetary money, whether gold or silver, is issued by the state. At different times, sometimes people themselves may carry this money to the mint, from some, I don't know, jewellery, or lumps of gold, or whatever they process into coin, and *vice versa*. Whereas the activity of the central bank, its fundamental, so to speak, essence, is that we say 'issuing institution'. So issuing what? Paper tickets. And let's note that on all the tickets we always have the name of its issuer, which is the Bank of England, or the Bank de France, or the American Fed, but the Fed is only 1913, and yet banking existed much, much earlier. And as I said this Bank of England is paving the way, showing how to do this issuing business. Because paper money, well, is what? What is paper? Well, it's a printed, you could say colloquially, piece of paper. Of course, later it will be backed up and so on, it will no longer be such standard paper. Paper money was born in China, but China never developed this kind of banking, it was developed by the British, and more specifically by the English. And the Bank of

England is created as a partnership of a group of people who form a joint stock company called just the 'Bank of England' and agree with the state that we lend money to the state for public expenditure, for state activities, We often criticise the public debt in this colloquial way, but imagine that the state has expenditure and how do we finance it? Either from taxes, well, or, as in the Middle Ages, from the spoiling of money. So here the emergence of this paper money instrument is an excellent solution. That is to say, the Bank of England is created, a group of people set it up, they get the right from the state for 20 years to issue paper money, and let's remember that other banks also do this, but they don't have a contract with the state. They have the privilege of issuing for 20 years, they issue paper. It is an interest-bearing loan. Well, they earn money in this way, through credit interest, and they lend to the state. And this is the original central bank-state relationship. At this point, by the way, these banks of issue, they are a bit of a competitor of commercial banks, normally operating, because you can imagine that those commercial banks, we know, after all, whether Spanish history, or Italian cities, or the Knights Templar, lent to kings, lent to the state for all sorts of purposes, but that was the era of money still fully monetary. So here we have the issue of paper money, and then the whole art and practice of banking and theory develops, which tell us what rules to adopt for the issue, so that it is not too large, but at the same time gives economic benefits. In the 18th century, the problem of relations between the central bank and commercial banks, as mentioned by the Professor, emerges. Let us remember that there are no central banks in continental Europe. There is John Law`s experiment in France, the 1920s, to create something similar to the Bank of England, it didn`t work out. There was too much "printing" in inverted commas of paper money, there was a situation where a different purchasing power was given to coins and a different purchasing power was given to this paper money by John Law. The whole party, sorry, fell down. The Bank of England worked out the rules.

Returning finally to the Bank of England and how central banks have shaped up, because we must be slowly moving towards the end of our conversation. How much has the role of

the central bank grown today? How relevant is it compared to what it used to be? Why is the central bank, the monthly meetings of the Monetary Policy Council, so important to us?

Obviously. The central bank in the 19th century becomes the bank of banks. Here we must, but only lightly, mention financial crises. Who is supposed to, or should, help the commercial banks, and therefore lend to them in times of crises, when deposits are flowing away, when bank panics occur, and so on. And over time, the role of the central bank as a bank of banks, i.e. an institution that also lends to commercial banks under certain rules; again, built in England. And then those rules are somehow implemented there. And the problem is how to manage this issuance so that the different objectives are reconciled. Because if we assume that the goal of the central bank would be, as a joint stock company, because they are then still joint stock companies, profit, well, they should "flourish" in the issue of paper money, create loans, create loans for commercial banks, for the state and for economic entities as well. But of course, this excessive money emission will result in inflationary problems if the money supply grows too fast. Bullion money cannot be created quickly, because the supply of gold is limited in the short term, it cannot be increased. Paper, on the other hand, why not, it can go further. Well, that's when the appropriate bodies come into being in these companies, because they are joint stock companies. There are shareholders, these shareholders delegate the board of banks, as in any joint-stock company, and here certain rules are adopted for managing the money supply. And in modern times, this management of the money supply, of the interest rate, historically this belonged to the bank, to some representation called the bank council. Today's banks are no longer joint stock companies, so this bank council is delegated by some representative body in the form of either parliament or the head of state, and this is how this bank council is set up. Nevertheless, its functions are historically continuous. In the 19th century and today, it sets basic interest rates. Whether it is the Lombard rate or the refinancing rate, and so on. These rates, which are a kind of benchmarks, parameters for commercial bank rates. Anyway, sometimes they go into the WIBOR algorithm, which is the rate at which commercial banks

lend money, rates which are the basis of the central bank's lending activity. And the central bank has remained that bank of banks. Of course, there is a whole play here as to how it should fund these banks. In recent years, after the financial crisis of 2008-2009, and in the COVID era, a type of operation called quantitative easing has developed. What does this mean? The central bank lends to commercial banks, of course against the pledge of the assets that these commercial banks have. And it can adopt the principle that, okay, we give you these liquidity loans, against pledge, but for example, the best, only the best, safe; historically it was bills of exchange, then came bonds, never equities. Share prices are too volatile to be a secure security. In a word, this quantitative easing was developed after the 2008-2009 crisis and it is like a kind of new type of liquidity support for commercial banks. Open market operations developed here in the 20th century with this liquidity support. We will not elaborate on what they are, what types of these open market operations are. Here the security that operates between central banks and commercial banks is government bonds. So we have this central bank-commercial bank relationship; the bank of banks and how that is supposed to work. And the instruments - rates plus liquidity support operations. Still the central bank is the bank of the state. Well, and here again statutes, laws regulate. Before the war it was like that, in the 19th century it was like that, the legislature wrote it down in the statutes of the central banks, what they can, what they cannot. For example, in the interwar period the Bank of Poland could give the government interest-free credit up to 50 million zlotys. Later, it was 100 million, and then it changed once more at the end of the 1930s. What I am showing here is that this norm - the central bank as the bank of the state - can be regulated in different ways historically, and it depends a little on the context of the entire financial system and economy. That is to say, the bank of banks, the bank of the state, the bank of issue, the bank of clearing, and also today one of the important entities of the body, which are the so-called financial stability committees. Here, too, the role of the central bank is important, and decisions on these basic parameters – interest rates, but also the scope of various operations – are distributed between the board of directors and the councils of banks, but *the bulk of*

the competence belongs to these bodies, which are the councils of central banks. Almost all modern central banks have them and these councils also used to exist, although in the 1990s there was no Monetary Policy Council in Poland, for example. It only appeared as a result of a 1997 law, so in later years.

But that was an exceptional situation, but to sum up, we can say that the modern banking system and the role of the central bank as the foundation of this system is not only the result of centuries of development, but it is in fact a very stable system, a very stable structure, which we can say since the 19th century looks quite similar, and this is what economic history teaches us, that the banking system is something that came into being as a result of a long evolution, but something that has proven itself and continues to prove itself as this bloodstream of the economic system of a country.

One more thing to add, Professor, is that there is such a thing as a financial safety net. No other economic sector is so 'axed' with safety regulations as the banking system. We have banking supervision, which controls whether banks operate in accordance with the law, regulations, Basel committees, Basel standards, etc. We have a deposit guarantee fund. We didn't have one in the 19th century. When there were banking panics, the banks were really in massive, massive trouble. After the crisis of the 1930s, the United States was the first country to set up a mandatory deposit guarantee fund, not a voluntary one, which banks would create for themselves. And to this network today, the so-called safety net, the safety net, that is, the central bank as the bank of banks and a few other things, financial stability, banking supervision, in Poland today it is the Financial Supervision Authority, and guarantees of deposits. Again, this is also a product of history.

I agree. A very interesting topic, unfortunately we have to end. Thank you very much, our guest was Professor Cecylia Leszczyńska, with whom we talked about the banking system and its historical roots.

Thank you very much.

Paweł Grata
Wojciech Morawski

STATE BUDGET: WHAT IS IT AND HOW IS IT CONSTRUCTED?

PAWEŁ GRATA: Good afternoon. Welcome to another meeting in the series "What does economic history teach us? 12 Conversations for difficult times", carried out as part of the project under the same title, funded by the Ministry of Science and Higher Education as part of The Social Responsibility of Science programme. Today's guest is Professor Wojciech Morawski from the Warsaw School of Economics. We will talk with the Professor about the state budget, which is something that attracts the interest of the whole society, because the budget is money. Money that perhaps comes to us. Professor, what is the state budget? Perhaps we should start by explaining the concept and then talk about how the state budget has evolved.

WOJCIECH MORAWSKI: The state budget is a statement of income and expenditure in the kind of arrangement that emerged in accounting at the end of the Middle Ages, i.e. double-entry bookkeeping – "owed and owed". And it should simply balance more or less. It has been stated that it is better if there is such a thing, especially it has been stated since it has been recognised that this is a political matter. That is - but if the executive is accountable to the people, it is accountable, among other things, for how it manages money, and it should be able to show that in a clear way. For a long time, the main expenditure in budgets was war. The state's expenditure was primarily military. And some taxes had to be collected to pay for

the war. In the 18th century, the states were in debt and this was a problem, because the states could not cope with servicing this debt. When it came to debt servicing, the English had quite a few good ideas in the 18th century in this area. First of all, they consolidated all, it wasn't individual loans with different interest rates, but they made such a consolidated national debt. What's more, they created something like perpetual bonds, meaning you didn't have to repay the loan until the end, you could exchange the loan for a new generation of bonds and simply treat these bonds as a capital investment. There was an interest rate on these bonds and you could operate in such a way that instead of landed property, I simply had £10,000 at 3 per cent, which gave me £300 a year, and with £300 a year, you were already wealthy and could live quite well off it in the 19th century. Then in the 19th century we have the liberal state. Generally, the liberal state does not particularly want to interfere in the economy. The liberal state deals with foreign policy, the judiciary, the police, the army of course. Since there isn't a lot of that, but there is a little bit of that, there has to be some tax collection for that, so there will be some sort of Treasury that collects for that. But, for example, whether there should be a separate Ministry of Health, whether there should be a separate Ministry of Education, the Liberals have already pondered. They have generally concluded in the end that there should be. Firstly in education it should, it is in the general interest that the poor should also be educated. It should not just be the market. And it is also in the general interest that the poor should also be treated. Or, for example, vaccinated. For general health, it should not be purely market-based. Imagine a situation where, for example, there is an epidemic and it has to be done, this is not taken care of by the market, only the state with its instruments can do such a thing. But this was more or less the end of the budgets of liberal states. At the end of the 19th century, some new elements appeared, they appeared in Germany first. Towards the end of his reign, that is in the 1880s, when Bismarck was Chancellor of Germany and the Social Democratic Party (SPD) was growing in strength, Bismarck decided that he was going to fight them. Except that he intended to fight them not stupidly, that is, not by repressing them or banning them or something, but wisely. He decided that the state itself should conduct such a policy that

the workers would recognise that the state could take care of them and that socialists were not needed at all. This was called socialism from the cathedral. As part of this, social legislation began to be expanded, the pension system created by Bismarck, health insurance. The state started to enter such fields, then others started to imitate the Germans in this. The Germans were the pioneers of these things for sure. Then came the First World War. The First World War was monstrously expensive, and in fact everyone came out of that war terribly indebted and settling those debts was beyond their means. In fact, the financial consequences of the First World War wrecked the economy. There was an attempt to go back to something like the 19th century, but it just didn't work anymore. That it could not be done was made clear during the Great Depression of the 1930s, when it became clear that there was no going back to a liberal economic policy. The state has certain obligations, concerning the stimulation of the economy, concerning precisely the social care of people. The state cannot tolerate people dying of hunger. If a state is prosperous and people are dying of hunger in its territory, it means that this state is badly governed and should do something about it. This called for a transformation in economic policy. There was a break with this liberal doctrine that we should not interfere. The budget should be sufficient for this, and that means that this budget should be financed in a different way than before. The demand that this budget be balanced has ceased. It was reconciled to the idea that it would run a deficit.

Because it was an important principle of liberal economics that the budget had to be balanced.

In the long term, it may have happened that we have a deficit in some year, but it is in the next year that we should make up for it. And here we are accepting that we will permanently have a deficit. At the same time, the monetary system was changed. From now on, the cover for the issue of money was not the gold stock, but precisely the national debt. And this meant that we set in motion a slow inflation. However, to ensure that this inflation does not get completely out of control, certain brakes have to be put on it. A brake appeared, for example, in the form of a rigid relationship of some

kind between national debt and national income. It was then that such a category appeared, and then GDP began to be calculated. Before that, simpler indicators such as industrial production or something like that were used. GDP is an integrated indicator that reflects the situation in the whole economy, and the debt should be in a certain proportion to GDP. Of course, the debt will grow from year to year. If we have a deficit every year, the debt will grow. But if we have GDP growing at the same time, then we have a chance to keep that ratio as more or less rigid. That's what Keynesian economics was about in this area. During the Second World War, two new things happened. Firstly, war debt was much better managed. After the experience of World War I, one knew how to handle it. For example, there was the emergence of something like the Land Lease, the kind of aid to the Allies that did not generate international debt. The Americans learned how to help the allies in such a way that at the end of the war the allies wouldn't be owed full of money, because firstly they wouldn't give it back anyway, and secondly there would only be trouble from it. That's what the Americans have learned so much already. Secondly, during the Second World War, there were ideas that after the war the social interests, the people's sense of social security, should be taken care of much better. In 1942 there was such a top-secret document prepared in the British government, it was called the Beveridge Report, and it was such a welfare state programme for the war. Interestingly, this Beveridge Report, translated into German in one copy, Hitler had in his personal library and studied it carefully. Well, and after the war, when the Labourites won the election in Britain in 1945, the English began to put this into practice on a large scale. That is to say, there was the emergence of a health service that was free to the people, funded from the budget. Many sectors of the economy were nationalised. Not like the communists, that everything was nationalised, but a lot of things were nationalised. And generally this whole state sector grew a lot in relation to national income. By the way, one measure of economic freedom today is the proportion between national income and what passes through the budget. The state can be either more restrained or more profligate in this matter. The welfare state worked quite well until the late 1960s and early 1970s, when it became apparent that it was all too much and

the inflation generated by the system was too high. The effect of this, and I am speaking in simplistic terms, because of course there were other causes, but the effect of this was the oil crises and there was a monetarist turn in economic policy. That is, Keynesianism, whose main goal was full employment, the goal of Keynsian economic policy was full employment, that is, that there should be no unemployment. The Keynsians knew that this was at the expense of inflation and they condoned inflation as long as you had full employment. There was even such a Philips curve, which showed the interdependence between inflation and unemployment, and it was such a hyperbole, I think it's called something like that. And it worked nicely up to a certain point, but now it has stopped working, that is, it has turned out that this inflation is getting out of control, it has assumed such proportions that it no longer helps the economy, but begins to harm it. Under the influence of this came the monetarist turn, that is to say a policy, symbolised in Britain by Mrs Thatcher, in the United States by Ronald Reagan, which made inflation its number one enemy. And above all it fought inflation, even at the cost of higher unemployment. Under the influence of success, because after all, this monetary turn brought the world out of the severe crisis of the 1970s and made it prosperous again. Under the influence of this success, it spread around the world. And in fact in the 1990s it was treated everywhere in the world as a dogma so self-evident. It was called, not very deftly, the Washington Consensus. The awkwardness lay in the fact that this Washington in name looked like such an American absolute dictate. The Americans didn't particularly want this, but they got themselves into such an awkward situation. The disadvantages of this started to become apparent as early as the second half of the 1990s. There was the Asian crisis in 1997, when it became apparent for the first time that this Washington consensus was not quite working. That is to say, the Monetary Fund was recommending to various countries to act according to this way of thinking, and this only made their troubles worse. And there was one country that said this is nonsense and we know better how to do it. That was Malaysia. And Malaysia was the first to get out of the crisis. And it was such a lesson that it's not such a once and for all prescription, that it can be questioned. Well, and then 2008 brought such a shift in that

liberal thinking. In fact, it should have been a triumph of Keynesianism. There were books that announced that now at last Keynesianism had proved that it had always been right, it had just been pushed down wrongly. But it turned out pretty quickly that this was not true. That is, Keynesianism, with its various virtues, undoubtedly has the weakness that it treats natural resources as inexhaustible. Keynesianism believes that we need to increase production to ensure full employment, and if we devastate the environment in the process, we don't care. Keynesians were not enemies of ecology, as right-wing politicians tend to be. The Keynesians ignored it, but that means they had a weak point here, which is why they didn't triumph, but they are also in trouble today and nobody actually knows what to do about it.

These recent events: both the 2008-2009 crisis and the COVID time are periods when budget deficits are again, very clearly, often increasing. How can this process, this phenomenon, be assessed?

During the 2008 crisis, the Americans were the first to use something like fiscal easing, that is to say they called it *helicopter money*, that is to say they simply pounded money into the economy just like that, with no special controls and no special limits, just to save it. Here, from this point of view, there are three countries, three groups of countries that behaved a little differently. The Americans were the boldest in this, the Europeans were the most restrained. The European Central Bank was very afraid of inflation, because the euro was created at a time when monetarism was triumphant and the euro is primarily anti-inflationary in such thinking. In the middle between one and the other was the Bank of England. The Bank of England followed a more or less middle path. And the results were, the Americans got out of the crisis most easily, the English worse, Europe worst. That is, the lesson was that generosity pays off. In such truly threatening moments, generosity pays off and there is no need to fear inflation. Of course inflation has its disadvantages, it has its negative social effects, but the negative social effects of what the absence of inflation gives us may be worse.

Here we have the example of the Great Depression of the 1930s, when there was no inflation and indeed the biggest crisis in history. But it is also worth remembering that there were countries that paid heavily for generosity in the post-2009 period.

As we say that the Americans have behaved coolly, let us take one correction. The Americans have it easier in this respect because the dollar acts as the world currency. When the Americans increase dollar issuance, they know straight away that only a fraction of these dollars will stay in their market and feed their inflation, and the rest will go out into the world and they will never see it again in their lives and may not care about it at all. No one else has that luxury. They would like others to have it, they aspire to it, but for the moment they do not have it. The Greek example was so extreme, because the others, the Italians, the Spaniards, the Portuguese, they somehow got their act together. Greece, on the other hand, did indeed pull itself together, but with a lot of international help. And in fact, the only reason it did so was because they were in the eurozone. Their failure would have been the failure of the eurozone. If they had had their own drachma, the rest of Europe would have waved them off.

That's right, the eurozone, as you mentioned, created during the period of monetarism, the dominance of monetarism, assumes, after all, rigid ratios of budget deficit to GDP, of public debt to GDP.

Well, yes, but it is all just such monetarist orthodoxy, a bit out of this era. Today it doesn't really fit with reality anymore.

Yes, because we know countries where public debt exceeds GDP and somehow they continue to function. And please also tell us, very generally of course, how this share of the budget in GDP has changed numerically. What we were talking about earlier, that depending on how restrained the state is or is not, more or less of the national income takes over and flows through this budget. How does this shape up in percentage terms?

The trouble is that for the times when there was a really liberal economic policy, i.e. for those of the 19th century, we don't have GDP, because it wasn't counted then. There are such backward calculations of GDP, but I am sceptical about such accounts, so we don't have such elegant comparisons. Well, and then it started to be more than half simply. Of course, that developed in the Keynesian era and then rolled off in the monetarist era. Monetarism was accompanied by such a process, which was called deregulation, and it consisted of the state withdrawing from various direct economic activities. And something that was state-owned was being privatised, something that was regulated by the state started to be unregulated. This was not always a good thing. Sometimes, for example, when the British privatised the railways and then lowered the regulatory standards even further, they had a whole series of rail disasters. It's not such simple things that surely going one way is right in every respect. It's something for something always.

Coming back to the deficit, the deficit is always the public debt. And now the need to finance it. It is most often financed by bonds, with the fact that the price of bonds is heavily influenced by both the make of the economy and the ratings. How would one assess the impact of these international financial institutions on the budgetary situation of individual countries?

These institutions are not objective, these institutions are entangled and have their own interests, and this became very clear in 2008 when they simply got it wrong, collectively got it wrong. These are institutions that assess credibility, but before that they themselves, for example, prepare the data for this assessment and it's such a bit of a closed circle and it's subject to corruption, I would say. But of course the prestige of the economy matters. Please note another aspect of this. The more we expand the state sector, the more temptation we create, for political corruption, right? There are those state-owned companies where we locate colleagues and so on. The smaller the state sector is, the less this temptation is, because in the private sector to locate colleagues is already a different art, so to speak, and more rational perhaps. So there is a link between

the expansion of the state sector and the quality of democracy, one can say that with certainty.

Yes and also expanding the state sector, i.e. expanding the budget, means less money for private investment.

Well this sector, well the private sector certainly is, whereas the state sector can invest.

Except that even Keynes was against state investment.

No, well, yes. We are talking about state interference in the economy, it is clearly worth separating such two phenomena. Firstly, astate that pursues an active economic policy to screw up the economy and a state that steps into the role of landlord, i.e. statism. The United States is a classic country where there is large-scale interventionism, but no statism. State-owned companies in the States are really not many, it is really a private economy. It's just that poorer countries, on the other hand, have this dilemma that they don't have these capital resources. And they face the dilemma that either the state is going to do it or nobody is going to do it. Well then there is a temptation to expand the sector.

One last question relating to the current international situation and how countries' budgets and the structure of budget expenditure are evolving in the situation we have in the world today.

At the moment we are in such a war time that war budgets are in unlimited expansion. This is going to sound cynical, but imagine that suddenly the war in Ukraine ends, then we have an economic crisis. Sorry to put it so brutally, but this is the truth. Armaments screw up the economy. If you study the history of crises, it is usually the end of a war that is the crisis, well, because suddenly all those emergency orders from the war end. Everybody catches their head that they are very much in debt, they start reducing spending, mainly armaments, and the economy goes into crisis, this is normal. I don't mean to say that wars should continue indefinitely to avoid a crisis. But that is exactly how it is with economics. It is always

something for something. It is not the case that some solution has only advantages or has only disadvantages. It is such an interconnected system, where you pay something for something.

An example of a budget deficit. It has its advantages, it has its disadvantages and it has its costs, which we have to pay at some point. And indeed, however, armaments expenditure is budget expenditure. That is to say, the budget is driving the economy today via arms expenditure. Exactly as in Poland in the 1930s, for example.

In general, the global economic situation at the moment is very good, after all. People tend to see things that are bad, so people see the dangers, the disadvantages of that, but the economic situation at the moment is excellent, it hasn't been so good for a long time.

And that is something to be happy about, Professor.

Well, yes.

Although to be cautious at all times when it comes to the budget deficit.

In the midst of all sorts of bad things, if there is something to be happy about, let's rejoice.

The budget issue itself, on the other hand, will always seem to have two different sides to it. The more we spend, the better for the economy, but the more we spend from the budget, the less we will spend from our pockets. We will probably have less in those pockets.

One more thing perhaps to add, because we have forgotten a bit about all this, but the issue of the budget is an issue in parliamentary systems, it is one to which trust in the government is attached. That is why, for example, the president cannot refuse to sign the budget if the Sejm passes it. The Senate cannot tinker with the budget, because the government's responsibility is to the Sejm, not to the Senate, and so on. There are various systemic considerations of the budget, so to speak, which are also worth bearing in mind.

And the budget, however, is an expression of government policy, of the government that is running the country at any given time.

The most important law the government must have. There are no jokes here.

And the most reliable evidence of government sweep, because here money determines what the government will do. Thank you very much, Professor.

Thank you very much.

Paweł Grata
Cecylia Leszczyńska

WHAT IS INFLATION?

PAWEŁ GRATA: Good morning. Welcome to the next conversation in the series "What does economic history teach us? 12 conversations for difficult times". A series that is the result of a project with the same title, funded by a programme of the Ministry of Science and Higher Education. Today's topic of conversation will be inflation, something we have been dealing with for several years, something that has affected us many times in the past and something that is very dangerous in economic life. And that is why it is worth talking about inflation and its causes, course and effects, and how to counteract it. My guest is Professor Cecylia Leszczyńska from the University of Warsaw, an economist specialising in the problems of monetary policy. Professor, first question: where did inflation come from?

CECYLIA LESZCZYŃSKA: Which one? The contemporary one, or in general?

In general, because we know very well that there were times when there was no inflation.

Yes, where did inflation come from? How do we know that there is inflation, Professor? How do we know today that there is inflation? Well, because we go to the shop and observe the rise in prices. Or we learn from various communications from institutions, the media and so on that there is inflation. So, if we reject, if we imagine that here we have no media, well, the only, I would say, information

that reaches us is the observation of prices, in the places where we shop, and we see that some goods go up like this, others go up a little bit more. Inflation today is equated with price increases. I would like to say, this is my caveat, the introduction shows boldly that if we go back in time, the knowledge that prices are rising was simply limited, so the further back we go, if we have, let us say, a simple commodity economy, commodity for commodity, well, *de facto* we do not see this inflation in the short term. Therefore, inflation is an economic phenomenon, sometimes also a social phenomenon, if it starts to worry some social groups, which, of course, historically has occurred quite often, although not too often, because here there is also the question of how much these prices are rising and over what time period, because if prices rise by, I don't know, 1% over the course of a year, such inflation would probably be unnoticeable. The word inflation, inflation, Latin, was introduced into the language of economics in the 19th century and at that time it was understood, by the way, this root meaning remained, as to inflate, to swell, something grows, it was not related to prices, it was related to the amount of money in circulation. And later, in retrospect, when people wrote about price rises in the past, well, they tended to study it, they equated it later with inflation, while the population, as it were, at a given time, used the word "price rise". Is that what we call inflation today, because it is actually a somewhat economic, statistical category, it needs to be measured, and in order to measure it, you need to have certain tools, an algorithm that gives us this CPI, because today we say "consumer price index, consumer inflation, producer inflation. ' So we have a price index and we have inflation. Historically, inflation in the 19th century, between the wars, was associated with an increase in the amount of money in circulation, while the increase in the price of goods and services itself was equated with, or was referred to as, dearness. Why, then, did this word inflation later move from this monetary aggregate, from this money supply to the prices of goods? Because according to the quantity theory of money, which was accepted as such a mainstream, mainstream, explanation of the mechanism of rising prices. So, if prices are rising, well the question is, why are they rising? Economists answered, they usually rise because the amount of money in circula-

tion rises. That is, we have a supply of goods and services, today we call it GDP, Gross Domestic Product, over a period of time, yes, usually annually, and here we have an increase in the money supply. If this monetary aggregate grows faster than the supply of goods, well, there is this imbalance and the reaction to this becomes an increase in prices, and its basic cause is an increase in the amount of money.

Here I think we can refer to the 16th century.

Cecylia Leszczyńska: You can. Of course, it's the famous price revolution. It was such a first international inflation. Of course, today's research shows that the people of the time didn't see it too much precisely as an increase in prices. Because on a centennial scale, today's research shows that this price rise did take place. On the other hand, on an average annual scale, the word average annual, you divided the price increase by, say, a couple of decades and came out with an average annual value. Probably in some periods it was like this, and in some periods it was like that. And she averaged one per cent, two per cent per year. Today we wouldn't even note that as.... We would even be happy that these prices are going up slightly for us, because inflation is considered to be just that one to two per cent that the economy needs. It is needed by the economy, because this price rise to some extent accommodates such an adjustment process between the supply of goods, the demand for these goods, the stock of money, the money that people have, and going back to this price revolution, that is when the quantitative theory of Money was born. There was an influx of bullion from South America into Spain as a result of colonisation, well this increase in the money supply, this silver above all, smaller amounts of gold, led, spilling over through Spain, then through other countries, led to an increase in prices. But it was called, see, what? The price revolution. Yes, Copernicus' law, Gresham's law and so on. So they began to link this rise in prices precisely to this aggregate, the monetary factor of the money supply. But at that time the word inflation in the sixteenth, seventeenth century was not yet used. As I said, it appeared later, and there was this kind of juggling between just money and price increases.

But the 19th century was a period of fairly stable prices. Here the notion appears, while in the nineteenth century, apart from the wars of the beginning of this century, it is difficult to find such cases of hyperinflation as after World War I or as in Poland in the 1990s. Why?

As we were talking about the price revolution in the sixteenth century, this rate of inflation, using today's language and various statistical measures, was very low. High inflation is the child of wars, revolutions, upheavals, high inflation, that is, inflation where, over the course of a year, prices rise by several tens of percent or sometimes several hundred percent. We then have inflation that is already galloping or even hyperinflation, when prices are already changing from day to day. So these kinds of great inflation, high inflation, high price rises are the product, they are the child of these extraordinary phenomena. Not financial crises, because the 19th century financial crises moved deflation. The great crisis of the 1930s carried deflation, it was characterised by falling prices. So this is where we should not equate that every crisis is inflation. Besides, the 2008-2009 crisis did not bring inflation as such either. Inflation when did it occur? After COVID, during COVID, during the war, disrupted supply chains, price explosion in commodities, right, gas, etc. So some such, or we say demand shocks, I mean demand shocks, in the sense that suddenly for some reasons, we know what reasons, there is a large mass of money in the market and this large mass of money in relation, as I mentioned before, to this relatively stable supply of goods and services, generates inflation for us. The wars, the First World War generated European inflation, but already a small one in England, for example, and a very high one in our part of Europe. The Napoleonic Wars, which you mentioned, caused quite high inflation in England, but in other parts this inflation was moderate. After the Second World War, inflation was quite low, and we can now compare this brilliantly through the First and Second World Wars. After the first high, after the second low. Why low after the second world war? Because by exchanging money, or by invalidating some part of the paper money circulating, the state took, colloquially speaking, this money out of the resources of the population, of businesses, that is, it removed this surplus. After the First World War, states acted

very democratically, we say, they made equivalent exchange, if they exchanged money. And therefore this surplus money, which appeared during the war, it already remained on the market in times of peace. And here we have two elements, that is, in the course of wars there is a surplus of paper money, not bullion, paper money on the market. Central banks usually lend to the state that is at war, Well, and this money goes in, the state spends it. It makes purchases for the military, etc., it goes to the population. The state also sometimes issues government debt, sells bonds to the people, the people buy them, lend them to the state. But when this surplus of paper money grows during wars, at the same time, the states control the prices of basic goods, whether through the card system, rationing, various ways, well, not to lead to what? Well, an explosion in the prices of these absolutely basic products, food, fuel, that sort of thing. And then when the wars end, because that's the mechanism, of course we're speaking in shorthand, both the first and the second war. And then when the war ends, that money stays in the hands of the population, after the second war it was taken away. But first it stays, prices are released, rationing systems are gradually abolished. After the Second World War, we had price controls in England, price controls in Poland, ration cards and so on, but in Poland there was a different system. The market system in the West is also characterised by rationing. And when price controls are lifted, prices simply start to rise. I would say a bit like this, the first war was such a laboratory. One learned what this excess of money meant and then such a somewhat spontaneous completely adjustment process on the price side. And after the Second World War, of course, people lost their war money, but you could say, well, if prices had risen, because the purchasing power of the money they had as savings, inflation would have eaten that money, those savings, too.

Here one can give the example of Ludwig Erhard's reforms in the western occupation zones.

Very restrictive, Today I encourage viewers to google for themselves somewhere how much German citizens had their savings taken away. Almost that they were deprived, meaning they could only spend what they earned on an ongoing basis. This 1948 reform was very restrictive.

Yes, and one can now also mention this situation of the Polish hyperinflation of the early 1990s. You said, Professor, that hyperinflation usually means wars, great dramas, whereas here the situation was somewhat different. This inflation was partly due to the system that was in place in Poland. Here we have a very clear discrepancy between the amount of money on the market and the amount of goods available.

But this mechanism, an excess of money, created not because of the war, but because of strikes and so on, was known in the 1980s, that this imbalance between the supply of money and the stock of goods, goods were growing, but very slowly, because the economic system was in crisis. After all, ration cards, common already in the eighties, that is, rationing, which used to be appropriate for war time. Here we have a peacetime economy, well, there is no war after all, there is martial law, but it is not an open war, true, the army is conducting, the state is conducting some military actions, etc. Nevertheless, this money creation goes on, because there are expectations of wage increases. So the state gives this increase in wages. So what? This increase in wages is taking place, everyone is aware of the fact that this gap, which is then called the inflationary gap, that is, the gigantic stock of money held by the population, businesses, etc., in savings accounts, more and more, more and more, while the supply of goods is stagnating, or growing very little. So the gap was already there in the late 1970s. After all, the ration cards, sugar, then more commodities, is nothing more than a response to the state wanting to keep the prices of these basic commodities, a bit like in wartime, stable. Because if it deviated from that, well, those prices would go up. In parallel, what is happening? A parallel economy, a black market, and on that black market the prices of the same goods are n times higher. And as the Professor mentioned, at the end of the 1980s, the state moves away from this price control.

And here we already have an analogy with the situation after the First World War.

That's right. And this inflation, which before was stifled, suppressed through this control, price maintenance, it erupts. Of course, it explodes violently, in a short period of time. It was prob-

ably possible to spread this process somehow. Somehow, various instruments have been used historically. Here it has been refused, we say that market deregulation has taken place and prices have gone up. But those who are a bit old, I remember those times, yes, well it was just immediately that goods appeared on the market. A bit like in the time of Ludwig Erhard, Economic miracle, suddenly shops full of goods, even before the reform, everything is bought up, hot money, investment expectations, people get rid of this money losing value, whatever we buy, because the purchasing power of the money we have is getting lower and lower, so let's buy anything. Unnecessary carpets, not carpets, when we come across a product in a shop, we buy, We buy and that's it. Necessary, unnecessary, we buy, possibly pass it on to someone there. So that's the economy, that's the imbalance, that imbalance, that money supply, that money stock doesn't meet the supply and when those regulations are released, well then the prices go up and then there's meat on the market, and there's groceries, slowly, slowly it fills up, but when it comes to the private sector, well then there's this sudden explosion. So these goods were there somewhere, well they just weren't quite transferred to the trade either.

It didn't pay to sell them.

It didn't pay, because what to do with the money? Paper.

We have the latest example of inflation, which kind of exhausts all these components that you, Professor, talked about. There is COVID...

The economy closed down a bit, there are expectations, there is uncertainty about what will happen. It wasn't that long ago, we remember, some people run to the shop, they buy up, of course this mass of goods is big, because there was no war economy before, or socialist economy and so on, so this supply is big. It would be difficult to buy it all up, but we can imagine that if it had lasted a little longer, we would have seen pictures from shops that there were these shelves, whether in England or somewhere else, in Poland too, by the way, announced. As you mentioned, Professor, why sell for this empty paper, well we know the pictures, they appear from

the German inflation of 1923, the beginning of 1924. What do people do with these banknotes? Well, they wallpaper the walls. Wallpaper is more expensive than pretty good quality paper, so it's worth it. But coming back to our contemporary inflation, of course, it was international, as we know, and it also resembled a bit, because it was such an overlapping process, it also resembled at a certain point the shock of the 1970s. It may have been less visible in our country under socialism, but in the American economy, in the Western economy, the oil crises. The first oil crisis, the second oil crisis, that is where inflation went from the supply shock. They rose very sharply, the wars, the two wars in the Middle East, right, Israel, then the second issue of Iran, these are the two peaks in the rise of oil prices and then through the energy carriers, through oil, the prices of many product groups moved up. Well, and here we find some analogies in the case of the outbreak of war in Ukraine, when Russia invades and there are already, as we know, we can see now the exposure of statistics, in real time we have also seen them, how already in December 2021 the prices of energy carriers start to rise. Then, of course, there were still suspicions of this war, it's going to break out, it's not going to break out, we remember, the troops are here, they're going to come in, they're not going to come out and so on, intelligence says one thing, others say maybe it won't break out, but nevertheless the market is already, in a way, anticipating, preparing for a supply shock, gas prices, oil prices. And overlapped, as it were, these pocovid stories with this war situation, when the prices of energy carriers that generate costs, everywhere the price of petrol enters as an important component.

And on the first day of the war immediately queues.

Immediately also queues. And here they were probably preparing a bit for it, I mean, these preparations for war probably made it possible to accumulate reserves, they always are, but nevertheless to control relatively, I don't know, within a few weeks, yes, it's difficult to accumulate petrol reserves, it's dangerous. Although it was written in the press somewhere that there were those who prepared some tanks, but their risk, you could say.

Yes, these factors are generally similar, factors that cause inflation. Now the question is, how do we combat inflation? We already have historical experience and we have contemporary experience. In your opinion, what are the best, most effective instruments to curb inflation or minimise its negative effects?

Yes. And here what we would say is important, in responding to inflation, the mechanism of inflation and its source is important. Because if its, I would say, cause is monetary in nature, well then, necessarily, the remedy is primarily on the monetary side. Well you cannot, you must necessarily stop, this outflow of money into the market. This can be painful for the population, because it means stabilising wages and so on, that is, the income of the population stands still, or falls in real terms, because income nominally stands still, wages do not rise, and prices rise, so in real terms this income falls. This is painful, unpleasant. Democratic countries have a problem with this, well, because the population doesn't necessarily, it hits different occupational groups differently, right, because our consumption structure is not homogeneous between pensioner households and wealthy people's households, and there's still a whole palette in the middle. So one way or another, it's monetary action through I would say stabilising the money stock, read, wages, incomes of the population stand still. That is one solution, but of course it goes on the side of the so-called real economy. That is to say, the economic entities, public, private hold it would say, these wages in place. Perhaps with the effect of the form of unemployment, see the historical Philips curve, where Philips showed, unemployment exchanges with inflation, low unemployment, then you get it with low inflation, if inflation goes up, the economy goes into inverted commas, right, unemployment goes down, but that doesn't work at the moment anymore, you already negate the Philips curve. Milton Friedman once wrote, yes, monetary economists, because here different schools of economics, different propose solutions, no matter what the cause of inflation is. It has to be suppressed by monetary methods. That is, expensive credit, tools to make credit expensive, and the central bank. Through its high rates, high rates go down to the commercial banks, credit becomes expensive, in inverted commas I won't say we kill,

but we reduce all the demand that is generated by credit. There are no mortgages, or they are very expensive, so the demand for mortgage-financed real estate goes down. Instalment credit. High lending rates, demand financed by instalment credit falls. Lots of things are bought on credit, credit card. We don't shop on credit anymore because interest rates are high. So, regardless of where this inflation came from, Milton Friedman once said, in fact to this day monetarists still say this, act through expensive money. That is how this inflation should be reduced. Of course, this hits the economy, because we have mentioned, demand for housing falls, well, because expensive mortgage credit, purchases of durable goods fall, because expensive instalment credit, manufacturers suffer. That can put the economy into recession. And those who sell washing machines, fridges, etc., there are no takers for them or property, unemployment appears, and so we have this somewhere in the back of our minds, this Philips curve. But this is the most effective, truth be told, or what I would say is a fairly simple instrument. Raise interest rates and that's it. And it will go further.

But an expensive one.

Especially as it is then that we can get to deflation. I recall that there was still, right, during the 2008-2009 crisis, what was the fear about? That there would be deflation. Deflation is terrible. Please remember one more thing. There is such a thing as inflationary expectations, deflationary expectations. Inflation is sometimes pushed by inflationary expectations. What does that mean? Psychology, truth, social and so on, behaviour. We expect prices to rise, we expect prices to rise and what do we do? We buy in advance. The higher the inflation, the higher these expectations and we buy in advance. In this way, as it were, we generate price increases ourselves. We'll go and buy, it's like just during COVID. We remember how quickly the prices of certain goods went up. Well, we will go, we will buy. Why don't traders or sellers take advantage of that? Well, they will. After all, they can make money out of it. And the opposite is deflationary expectations. They are more difficult to manage sometimes. Because what do we expect? We are holding off on purchases.

Waiting for prices to fall.

Until prices fall. And then prices fall and that hits businesses, Prices fall, revenues fall and so on. The economy collapses, in inverted commas. This is the mechanism that was rehearsed during the crisis of the 1930s. When it seemed that deflation would be so cool at first. Well here prices will be in place, they will fall a bit, everything will adjust to each other. And it turned out that this deflationary mechanism, yes, also falling prices at 50, sometimes 60% was killing businesses. And then Keynes explained it, that it's this kind of rollback of this economy. So when we talk about this fight against inflation, we have to understand its mechanism, where it comes from. And this monetary intervention in the form of interest rates, he is obviously, I would say, effective, restrictive. It can generate, in inverted commas one says euphemistically, social, economic costs. And that's why, if, for example, inflation is triggered by some kind of shock, where we know it's an artificial shock, isn't it some kind of built into the economic system, like in the People's Republic of Poland, that throughout the 1980s, what happened, the imbalance grows, grows, grows. And such a one-off explosion. And it's stabilised, well that means that under the given conditions this inflation won't go any further and all you have to do is, I would say, what to do? Well, don't set fire to it. Not to set fire through money creation and so on, easy, cheap credit, to further price increases. And it seems that just, you can see this inflation, remember, it was, 2022, the outbreak of war and all over our region, from the north, Lithuania, Latvia, Poland, Romania, all over our belt, right, the outbreak of this inflation, it then moved further west, but it was lower, it was lower. These supply chains, uncertainty and so on and so forth, these factors we have already characterised for ourselves. So this nature of inflation, it's good to understand it. So that we don't, with some very radical moves, create a crisis. Let's remember, for example, consider that US inflation in the 1970s, which was generated by the oil crisis, and the prices of oil in particular, petrol and so on, went up. Paul Volcker came in and implemented a very restrictive monetary policy. High rates. They actually went rates up to a dozen percent. Interest rates. And the economy went into a deep recession. And then, of course, the question of how big a level, a high level of income we were falling

from, On how far it was going down. But the fact is then that there was high unemployment. So again here, as I said, this back of the curve, then this Philips curve. Inflation was going up, but unemployment was going up beginning of the eighties. And this crisis, it was a supply-side crisis, a monetary crisis, And it also, it's believed, later hit also, well the States largest economy, the countries that sold to the US market, Latin America. And some aftermath of these problems, high interest rates, debt crisis, where? In communist Poland. Poland in the early 1980s is *de facto* bankrupt. It is unable to service its debt. The crisis in Latin America, because these countries in the 1970s were taking these cheap loans on the US market, well then high interest rates come and what are they supposed to do? They don't have the resources to run the credit service. They get into a debt crisis. Latin America, Poland, Hungary, our whole region that opened up in the 1970s and took advantage of convenient credit.

The same thing happens to the individual consumer who takes a loan from a bank in good times agreeing to floating interest rates.

For floating interest rates, or for franking credits, that is, here the rates are low, the rate, well we don't anticipate, we don't assume.

That the franc will become more expensive.

And how? Twice, twice. So here these experiences, some say so every 10 years, I mean people forget. Probably if someone came today and offered franking credits like that, because of course there are already regulations. But probably people still remember, but in ten years or so they don't. Because crises, franking credits had Australia in the 1990s, Scandinavia in the 1990s, Austria. It's not that in our country they were the first. It's just that it wasn't in our country before, somewhere in the world, but whoever studied it, analysed what that case looked like. Anyway, today we have access to the web, it is easier, at that time 20 years ago or 15 years ago it was difficult. But, as the Professor mentioned, exactly the same mechanism, of course its effects are different. Still to this, whether the American economy is affected, or the Asian economy, China

for example, well we know that this will spill over far, far into other regions.

Approaching the end, one can conclude that inflation is better avoided than fought, because always wanting to stifle inflation, we have to incur costs.

Yes. That is why, for the last twenty, maybe fifteen years, this strategy of, why do you say it, inflation targeting, has been adopted. It's called direct inflation targeting. So what, we hold the inflation rate, that is, inflation is. Not that prices are not rising at all, but the inflation target is what? 2,5%. That is to say, we tolerate, we understand that price increases reaching this order of magnitude, 2.5% increases with a deviation of one point up, one point down is sort of beneficial and natural for the economy. Yes, so we have come to a certain, as they say, consensus. It used to be said before, well it was also looked for. We know that this GDP grows statistically on average how? Also about these one and a half, two points, right, per year. Sometimes three, four, sometimes one. In the long term, this smoothes out, if there are no turbulences or crises, and so more or less, maybe a little higher, but with similar dynamics somewhere in there, so that it doesn't come to what? Well, to this divergence. And the growth of entrepreneurs, we are talking about transaction costs rising, various things, external costs, ecology, environmental protection, all this generates some costs for companies. And this inflation occurs. And it is acceptable. So the golden rule, as the Professor mentioned.

Not even so much to avoid as to control. And here not to make mistakes. And I think we will end with this conclusion. Thank you very much, our guest was Professor Cecilia Leszczyńska, we talked about inflation.

Thank you.

Paweł Grata
Kamil Kowalski

HAS THE RICH NORTH ALWAYS BEEN RICH?

PAWEŁ GRATA: Good morning. Welcome to the latest talk in the series "What does economic history teach us? 12 Conversations for difficult times", which is organised as part of a project under the programme of the Minister of Science and Higher Education, The Social Responsibility of Science. The project is being carried out by the Department of Economic and Social History of the Institute of History at the University of Rzeszów. My guest today is Dr Kamil Kowalski, an economist and economic historian from the University of Łódź, with whom we will be discussing the division of the world into a rich North and a poor South. Why such a division, why such geographical criteria in describing economic reality?

KAMIL KOWALSKI: Actually, for most of the time we haven't had such a problem on Earth, because for most of the time man has been on Earth, life on this Earth has been sad, poor, lonely, animal, sunless and just short, as Hobbes said in 1651. But nowadays, Earth is a land of inequality, we live in times of inequality, which requires the provision of certain analytical categories. For this reason we need a certain apparatus to describe those who are richer, who are poorer, but at the same time in such a way that these people are not stigmatised. Up until the Second World War, this was not taken care of excessively, people simply spoke of backward areas, they spoke of barbarism, whereas after 1945, certain categories emerged that would not stigmatise these people. We have had some successes and some failures in these categories. One of

the first was the category of the third world. It appeared in 1952, but it still indicated which world was the best, the average good and the worst. The best world, therefore, was to be the liberal world, centred around the United States. The worse world was the communist world, centred around the Soviet Union, and the third group included those countries that did not belong to either the first or the second world. The role of these countries grew after 1945 for a simple reason. They became members of the United Nations, where they had a vote equal to any other country. Consequently, their political power was reckoned with in the General Assembly, and their support was therefore sought, allowing them to sometimes win certain political disputes. In subsequent years, the category of developing countries emerged. and the most recent category is the one proposed in 1981, that of emerging markets. However, this is a category that has a major drawback, namely that it includes countries as diverse as Poland, China and Russia, and it is difficult to point out that the economic problems, the economic challenges of these countries are the same.

Those divisions you spoke of, however, were more value-laden in terms of level of economic development, not geographically. So where did this idea come from - rich North, poor South?

For the reason that the North-South divide appears to be an objective divide, and therefore one that affects no one. It is a certain statement of geographical fact, but there are some reefs here, there are some pitfalls, because in the countries classified as Global South and also Global North, we find countries that are not geographically located in the North and in the South. Let us give a few examples here, let us perhaps indicate how this line runs, so to indicate from the west of the world, it would be along the southern border of the United States, in Europe it would be along the Mediterranean and the Black Sea, and moving eastwards it would be along the southern border of Russia and China. So here we have in the global South all of Africa, all of South America, from North America we have Mexico, while in Asia we have all of Asia including China, which is worth noting, which is included in the global South. This excludes two important Asian countries, namely Israel

and South Korea. The global South also includes Oceania, while Australia and New Zealand are excluded from this contractual area. The basis for this division is therefore not just geography, but also the level of income in the country. As economists, we have quite a significant problem with this, because for one reason we very much like to look at the gross domestic product indicator, usually per head. The reason we use it is that every country other than North Korea provides such data to the United Nations, so it is easily comparable. However, problems arise from the very construction of this indicator, which captures the production of final goods and services, but tells us nothing about the quality of life in that country, and nothing about the level of wealth. Another problem with gross domestic product is the methodology for calculating it, or, to be more precise, the methodology for comparing it. Are we to compare gross domestic product in nominal terms, which creates problems with numerous exchange rates? How do we compare them? Bringing these exchange rates down to the US dollar does not solve this problem. And we cope by using the purchasing power parity method. That is, we use a nominal exchange rate, a theoretical nominal exchange rate, which equates the baskets of goods and services in two countries so that they are worth the same amount. Let me explain this using the example of Poland. If we calculate the GDP of the Republic using the purchasing power parity method, then GDP per capita is USD 52 000, which puts Poland as a richer country than Portugal and therefore higher than the European Union average. For example, GDP per capita calculated in purchasing power parity for France is USD 57 000, so USD 57 000 compared to USD 52 already looks very good. For Germany it is USD 60 000, for the United States it is USD 82. So it looks very good. Why does this GDP look so good for Poland and the countries in this basket of wealth in general? It is because there is relatively cheap food and relatively cheap services in these countries. This means that for the same unit of currency we can get roughly the same good shave in both Poland and Portugal.

Yes, it is quite an understandable division, quite an understandable stratification, the use of *per capita* income levels across countries. The question, if this is true, we assume that in

such a general approximation, indeed this North is richer than the South, with the exception of Australia, New Zealand, Korea, Israel. That question is, why is this the case?

Actually, until the industrial revolution we had a certain equality of poverty, we had a certain democracy of poverty in the world. The Industrial Revolution was the cut-off point, the point from which these income scissors opened. On the other hand, it would be an oversimplification to say that the rich were those countries that very quickly adopted the effects of the Industrial Revolution. and the poor who did not. All this was forged on a certain institutional anvil, which was in turn forged in earlier years. If I were to point to the most important earlier processes that led to this income divergence of Europe and the world in subsequent years, it would even be the events of the 14th century, the divergence of Europe associated with the great plague, the plague in the middle of the 14th century, when some countries experienced a significant reduction in population, but which resulted, for example, in an increase in wages in the cities and an increase in demand for food in the countryside, which resulted in an increase in demand for food production in other countries and the export of that food, which in turn resulted in an increase in the area under cultivation in those countries. It just so happened that in Poland we were in this group of countries, which resulted in an increase in manorial farms, while impoverishing the country as a whole, i.e. the group that gained was the nobility, but it was not a democratic distribution of wealth. The situation was different in the countries of the West, where, as a result of the Great Plague, a *de facto* important bourgeois stratum developed into a merchant stratum, which had a very great impact during another important event affecting the distribution of wealth in the world, that is, the great geographical discoveries. At the time of the great geographical discoveries, England sent its envoys to the New World who could afford to do so. In other words, these were not just expeditions financed by the British crown, but by merchants who already had a certain percentage of wealth accumulated at the time, while the countries of the East did not have this. For this reason, England was the country where the great industrial revolution could happen, while it could not happen in Eastern Europe.

And in Eastern Europe and also in other parts of the world, because, after all, the old Chinese civilisation was left behind at some point.

Yes, this was indeed the case. The question can be asked, why did this happen? I think the most popular explanation, among which there is a consensus among scholars, is that China, at its own request, closed itself off to contacts with the world, considering that it did not want to take part in transmaritime or transoceanic expeditions, seeing them as a threat. They did not, therefore, discount this great step, which Europe did, unfortunately, and I say this with sadness, at the expense of the countries that were being conquered, which determined the permanent poverty of these countries for the next few centuries, a situation that unfortunately continues to this day. And this income divergence is very much seen in the distribution of wealth between North and South America. Both of these continents were subject to colonisation by Europeans. However, for certain reasons, it turned out that South America perpetuated poverty as a result of these conquests, North America, I mean the United States and Canada, this is due to certain specific factors that occurred at the time. One can even speak of a certain amount of luck here, namely that the English colonists who found their way to what is now the United States did not, for one thing, encounter any significant deposits of ore, either gold or silver. As an aside, one may ask how history would have turned out if they had reached North America from the west and encountered Californian gold. Probably history would have turned out differently. On the other hand, the second factor was that they did not encounter dense population centres in North America north of the Rio Grande River. So there was no one to conquer, no one to force them to work, so they withdrew from these areas very quickly. This political, economic and social vacuum was only filled by the British, who tried to follow the methods of the Spanish or Portuguese conquistadors, but found neither gold nor these population centres, so they had to....

get to work...

...Which, we should add, they did not want to do, that was not the plan. They were aware of the Spanish and Portuguese scenarios

in South America, they wanted to repeat them, but it didn't work out, so *nolens wolens* in North America north of the Rio Grande democracy germinated.

Yes, and what is also important and we need to point this out, this process of colonisation precisely, it seems to me, where it was so purely Anglo-Saxon, enclaves of the rich north in the south actually appear.

Yes, while let us give to God what is divine, to the emperor what is imperial, it was not always the case that this colonisation on the part of the British ended as well as in the case of the modern United States. Numerous African colonies shared a fate incomparably worse. We can point here, for example, to Rhodesia and the whole complex of protectorate colonies on which Cecil Rhodes set foot. These countries, these states, failed to produce the seeds of democracy, failed to create a strong central state with pluralistic institutions, which determined their misery for years to come.

The question is why?

This is because they were not given the opportunity for this development. Their natural wealth was exploited, their power was used. Unfortunately, the wealth of Western European countries came at the expense of colonised countries, African countries. This is a great blemish on those countries that colonised.

Here we remember that the 19th century was not only the Industrial Revolution, but it was modern colonialism, which was also one of the elements that supported the development of European economies.

Unfortunately, then, this economic development was twofold. On the one hand, we can rejoice here at the diffusion of technology, which took place both in England and then in France, most rapidly in the United States, right after Britain; while the growth of Britain's wealth was, unfortunately, accompanied by the institutional deterioration of numerous African countries.

It would also be difficult to venture the thesis that India somehow prospered brilliantly under British rule.

This was definitely not the case, for until the period when the British East India Company dominated the Indian subcontinent, India was the largest exporter of textiles in the world. In contrast, as a result of Britain's political decision to promote its own textile industry, textile imports from India were banned to support local British creativity. which, of course, cut off this market for Indian producers. Moreover, the East India Company was forcibly forcing Indians to hand over these factories to the British in an armed manner, which ended, of course, in a decline in the developmental momentum of the Indian subcontinent for years, its subordination to London's political decisions.

That is to say, we can say that the rich North, the poor South, these concepts are relatively new, while they nevertheless reflect the effects of processes that have taken place over several centuries. Beginning with the great geographical discoveries through the first colonisation, then this 19th century colonialism and what was associated with it also in economic terms. A question relating to this notion of emerging markets. This is a concept that is very sympathetic to those poorer countries, because we still have a pejorative association with the Third World. It is an eminently offensive concept from the point of view of our historical, economic or even sociological knowledge. The question is, for this group of emerging markets, is there a chance that this divide between rich North and poor South will be bridged?

Just as the terms Global North and Global South are not constitutive in nature, the fact that we started to use this term does not mean that it came into being at that moment, as you said, Professor, it functioned much earlier, and it was only in the 1970s and subsequent years that the term became popular. In the same way, the use of the term emerging markets does not establish the fact that an economy is an emerging one, or that it is to be classified in one group and not in another. It is an expression of a certain, as Gunnar Myrdal called it, linguistic correctness, linguistic diplomacy, when

we look for the right designation for countries, not wishing to stigmatise them, and this term, coined by Antoine van Agtmael in 1981, seems to be the most adequate one for today, but it certainly does not close the catalogue, In fact, studies are being written to indicate which of these terms, the third world, developing countries, emerging markets or yet another term, global north, global south, is most commonly used. The most important thing really is the prospect that, whatever we call it, this sphere of the global North will continue to expand. and that this global South will not only shrink in geographical terms. From time to time such successes do occur, but they are very slow. The United Nations distinguishes 45 so-called LDCs, the least developed countries in the world, of which as many as 32 are in Africa. The catalogue of these countries is updated every three years and, unfortunately, the list is shrinking very slowly. In recent years, it has included Butan, Botswana and the Republic of Palau, but these are not the countries we would have expected to disappear from the list, which are large countries that are generators of instability, mainly in Africa or generators of instability in South America, as is the case with Haiti.

At the same time, they are often the source of uncontrolled migration flows, because the level of prosperity or lack of prosperity is also one of the factors determining what happens in the context of the mass population movements we have been experiencing recently. The next question touches a little on the economic past, because the global North, the global South - today this is obvious to us, we understand these concepts, but it was not always like this, the North was not always richer. After all, there are whole millennia, whole eras when the North was poor. What we call today the rich north was backward compared to the south.

Note that it is the designation global North and global South, they are written in upper case. If they were only geographical designators, they would be written with a lowercase letter. And we can give examples here that confirm what the Professor was talking about, because while we can talk about North Korea, South Korea, yes, that means we have here a poor North, a rich South, we can

talk about a poor North Germany, a rich South Germany, but on the other hand we can talk about a rich Italian North and a poorer South Italy. In the UK we have an industrialised, richer southern Britain and an agricultural northern Britain. So here we have to be very careful every time and, going back a long way, we have to remember that great civilisations developed geographically in what we today classify as the South, which would be the river civilisations of Mesopotamia, Egypt, the Indus, China, whose development, if we juxtapose them with that of Europe, was far ahead of that of Europe. Let's give one example here, perhaps just from the Mesopotamian cities themselves, that is Ur, Uruk created 3,500 years B.C., the pyramids at Giza, created 2,500 years B.C., and juxtapose them with the greatest British achievement of the time, the Stonehenge circles of 2000 B.C. what is the level of sophistication of those simple in sum, simply megalithic blocks of Stonehenge, and what is the level of sophistication of the engineering maestri of the pyramids in Egypt. In the millennia that has changed.

And here, too, we must remember that this north, when it started to develop, even before the era of industrialisation, it was very expansive. Europe was expansive, I don't think that's debatable....

Definitely yes. It had important conditions for this, above all geographical access to the oceans, to the seas. It benefited from the naval engineering created by Venice. At the time, attempts were made to reach the Asian continent, understood more as the Middle East initially, and only to reach China and Japan in later years. It was a constant search for the New World. Indeed, it was the case that it was the Europeans who reached the New World, whether it was America or Asia, and it was not the case that these expeditions were from Asia and, for example, towards Britain.

Yes, and then this slow process that we have been talking about has led to Europe becoming the centre of industrialisation and, even more, this predominance of Europe and the civilisation associated with it, North America, so to speak, has led to these divisions deepening. Is it possible to think that this division in some foreseeable future, still in the context of climate change,

can it fade away, or will it nevertheless be as it is now, that two or three countries drop off the UN list every three years?

The first scenario is a Black Swan type scenario, i.e. an event that no one or hardly anyone expects, as was the case with the 2020 pandemic, while the more likely scenario seems to be one in which no significant changes are likely to be expected. That is, it would be the joining, the slow convergence of African countries to the level of the broader West, while this is a prospect of hundreds of years unfortunately. Such is the scale of the divergence of these incomes. Let us give one statistic. In 1820, that is, right at the beginning of the Industrial Revolution, the difference in income between *per capita* income in Britain and India was three times as great as in India. By 1995, by contrast, it was already a 70-fold difference. And it is difficult to expect that these gigantic differences can predictably...

Add to that the demographic pressure that is there.

Yes, and the ease of transport also works against it. In other words, it is easier to switch from India to the UK than to wait for Godot until the country India becomes rich. So, one can say that paradoxically, technological development, ease of transport will not favour this convergence here.

Yes, it is difficult to find factors that might favour, that we would show today, that will certainly favour this convergence. All the more so because there is also one more thing to mention. Decolonisation took place over half a century ago, this fundamental wave of decolonisation. At the time, there was talk of developing countries trying to catch up and raise their standard of living to that of Western Europe or the United States. And what has happened in these 60 years?

Well, not much, unfortunately. We basically know what conditions need to be met in order to develop. However, it seems to me that we are concentrating too much on this. On passing on this catalogue of recommendations to countries that are not so rich. The more important question, however, is why these countries are doing it

wrong, and I will give the example of institutions protecting property rights. In general, we all know that it is good when property rights are preserved, when records are not copied, when books are not copied, there is a consensus on this, but in these countries there is consent to it, and we know that it works badly, because it does not serve to stimulate creators, it does not serve technological development, and yet it happens. Why does it happen? Because it is mostly for the benefit of narrow elites who are not interested in changing *the status quo*. In other words, it's not that we don't know what to do to make it good, because we do, or at least more or less.

We know, history teaches us. There are unambiguous examples. How to create institutions, how they should function, what results they produce.

Yes, we have both a history of failure and a history of success, but not everyone is interested in that. Sometimes it is better to be the leader of a poor country, but to be in the elite of that country, than to be the leader of a democratic country, running the risk that in 3, 4, 5 years' time the electoral broom will sweep us from the Parnassus of that country.

Unfortunately, it must also be said here that the lack of elites who want to modernise these countries, and who are strong enough to be able to do so, is also probably still the result of colonialism.

With elites, things can vary, as elites very often tend to monopolise wealth, discounting their knowledge advantage, for example, resulting from studying often for foreign money at foreign universities. Ideally, this intellectual advantage of the elite, a certain baggage of social capital, should be translated into the development of inclusive institutions, i.e. institutions that would encourage wider participation of the broad masses of society, both in economic and political benefits. We have examples of countries, the poor of the North, where this mechanism has worked, on varying scales, such as Botswana, which took its chance; we have the example of South Korea, which, with considerable geopolitical help, that is, a certain stimulus from the United States, went ahead, although it took a very long time.

But it was a very poor country.

The democratic way. And it is succeeding and perhaps it is worth learning from these examples. In the case of South Korea, as you say, this starting point after the Second World War, if we compare it with North Korea, was lower, South Korea was a poorer, poorer part of the Korean state than the North. For years, in fact until the end of the 1980s, it was an authoritarian country, and an authoritarian in this hardline version of authoritarianism. I am referring here to the hundreds of victims as a result of the student riots. On the other hand, very important was the gentle hand of Uncle Sam, which is of course a democratic state, which could not allow South Korea to be a country similar to its opponent, North Korea, in the long term. This was accompanied by a very sensible economic policy, that is to say, the support of private initiative very deeply by the state and the emergence of the Chebols, that is to say, the famous conglomerates whose fruits we use at home every day, that is to say, Samsung, LG, until recently Dewoo cars and now Hyundai or Kia. So it can be done, but unfortunately it is relatively rare.

This is the thought that occurred to me in the end, that there are far too few examples of the possibility of this convergence, of the inclusion of the rich, the rich North, let us stick to this terminology, to think that in the long term, this division between the rich North and the poor South will be bridged.

Yes, this train, which we can label 'The Rich North', set off on its long journey in the 19th century, when the industrial revolution was developing. It is very difficult to catch up with this train in the 21st century, but let us be optimistic, some countries are succeeding.

And with this rather optimistic conclusion, or expectation, we will end. My guest was Dr Kamil Kowalski from the University of Lodz, economist, economic historian, and we talked about the rich North and the poor South and what results from this division, not only economic. Thank you very much.

Thank you.

Paweł Grata
Piotr Franaszek

DOES WAR AFFECT NATIONAL AND GLOBAL ECONOMIES AND HOW?

PAWEŁ GRATA: Paweł Grata: Good morning, welcome to the first conversation in the series "What does economic history teach us? 12 conversations for difficult times". The talks are being held as part of a project funded by the Ministry of Science and Higher Education's The Social Responsibility of Science programme, carried out by the Department of Economic and Social History at the Institute of History, University of Rzeszów. Today's guest is historian Professor Piotr Franaszek, Jagiellonian University, with whom we are going to talk about a very topical subject, we never thought that it would be so topical when preparing our project, war and the economy, the impact of war on the economy - positive, negative, what effects do armed conflicts have on economic life? Traditionally when we talk about economic history we will show the processes of armed conflicts in the past, the economic processes, the social processes and how this has evolved, how wars have influenced, are influencing and perhaps will influence economic life. Professor, what does war mean for the economy?

PIOTR FRANASZEK: War is first and foremost a tragedy for the people involved in that war, first and foremost for the nations affected by it. But one of the aspects of war is always precisely the economy and the impact of war on the economy, in the vast majority of cases a negative impact on the economy and in various aspects. What is most imposing and obvious is the damage, the war

damage, and therefore the damage to industry, the damage to workplaces, the damage to agriculture, but above all the population loss, because this is a very important aspect both economically and socially. War consequently leads to the breakdown, the destruction of socio-economic ties, which are the basis of any business. As a rule, in the context of the state budget, war leads to the fact that this budget also begins to simply not fold, begins to simply be a hole in relation to the pre-war period. We usually record very serious losses, for example, during the First World War the German state budget declined six times. Another aspect of all this is inflation, which hits the average citizen of the country in question. on an ongoing basis, it carries such losses, but as a consequence, all these problems also spill over into other countries, and into the post-war period in many cases. So, for example, if we cite a few examples of such wars in the past, which were fought in one way or another, but had major economic consequences. For example, let us turn our attention to the Napoleonic wars, when Napoleon I declares a continental blockade. By design, this is supposed to hit Britain's economy. The effect is exactly the opposite. Britain losing its European markets develops completely different trade links with other countries, especially overseas, develops its agriculture, and as a result, when Napoleon falls, France, which has too weak an economy to counter Britain's, loses out on the whole arrangement. And the import of goods from Britain, because a very important aspect of armed conflict is the cessation, or hindrance, of international trade. Another example of the huge impact, the significant impact of a quasi-local conflict, but on the whole economy, is the Yom Kippur War, the 1973 war in the Middle East. As we know, the Middle East has long been a very inflamed region, still actually in permanent conflict. However, when this war broke out, it began with an attempt by Egypt and the Arab states to retake areas occupied by Israel as a result of the Six-Day War. It turned out that the support that the US and other Western European countries gave to Israel resulted in an oil embargo announced by OPEC countries. The result was a deep oil crisis, an energy crisis, throughout the modern world, so to speak, with highly developed economies. These countries were absolutely not prepared for such a situation.

Another aspect of armed conflicts is the financial problems that arise. I have already mentioned inflation, then the problem of over-

coming this, but also in the international aspect, and here, too, we have a great many examples that have just been spawned by war. The First World War, for example, led to a situation in which European countries, France, Britain, became more and more indebted to the United States. They simply could not sustain their military effort enough to fight the Germans effectively. In turn, this indebtedness resulted in these countries becoming very dependent on the United States after the war. What is more, this situation meant that the stock of gold, bullion, which was in the resources of precisely Britain or France, especially in Britain, was flowing overseas strengthening the American economy, weakening the British economy, to the point that at one point even the British suspended the convertibility of foreign exchange into dollars. This problem was even more acute during the Second World War, when Western European countries also became completely dependent on American imports, while at the same time exports from Western European countries fell, leading to a worsening negative trade balance. As the war came to an end, it turned out that the United States - this is the positive aspect of the war, in inverted commas, in the case of the United States - really strengthened its economic position, but this led to a very serious financial crisis. Well, and the attempt to resolve this ended with the so-called Bretton Woods Conference in July 1944, when actually countries abandoned the financial system that had been in place until then, based on bullion reserves, and switched to the so-called dollar-devaluation system, the 'gold dollar standard', which meant that actually the US dollar became international money, because the convertibility of foreign exchange into gold was suspended, unless it was dollars, and so only dollars could be exchanged for gold. As a result, all other currencies sort of lost their position against the US dollar. So these are very important aspects, and this international exchange, trade, this is a very important aspect, well, because the world revolves around international trade, the interruption of these previously developed and sometimes very difficult trade agreements of one kind or another. The war introduces very serious perturbations in all this, so again after the Second World War, looking for some solutions to this whole situation, the dependence of Western countries, on the United States, they were looking for a path that would lead to trade

liberalisation. And then came the signing of agreements in 1947 under what is known as the GATT, the General Agreement on Tariffs and Trade. which only gradually meant that trade was liberalised and, as a result, countries slowly became partners in trade. There are a number of other issues related to this financial aspect, which came to the fore forcefully after the First World War, when Germany was burdened with very high contributions to the victorious states, the Entente states, but at the same time it very quickly became apparent that Germany was not in a position to pay these obligations. On the other hand, Great Britain, France went into debt to the United States. Initially, the Western states assumed that they would pay these obligations with German reparations. Germany soon declared bankruptcy, and there were two plans that tried to remedy this, the Charles Dawes Plan in the 1920s, and the Owen Young Plan in the early 1930s. which were to make it easier for Germany to repay these reparations. Very quickly it became apparent that Germany was not going to repay them anyway, or had suspended or refused to repay them at all. And we came to just such a stalemate. Then the Second World War broke out, which "solved" the whole problem. These historical references are extremely important. Besides, there is much to be said for the fact that it is often these economic factors which, if not decisive for the outbreak of wars, are nevertheless important, and are one of the elements when we talk about the causes of wars.

The First World War...

The First World War. Even earlier, I would draw your attention to such a war, quite exotic for us, the so-called saltpeter war. It was a war fought at the turn of the 1870s and 1880s in South America between Chile, Bolivia and Peru over deposits of saltpeter, which was a very important fertiliser used at the time and a very valuable export commodity, so to speak. There was another aspect there too. Sometimes this war is called the war for the Pacific, so it was about gaining access to the Pacific as a result of this war, Chile moved Bolivia away from the Pacific, well, and took over these deposits. As you just mentioned, the First World War, here and France, which wanted to regain Alsace and Lorraine, very important provinces from an economic point of view, in turn Germany, which

entered the First World War with the desire to obtain colonial possessions, because at the moment when the world was divided between the great powers, above all Great Britain, France, but also countries such as Portugal and the Netherlands, which had their possessions, Germany was practically excluded from this division. This is also a very important economic aspect of this war. If we look at the Second World War, well, in addition to all the ideological premises that Hitler was guided by, the economic premises, that is, the seizure of so-called living space, the seizure of rich lands that would provide food for this "master race", or the seizure of industrial plants, modern industrial plants. Poland in particular experienced this when the Germans, at the time when they occupied our country, took away equipment, machinery and destroyed it, but at the same time they were able to exploit such a plant as Huta Stalowa Wola, which was a modern plant that had just been launched and opened. If you have just mentioned the most recent times, Professor, if we are looking at the war in Ukraine which has been going on for two years now, then specialists are also looking at the economic aspect of the Russian aggression against Ukraine. Leaving aside the propaganda aspect raised by Russia, that Ukrainians and Russians are one nation, it is well known that the east of Ukraine in particular is very rich in mineral resources; there is coal, very rich deposits of hard coal, but what is very strongly emphasised is, above all, the so-called rare earth elements, i.e. lithium. It is said to be estimated that a quarter, or even more, of the lithium deposits in Europe are located in Ukraine. Lithium is currently used in a great many branches of production, in the automotive industry, in aviation, in medicine, in electronics. In addition, there are also deposits of titanium, beryllium, very important, such rare metals. What is more, these aspects are also said to have been taken into account precisely when the war started and when the Russians are occupying these areas to this day.

We know that war is evil. This is where there seems to be no doubt, nothing to support. Every war brings with it many dramas, misfortunes, losses, casualties and those long-term effects that you, Professor, also mentioned. But at the same time, we must be aware that war sometimes brings benefits to the economy. Why is this the case?

Well, that is, it benefits some, it does not benefit others. We can talk about such positive sides of war and armed actions. It is that if we look at Nazi Germany, for example, it has been estimated that between 1934 and 1944 Germany's GDP grew at a very fast rate, roughly 4% per year. That is a very high rate. This was linked precisely to the development of the arms industry. Well, because this is the important aspect of warfare, when the allocation of capital is shifted precisely towards the armaments industry and other industries, metallurgy for example, which support the development of the armaments industry. This happens at the same time at the expense of other frontiers of industry, well extremely important to the average citizen, who is somehow disadvantaged then, because their needs are not being met.

The famous slogan 'cannons instead of butter'.

So that's it, so that's it. And now we have precisely the example of Germany, but at the same time, when Germany lost the war, the war was over, it turned out, the GDP flew through the roof, the country was ruined in fact. At the same time, during the Second World War, at the same time American industry was thriving, thriving, because not only that it was an arms industry, but at that time the Americans were meeting the food needs of Europe, or some countries in Europe at least, and so agriculture was growing, the chemical industry was growing, which worked for agriculture, but it also worked for other industries. It developed, because this is another aspect of what we might call the positive effects of war, a number of scientific and research works were carried out, which were to lead to the construction of ever better methods for fighting the enemy, but at the same time, thanks to this, new branches of production were created, laboratories were established, very many scientists and scholars were engaged, who carried out certain activities, supposedly, certainly for the army, for the army, for military purposes, but as a consequence, all these activities also turned out to be useful in civilian life. We have, and this is probably worth mentioning at this point, inventions and achievements of this kind which either already appeared before the Second World War, because the Second

World War in particular is worth noting in this respect, or the Second World War, the war effort, so to speak, forced the search for solutions which were later very useful, useful and used in civilian life, simply for all citizens. We can speak here, for example, of aviation, and so the invention of radar. Today, we cannot imagine air communication or shipping without radar. It was the Second World War that brought this device to near perfection. If we are talking about aviation, the Americans built a pressurised cabin for their B-29 superfortresses so that they could fly at very high altitudes, unaffected by fire, from enemy artillery. Today, we cannot imagine aircraft that fly at altitudes of more than 10,000 metres without such cabins, creating such capabilities. The British built such a system, the OBO, which is a target guidance system for bombers, which was actually the prototype for today's ILS systems that guide aircraft when landing in difficult weather conditions. Jet engine. All today, or most today, or almost all, maybe not all, but nevertheless the vast majority, of passenger aircraft are powered by jet engines. This is also the work of the Second World War, a bit of the British, but especially the Germans, who even introduced the Me 262 jet into the war effort in 1944, but that couldn't decide anything anymore. The rocket industry, also German, from Werner von Braun, creator of the V1 rocket, the V2 above all, the first ballistic missile, then creator of the American space programme, from the first rockets to the American landing on the moon. Nuclear power, yes, built to kill, weapons of mass destruction. We had the examples of the Americans twice living with the atomic bomb in Japan, but on the other hand, for peaceful purposes, the atom was shown to be usable. A number of other examples could be cited here, the plastics industry, the popular polyurethane, is also an invention of the Second World War. Nylon - the Americans, or the Allies in general when landing from Normandy, used parachutes made from nylon, which was advertised as strong as steel and thin as a spider web. Very quickly the clothing industry took an interest, and right after the war, still at the end of the war, women's stockings just happened to be the rage, just made of nylon. The drink Fanta, which people don't even know is so popular today, was also an invention,

a German recipe, or the German branch of Coca-Cola. It turned out that with the outbreak of war all those necessary substances that had been imported there from America simply could not reach them any more, so the Germans invented something like this, which Coca-Cola then took over as its drink. I would, however, like to mention the Poles, who also contributed to some important constructions, some inventions, which had military applications, but were also later used in civilian life. So Jozef Kosacki, who built an excellent apparatus for detecting mines, in fact for detecting metals in the ground. There's a whole story here related to, maybe I won't tell it, why it was Kosacki, a Polish engineer who was in England at the time, who won the competition, if you like, against other designs. His design turned out to be the best design. Here we would also have to mention Henryk Magnuski, who was in the United States when the Second World War broke out. He worked for a company called Motorola in 1947, where he developed and built a portable radio, or what is now known as a walkie-talkie. At that time the Americans had already given such a popular name. So we can say that these are some positive consequences of the Second World War. We also have to look at the development of medicine, and so penicillin, which was also Alexander Fleming discovered the bactericidal effect of penicillin before the outbreak of the Second World War in 1928, but nobody took it seriously yet, they didn't use it then. It was only during the Second World War that the Americans started mass production of this medicine, which saved hundreds, even thousands of lives of American soldiers, or Allied soldiers in general. So these are some such good points, in inverted commas, of the war, had it not been for the war, maybe one day too, of course. But much later. Yes, but it was the technological acceleration that the war forced.

It seems, which doesn't sound very optimistic, that the more terrible the war and the longer it lasted, the greater its impact on technology. The First World War also incredibly accelerated the development of automobiles, for example. Those designs that were very primitive before the war, and then those few

years of fighting, the development of tank production, the development of car production. After the war it was a completely different industry.

The development of aviation, which before the First World War, yes, the Wright brothers made the first such flights, but it was the use of aviation in warfare and the subsequent improvement of these aircraft that led to the development of passenger flights on aircraft in the inter-war period. Also what you mentioned, Professor, the car industry, it too changes its face in the interwar period. And the Second World War was even more terrible, even more horrible, which people didn't foresee, because the First World War was called the Great War and sometimes people talk about it as such, but the Second World War turned out to be even worse for people and with much worse consequences, in the economic sense as well, but also a very important aspect, which is obvious, is the demographic losses that every war brings with it. The First World War, the Second World War. To date, we do not actually know how many people died in the First World War, the Second World War, estimates are given of between 40 and 50 million, but nobody really knows exactly. We suffered huge losses, because these figures are also uncertain, but they are somewhere around those six million. The last counts below these six million, but either way these are terrible numbers. If we are talking about people, war also means not only losses, in the sense of the number of people killed, now not only of those directly involved, in other words I am talking about soldiers and officers, but also civilians who die, many people are crippled, many people suffer, and this is stretched over time, from various types of injury. But it is also, as the Second World War also convinced us, but not only that, because to this day in various places around the world we experience displacement. People are moved from place to place. After the Second World War, it is estimated that some 60 million people were removed from their previous places of residence. And this applies to the Polish population, it applies to the Germans, it also applies to other nationalities. But we also see today, with the wars currently taking place, people are migrating, people are fleeing, people are being forced to change their place of residence. We have conflicts that are hardly spoken

of in the light of day, especially in view of the war in Ukraine or the war in the Middle East, but there are many more of these local conflicts that are also tragedies for people. There is the armed conflict in Sudan, an internal conflict where there is a struggle between various groups for control of the oil fields, and where thousands of people are simply being chased out of their former places of residence.

There, it is difficult to talk about the positive effects of such a war.

Of course it is. Let us look at Syria, we have already got used to it, in fact we no longer know who is fighting who, we hear that Israel sometimes bombs, someone there bombs, they fight each other, but no one realises that Syria, before the outbreak of this whole internal conflict, had a population of around 21 million, at the moment half of this number is left in Syria, that is, the state has lost half of its citizens, of whom around 400 000 people have died. And there are certainly many, many, many more examples of this in the past and simply today. So rebuilding all of this after the war, because it is relatively easy to rebuild industry, although we have all sorts of difficulties here, because the infrastructure is destroyed, the rebuilding of infrastructure also drags on over time, makes it difficult to rebuild businesses. On the other hand, the return of this demographic rate from before the war is generally much more difficult and much more drawn out over time. Germany, for example, lost around 10% of its population during the Second World War. and the return to pre-war status only occurred in the early 1950s, so throughout this time Germany was still facing very serious demographic problems. Again, there are many such difficult aspects here, and let us remember that in fact every such event involves a human tragedy.

Today's wars probably have the same effects, only they are local wars, wars that we sometimes do not even hear about, but we see their effects through, for example, the hundreds of thousands of immigrants who have just had to leave their homes. This is the most visible symbol of these modern wars. Apart from the fact that we can often see them on television or on the Internet. However, wars certainly continue to bring drama and loss, and it is hard to imagine what benefits can be found in

wars such as those in Sudan or Israel at the moment, because here, however, this direct translation, such as Bretton Woods, well, after the Second World War, it was possible to create a modern financial system that secured the functioning of trade for several decades. This exchange could have been expanded and facilitated, whereas today's wars, often local wars, do not have such positive effects.

That is precisely it. I should also like to refer to two aspects of what the Professor said. On the one hand, population pressure, which we are now seeing in connection with the war in Ukraine and which has also been mentioned. It is assumed that Russia together with Ukraine produces roughly 1/4 of the world's wheat. We also remember and experience how great the problems were in connection with the actions of the Russians regarding the export of Ukrainian grain via the Black Sea. I do not know whether the Russian mines on these trade routes and the wheat transit issue have been resolved, but why am I mentioning it? It is because we have been told that a shortage of wheat in precisely those countries in Asia and Africa could lead to an increase in the migratory pressure that Europe is currently absolutely unable to cope with, and a war such as this, which is taking place far from the African continent, could lead to a situation in which this migratory pressure becomes even greater. But still in the context of just these other wars, as we were talking about this Bretton Woods, but the war, the Second World War certainly contributed to the growth of integration processes in Western Europe. This is a very important aspect, such a positive one, let's say. On the one hand, it was a conflict which was devastating for all sides, in fact, because both France and Germany suffered significant losses, of course, and at the same time these countries understood, firstly, that such wars are mutually destructive and lead to nothing, and, secondly, what we were saying about relations with the United States. The First World War, and especially the Second World War, made the United States a real superpower, also in this economic sense. And now Europe has become such a hostage, in the sense of precisely the credit dependence on the United States, and now the policy of some European leaders - but we need to create a strong Europe that can

stand up to the policies of the United States. So that's where the integration drive came from, and that was the creation of the European Coal and Steel Community in 1951, which was kind of the leaven that led to the European Economic Community in 1957, and that eventually led to the European Union under the Maastricht Treaty in 1992. So it is a kind of, well, long-term effect, but nevertheless an effect of this great conflict, which led to so much destruction.

But in conclusion, certainly, despite the awareness that wars bring some technological progress, they can teach lessons, very costly, very brutal, but lessons that led, for example, to European integration, it can be said that economic history rather shows that it is better to avoid wars than to benefit from their sometimes positive effects.

Absolutely. Yes, because certainly perhaps we would have worked longer on certain positive aspects of our lives, or improving our lives, if it wasn't for the war, but the tragedy that is, any tragedy that is associated with any war, you can't compensate for it with anything.

Thank you very much, Professor. Our guest was Professor Piotr Franaszek, historian from the Jagiellonian University.

Thank you very much.

Paweł Grata
Andrzej Pieczewski

WHAT USED TO DRIVE AND WHAT DRIVES THE POLISH ECONOMY TODAY?

PAWEŁ GRATA: Good morning. Welcome to the latest conversation in the series "What does economic history teach us? 12 conversations for difficult times". A talk that is part of a project under the same title, funded by the Ministry of Science and Higher Education's programme The Social Responsibility of Science. Our guest today is Professor Andrzej Pieczewski from the University of Łódź, an economist, with whom we will talk about what drives, what has driven, and what will drive the Polish economy in the past and today. This is another lesson in what economic history teaches us. Professor, how would you, in this short conversation, try to characterise those factors that have been the driving force behind the Polish economy over the centuries and what does it look like today?

ANDRZEJ PIECZEWSKI: Of course. You have given me a very difficult task, Professor, because what has driven and drives the Polish economy, of course, as you mentioned, has a myriad of factors. From typically economic, demand-supply, technological, political, military, climatic even. Not just today. So there is a lot of it. It's a very difficult task. I apologise in advance that I won't be able to cover some things in this short talk. As far as the factors which have driven the Polish economy are concerned, I would also like to point out straight away that this question is tantamount to the question of what has held the Polish economy back, which is why I will,

of course, mention both the brakes and the accelerators in my speech. I do not want to go far, but among such megatrends, which we still have echoes of in our country today, I may surprise you, but the 10th century and the Baptism of Poland and the adoption of Christianity from the West, not from the East, not from Byzantium, not of orthodox Christianity, but of the Western version, set us on a certain path of development for centuries, for centuries. With the adoption of Christianity, we have the reception of feudalism, Western law, customs, and over the following centuries, so somewhere up to the 13th century, tribal structures pass away, are replaced by more modern, then feudal structures. Another such time, a cycle that stands out in Poland's economic history, was the 14th to 15th century, when we import people, colonists from Western Europe, from Saxony, but not only, from the Netherlands. It also imported western institutions and laws, and Poland became permanently associated with western culture, western material culture, farming methods and certain economic structures, still feudal at that time, of course.

But modern for the time.

But modern for the time, of course. This importation of both people and institutions from the West was so effective, so good; I would still mention the 14th century, of course, Western Europe plunged by the plague, pogroms against the Jews, our kings accepting the Jewish community, it was also an importation of human capital. It was good enough for the times that in the next century and the century after, Poland flourished, becoming a military and political power at the edge of Western European civilisation. In the 14th and 15th centuries, however, certain things began to happen in Polish politics which, in turn, changed the course of Polish development a little, not even a little – I use the euphemism here – radically. Namely, if in previous centuries we had been developing in the same direction as Western Europe, then from the 15th century onwards, this direction started to be slightly different, the opposite. Namely, the changes started in politics, and this is what shows how important politics is for the economy. It started with the fact that our King Louis of Hungary, and we were then a hereditary monarchy, had no male descendant and asked our nobility for his daugh-

ter to inherit the throne. The nobility agreed in exchange for privileges, the then famous Kosice Privilege, exempting the nobility from a large part of taxes. Then his daughter Jadwiga married Jagiello, the prince, becoming king of Poland and bestowed further privileges on the nobility. The nobility grew in political power. Soon Poland became an electoral monarchy and the nobility were already electing kings themselves. The nobility monopolises power. The nobility subjugates all other layers, especially the peasants, but also the bourgeoisie, the cities lose their independence. The nobility, to reiterate, has a monopoly on political power and, with this monopoly, begins changes in the countryside, increases serfdom, reduces the freedom of the peasantry. This is the 16th century, it coincides with the demand for Polish grain. In the West there is this demand impulse, the nobility exports grain, gets rich, uses cheap, I should say, almost slave labour in the form of peasants. And what is happening is that the West is already moving towards defeudalisation, a commodity-money economy, commercial capitalism, while Eastern Europe and the Commonwealth is moving towards refeudalisation, deepening feudal relations. Money is not as important in circulation as in the West. We are moving more towards a natural economy. These phenomena set Poland on a trajectory of apparent development and, in fact, already a certain economic decline and, finally, in the 18th century, political decline, in the form of the partitions. While partitioners ruled our territories, modernity comes in.

The only question is, where does it come from?

This is debatable. Generally in the public space there is such a view that our backwardness is due to the fact that we were under partition and it was the partitioners who counteracted this, stopped this progress. This is debatable because the Polish nobility, the politically ruling class, was very conservative and didn't want to leave their privileges, to give them away. But in the 19th century we finally have the personal freedom of the peasants and we have the enfranchisement of the peasants, that is, the granting of land to the peasants, that is, to the rightful owners, and we have the beginnings of capitalism. I have to add that as far as Europe is concerned, this process, well, the territories here, the Polish lands were among the last to have just done, on which they did, enfranchisement. So we entered this capitalist world as one of the last.

But we have the example of your home town of Lodz.

Yes, yes. Of course, industry also developed during the Partitions, and quite vigorously. Each partition had its own specifics. In the Prussian partition, of course, Silesian industry, mining and metallurgy should be singled out, in Poznań the machine industry, well, or, as you mentioned, the creation of Łódź, the great factory city, or the Łódź District with its satellite cities. The great textile industrial district, which was the largest centre of textile production in the lands of the tsarist empire. So the driving force in the 19th century was undoubtedly institutional change. The enfranchisement of the peasants, the granting of freedom, and the beginnings of capitalism. The deconstruction of the feudal system, that was the biggest driver, plus, of course, as far as the Russian partition was concerned, the opening up of the great Russian market for a time. Each of our partitioned districts had access to the greater partitioned market.

At the beginning of the 20th century, Poland regains its independence. Finally, we cannot complain that we are being held back by the partitioners. But. There are many buts.

Yes. It is very difficult to assess the Second Republic, because certainly great respect for the enormous effort, managed to create the state from the beginning, to merge, to unify the law, the currency. It is a very difficult interwar period. The very beginning is the Polish-Bolshevik war.

First World War losses.

Yes, huge.

Dismantling, robbery.

Yes, we were not lucky. The First World War, the main eastern front passed through our land, so huge losses, and immediately after independence, the Polish-Bolshevik war, then the Silesian uprisings, then the suppression of the great inflation. And then a few years of peace and then came the Great Economic Crisis, the greatest catastrophe of the capitalist economy in history, which affected our country greatly. As far as successes go, and are there

still brakes, as a brake I think that the failure to fully implement land reform held our country back, because we were an agricultural country. More than 70% of the people lived in the countryside, lived off agriculture. Agriculture was the main contributor to national income, over 50%. Agriculture, our countryside was overcrowded, poor, unemployment prevailed, it is estimated that 4 million people were simply unemployed in the countryside. And next to it lay the land of the estates, the former estates of the nobility. On the other hand, what happened? Well, unfortunately, the May Coup, which curtailed democracy in Poland, in 1926 made the landed gentry lobby politically strong enough to be able to stop agrarian reform, land reform. Because of this, the Polish countryside continued to lie dormant. Undoubtedly, one of the successes was that which stimulated the economy, namely the construction of the Central Industrial District, such typical Keynesian anti-crisis investments. The construction of Gdynia is something we are all familiar with. But here again, politics played a role in the economic fortunes of our country. The Second World War, huge losses in human capital, huge losses in material capital, and immediately after the war we came out with changed borders and the Soviets funded us with a political, economic and social experiment in the form of real so-called socialism. What was driving the economy and what was holding it back during the PRL. The People's Republic of Poland was a bizarre creation, after the fashion of Marx's ideas and basically the practice of Lenin and Stalin. The creation of a completely different, different system from the market economy. Initially, this system carried out land reform, it did what had not been done in the inter-war period, namely it abolished illiteracy in Poland. The Soviet model, on the other hand, only made the economy grow in the short term. In fact, we are talking about the first few years after the war, or the first decade roughly, although this is also overstated. Then, unfortunately, the Soviet model led to stagnation, it was inefficient, it had all the sins of the socialist economy - labour intensity, energy intensity and, just as we say about a market economy, in a capitalist economy we have the invisible hand of the market, which perfectly matches demand to supply.

It pools resources with each other, entrepreneurs, capital and so on.

It was under socialism that we had the invisible hand of socialism, which was able to destroy everything. This period is judged by economic historians as, despite its initial development and those successes in the fight against illiteracy, it did not push Poland forward. This was evident after the systemic transformation, when our industry, which came out of the incubator, turned out to be socialist. that it was very outdated compared to what was already happening in the world.

Then comes the transformation - back to the free market and again, what inhibits and what supports. Will we move again to institutions?

Yes, undoubtedly. And not because I deal with institutional economics in general. Poland in the course of the second half of the 20th century underwent two radical systemic transformations. Turning everything upside down, just as communism abolished the market and introduced socialist orders, the transformation of the 1990s very quickly overturned socialist orders and restored to Poland a capitalism, based on private property and based on personal freedom, that was culturally closer to us. The reception of communism in Poland did not go so well; even Joseph Stalin said that teaching communism to Poles was like saddling a cow. It is very difficult. The second transition to the market, to freedom, to a democratic political system. It was very painful. The author, as we know, was Professor Leszek Balcerowicz, and the transformation itself was called, because of the speed and radicalism with which it was introduced, shock therapy. Quite painful. On the other hand, after the shock of the transformation and the transformation crisis, our production and GDP growth rates were only going up, and now we are talking about an economic miracle of our country, a precedent I cannot even find in the past or in the more recent history of Poland, a precedent of what is happening now. That we have been able in a short period of time, 30 years, to come very close to Western countries in terms of income levels, modernity.

I would like to hazard a guess at this point, Professor, that the current situation, bearing in mind all the differences, including those resulting from chronology, is very similar to what

you mentioned earlier. This 14th-15th century, when modern Western feudalism is adopted by Poland and it also makes up for these earlier laggards, because there is the plague, there is the crisis of the 14th century. It looks a bit like a similar situation, that again there are factors that support us and again we are on this western side of civilisation. Eastern customs have once again been rejected, Eastern institutions. And then there is another factor - European integration.

Yes, of course. You, Professor, made a great analogy to this very 14th century. Well, of course, there would not have been such a success without Poland's integration into the European Union. During the period of transformation, and it should be stressed that Polish society and politicians were unanimous, whatever option someone represented, an ordinary citizen or a politician, they agreed on one thing. We are going West, we are integrating with the West, we have to enter NATO, we have to enter the European structure. This allowed us to act quite unanimously in this direction. As you know, where there are five Poles, there are six. But in this case, where there were five Poles, there was one sentence, the direction was towards the West. The EU accession process not only gave us some funds for modernisation, of course, but forced our country to import modern institutions from the European Union, modern laws at every level. This made our country modernise all the time and it is modernising all the time. After joining the Union, of course, we were given access to huge funds, to the Cohesion Fund, which we used to the full. This allowed us to modernise our infrastructure, almost every area of life. We got access to the huge market of the European Union, our credibility as a country on the international arena definitely increased. This has attracted investment from multinational corporations, carriers of modern organisation and technology, and thanks to this our country has modernised and achieved great success over the last 30 years, and we are catching up with the core of the richest countries in Europe, so to speak. Of course, it will still take time, but even so, the leap is already incredible and our country is said to be the leader of economic development in the region.

This sounds very good and optimistic, but are there really no brakes, no factors that could disrupt this process?

Of course they are. Generally speaking, it is a very good thing that we are on this side of a wall, I do not want to say a wall, but I think the current geopolitical situation allows me to say that. We find ourselves among countries that are civilisationally closer to us, among countries that are one of the centres of world civilisation. Whether there are threat brakes, such as Moscow's activities. There are also internal, purely economic or demographic ones. Our society is ageing, these gaps in the workforce will have to be filled in some way. The quality of public services in Poland has a low level compared to Western countries. So there is much to be done. Above all, I will again stress the importance of politics. While we talk about the Polish economy as a great success, Polish politics is, or Polish democracy in institutional rankings is described as a flawed democracy. Our political world is not yet of the quality it should be. Here, too, I see some...

Let me interject a question. Is it possible to put forward the thesis that the economic success, the transformational success has taken place in spite of the fact that this world of politics is what it is?

Generally, the starting point of my reflections is such a mature Western democracy. We are far from that. However, the level we are at is not bad either, it is not tragic. Absolutely. However, the political culture of our world, of politicians, but also of Polish citizens, is not so high. We are not yet a high-level civil society. A lot of Poles do not vote, a lot of Poles think that someone decides for them anyway. These are habits from the previous system or even from previous eras. However, this is not behaviour worthy of a citizen. Let us also take an interest in politics, let us certainly vote if there are elections, and let us express our feelings and dissatisfaction. Let us create a civil society. This will certainly have a good effect on the economy in the long term. This was the subject of the recent Nobel Prize in Economics, which was awarded to three professors from the United States who had just studied the impact of the political world on long-term economic development.

It can therefore be summarised that this potential is high, because some success has already been achieved, and we still have large reserves in the sphere of institutions. If these reserves are

utilised, although it seems, one can see, that it is however easier to change the economy than the human mentality, which is understandable, then indeed these drivers will become stronger and stronger. Can we sum up like this?

Of course, I will only add if I may, that the longer we are in this western circle, that is to say in practice in the European Union, the more deeply we will modernise. Not only in such hard, so to speak, economic and political aspects, but there will also be a modernisation of mentality. we will become more westernized. It can be seen from the youngest generation that these changes, these 30 years of freedom, independence, democracy have done good.

These will be further factors that drive the Polish economy. This is what we have to count on and I think we will end with this conclusion. Thank you very much Professor. My guest was Professor Andrzej Pieczewski, an economist from the University of Łódź. Thank you very much once again.

Thank you.

Paweł Grata
Andrzej Pieczewski

MONOPOLIES IN THE ECONOMY

PAWEŁ GRATA: Good afternoon, welcome to another conversation in the series "What does economic history teach us? 12 Conversations for difficult times", which is the result of a project funded by the Ministry of Science and Higher Education as part of The Social Responsibility of Science programme. The project is being carried out by the Department of Economic and Social History of the Institute of History at the University of Rzeszów. Our guest today is Professor Andrzej Pieczewski from the University of Łódź, with whom we will be discussing monopolies in the economy. In accordance with the assumptions of our project and our conversations, we want to present various important processes of economic phenomena from the perspective of history, from the experience of economic history, but at the same time we want to show how these experiences influence our contemporary economic reality and how they can influence the future. With the Professor, we are going to talk about monopolies, a phenomenon that is quite strange in a market economy, because it arose in the liberal economy and at the same time it harms the free market. What is a monopoly, Professor?

ANDRZEJ PIECZEWSKI: In the simplest terms, a monopoly is a situation in which we have one supplier on the market. This is such a model definition. In practice, we speak of a monopoly if a company holds the majority of the market. There are two concepts associated with monopoly. Barriers to entry and product differentiation. Barriers to entry are all factors that make it difficult for the dominant

firm's competitors to enter a given industry. This is because, among other things, the products are heterogeneous, differentiated, and the company producing them is then more likely to be able to set prices. Perhaps I should immediately contrast this notion of monopoly with that of competition. In fact, in economic theory we have this notion of perfect competition. This is, of course, an imaginary situation where we have an infinite number of suppliers, producers, and an infinite number of customers, consumers, in the market. The price is then set by the market, there are no brands, products do not stand out, they are homogeneous. Then, as I said, the price is the result of the game of supply and demand and neither of the parties, neither producers nor consumers, have the possibility of regulating it, imposing it, etc. This is, of course, a model situation, the reality is a little different, there are not an infinite number of producers, we have brands of different products, and of course we have a situation, and the modern market is an example of this, where in many, many industries certain producers dominate.

When did monopolies emerge in the economy? In this sense, of course, of the term.

Yes, because we can go back to the Middle Ages and say that, for example, merchants' guilds or artisans' guilds in cities were such price-setting monopolies. However, when it comes to the modern, more capitalist economy, monopolies emerged in the last quarter of the 19th century. Until then, we have been talking about a free-competitive economy, where we have a very large number of producers and, as Professor Warmus pointed out at the beginning, paradoxically, within this free market, certain processes have led to the emergence, or are emerging, of leaders in specific industries who dominate a given industry, a given market, and are beginning to control that market. By this I mean simply imposing a price. Because, I might add, in this situation of free competition, both the company and the consumer are price-takers. The price is determined by the play of supply and demand. In a monopolised market, it is the enterprise that dictates the price, it is the price-maker. And then, of course, it can do more. Usually, it raises the price, it lowers production, it is at that point, in that situation, a natural practice, and it

gains so-called monopoly profits. What loses out is the consumer, that is, us, because we pay much more for the product than we would if the industry from which the product comes operated in a competitive market, without leaders, without dominant companies.

You said that monopolies emerged in the late 19th century. How did this happen? How did this happen?

I am already explaining. Let me give you an example. Imagine a country the size of Poland. We have, let us say, 100 shoe manufacturers. It is the 19th century. Small, medium-sized factories. The price is then given by the market. Companies compete with each other, they compete on price. There is pressure to reduce costs, to lower the price, to win customers. It is a murderous battle in the market. In the process, some companies collapse, stronger ones take them over and they become bigger and bigger, until time passes and the same country, in 30 years' time, which is the end of the 19th century, has five shoe manufacturers. And let's assume that they continue to fight, to wage price wars with each other, until finally they come up with the brilliant idea that it's better to get along, to put it very colloquially. And we are dealing with price-first agreements. Such a first-price agreement is the cartel, where the lowest selling price was set, that is, already this price was imposed on the consumer, on the market, then how cooperation

And we add that the participants... They declare to each other that they will not sell shoes cheaply.

Yes, that is the basis of this price collusion, that below this price none of these producers would go. If the cooperation went well, no one left the cartel, the cartel worked, it was profitable for everyone, I mean the producers, not the consumers of course. Monopolisation went further, namely the establishment of a syndicate, i.e. already a joint sales office, the sharing of markets, or even in terms of capital, these enterprises exchanged, bought shares in each other, slowly becoming one enterprise. Then we have trusts, where enterprises are more closely linked, then holding companies, where there is already an owner, right?

Common owner for all businesses.

Well, and finally we have the conglomerate, where it is already definitely one big company, one owner, although the individual companies may have a separate legal personality.

They may have different names, but....

Yes. And it was this process, one might say paradoxically, and I am not confusing terms here, of the market, i.e. of competitive struggle, which leads to the strongest winning and the strongest growing stronger, that led, in the last quarter of the 19th century, to free-competitive capitalism shifting seamlessly into monopolistic capitalism.

Where did this process develop on the largest scale? In which areas?

This process obviously developed where capitalism developed, namely Western Europe and the United States of America. Such a very popular example is David Rockefeller's company, the Standard Oil Company, a company that extracted and traded, distributed oil. Rockefeller gradually bought up such similar companies until he came to rule over 90% of the oil market in the United States.

And the process of monopolisation, which has been going on for several decades, is indeed beginning to threaten the free market. Because if there are more and more of these monopolies and cartels, here one could mention the German example in Europe. United Germany is a state of cartels that monopolise more and more markets. What happens next? It is easy to imagine that this process could lead to the total elimination of the market.

Yes. And this process was noticed, of course, not only by consumers and by the fact that they have to pay more for products that, as I said, would be much cheaper if they came from the free market. This was noticed by economists and already from the end of the 19th century antitrust laws were introduced. The state felt the need to interfere in what these huge enterprises were doing, to control them, to control the prices of their products, to control whether

they were ripping off customers too much, to control the mergers of enterprises, so that there would not be these giants, because they really do have enormous economic power and influence politics very much. As you mentioned, Professor, Germany just at the time when Hitler was coming to power and then these links of power and politics and business of this big monopoly were close. This is why the state and economists are well aware of this, and so-called anti-monopoly laws were introduced from the end of the 19th century, first in the United States and then in other Western countries, in order to protect these monopolistic practices, to protect consumers and to protect the free market. After all, we all know that the free market has extremely good properties for the economy. The first antitrust law, such is the most popular Sherman Act of 1890, was of course the United States. Today, every western country has a suite of antitrust laws. In Poland, there is now the Competition and Consumer Protection Act of 2007 and we have an antitrust office so-called UOKiK, the Office of Competition and Consumer Protection.

The state of affairs today is quite stable in this respect, because we also have European regulations, and national regulations must be consistent with them. However, I would like to ask a question: the Sherman Act and other legislative acts of the late 19th and early 20th centuries, were they effective?

Certainly, Professor, they did not restore the free competition of the mid-19th century. There has been no return to that and there probably won't be. At present, markets are highly monopolised, or strictly speaking polyopolised, as a situation of pure monopoly is rare. On the other hand, it is very often the case that a given industry or market is dominated by several companies, and this is the case in almost every area of the market.

And this process also started a long time ago, because this is the turn of the 19th-20th century, when the big corporations are even dividing the world markets among themselves.

Of course, of course. I was talking, perhaps I will allude, I was talking about the disadvantages of monopolies from the point of view of the consumer, that is, we pay more for these products.

Monopolies, on the other hand, have one advantage. Because of the huge concentration of capital, it is within them, within these companies, that technological progress is now taking place. That is to say, technology, high technology, will and does and will probably be associated precisely with big capital, with oligopolistic markets, big enterprises.

Because research requires a lot of resources.

Yes.

Again, we are going back to 19th century Germany, where the great emerging German corporations of the time, or German cartels, were setting up large laboratories. Germany is where serious research began at the interface between business and politics and science. R&D is a German invention I think and the invention of monopolies.

I would say yes, spontaneous American, and such a slightly under-control German, as German tradition dictates and has dictated.

In the 20th century, in addition to the monopolies of these private monopolies, state monopolies have played a large role at certain times. Where did this come from? We still have a market economy.

Of course. Yes, yes. In terms of types of monopolies in general, we have focused on those monopolies that arise naturally in the bosom of the market economy, but there are also natural monopolies, for example, the water utility in a city. These are areas where it is naturally better for everyone if one company serves a particular industry, a particular service. There are state monopolies, as you mentioned. In this case, the state, for some reason, either to ensure its treasury revenues or to control strategic areas of the economy, decides to monopolise this area in the form of either nationalising this or those enterprises to its full control, managing them, or simply giving a monopoly to some enterprises for some production or service. Here a great example is interwar Poland, where the State Treasury, in order to ensure itself some income, already in 1919 established

a spirits monopoly, then a tobacco monopoly, a lottery monopoly, there were a lot of these monopolies, a match-making monopoly.

The salt monopoly as well. And here it is also worth mentioning that this involvement of the state in the monopolisation of the market was partly the result of the war economy, because we have the First World War, where the state tries to concentrate its activities for war-making purposes, and we have the Second World War, where it looks very similar. An example of yet another monopoly. Well, we will come back to those monopolies which are the result of the free market, but we have, after all, the states of the real socialist economy. Here, too, monopoly seems to have become something natural.

Yes, yes. Here the monopoly on the management of the economy, to say the least, was taken over by the state. The state gave up altogether, the socialist state acting in accordance with Marxist doctrine, which considered the market to be evil, great, the market was eliminated, or attempts were made to eliminate it completely, and the monopoly on the management of the economy was taken over by the state, through central planning, through price and wage regulation. By the fact that industry was nationalised, that is, the state became the owner of the means of production, fortunately it was not possible to collectivise agriculture, but only in Poland, we were an exceptional country.

And it's interesting too, because on the one hand the market was being rejected, while on the other the state was creating monopolies virtually the same as in the market.

Yes, yes. This is astonishing. I'll even go back even further, as far as socialism is concerned, to the Soviet Union, that the Soviet enterprises that Lenin and then Stalin built were copying American mass production, that is, these big socialist combines here were modelled precisely on American corporations, that is, concentration of production, mechanisation, automation, assembly lines.

But also a barrier to entry into the market. No one could enter this market because the state decided what we would produce,

where we would produce and what the market allocation would be.

And for whom, yes.

And for whom, in other words, it is full monopolisation. But let's go back to the market economy, which is closer to us and in which we live. You mentioned, you signalled, perhaps in this way, these differences between the monopoly of the 19th century, or the beginning of the 20th century, and the monopoly of today. Maybe let's elaborate on that. How these modern monopolies function, bearing in mind that there is a law on monopoly salts.

Above all, those 19th century and 19th century monopolies, I should say, were still learning. We are now at the stage of a mature oligopolistic economy. The concentration of capital in these enterprises is even greater than in the 19th century. We may not even realise it, but we really have different companies with different legal personalities in different fields, industries. To the consumer it may seem that they are competitors, and sometimes they belong to one owner, and the competition is apparent. Suffice it to say an example from our country 90-plus percent of the market for a beverage like beer belongs to three concerns. 90%, more than 90%. But it is the same in other food markets too. I do not mention the markets for advanced electronics. These are very polygopolised markets. For example, processor manufacturers - basically two or three companies count. Intel makes processors, AMD makes processors. This is the majority of the market worldwide. Processors for small devices, which is our smartphones, it's Samsung basically. Cars. We have a lot of brands, concerns several. Also this concentration of production, the oligopolisation of the market is huge.

And here it is also worth mentioning that it is often a long process, because while processors, well that's maybe a shorter history, whereas the car market, here we have a famous German concern that has many different national brands, so to speak, but they have also existed for a very long time. Yes, yes, yes. And here the question also arises, what next? Because despite

the fact that we have regulations, despite the fact that if Orlen takes on PGNiG, well, there has to be the consent of the relevant national and European instances, but it takes them on anyway, well, possibly it will sell a few hundred stations to someone else, still this process is progressing. We are increasingly talking about the fact that large concerns, large oligopolies are more powerful than some countries.

Yes.

They have extraordinary political influence. What will happen next, Professor?

Of course. You raised the very important issue of this political power, literally political power, of corporations, of the possibility of influencing politics that they have thanks, of course, to the enormous money, the enormous capital that they have. I do not want to make any predictions here, but I will say this: the future, the development today is, of course, linked to high technology, to advanced technology. These, in turn, are correlated with enormous capital, so here we probably cannot avoid the concentration of production, the concentration of capital. It is precisely these regulations that will be important, simply to somehow curb their power, not only economic power, but the power they have, the influence they have on the world of politics.

Because it can look a bit, and not just look probably, that these regulations, the institutions that act on this anti-monopoly, are really just powdering reality a bit. Whereas the real impact is little on what happens.

Yes, it will certainly be difficult to oppose this phenomenon. Of course regulations are needed here, first tested in countries that are also the most advanced in terms of civilisation, but we will certainly not go back to that idyllic, typically free-competitive capitalism of the 19th century.

In which it was the consumer who decided, whether or not to buy certain products. We talk about the media as the fourth power. Are monopolies the fifth power?

I don't think it is loud about this power, but it has a significant impact on what is happening in the world.

Especially as this concentration is also very high in the media world. Thus, when analysing the emergence and further fate of monopolies, we come to rather pessimistic conclusions, Professor. Or do you see it differently?

Let me not judge. Well, it's just... It simply is what it is. Governments have to and we consumers have to monitor the situation because, on the one hand, of course oligopolistic markets are not good for us consumers, definitely. On the other hand, as I think I have said twice here, technological progress is taking place precisely within these large corporations. They have the money for research and development. So, without them, this progress would not be what it is now.

In summary, then, one could say that the price of progress, the price of the fact that we are living better and better, that we are living more and more modern lives, that we have access to more and more sophisticated technology, is further monopolisation.

Yes, yes. Even in the age of digitalisation, in the age of the Internet, in the age of big data and artificial intelligence, these areas of monopoly may even move, so to speak, into the realm of the Internet. Anyway, we already have this situation. Facebook, Instagram, etc. Platforms that will be used by hundreds of millions of people around the world. These platforms are able to collect a lot of data about users. This in turn allows for certain predictions of consumer behaviour. So that we are increasingly no longer choosing as consumers.

Are we being led?

Or perhaps such conspiracy theories I wouldn't spin here until. But of course, these big corporations have an influence in creating our tastes or needs.

Later on, we ourselves no longer know whether these are our decisions or suggested. Thank you, Professor, for talking to us about monopolies. Maybe we will meet in a few decades and talk again

Paweł Grata
Sławomir Kamosiński

WHAT IS A BRAND IN THE ECONOMY AND WHAT ROLE DOES IT PLAY?

PAWEŁ GRATA: Pawel Grata: Good morning, welcome to another podcast in the series "What does economic history teach us? 12 conversations for difficult times". This is a podcast produced as part of a project by the Ministry of Science and Higher Education as part of The Social Responsibility of Science programme, authored and directed by Dr Jarosław Kinal of the University of Rzeszów. My guest today is Professor Sławomir Kamosiński, the Head of the Department of Economics at the Kazimierz Wielki University in Bydgoszcz, an economist, economic historian and a man with extremely broad scientific interests, who will talk to us about what a brand is in the economy and what role it plays. Professor, the concept of a brand is very well known, popular, often mentioned in many contexts. But not everyone fully understands what it consists of. What does a brand mean to you, to the economy?

SŁAWOMIR KAMOSIŃSKI: A brand is a concept, as you were kind enough to mention, that is widely used. *We have* practically *branded* the world today and in fact we can say that everything has become a brand. But in fact, when we look at what a brand is, I would like to quote a definition by Professor Philip Kotler, who pointed out that a brand is the positioning of a product, or the producer himself, where he would like it to be in our consciousness, in our mind. That is, our brain is supposed to work like a browser, a typical computer browser. And this is how we position certain

products, certain brands that we deal with on a daily basis. It should also be noted that we very often instinctively reach for a particular brand, either on the basis of past experience or the opinion of someone who has used that brand before. Some experts on the subject emphasise that a brand positions itself by having a logo that is clear to us, easy to remember. Some brands position themselves in our mind by the fact that they use slogans, some kind of advertising text, which quickly sinks into our ears and thanks to this, we are able to grasp the essence, which is the most important demand-side element for us, on the demand side, which is the most important for the customer at any given moment. So, to sum up, branding today, for the customer today, is a very broad issue, an issue that is based, as I mentioned here, from graphics to linguistic communication, to lexical communication, with an emphasis on positioning, positioning in our mind.

If I have understood correctly, Professor, this concept can be perceived somewhat pejoratively. I associate positioning with the manipulation of our perception of a product by means of a brand.

Of course, after all, the whole way of advertising, marketing has been built on manipulating our consciousness, our feelings and building up this hunger for demand. After all, if it wasn't for the risk that the producer who makes certain products takes, there would be no marketing, because after all, it is the producer who shouts that they have a product, informs us about that product, and we as customers take the risk of buying. We reduce or minimise the risk by the fact that we recognise the producer, he becomes an acquaintance, a friend to us, whose products, whose services we use. Hence this manipulation of our consciousness.

But, on the other hand, a friend, a partner, someone who wants to sell us a good product, who wants to give us the satisfaction of our needs, that is, we can also perceive this notion of brand in a very positive way. Because a brand as such is always perceived positively in society, I think.

A brand in society is also perceived positively for the reason that it very often increases our social prestige. We belong to a certain group using certain, as we say, branded products. This makes us

stand out. It makes us part of a certain community. And we also have this encoded sense of belonging to a certain flock, to a certain group. Hence this branding of the world we are dealing with. We must also remember that a brand is not only a manufacturer and a physical product, but a brand is also a person, a political brand, a country's brand, a city's brand, and thus *the* branded world in which we live.

We will come to what types of brands we can distinguish in a moment, but still finishing this introductory stage of our conversation - brand, brand name, trademark. Are all these terms synonymous? Or are they different?

A trademark is a registered element that a manufacturer uses to mark its products. Very often, this trademark becomes the logo that we then see on the products we buy in a shop or when using a particular type of service. However, we must remember, Filip Kotler also mentions this, that if we want to decompose a brand into its first parts, we should note that next to the logo mentioned, we have music, we have words, we have colours. All these elements build us a brand. We associate colour either with warmth or with coolness, depending on what kind of product or service we are dealing with and what the manufacturer wants to convey to us through its brand, what values it wants to indicate to us through the product's functional elements.

The leitmotif of our meetings is to try to answer the question of what economic history teaches us. That is why I have to reach back into the past and ask when brands emerged, when they took on this image of today, an image that aims to create a product positioned in our minds. Since when can we talk about such modern, contemporary brands?

Certainly, we can speak of modern, contemporary brands with the birth of the industrial age, but if we were to go back in history, let us note, for example, whether Wieliczka salt or Wieliczka was not a specific brand at the time when this salt was used to preserve food. People associated Wieliczka with preserving food for a longer period of time. This industrial era, the kind of symbol that shows us how this brand develops, is certainly Henry Ford and the activities of

this so-called 1.0 marketing that Kotler talks about, that the product is the focus, this product we want to sell. It was Henry Ford who said that anyone can dream of a car in any colour. The important thing was that it should be black, so the importance of the product here was exposed.

Because black was the Ford car.

Because black was the Ford car and only that. On the other hand, let us note that this need to sign, to mark products was already present in what was certainly a pre-industrial era, because it was also the English who proposed *made in, made* in, in order to distinguish one manufacturer's product is from one country and another manufacturer's from another country. So in that way, these brands, this idea of brands, of branding, of differentiating from other manufacturers, has actually always existed. And in the industrial age, when we have mass production, it becomes this process of marketing, of promotion clearly intensified, reinforced.

And here it should probably be mentioned that the development of marketing itself, i.e. promotional activities, has also had a great impact on the very meaning of the brand.

Exactly yes, this idea of promotional activities. Let us note that, after all, this idea of promoting products, promoting certain localities, promoting services, does not originate only from the industrial era, but we go back to earlier eras, when people used to reach for węgrzyn. The Wierzynek krakowski brand itself, also dating back to the time of Casimir the Great, so we can clearly see that something associated with a certain luxury was called something else, named after a place, and this is how these first brands were built. Further on, it is also worth noting that, however, the craftsmen in the cities, in these towns, let's note that they also, in a way, positioned themselves. We had a Carpenter's Street, a Butcher's Street, a Tailor's Street in the cities and there we could find, due to the fact that there were no city plans, specialists in a particular segment of craft production, so there we already met certain brands. This brand of shouting, some researchers emphasise that the first propaganda is precisely a shout derived from fear, I want to sell this,

I have taken a risk, so I take a shout, I want to inform customers that there is my product, worthy of interest, worthy of selling. Let's pay attention to today's behaviour, if only at vegetable markets. How the price changes over the course of the day, and how the sellers begin to encourage us to buy a particular product. This simplest marketing, the marketing of words, the marketing of persuasion, is constantly present there. Such a documented, or the first brand we can speak of, for example the brand of the plant that makes bells – Felczyńscy. A great tradition here in southern Poland. This plant still exists today. This is also an indication of how this brand has managed to survive from the early 19th century to the present day.

Here we can say that those early brands, those brands that were created even in the Middle Ages - we can probably cite examples from antiquity, for example Xenophon wrote about the need to promote and build inns to attract tourists to Athens and so on - were created more spontaneously. On the other hand, it is possible to conclude that in the industrial period, in the period of mass production, we are already dealing with deliberate activity to promote a brand.

First of all, when we are dealing with mass production, we already have to undertake market research, to find a way to get customers. And this is the most important element. And now the easiest way to reach the customer is through persuasion, through words, but also through images. The image, as we are visual learners, clearly enters our consciousness and builds up a certain prestige for the product, the manufacturer. It is also important what values, what features distinguished a given producer on the market from another producer, because this was decisive for whether a customer took the risk of voting for a given product or rejected it, so such conscious promotion is certainly connected with this industrial era, this 19th century, the second half of the 19th century and the entire 20th century, and we can also see this effect now.

And also with risk. Because if we are talking about crafts, craftsmen had a limited market for which they supplied a limited amount of goods, whereas mass production is a risk asso-

ciated with the possibility of selling this production, hence this type of activity. Tell me more, what impact do brands have on the development, growth, expansion of the national economy, that is, the sum of brands present in an economy, how does it relate to the development of the economy?

Surely brands have a huge impact on the development of the economy, on GDP growth, on sales growth, and also on how we perceive a country in the arena of global consumption. This is related to the fact that brands, firstly, give prestige, secondly, they make it possible in some way, even to use the word stereotypically, to classify a given country as a specialist in some kind of production, some kind of services. For we have countries which specialise in tourist services and we have countries which are famous for producing excellent machinery, excellent equipment. Further, ladies and gentlemen, brands also have the ability to penetrate our consciousness and become part of our language. Very often we hear that someone is reaching for Bosch. And we wonder whether he or she will reach for a drill or reach for some other appliance from a particular company. One brand just needs to use the simple slogan DAS Auto and we immediately associate it with the brand of a particular car. So these brands have a huge impact on economic growth, on export growth, they allow a country to specialise, this export specialisation, and they also give this opportunity to gain loyal customers, and there is nothing more important for a manufacturer, for the one who organises the promotion of a brand, than to gain loyal, faithful customers who often become brand ambassadors.

In referring to this relationship between brands, brands, and the national economy, and the economy of a country, it would also be interesting to consider this relationship, which came before, the egg or the chicken?, i.e. whether there are good brands first, or whether there is a strong economy first.

Certainly, strong brands build a strong economy. First there has to be a manufacturer, one who takes a risk, offers something and if the product works, becomes a branded product, in inverted commas, then it is one of the links driving the economy. In other words, first there is the manufacturer and its brand, and then there is the economic growth

we see precisely because the manufacturer has successfully acquired customers and a certain market segment and is able to expand this market segment to other countries, for example.

This is a very important conundrum in view of what we are talking about, that it is brands that build the power of an economy. Here we can probably give the example of whether Japan or later South Korea.

But also, if we go back earlier in history, just look at Champagne. Champagne – France – an agricultural area that we associate with a certain refined consumption. And it also raises the economic importance of the region and the importance of the country, positioning it as one that produces good wines, good spirits. If we look at the car market, or the market for electronic products, certainly in the 20th century, the second half of the 20th century, Japan, which builds its prestige on brands, or the German market for cars and technical equipment in general. These are the elements we should pay attention to when we talk about brands and the strength of a country's economy.

But are brands alone, or are brands alone enough to build a country's economic strength?

Well, this is a very complicated element, because it seems to me that every consumer builds up a certain stereotypical image of a country in their consciousness. And now it is very often the case that we associate the origin of a product with a particular country. And if we have positive associations with a certain country, which is famous for producing good machines, good appliances, good cars, then, using the reinforced message of other people, so-called friends, we are able to direct our choice precisely to the brands of a certain country. So that is the characteristic thing. The good image of a certain country, considered as a country of beauty, a country of cosmetics, a country of good agricultural products, good cars, good tourist services, makes all the brands that this country offers become desirable on the free market by customers.

A kind of feedback loop. When this strength of an economy is built by strong brands, then any new brand that emerges within that economy can be considered *a priori* by consumers as credible.

Above all, yes, for being reliable, for being trustworthy, for having a certain solidity behind it, brought about by the stereotypical perception of a given country, of a given manufacturer. After all, we have reliability, right? We have solidity, honesty, reliability, ecology today, right? Very strongly emphasised by many manufacturers in order to reach into our wallets, into our consciousness and make us vote with our money for a particular brand.

Can we look at it *au rebours*, i.e. if a country does not have a strong economy, when consumers do not trust products from that country, will not even the best brand be able to stand out?

I observe this, or try to understand it, using the example of the Polish economy after 1988, when we started to build a free market in Poland. We encountered such a bizarre situation - Poles began to move away from the domestic brands they associated with that time of communism. Very often they tried to forget about them, they were marginalised somewhere and, interestingly, when new private producers appeared, they consciously moved away from Polish names. I have an example of one company which used a Polish name and wanted to sell itself as a Polish brand using a Polish name. It lost in the market, it only won when it went to a Portuguese name, customers took notice of it, even though it was our national one. That's why it seems to me that a lot of Polish brands hiding behind that X, the ending X, tried to hide those Polish roots. The situation changed after 2001, 2002, when the situation of our consumers also changed, we started to earn more, the living standards of citizens started to improve, there was an interesting phenomenon of a return to Polish brands, so to speak. Therefore, there was an opportunity to adopt brands like Bytom, Wólczanka or Vistula. They appeared and we gladly returned to them, and after all these brands were very often associated with the period of People's Poland. On the other hand, invariably, and this is also shown by such historical experience, Poles trusted brands that were created in the inter-war period and earlier in the 19th century. We have always associated Wedel with luxury, and please note that in People's Poland Wedel was positioned very highly as a confectionery manufacturer. And even when the communists tried to call Wedel – "Zakłady 22 Lipca",

it was necessary to return to the name "Wedel. Zakłady 22 Lipca" due to the fact that Wedel was positioned precisely in the minds of Poles as this luxury brand. After 1988, Wedel still survived as a confectionery manufacturer, and this brand also exists in our consciousness all the time.

Here, we could also mention, for example, the car manufacturers in Central Europe, in the former socialist countries, which have survived to this day, such as the Czech Skoda, or even the Romanian Dacia, which has returned.

Exactly, it is this fondness for the Czech Skoda that is also an important element of historical continuity. The Czechs have built a strong position for the Skoda brand. Even if it enjoyed less sympathy during the communist era for various reasons, what made it stand out on the Polish market was that it had Skoda among other manufacturers. Similarly, Dacia, with the backing of a French manufacturer, is still highly positioned and benefits from precisely this historical experience of the past, which pays off somewhere today. This fondness for old brands is also a very interesting phenomenon, which certainly requires extended research and cannot be justified, as I mentioned earlier, only by the fact that the purchasing power has increased; there is also something more deeply rooted in our consciousness, probably our attachment to tradition or positioning, as it was when I lived next to a given brand.

And the presence of the manufacturer, the presence of the brand on the stock exchange, how does it affect its perception and performance among consumers?

Definitely better, if we can take the example of one of the computer game producers, who, by skilfully promoting a game for several months, was able to raise the share price considerably, and when the promotion of a given game took place, the prices decreased somewhat. Thus, we can also see this spiral of stimulating the hunger for demand by contemporary producers, who, using marketing techniques such as the appearance of teasers, exposing fragments of given products, showing stars who will appear in a given film, for example, or playing a piece or fragment of music, are able to

awaken in us the need to reach for these brands, the need for demand. In this way, they minimise their risk, but at the same time we notice this trend that customers who want to buy a given product necessarily also influence the share prices of the companies concerned on the stock exchange.

Yes, but we must always remember that this type of action, if it is not backed up by the right quality and it is not verifiable, ends negatively. And what else could we say about those many communist brands, those created after World War II, which do not have those traditions from before the war, from the 19th century, about their functioning in an already market economy.

It was surprising that actually the PRL didn't want to build brands. Nobody particularly cared about it, there was not much promotion, and it was only in the 1970s that there may have been a certain change, more promotion was carried out in the direction of these brands appearing on Western markets, less so at home due to shortages. Nevertheless, it is characteristic that our contemporary language has been permeated, for example, by communist brands, which are practically non-existent, or only produced or manufactured to a limited extent. I repeatedly hear, for example, that "I ride a Romet" when someone rides a scooter, in other words a PRL Romet has survived to our times and we extend this to a scooter made in Italy, Japan or China, and this shows just this strength. The strength of the rooting and positioning of brands in our consciousness, this lexical layer stays somewhere. Similarly, the aforementioned Wedel, unfortunately automotive brands in Poland have disappeared due to many economic factors. It's a separate discussion as to why we don't have strong car brands today, but we did build a strong bus manufacturer, which is doing very well near Poznań and this brand is recognised practically all over Europe.

And how would you describe the perhaps inaccurate proportions, the relationship between those brands that were promoted back in the days of the previous system and those of today, and at the same time between those brands that were deliberately Polish from the beginning and those that tried to hide behind beautiful, foreign-sounding names.

As far as the brand market is concerned, for me the cosmetics brand market is such a phenomenon. This market of cosmetic brands developed in the decade of the 1980s and, for the most part, these brands promoted in the decade of the 1980s have survived to the present day and enjoy great customer confidence and even reach such heights as being included in a number of lists of luxury products, luxury brands, so this is one category. The second category is that on the clothing market, brands associated with the aforementioned manufacturers, Bytom, Wólczanka, or other manufacturers, have also survived and are available to consumers in the medium-quality segment. On the other hand, these new brands, which were created after 1989, their strength is freshness. Their strength is their freshness and the fact that for 30 years they have been able to capture our imagination and appeal to our tastes, because this is, above all, important today for a producer who takes risks. It is also a very comforting fact that computer games are becoming our speciality and we have many of them, here this segment of brands of computer games producers is very strong on the market today, contemporary. And this is also the added value that we have from this period of transformation.

Yes, and speaking of computer games, it is worth mentioning one more thing which also seems to me to have a great influence on the creation of brands, on their pulling upwards, as you said in the case of one company producing and distributing computer games. I wanted to mention or touch on the problem of capital relations between producers and media concerns. And this translation, this promotion of brands, often even artificial, just because a media concern is a co-owner of a games producer or co-owner of a cinema chain.

It has always been the case, and will always be the case, that if we have an economically strong brother who supports us with capital, he will inevitably promote us and make sure that this outreach is seamless. This is something that many computer game manufacturers benefit from. Please note that these computer game manufacturers have one characteristic. They have decided to go straight out into global markets. They did not stay in the Polish market, but by entering global markets, they automatically gained customers all over the world and became, as it were, global brands, with roots here native, national.

So, slowly concluding our conversation, one could summarise that the brand as an element of economic life is certainly a positive phenomenon, but at the same time, when talking about the brand, we have to remember that it is an element of winning the customer, positioning oneself among customers and trying to sell what the manufacturers have just produced.

Branding has made consumption colourful. And the fact that consumption has become colourful has also become a great pleasure, and on the other hand we have to look at the fact that this consumption, colourful consumption, has led the world to thing fatigue. And we have this notion that we are all probably materially fatigued. Everyone may perceive this notion differently. Nevertheless, since it has appeared in the vernacular among us, it is therefore worth reflecting on. This colourful world of consumption, the colourful world of brands and thingfatigue somewhere in a corner lurking and asking "and what next consumers?".

And that is the end of the question. Thank you very much. Professor Sławomir Kamosiński. We were talking about brands.

Thank you.

Paweł Grata
Sławomir Kamosiński

CAN A STATE BE A BRAND AND ARE THERE NATIONAL BRANDS?

PAWEŁ GRATA: Good morning to you, welcome to the latest podcast in the series "What does economic history teach us? 12 talks for difficult times". My guest is Professor Sławomir Kamosiński from Kazimierz Wielki University in Bydgoszcz, where he is the head of the Department of Economics, and therefore a person most qualified to talk about economic history. Economist, economic historian, specialist in brands, trademarks and industrial history. In today's talk I would like to address the issue of national brands. How they were created, how they function, what the future holds for them. National brands, territorial brands, local brands, so something that is a product, but not really. It is something much broader than a product, and therefore something that each of us can identify with, whether we are entrepreneurs or consumers; whether we are citizens of a country or not. That is why I would like you, Professor, to tell us a bit about this and explain another of the puzzles of modern economic history, i.e. explain what national brands are. But let me start with the simplest question. Can a state be a brand and are there national brands?

SLAWOMIR KAMOSINSKI: When the question arises as to whether the state can be a brand, we definitely answer yes. The state can be, what is more, the state is a brand. The state is a brand, the region is a brand, if we extend the interpretation. A municipality, a city is also a brand. And what is the result of this? It results from

the fact that such a separate tree of territorial marketing has appeared in marketing. I territorial marketing has as its main objective to position countries, to position regions and to position cities and other localities in the minds of consumers, in the minds of residents, potential residents, entrepreneurs and potential entrepreneurs. This is the objective that territorial marketing has set itself. And why is something like this undertaken? One reason, among others, is that if we live in a region that has a good image and has built this image on its identity, we are more likely to attract producers, service providers and tourists. Therefore, this positioning of regions, cities, municipalities or countries very often boils down to the fact that we try to build a positive image in the perception of the inhabitants, potential inhabitants of a given place, we create good location conditions for businesses and we create good location conditions for residents. Why is this so important? Because entrepreneurs bring certain incomes to the region, the state and the cities, but so do the residents. After all, residents build social capital, they build human capital, they make the city come alive, as the city increases the range of services on offer for those who live there or would like to live there. This is why it is so important to combine territorial marketing with marketing related to production, services and those so-called national, regional or local brands. These are of colossal importance to customers, all the more so because today, in a globalising world with, we are seeing a tendency for a large group of customers to move away from global brands to local brands. They want to be firmly rooted in that local environment. That is why we can find in every region and in every city many small producers who are prominent local brands only in a given market. and they cater to the needs of that particular area, they have a group of loyal customers who are ambassadors for these brands, and it seems to me a beautiful phenomenon that we are increasingly shortening supply chains and reaching out to what is created right next door to us.

That is, we can say that a territorial brand, a national brand is also a product. It is the same product as a commodity produced in an industrial plant, or a service. And following this line, we can talk about this positioning, as you mentioned, and we can talk about the fact that a brand may or may not sell.

Of course, every brand, every *branding* is a certain risk. Notice how the Alpine countries, the countries in the Tatras, the countries that offer sunny holidays, are trying to sell their image. More and more advertisements are appearing that encourage us to visit the areas in question. In this way, we can see that real competition is emerging. Let us also notice another very characteristic phenomenon. More and more regions in Poland, probably all of them, but also in the world, including cities, have their own logo. These traditional coats of arms are often being abandoned in favour of logos. Why do cities abandon traditional coats of arms or have a coat of arms and a logo at the same time? Because a coat of arms is often less comprehensible to the modern consumer. It is easier to recognise a city by its logo, all the more so because a logo looks beautiful on the Internet, is easier to sell, is better perceived by our eyesight and is easier, simply easier to remember. Hence, these city brands, region brands are beginning to behave just like a typical product, or manufacturer, which appears on the market and waits for the customer.

The Alpine State is a very positive example, because it is easy to positively associate the advertising of such a brand with having a good time, with a high standard of living, with affluence, simply, prosperity. On the other hand, could you show examples of the opposite? When the brands of certain countries or regions have not quite sold, or are not able to sell themselves for various reasons?

For me, an interesting example, one from a research point of view that is worth watching, for example, is Africa and the positioning of Africa in the global consciousness. Why? Because we are beginning to look at Africa as a continent worth exploring, worth discovering, not only because there are natural resources there, but also because there is a peculiar culture, places, dishes, animals. That is, for the global community, Africa is the kind of place whose exploration gives us new experiences, gives us new thoughts, new knowledge. We learn it, and it's also one of the elements that makes us position brands, that makes us reach out to brands willingly. It's an experience, an emotion in contact with a product or in contact with a place. Of course, we can point to North Korea as a brand that is in itself

a wholly negative brand. It is difficult to find positive elements here. We are talking, for example, about the axis of evil on a global scale, so that is also where we place the states that are responsible for wars, for terrorism, and the exploration of these states can also have a dual meaning. Some people will say that politicians will create just this negative image of a country, but there are also people out there. People who build local culture, local traditions, local customs and they are very often kind of on the sidelines of this big politics. But on the other hand, we have these positive brands associated with holidays, with leisure, with prosperity, which we have indicated here - European countries or other southern European countries. In the same way we can draw attention to, for example, Poland, how nicely we have positioned seaside towns, which we associate with sun, waves and, at the same time, mountain towns, which we associate with snow, but also with summer recreation. So each place promotes itself by offering us something specific. Today, for example, culinary tourism has become very popular. This is another element that makes certain regions gain in importance. Please note, if we go to Podlasie, we have Podlasie cuisine, in Wielkopolska we have Wielkopolska cuisine. We are no longer ashamed to call the potato 'pirza' in Wielkopolska, because this is a certain identity of the region, a certain tradition on which we build certain emotions. In those customers who come to us, visit us, they get to know our region. The same is true in other countries, where we draw on this tradition very often. Let's see how beautifully have been sold as a Loch Ness product. How beautifully sold as a product is a castle in Bavaria that has become a symbol of one of the film studios. So architectural peculiarities also become that magnet that will build brands for us, that makes us, by providing us with positive cognitive emotions, we will recommend an area, point to it and encourage us to visit it. This is the secret of territorial marketing, this branch of general marketing.

And so, referring to Lochness, one can say that a territorial brand, a national brand does not quite have to be reflected in facts, because in the economy a brand has to, or marketing has to, tell the truth about a product and possibly encourage people to reach for it. Whereas here we hear about the monster, but nobody has seen it. A second example, very similar, Bran Castle in Romania in Transylvania, where Count Drac hive may never have been, but it

is Drac Castle hive and it attracts thousands, hundreds of thousands of tourists from all over the world.

Exactly. Let's pay attention to the fact that very often these stories, legends become the leaven for building a positive image of a place. It is a very characteristic thing that we, as consumers, like emotions, we like certain positive sensations, we like amazing situations in which we find ourselves. It is very often the case that in order to heighten our emotions, artificial spaces are built in the form of parks, which often cover the area of a small town. This is in order to make us feel like children there and to create such a comfort of interacting with a certain brand.

And we often try to take over these brands as well, because we know the examples of, for example, miniature parks, parks that are reflections of famous gardens, even Bucharest was able to build its own Arc de Triomphe, very similar to the one in Paris, so this territorial marketing is not afraid to draw on other people's experience?

No, he is not afraid. When the phrase, I love New York, first appeared, New York was, after all, one of the most dangerous cities, but please note, repeated many times, I love New York, it appeared on T-shirts, it appeared on caps and it changed the image of this city, of course, with the actions also real of the authorities of New York. But let's also pay attention to this slogan, I love New York, it has moved, fall in love with Warsaw, fall in love with Gniezno; Bydgoszcz, which invites you to be its guest, that is, we create an atmosphere... Rzeszów - the capital of innovation, of which...

Many have laughed over the years.

But this is precisely the element referring also in Rzeszów, as I was thinking about it, and to the Central Industrial District, where, after all, a large part of modern technical solutions came here at that time, and also to the aviation industry, which developed very strongly in Rzeszów, especially after 1988, when the transformation took place. This is why the term Rzeszów capital of innovation is fully justified. Let's just point out that every city has a slo-

gan, a gothic touch. Often in cities there is a face hiding behind the brand. Let's turn our attention to Toruń - Kopernik. By the way, cities taste. Note the smell of coffee, the smell of gingerbread, the consumption of gingerbread. The potato, or pyra, we even have a pyra monument in Poznań. These are the elements that complement the space, build a narrative, a story about a place, and that is why we like to go there to experience it.

But it is also important to note, *with regard to* this capital of innovation or the Central Industrial District, that a brand has to find its time. Here I could give the example of precisely the Central Industrial District in the early 1990s. Even in the Sejm there was an idea to rebuild the Central Industrial District, to restore its existence in the form of appropriate legislation. Then it collapsed, the time was not right. It was a period of deindustrialisation, economic collapse, post-transformation crisis. On the other hand, at the beginning of the 21st century, in those times you talked about in our previous episode, when this economy started to look different and brands started to appear, their own brands, Aviation Valley is being created, which directly relates to the tradition of the CID.

Let's just point out, I'll get into the word, let's point out one thing, that in the inter-war period we were building Central District Przemysłowy, what a beautiful brand we were building, central. This is where industry is located. It was also a certain copy from what was done in the States, the Golden Triangle. The Golden Triangle there, the Central Industrial District here. It also raised the prestige of the people in the region, because I live in the Central Industrial District, I go to the Central Industrial District, or I settle in the Central Industrial District. This is also something to pay attention to, this lexical layer. Today, when we say Aviation Valley it is also a beautiful term, raising the prestige. It is here that aircraft are made, because here is the Aviation Valley, this cluster.

Well, and that reference to Silicon Valley.

First and foremost.

A symbol of modernity, development, modernisation, this also builds the brand. But why have I mentioned this opportune time? I would like to ask now, about what influence conditionality has on building brands, local brands, national brands. National politics, international politics, globalisation processes, technological innovation processes. How does this affect brands, after all, we say that brands are often traditional products, it is a reference to tradition, to Copernicus, to Wieliczka, to Pyrów poznańskie, to the inter-war period, and here we have a constantly changing world.

The world is forging ahead, undoubtedly, while the distinctive thing is, for example, the female name Mercedes, which has become associated with the car and with the long history of German motoring. Please note that Mercedes as a car is positioned very high in the minds of consumers, and it has also become a calling card, a national brand, so to speak, for Germany. It sells itself as a German car offering comfort and safety, for those who care about technical solutions. So we have this direct relationship between the brand of the country, the brand of the region, and the brand of the manufacturer, which somewhere starts to produce certain products. And that's why this territorial marketing is such an important element, because if we build a good image of the region, producers are willing to come to this region, because they already have one important element achieved in creating their own brand. We come from a good region, one that customers recognise, one that is well associated with customers, one that has the right, for example, research facilities, the right human resources, the right social capital. And we draw from these resources and thanks to this we can say that our product is good because it is from Podlasie, because it is from Podkarpacie, because it is from Silesia, from Wielkopolska. We are just basing ourselves on a certain image stereotype, on certain achievements of a given region, because, after all, each of us uses stereotypes in our assessments and we transfer this to brands. If the image is good, then we have half the success as a producer.

Yes, these stereotypes were very clearly visible and in the context of assessing the Polish economy after 1989. Even today, in many cases we are guided by stereotypes when assessing na-

tional brands, individual economies, individual countries or even regions.

Above all, please note the stereotype that has captured the consciousness of practically the whole of Western Europe - "polnische wirt schaft". True, it harms us, undoubtedly harming us, because Polish professionals are sought after. And now how difficult it is to change this stereotype of "polnische wirtschaft" in the minds of many Western European citizens. On the other hand, let us note that we also have such a stereotype when it comes to Chinese products. And we also use, and this is a Chinese product, that is already image-wise.

Chinese.

Yes, Chinese, that is, image-wise we position this product lower than, for example, a French, German, Belgian or Swedish product. So the stereotype plays a huge role in our consumer choice and in our everyday life, interacting with brands.

And on the other hand, the positive stereotype of German reliability or Japanese reliability or Swiss watches.

Exactly. It makes it appear that we would like to get to know this country very often too. How did they achieve this? We ask ourselves this question and then we try to figure out those qualities, we now say of a society, a nation or a country, that made them manage to build such solid brands that are in demand throughout Europe, or even more broadly, global brands.

Yes, we want to find out, and this is already a task for economic history, because in order to answer the question of why the Scandinavian countries have built such an excellent brand, both of their social organisation and of their products, you have to dig deep.

We also need to go back to certain values, certain social behaviours adopted here, which are, however, shaped somewhere by tradition, by man's subjugation of nature, by historical experience. This national identity largely influences, it seems to me, at least our be-

haviour on the market, the way we perceive brands and how we evaluate them. Well, the bad experience, what we were talking about, the bad experience of the communist period made us repel these brands for the first decade ada of the transformation, only to come back to them later and recognise that how good it is to be surrounded by our own brands, right?

A brand that could be repaired, improved and sold.

That's exactly right. That is, somewhere this sentiment has been revived that this served my grandmother, my mother for 40 years, and so I want to have the same thing. It's starting to become a kind of consumer loyalty. It is also noticeable in Polish society that we are becoming more and more ambassadors of national brands, local brands. We are not ashamed of these brands internationally. We believe that we have good, solid brands. An example, for example, of these local brands. How often, please note,, when tourists come to us from Western Europe, or from other countries, other continents, they reach for what is local. This is what they are looking for, because it distinguishes a given region, it shows the richness of production, the richness of taste, the cultural heritage on which the identity of a given region, of a given society, is based.

I can see this even in my relations with the Professor, because each of our meetings begins with the Professor trying to bring some regional product from Kuyavia.

Well, that's exactly right. I'm precisely also a big fan of what's local, right? That which is produced closest to me, closest to my place of residence, my place of work, because it gives such satisfaction. I always feel that by voting with my money for a local brand, I show, that I am such an active citizen who identifies with the region, the city where I work and the place where I live. That's the added value I want to give back to my region. I suspect that probably many of us are such local patriots of economic brands.

Referring precisely to this last point, of how we promote local brands today, how might one try to briefly characterise the evolution of the way we do territorial marketing? How has it evolved?

Somewhere in there it used to appear as a simple translation of the robustness of a given economy into a state brand. Today it cannot be translated so easily, today the world has changed. It cannot be done in times of globalisation, nor can it be done in times of the common market. How has it changed, Professor?

This territorial marketing, building local brands, building regional brands, it is certainly a very complex process and if we look at the origins of marketing, we can this territorial marketing, let's note that in my opinion it appeared already in antiquity. The ancient Athenians colonised Italy and must also have found some kind of founding myth. Therefore, let's note that those areas they colonised in the south of Italy were very often described as where an Athenian came and married a beautiful woman, thanks to whom they founded a city. So the founding myths in this marketing were needed in order to settle, to populate areas. After all, in the 19th century, the United States did a very intensive territorial marketing of its territories in the Austro-Hungarian partition, the Russian partition, among others, and tried to attract inhabitants as well. They needed manpower. Today, this territorial marketing plays a slightly different role. First and foremost, it is about building a positive image of the state, region and city, and helping to create strong brands desired by customers. On the other hand, the aim of territorial marketing is to make the inhabitants, or let us say the internal customers of a given city or region, feel proud of their economic achievements, their cultural heritage, their historical achievements and their historical tradition, while living in a given region, working, studying and relaxing. It is such an evolution that today we are looking for precisely these emotions, which are the little threads that bind us together and make us grow into a region, and the same happens with entrepreneurs. If an entrepreneur feels good about his region, for example, company X from a town like that might appear in his name, the name of his company, right? It's that element of just this awesomeness of connecting the region, the city and the producers.

It seems that there is a very clear shift from promoting Mercedes to promoting the region and small products from the region, closely identifiable with them, because we associate the car with the state, while regions are associated with specific

products that are unique across the country or across Europe. But there is one more important point that is probably worth mentioning in the context of contemporary territorial marketing. Here marketing alone is not enough, here there must be appropriate political action, appropriate economic action and appropriate money. Because why did Poland have great difficulties attracting foreign investors in the 1990s? Because there was a lack of infrastructure. That is, without this, without proper infrastructural facilities, no region can promote itself, because it simply won't encourage anyone.

There is even a rule in territorial marketing that local authorities must be one step ahead of the needs of residents and the needs of businesses. If we are one step ahead with the construction of infrastructure, with the preparation of facilities for economic activity, for a good place to live, for education then we have a chance of success. We have a chance to tie many producers to our region, to our place. It is what the professor said, the lack of infrastructure makes the difficulties in communication repel, builds a negative image of a place. Infrastructure is the essential element, which is why city managers must always be one step ahead of the needs of residents and entrepreneurs.

What about a situation in which some negative phenomena in the economy or in the politics of a particular country or of a particular region are so well known to the public that they have a negative impact on the reputation of that country, on the brand of that country. Let us recall here the economic crisis in Greece and its causes, how it affected the image of the brand of Greece as that country of sunshine, tourism, leisure, great history, tradition, a place worth visiting.

This is also an interesting element, because the Greeks have always been famous for tourism, for their beautiful beaches of the warm sea, i.e. leisure offerings. We tended not to pay attention to typical Greek products, the kind of brands that are firmly rooted in our consciousness. We would sooner recognise Greece by the Acropolis than by some brands of specific products. It is very often the case that the country's plunge into financial crisis does not always trans-

late into how we perceive the country as a place for leisure, tourism and such relaxation after work. A peculiar thing is that I once took the liberty of researching how natural disasters affect the promotion of places. And what turns out is that when I was researching Poland at the time,, I came to the conclusion that many public entrepreneurs, who are mayors or city presidents and aldermen, were trying to turn a natural disaster, for example a flood, into a success, into a commercial success, encouraging people to visit a particular place, to use this information about the fact that there had been a flood to give people the reassurance that we were attracting tourists, that this town was alive, that it was able to recover quickly from a particular natural disaster. Such an example was characteristic at the time Sandomierz, where it was clearly emphasised that Sandomierz Upper, this tourist part of the city is an open city – you are welcome. And at the same time in this Sandomierz there was in the public space at the time an exhibition which showed how the city suffered heavily during the flood disaster and this also builds our emotions, our connection with a given place we visit.

That is to say, a territorial brand has its power. Not even crises, not even natural disasters can stifle it, if it really is a strong brand that is deeply rooted in public opinion or society. And please try to give me another answer to such a question, obviously not a simple one, difficult to quantify. What impact do brands have, do they have at all impact on national identity, on national culture?

Definitely yes. Brands build, they are part of a national culture. Very often we find references in works of culture to precisely what brands have done, to this good image of a country. Let us note that, for example, champagne has become part of the tradition of celebrating something, hasn't it? With champagne we celebrate the successes that we have had. So please note that also the appearance from the name of the region in the colloquial language of many European nations of this very term 'champagne', makes them build our culture, they are a strong factor creating our culture. Further, in the same way, this culture is built for us by literary works, which very often grow out of a certain historical experience. And please note that films or computer games owe their success to the peculiarity of the landscapes, culture and monuments used,

which are typical of a given place. Take, for example, the famous Polish game Wiedźmin [The Witcher], which became famous thanks to the fact that Polish landscapes, idyllic Polish wildernesses, Polish buildings from the turn of the 19th and 20th centuries made themselves at home in the space of the game, and this is what captivated customers, this otherness from what we perceive every day, this modernity.

That is, in summary, the brand as a product of seemingly only marketing and a product aimed at positioning a product, in this case a place, a country, a region, is an extremely important part of our reality. The reality of the third decade of the 21st century.

It has even become an integral part and let us not forget that without a good image of the place, we will not build a good place to work, rest and live. It is important to always go one step ahead of the needs of the inhabitants. This is the message let's pass on to city leaders.

Paweł Grata
Krzysztof Popiński

IS EDUCATION FREE AND HAS IT ALWAYS BEEN SO?

PAWEŁ GRATA: Welcome to the latest conversation in the series "What does economic history teach us? 12 questions for difficult times". Today my guest is Dr Krzysztof Popinski from the Wrocław University of Economics. We are going to talk about education. The talk is part of a project funded by the Minister of Science and Higher Education's programme called The Social Responsibility of Science, which aims to explain how economic history can help us answer the difficult questions of today. The topic of today's talk is the question of whether it should be free, why it should be free, what it looked like in the past versus what it looks like today. Doctor, what does "free education" mean?

KRZYSZTOF POPIŃSKI: Free education is, in the simplest, most common sense, perhaps even more than understood, education for which parents and pupils do not pay. But of course, this is a certain contractual situation, because everything always costs money, and if the student or parent doesn't pay for the education, then someone else bears the costs.

Yes, free education is a bit of a buzzword. One might even say that it is a substitute for what we are actually going to talk about. Economic history, the history of farming is also the history of money, the history of costs. As you mentioned, free education always costs someone, someone always pays for it. Free education is universal education, we can probably relate that, because it was with the universalization of education that this notion of free education came into history.

Yes, these two features are absolutely linked, and we can also say, in a certain simplification, that the universalisation, even the introduction at certain levels of education as compulsory for children and then also for young people, was also linked to the introduction of free education. Or to put it another way – it was not possible to impose, at the same time in the interests of the state, compulsory education on broad masses of society who could not afford it. Consequently, successive states made a commitment to cover these bases of the education system from their revenues.

You said *in the interest of the state*. Where was this interest? Why did the states decide to bear such a huge cost of providing free education for all?

Well here it has always been, until now and I think there will be such two main sets of reasons in the future, why bear the cost of educating the broad public when perhaps everyone should educate themselves. But there are two issues here. One is the economic interest of the state, its economic, technical and civilisational development, and here very strongly, precisely in the course of the 19th century and especially in the 20th century, demands appeared, intensified and began to be realised in the area of massification or even popularisation of education so that this society would be educated, would be able to participate effectively in economic activity and for the benefit not only of itself but also of the economy. And that was essential. Of course, there is also this other reason, the so-called social justice strand. I think they are somehow interrelated. They cannot be separated from each other either. I think it's that if something is just, it doesn't mean that at the same time it can't also be economically beneficial.

We are talking about the nineteenth century, this is also a bit of a paradox, one could conjecture, although easily explained. Our aim is to show these processes that took place in economic history and to show how it came about that today we have a certain state of affairs, which we will talk about later in our conversation. The nineteenth century is the century of the dominance of the liberal doctrine, which says that everyone has to look after themselves, everyone has to look after their own in-

terests and secure their own needs, and at the same time this is when the state goes about offering its citizens, even forcing education on its citizens. How do you combine these two seemingly opposing approaches?

Well, here there are indeed two, at least two such basic different models of approach to the organisation of the education system. There is the liberal model, and as liberal as the Anglo-Saxon model is, of course, and there is the model where it is, as it were, part of social responsibility, of the citizen, of individual ability, of entrepreneurship, of responsibility, for example, to educate one's children, to educate oneself or one's employees, to raise their competence, but at one's own expense. On the other hand, there is the other model, which is born more in continental Europe, here we have Germany, above all, the Scandinavian countries, but also France and a number of other highly developed countries, which, while experiencing industrialisation, while accelerating the process of industrialisation, at the same time introduced universal education systems, because they recognised that this was necessary, even essential, to achieve their political, social and economic goals.

Yes, because we must remember that some of the first countries to introduce compulsory schooling were the Scandinavian states. Countries that had no resources, no coal deposits, no iron ore, very limited possibilities for agricultural development, and at the same time, very quickly, at the end of the 19th century, joined the ranks of those richest countries in the world.

And thanks to what was later defined as human capital, that is, something which also consists very seriously of education, an education achieved also within the framework of the universal, compulsory education system being created. which would include all those areas of knowledge and types of skills which would be useful for functioning in the economy and in social and state life.

Yes, only we have to remember that universal education, compulsory schooling in the 19th century concerned what level of education?

Actually, we can say that until the beginning of the 20th century, until the interwar period, it concerned mainly, almost exclusively, primary education. It is also important to know that this was a process that took place at an uneven pace, in different areas, in different countries, in different ways. Nevertheless, if you look at it from a long-term perspective, you can see that it was happening. And it has progressed essentially in one direction, namely, the increasing spread of an education system based on universal, compulsory and free education. Here we are talking about the very period when it concerned only primary education, and this was really accomplished over decades, raised gradually even within primary school. In the beginning it was just basic skills that children could master in the first two years of schooling. And somewhere towards the end of the nineteenth century, from the 1980s onwards, when this system became more widespread, there was already talk of primary school in the modern sense, that is, up to that thirteenth, fourteenth year, up to which time the state also provided, in its own interest, the opportunity for education.

In its own interest, in the interest of the economy.

Yes, yes. As much as possible, even to the order of economic circles aware of, expecting such a workforce that would be able to cope with the new technical and technological trends, expecting efficient workers for their era.

And conscious workers, because it is enough here to recall, for example, the situation in the post-war period in Poland, when mass industrialisation clashed with the barrier of unprepared workers, who were unskilled, came from the countryside and were unable to take up certain jobs. But we may come back to that in a moment, whereas the question is when did this level of free education, did free education start to extend to older age groups?

Free education at the secondary level and also at the tertiary level is the period of the second half of the 20th century, after the Second World War. Then it became widespread, but also not at all everywhere. This is the model in which, again, those precursor countries in general in terms of dissemination and introduction of free of

charge led the way, namely Germany and the Scandinavian countries. They introduced free secondary education and higher education after 1945. However, there were also, of course, elements of the system that were not public schools, such free schools, but were private and paid. but they only supplemented the system; it was mainly public, free schools, already secondary and higher, but this has not become the norm all over the world. Again, the Anglo-Saxons differ significantly here, especially the United States, but also the United Kingdom itself, and it is interesting that within the United Kingdom the individual countries have solved this problem differently, and so in England we have fee-paying universities, and in Scotland we have public, free schools, which is also the reason why a relatively large number of Polish students ended up in Scottish universities after the year 2000.

Referring precisely to Polish realities, we know that the 19th century was a time of partitions. And here we can also point to the fundamental differences that existed at the time between the various partitions in terms of access to education.

Yes, yes. This is the heritage that the reborn Poland had to face in 1918. It is a heritage that brought with it huge differences between the areas of the individual partitions. We had the area of the former Prussian partition, in which education, the level of enrolment was very high.

But education in German...

Yes, of course. The Prussian state, while pursuing its education policy, simultaneously aimed at Germanisation and the creation of Polish-speaking subjects, as they called themselves, they expected, such of their subjects, or later citizens, who would be assimilated by the German majority, i.e. the school language was German, of course. On the other hand, as far as the other partitions were concerned, especially the Russian partition, where the spread of primary education was very low, here it was necessary to make up for it as quickly as possible after 1918 in Poland, because it had enormous consequences for the civilisational backwardness, it made some corrective processes impossible, it smashed against such a barrier as

the almost universal illiteracy in the eastern areas of the Republic. These differences were also very, very large. Since we are already here in Poland and at this time, let us say that in 1919, compulsory, universal, free primary education was introduced by law, but in the Polish reality, the pursuit of such unification, which, by the way, was carried out with great success by the end of the twentieth century, was necessary and it was successful, while secondary and higher education remained inaccessible to the masses of those who did not have adequate financial security.

That is to say, it remained practically until the outbreak of war something rather elitist than universal. And now, after the war, the system changes. At the same time, the changes you mentioned in the West, where free secondary education and, in many countries, free tertiary education are becoming commonplace, where a welfare state is being built, a welfare state that stems from recommendations dating back to the war, and, indeed, the extent of state support for educational needs is very high. And what is happening in the countries of the so-called people's democracy camp, the socialist countries?

What we are dealing with here is a revolution in the education system, a revolution in the enrolment of society at various levels. There are also some myths connected with that era, as the communist authorities considered the elimination of illiteracy to be a success, which had in fact been largely, if not eliminated, then minimised already in the inter-war period through the introduction and consistent application of compulsory primary education, at least. The "people's power" made education compulsory up to the age of 18 and also made education in vocational and secondary schools free of charge, as well as access to higher education, where it even tried to give preference to people from workers' and peasants' backgrounds, and even in the most dogmatic periods to exclude people from other social groups, especially at the very beginning, when there were still those circles which constituted the structure of the pre-war Republic. And this was undoubtedly achieved when we talk about the quantitative, formal dimension, but if we direct the discussion also to the qualitative level, then, unfortunately, this was much less the case.

And there is another important point to be made here. You talk about vocational education. This is indeed very important, even today, because it turns out that after 1989 vocational education was dismantled and today it is lacking. There are attempts to rebuild it, but here this vocational education has been developed in a way that is inadequate to the needs. Most young people went to vocational schools.

Yes, and they were often better off than when they went to university. These are the paradoxes of the communist system, in which the long, drawn-out education meant that once you entered the workforce, even as an engineer, you were in a worse situation in terms of pay and seniority than someone who, after a three-year vocational school. even sometimes only two years, as a skilled worker, had already been working somewhere for a good few years and had already reached a certain level of earnings and position in the workplace. Paradoxically, this system undermined the effects of higher education, because people did not know what to do with university graduates and were often unable to manage them effectively.

At the same time, however, the Polish United Workers' Party ruled on behalf of the working class, i.e. here this building up of a quantitative working class was also probably important in the creation of this system.

Ideology here often overshadowed pragmatism and, in the name of this ideology, some basic principles were forgotten, for example management, production, in some basics of economics, not to mention other elements of political or social reality.

You are researching the development of higher education in the 20th century. How would you quantitatively characterise this progress in this respect in relation to the inter-war period, and how does it relate to what it is today?

If one relates the quantum leap that took place in higher education after 1945 in the communist era to the inter-war period, one can speak of a tenfold increase in the number of students, several times the number of universities and their size. These changes in the size

of education and its accessibility were also gigantic. However, this did not translate into the expected economic effects, because the increasing number of people with higher education, which was also desired at the time, preferred, technical education, did not translate into economic results. In turn, it can be said that after 1990 we also had a situation where the number of students multiplied, to over two million at its peak around 2008. This is an eightfold leap in relation to the data, to that maximum level during communist times in the late 1970s. This situation, however, brought with it, this quantitative leap brought with it after 1990, also certain qualitative changes, noticeable over time. Integration with the European Union, with the Western world, cooperation with the world of science, commercialisation, and the marketisation of the conditions for the functioning of education also had a positive impact on the quality of this expansion. It was not just ordered from the top down without regard to what was needed, as it was in the communist era. After 1990, it was increasingly the market that decided how many and which specialists we needed, whereas previously this had been determined by socio-economic development plans based on political and ideological premises.

Another important difference is the emergence of public universities after 1989.

Well, yes, fee-paying universities have reappeared, as well as the possibility of studying at state universities on a fee-paying basis, I am thinking here of part-time studies. Alternatively, foreign students have appeared in greater numbers, although only after 2000, and these too pay, sometimes quite high tuition fees in their preferred fields of study. And indeed we currently have these two systems. One, which is funded for the most part by the state, these are state universities and private universities, based on tuition fees, but possibly also raising additional funds. At the present time, whether in Poland or elsewhere in the world, it would be difficult to find examples of a situation where purely state-subsidised state universities and purely tuition-based private universities operate side by side. At the moment we have a state of education in which both types of university are trying to raise additional funds, and often, paradoxically, func-

tionally they are not so different from each other, only the owner is, of course, different. Well, and there are also various other consequences of which of these universities dominate a given system. However, does public or private education dominate.

Precisely, here we return to this fundamental question. Free education at various levels. Who pays for it? What is the leading model for financing, say, education at different levels? Because it will look different in higher education and different in primary education.

In the case of universities or lower-level schools, these are institutions financed from the state budget, from direct, indirect taxes. But not only that, because nowadays it is universities, including public universities, that supplement their sources of funding, often to a significant extent, with directions that were not used before. So they participate in and apply for various types of grants, be they research or teaching grants, whether national or international - here European Union funds play a very important role, for example in our area. There is also the area where, in the case of these essentially free universities, however, the costs of studies are passed on to students because they are unable to provide free, I do not know, accommodation, social conditions or all the necessary teaching aids and textbooks. In such an ideal, free system, all this is taken care of by the state, but this ideal system is rare and often these free studies can cost quite a lot. However, as far as universities which make their living from early years are concerned, they are also striving to make their mark or survive and develop on the education market by creating and building their image, not only as a business based on making money, but also simply focusing on education, and therefore applying for various funds, approaching sponsors, developing their own system of scholarships or exemptions for students studying with them, who do not have to bear at least the full commercial costs. It's quite such a less obvious, more mixed system than it used to be.

An interesting observation comes to mind here. In the 19th century, developed, industrialising countries, thinking about the future, introduced compulsory education. sometimes even

against the wishes of parents, who had to send their children to school, especially in the villages. Today, the value of education in the public mind is so high that many parents are willing to pay for their children's education, for a better education, for one that will give them better chances in the labour market.

It seems that here the middle class is precisely the social group that places such great importance on the education of its children and spends on this, on education in the broadest sense, much more than it should, within the framework of some kind of rational income distribution of the household budget, but gives it such a high priority that it foregoes many other expenditures because it considers it essential for the past of its offspring. This is an understanding, an appreciation of the role of education for individual, family or societal success, something that has grown enormously in our time. It seems to me that in spite of everything, the dissemination and assistance of the state, if not directly free of charge, but in education, it is taking place, it is progressing, it is spreading in successive countries and areas. it is changing its form at most, for example, a very interesting form in Poland, which used to be called vouchers or elsewhere in other countries in a different way, such a subsidising of an individual, individual educational decision, is a form of realisation of the dissemination and assistance of the state in the field of education.

This is how. Once coercion, today assistance. Creating equal opportunities. Today's principles of social justice are precisely about creating equal opportunities. Democratic states, states that are open to their citizens, are trying to create equal opportunities here. What about the future? How do you see the future of free education? Or education as such and its relationship to costs?

I think this ties in with what the future of the state is in general. The decreasing number of children and young people will obviously affect the education system. Ostensibly, it should reduce its costs and increase the possibilities for qualitative upgrading, paying more attention to individual teaching, more differentiated, and on the other hand, the state will have less income, because fewer taxpayers will pay taxes, whether it will be able to afford sophisticated,

elaborate policies in education and many other areas, this is where economists, demographers, sociologists worry.

It may be that this free education will also be less valuable.

It could be such a suspended privilege, which in practice will only be partially or poorly exercised. This is what one might fear most. Because when it comes to awareness of the need, precisely not arising only from a sense of social justice, but also from the profit of the state and the economy, this awareness is steadily growing. Only who will pay for it after all? Are the parents, who want to pay after all, more determined than before to ensure the future of their children through this education. Or the state, which also sees an interest in it, but which will have trouble balancing its budget. This is the challenge that will grow in the future.

In summary, then, one can draw the conclusion that free education was once a step towards modernity. And today, when this modernity has come, but demographic changes have also come, it may be that free education will not necessarily survive.

That education that was set up in the early 1900s was relatively cheap. It was the retired non-commissioned officer who was that first teacher, it was the priest or pastor, who simply on the margins of actually his priestly activities also taught children, while later these education systems developed, expanded, became more complicated and increasingly expensive. Let us also recall that the future of education is precisely the costs associated with the development of technology, which offers fantastic opportunities, but is also incredibly expensive. Also, today's school in whatever form, it will be more costly than in the past and increasingly costly

And I think this is where we will put the dot. The outlook is quite ambiguous, but certainly free education is something that builds society and shows the way that it is worth investing in education and worth investing in knowledge, as we all know well today. Our guest was Dr Krzysztof Popiński, Wroclaw University of Economics. Thank you very much for the interview .

Thank you very much.

Jarosław Kinal
Joanna Jaroszyk

WHERE DID THE MEDIA COME FROM?

JAROSŁAW KINAL: Good morning to you, today it is my pleasure to host one of the podcasts carried out as part of the project "What does economic history teach us? 12 conversations for difficult times". My guest today is Dr Joanna Jaroszyk from the Adam Mickiewicz University in Poznań, and we are going to talk about the genesis of the media and the impact of the media on social life. Let's start with a simple question. Where did the media come from? What was the need for this institution?

JOANNA JAROSZYK: Simply put, from the need for information. This is a need that has been with humanity since the dawn of time. The need to access information, the need to share this information, the need to exchange opinions. This is something that has accompanied mankind from the very beginning. However, until the media developed, and at such a mass stage, access to information was a kind of privilege. It was very limited, to a limited group of people, and this is why this basic need, unsatisfied earlier, was only satisfied by the media, first in the form of newspapers, then in the form of mass media such as radio, television, not to mention the stage we are in now, namely the expansion of the new media, where we can actually say that we are drowning in information, and sometimes we have a problem with appropriate selection of it.

Well, Doctor, has technology had a significant impact on the development of the media?

Of course it has, especially if we look at the way we consume media today. It wasn't so long ago that newspapers would include television supplements as supplements. And the viewer would sit down and sometimes even tick off the programmes he or she wanted to watch. Even before that, in the 1980s, this phenomenon in Poland, for example the first soap opera to be broadcast in Poland, Isaura's Slaves, meant that towns and villages actually became completely depopulated, because people had to sit down and watch an episode, because if they didn't, the opportunity was gone. At the moment we consume these media completely differently. We can choose where and when we watch an episode of a soap opera, or read some information, We have different sources of this information, in fact the telephone is already such a source that provides us with everything we need. We can watch, we can read, we can listen to podcasts, so these possibilities have changed in a way that is absolutely incomparable.

Yes, it's just that the development of technology has created information overload. It used to be that you waited all day for a newspaper, half a day for information, news on TV, on the radio every hour, and now this information happens in a few milliseconds. How do you comment on this?

We have a problem with the selection of information, because with this rush of information comes the difficulty of distinguishing truth from falsehood. This phenomenon of disinformation, which is actually on the increase, is a serious problem precisely because there are so many different channels through which this information reaches us.

This is true, but also looking historically, we have had pro-prince and anti-prince newspapers, so this phenomenon of disinformation, I don't know if it is so new in our media market.

The phenomenon itself, of course, is not new. In the past, however, it was much easier to distinguish between information coming from government channels and information reaching us from anti-government sources. Here the division was quite clear. In such political systems, where information was subject to control,

the recipient was also able to distinguish between messages of a purely propagandist nature and those coming from other sources. At the moment this is all becoming blurred, and this is where the problem lies.

Well, precisely because nowadays and also earlier, historically, the role of propaganda and the attempt to dress up this propaganda in the myth of independent media. This is also quite a problem, which is why I would like to ask you to cite some milestones in the development of the media and in the development of propaganda, if any such examples come to mind.

Milestones in the development of the media are closely linked to technological progress, because of course we can say, for example, that Herodotus, Tacitus or other ancient chroniclers were the first journalists and trace the origins of journalism back to ancient Rome, but in *fact* the development of journalism and the media, in the modern sense of the word, can only be traced back to the arrival of the printing press. That is to say, the revolutionary invention of Gutenberg's printing press meant that a text could be copied a thousand times faster than by a scribe by hand. However, we had to wait another 100 years for the development of the first newspaper, so the beginning of the 17th century is when the first newspapers appeared, but their heyday was the Age of Enlightenment, and it was then that the first ideas began to be formulated about how journalism and newspapers should look like. The next milestone was the 19th century, which is called the golden age of journalism for good reason. In connection with industrialisation and the emergence of the middle class, the late 1830s and early 1840s saw, perhaps not the full massification of the press, but a much wider audience, because those first newspapers were very elitist in character. On the other hand, the spread of education in the 19th century, the elimination of illiteracy, at least in our part of the world, led to a much greater impact of the press. The second half of the 19th century, with the advent of the single-penny press, meant that the press was able to reach a larger audience. The emergence of journalistic genres, the telegraph, in other words the acceleration of the transmission of information. This was also certainly revolutionary in terms of the development of the press and journalism. The 20th century,

again more inventions. television, and finally the Internet. All these phenomena affected the speed of information transmission and led us to the situation in which we find ourselves today.

Well, let's move on to the next topic. We have this rather interesting paradox, because the media shape societies, but societies also shape the media. How does this happen and does it happen at all?

There are very many concepts here. Undoubtedly, the media influence societies. The first thing, the question of information selection. It is the media that decides what we are going to talk about, that is, what information is going to be given. Next, how we will talk about it. That is, the way we narrate, interpret these events. And this is undoubtedly the influence of the media. Of course, the more channels there are, the more difficult it is precisely to select this information. On the other hand, it is a fact that for some reason we discuss one topic and not another. And yet so many things are happening around us. As far as society's influence on the media is concerned, well, information is also a commodity and, therefore, when we have media companies, which are, well, companies, that is, they are in business for profit, they have to adapt to the tastes of their audience. This, of course, also has negative effects, namely, well, it doesn't always happen, not always, but it can be at the expense of the quality of this information that reaches us. It is said that the media strive to entertain us to death, i.e. the primacy of entertainment, sensational elements over such purely informative elements.

This is true, and now if we can continue this thread, I would like to ask about the role of the media in shaping economic successes or economic failures. An example of big companies going bust after a press release. Do you have any thoughts or examples on this topic?

In fact, it is difficult to make an unambiguous assessment of this kind, because sometimes we may wonder why a media campaign aimed at a certain enterprise, or the disclosure of various scandals, in one case contribute to its downfall, while in another they have no effect at all, or are overlooked somewhere. The same is true when it comes to influencing political decisions. We also have

plenty of examples of information or criticism from the media concerning the actions of the government, the actions of individual politicians, which do not involve resignations or changes of any kind, but there are, and we know from history, situations when media information, usually preceded by some kind of reliable investigation, caused, for example, the president to resign from office, such as the Watergate affair.

It is also puzzling that sometimes there is indeed such an impact, while in other cases there is absolutely no such social resonance or reaction from the authorities. I suppose this is a topic that should be further researched. There was also an interesting situation from the first days of Russia's war with Ukraine in 2022, when the media, mostly social media of course, not the mainstream media, themselves spread the news that petrol would disappear from petrol stations, that there would be no possibility of delivering money to ATMs, which caused a collective panic and also some economic bumps, as banks had to change their logistical system. Fuel suppliers had to change the rate of fuel delivery to meet the needs of consumers. At the same time, an information counterattack. Again in the media, that nothing so bad would happen. And the queues, I remember queue lists of 100 or 150 to take money out of an ATM.

That's right. In general, money likes silence and therefore media hype or information about problems in a company can translate into, for example, a drop in the share price of a given company, which can directly affect the condition or future of that company. This is how it works, of course.

Also, media stereotypes make us trust banks less, because it is the media that very often show that, for example, in these banks, a deposit is lower in interest rate than a loan, so we calculate for ourselves what it looks like. The media also, again social media, again those, one could say, unnoticeable influencers, who we used to be able to call opinion leaders from Levi's, who are now shifting to journalistic, quasi-media functions, are in some way influencing our economy, our consumer choices. I recently came across data like this, that 80% of comments and

product descriptions are false, generated by users who have never done it. This also shows, I don't know if you have encountered this, but the enormous power of the media in our even everyday choices of hoover, hair dryer, milk, candy bar or party drink.

Of course. Advertising is a lever of commerce, well it's not a slogan that was invented yesterday.

And advertising is taking up more and more space in the media, because also what you mentioned, they have to make a living from something.

Correct.

We have had economics, let's move on to social issues. Is the media the fourth power, or does the media only serve to support the first three powers?

This is a very difficult question. Of course, this idea of a tri-partite government and the spread of the democratic system, the recognition of the role of the media in this system, has led to precisely the development of this idea of the media, which are to perform the function of a fourth power, which will be a form of exercising social control over the first three. And, of course, we know that this is theoretically possible only if the right conditions exist, that is, if we operate in a democracy. However, research shows that it is by no means the case that where there are free media, democracy will immediately function better. Neither is it to be said that the media must necessarily spoil democracy, but unfortunately there is no direct correlation of this kind. However, as far as the second part of the question is concerned, that is, the connection with the first, second and third authorities, this is quite dangerous. Putting the media in such a rather uncomfortable role. It is true that in the press law of 1984, which is still in force in Poland, the media are supposed to serve the society and the state, but it is commonly such a concept that is ridiculed, because it is either or. Rather, as it follows from certain ethical and deontological principles, the media are first and foremost supposed to serve the public, to defend the public against the temptations of the author-

ities. On the other hand, there is no doubt that every authority would love to take control over the media. In a democratic system this is restricted by constitutional guarantees of freedom of speech and freedom to establish state enterprises, whereas in authoritarian or totalitarian systems there are no such restrictions and in fact then the media perform the function of a propaganda mouthpiece of the regime.

We have the example of North Korea, where the supreme leader knows everything, visits a poultry farm one day and teaches farmers or ranchers how to raise chickens, and on the other hand goes to a precision missile factory the next day and calibrates the missiles so that he has the least amount of flare.

Of course, creating the image of the father of the nation who knows best is an example familiar from many regimes, described many times. In such regimes, too, the key role for the authorities is to subject the media to very tight control, by means of preventive censorship, for example, or various mandatory publication orders, by means of controlling access to the journalistic profession, so that these tools are very numerous indeed.

Can access to the journalism profession be controlled today?

Not nowadays, in a democratic system of course, and here this caveat is very important, because journalists, the journalistic community in general, is very reluctant to any kind of regulation. There were ideas, for example during the amendment of the press law at the end of the 1980s, to introduce a requirement that a journalist could only be a person with a university degree. There was a great outcry and a great deal of opposition from journalistic circles, who absolutely did not want this profession to be subjected to any kind of control. However, this control does, of course, exist in authoritarian systems or regimes. I also deal with the Spanish press and media, and there is an example from the history of Spain, from the times of General Franco's regime, where the condition of access to the profession of journalist was graduation from an appropriate school of journalism and registration. Paradoxically, as it turns out years later, this also had the side effect of producing genuinely well-educated journalists who had this craft very well mastered.

Perhaps this is some sort of prescription?

I would not dare to recommend it.

Let us stay with journalists. What was a journalist historically and who is a journalist today? What qualities, what skills should they possess? Is it just a scribe who observes reality or a commentator who broadcasts a narrative? Who was, who is a journalist? Because these, it seems to me, are two different characters, two different ideas.

It's not quite, I wouldn't put it that way, because a journalist and the idea of the profession in general is that it's someone who is professionally engaged in informing in one way or another. Of course, in the heyday of journalism, you could say it was an elitist profession. Hence to this day we have such reminiscences in the form of such concepts or ideas as the mission of journalism, the special mission, the special role, the special role of the ethical principles that should guide this journalist, the skills. Here, too, we have a whole set of qualities that a journalist should have. However, the problem of this profession, and not from today, not from yesterday, is this progressive precarisation. So we have, as it were, two worlds. We have the world of star journalists and we have the world of those media workers who are often employed on junk contracts, civil law contracts, who are poorly paid and have no guarantees for their employees, which also affects the quality of their work. Many studies and analyses have been written on the situation of journalists and on how their living conditions and insecurity affect the quality of their work.

I also remember this idea of a journalist card, which gave certain privileges to contemporaries. I don't think this journalist card is such a key that opens all doors at all.

It is not the key that opens all the doors, nor is membership of journalistic associations, which is not obligatory. Journalists are not, the profession is not a corporation, there are no obligations in the form of just belonging to an association of one kind or another, by the way there are probably several of these associations at least. And therefore, well, this has its pros and cons, because membership in

a corporation also gives some kind of protection from that corporation, if it functions properly. On the other hand, if you don't belong, you theoretically have more freedom and liberty, which journalists also care about, but on the other hand, you can only count on yourself.

This is true.

Also, if I may mention one more thing, the rules have changed a little bit, because the press law until a certain point had such a provision, which established information privilege for journalists, that is, they had priority access to information. Now the rules are structured in such a way that every citizen has the right to access public information and journalists are not privileged here.

Is that good or bad?

That is good, that is good. Of course, it hasn't changed much in practice because journalists are professionally in the business of getting information and disseminating that information, whereas every citizen, and I guess that's also the idea of a democratic state that operates on the principles of openness, equality, that every citizen should have the right to access that information.

Well, yes, but then any citizen, given the right skills and tools, can become a journalist.

We do not have a definition of a journalist. We do not know who a journalist is. There are many such definitions in theory, in science. However, we could really define it in a very simple way. A journalist is someone who is employed as such. For example, a person who conducts information activities in a professional manner, for example, because there is no obstacle to the author of a blog, which appears regularly and which is engaged in passing on information and opinions, being a journalist. He will be a journalist, which entails a number of legal obligations.

This is something to be aware of.

Yes, if we recognise that a medium, because it doesn't matter whether it is online or in print, it doesn't matter at the moment. If

we consider that it is a journal or a magazine, then it should be registered, which not many people realise, but such court rulings already exist with such content. If someone runs a blog of this nature, well, then they necessarily become a journalist.

We have just started with 'or magazine', these used to be very important two words that actually changed the electoral orientation on the Polish political scene. We have several such examples of media actions that have changed societies' decisions. They even changed the functioning of society. We have Orson Welles' *War of the Worlds*, which was a simple radio recording, a reading that caused a panic attack in New York State. We have Kapuscinski's *Football War*, with which the media turned up the heat on two antagonistic nations. Finally, we have Watergate, we have just that famous 'or magazines'. How did the media influence major historical events?

Well, the fact that we are able to calculate, maybe not on the fingers of one hand, but on all the fingers we have, this influence means that it is perhaps a little overestimated. It all depends on the circumstances, I have that impression. I mentioned earlier that sometimes some media information goes completely unnoticed, other times it actually has a certain effect. Here we could also give more examples of information or journalistic investigations, the disclosure of which resulted in some kind of action, such as the issue presented in the film 'Spotlight', i.e. a journalistic investigation conducted in Boston, which revealed the scale of paedophilia in the church, which was later translated into specific decisions. The Watergate affair, which, as we know, had an effect and which also translated into legislative changes, which meant that the activities of the secret services had to be characterised by greater openness and transparency. There was also the question of media activity in general, or the activity of journalists and reporters earlier, during the Vietnam War. How this activity changed the perception or attitude of the public towards this war. So these are indeed such watershed moments, but there would have to be a favourable social climate for this information to fall on the right ground. This is my conviction. because we have examples of indeed disclosures that do not have any great results.

And at the same time we have great examples of how a journalist became a star. Kim Philby, or Ernest Hemingway, who after all started out as war correspondents. For those not familiar with the person, Harald "Kim" Philby is one of the greatest Soviet agents who operated in Britain. Ernest Hemingway, an eminent writer. They started out in journalism.

In fact, I will cite the example of Spain, where, although the Republicans, the defenders of the Republic, lost the war, they proved to be moral victors, thanks in part to the fact that they had public opinion, the world opinion, on their side, thanks to the activity of outstanding reporters, outstanding journalists, who reported in a pro-Republican manner on the course of the war. Here, too, the perception of certain events is certainly influenced by these great journalistic figures. Oriana Fallaci also had such an impact.

Here, too, the media show us certain events in a certain perspective, they give their narrative. Here, too, we must remember that underneath the guise of pure information there are very often certain interests that are concealed. These can, of course, be national interests, resulting from ethnocentrism, or simply national interests resulting from a certain strategy of promoting our country, our nation, our economy. This is also quite an interesting issue.

I agree that it is difficult to say to what extent the state has the ability to create this information agenda at the moment. Of course, through the media, which it controls or influences to some extent, of course. However, at the moment we are at a stage in the development of the media where they are international in nature and serve the interests of, precisely, the question is: who? It is probably not the interests of the state.

Therefore, as Marshall McLuhan said, the role of these public media is very important. Well-run, well-managed, independent public media that look after the interests of the community.

Yes, except that there are very few public media that operate independently. Our experience, for example, is not the best. However, the temptation for the authorities to subjugate the media to themselves is indeed enormous and, in fact, there are no proper legal

mechanisms to guarantee this independence, and if we do not have legal mechanisms, we are really only dependent on the goodwill of those in power.

Well, yes, and on the other hand, the example of the United States, where public PBS has a very residual audience because they have been thrown into the free market and that is a major problem. It is always the viewer who chooses what is attractive, not what is mission-driven. Although mission can sometimes be attractive too. Finally, Doctor, a simple question. What does the future hold for the media?

Different visions are being floated, very pessimistic visions, optimistic visions, which is also nothing new. When radio appeared, well, for newspapers it was interpreted as a threat to their existence. It turned out that this coexistence was possible, just like with television. Then the Internet appeared, and as soon as it did, voices were raised that this was the end, the death of the traditional media, above all the press, within the next few years. And what turned out? Of course, the circulation of the printed press is steadily declining and will probably continue to do so, but the leading press titles have found their feet in the digital environment and have made a good start in social media, which are increasingly becoming a source of information. The basic challenge is simply to keep up with these trends.

And remembering the main role of the media, which is to show and seek the truth.

Correct.

I would like to conclude on this note. Thank you very much, Doctor, for an interesting talk.