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# Microeconomic management and macroeconomic policy vs. economic growth and social development

**Economics must be interdisciplinary. This claim may come as a shock at first glance. How come? A discipline is supposed to be interdisciplinary? Yes, but from now on maybe it'd be more appropriate to talk not so much of economics as a discipline of social sciences, but instead simply of interdisciplinary economics or, if you will, of interdisciplinary approach to examining economic events and processes.**

This is because a lot – more and more – is happening at intersections. And that's where things get most exciting. At the intersection of the economy and society, researched by sociology, social psychology, anthropology, history; at the intersection of society and politics examined by political sciences and sociology of power; at the intersection of economy and natural environment, studied by ecology; at the intersection of culture and economy dealt with by anthropology, among others; in mutual relations between economy and technology, something of special interest to management sciences, which are part of economic sciences, incidentally. These intersections are growing in number. To avoid losing sight of what matters, you need to look through a set of adequate lenses rather than through one scholar's glass in a traditional, narrowly defined economic speak. Since we agree that thinking has a future, then let's also agree that interdisciplinary thinking has a great

future. Both in general and in particular. With respect to economic activities and economics that studies them<sup>1)</sup>.

So is the economist of the future supposed to be a polymath who has an understanding of multiple areas of social and economic activity? Should he be also a bit of a sociologist and a psychologist, a political scientist and a historian, an anthropologist and a cultural expert? And a mathematician and an IT specialist, on top of that? Should he learn a spectrum of research methods, from statistical studies and econometrics to comparative analyses and case studies to polling and research into the literature? Should he be like the symbolic one-man orchestra, who not only plays all the instruments in a big symphonic band but, to boot, also conducts it when performing a piece he himself composed? And then maybe he should write an objective review or suggest some desirable changes to the form and content? Let's not exaggerate.

Well, then, maybe a good economist should be a narrowly specialized expert who has read everything there is and even written something on the subject of, say, economics of strawberry farming or hair salon management? By no means, although it is beyond dispute that experts in all kinds of fields of economic activity and all aspects of its functioning will always be needed. Also in strawberries and hair-dressing. Sectoral economics or special-

ized trends in microeconomics are also in for a fascinating future, and people will expect them to explain and suggest what to do in countless specific cases.

A good economist that is active in such areas should be aware that the subject of his inquiries is always divorced from the wider context and at least have a rough idea of how things are standing in a wider perspective. He should also know that by giving his own answers, he presents others with new questions. He must understand that he's only a small part in a big mechanism that moves forward in time and space, as do the two objects investigated by economic studies, namely economy and society. The more dynamic the attendant qualitative changes are, the more difficult it is to do good economics. And the more intriguing it becomes.

The usability of economics in shaping the reality can be fully seen if we look at resource allocation through the lenses of the dialectics of continuity and change. Those two categories determine the future, but their strength varies in different periods and for different economic processes; continuity prevails on some occasions, and change on others. In the first decades of the 21<sup>st</sup> century, the importance of change is growing, while the role of continuity is fading. While relatively less is happening, by force of inertia, revolutionary changes take place in production technology and management methods, as well as in culture and in political relations, which border on economy. One has to watch out, as it sometimes happens that before results of some research are even published, they already refer to a reality that's no longer there. Change has dominated continuity. That's why descriptive economics must focus on theoretical interpretation of changes from which new realities emerge. At the same time, applied economics should give direction to those changes in practice and if the transformations proceed the way they should, catalyze them.

The two factors that luckily have been a given for roughly three hundred years, namely the ability to accumulate capital and the technical progress driven by innovations, are not enough to guarantee the longed-for social and economic development. The former is a reason to invest, which helps expand production capabilities, the latter is the basis for an increased work performance. However, what is also needed is skills in microeconomic management and macroeconomic policy, so that the growing potential may be fully used. Presently and in the time to come, there will be both more opportunities and threats in these areas, with a unique overlapping of development megatrends that have been unknown to the history of mankind: globalization, another scientific and technical revolution, revision of cultural, social and political values.

Globalization, the mega process of our times, contributes to a relatively higher economic dynamics, mostly due to:

- ❶ economies of scale provided by the international trade or a drop in unit costs as a result of increasing the size of production batch due to exports and, hence, access to foreign markets;
- ❷ more effective, compared to closed economy, allocation of human and financial capital;
- ❸ improved skills of employees involved in a world exchange.

By no means does it happen automatically, or always or to everybody. One needs to watch out not to get a raw deal. Watch out, that is, mostly, have economic knowledge of what depends on what and how in the new economic conditions brought about by globalization. It will be that way also in the future; not everybody will get the best of a deal, but generally and on average it will give the world economy an opportunity for a faster growth. What will it depend on and how we should, consequently, orient the growth strategy

to take the most advantage of globalization rather than be taken advantage of?

Competitiveness will decide. That of entrepreneurs, sectors, national economies, integration blocs. Therefore, the problem boils down to answering the question: what does competitiveness depend on? Mostly on technology and quality of human capital and on managerial and marketing skills. But also on the quality of the government, on the standard of public services it provides to the public and entrepreneurs, and, mostly on the quality of institutions or norms, standards and legal regulations in which private entrepreneurship, which competes now on the global market, should spread its wings. Hard economic infrastructure is of great importance to competitiveness. If we were, for example, to move British companies to Nigeria along with their technology, management and staff, their efficiency would drastically fall due to the dysfunctional infrastructure and institutional inefficiency of the latter economy. Competitiveness, then, is shaped both by private business skills and government regulation and policy, by market and government.

Both in the past, in the case of Japan and South Korea, and these days, with reference to countries such as China and Brazil, on the one hand, and Germany and France, on the other, it wouldn't have been possible to achieve a permanent competitive advantage over other national economies if it weren't for an active government involvement. It took various forms. In Asian countries it was mostly industrial policy, while in European ones, to a greater extent, adequate regulations to favor innovation and technological progress, but in all of those and other cases, successes were achieved thanks to huge government investment in education, infrastructure and major R&D spending co-financed from public funds. It will stay that way in the future.

Back from the heights of politics to the pragmatic microeconomic ground, what counts most is management. In many countries, the gap in this area is much greater than the technological gap. If management is based on knowledge, both one learnt at business schools, and one gained through life experience, chances for an economic success are going up. Based on comparative analyses some management experts claim that by improving its quality we could quickly and perceptibly multiply the national income. This supposition does not apply to countries which already boast highly professional management, which has been long the case for Germany and for over a decade for South Korea, but to those where its poor quality is striking even to laymen, like in Kazakhstan or Tanzania. There are opinions that in Indian economy the output could be even doubled in short time by improving the quality of management<sup>2</sup>). Undoubtedly, in the world of the future the potential for improving the economic efficiency will be greater in management than in policy.

Both require continuous improvement, which is successfully achieved by some, like Koreans, while unfortunately not so much by others, like Ukrainians. If we could experiment and implement the Korean corporate management standard in Ukraine, this would improve the situation much more than a similar transfer of economic policy. Curiously enough, it seems that this reasoning cannot be simply reversed. Implementing the Ukrainian style macroeconomic policy (and politics) in South Korea would harm the latter much more than transferring the Ukrainian style management over there. We won't conduct any of those experiments. On the other hand, in time, we will be following with great interest the results of the gradual (as there will be no "shock therapy") transfer of the South

Korean style management and policy to North Korea.

There are many complex factors, also cultural ones, underlying the quality of management, but certainly the knowledge about what depends on what and how is of key importance. It is all the more needed, the more we operate in uncertainty, and that's the case of the modern-day economy. This uncertainty will by no means disappear, after the present crisis is gone. Though, its nature will change, as well as the weight of various uncertainty factors and the power of their impact on regulatory and real processes. The ability to adapt to those changes is something one needs to continuously learn. Bringing this specific knowledge up to date is necessary to interpret data correctly, and thus to have the right information on which we should rely if we wish to be rational. And we do wish. In the future more and more often there will be clashes resulting from the fact that although the reasoning process has seemed logical, the conclusion will prove wrong as the question asked was about tomorrow and the premise we used was from yesterday.

In a real world, particularly in developed countries, as much as three fourths of the final redistribution effect is the result of public spending, and only one fourth, that of taxes. This goes to show how important it is to reasonably address and efficiently manage the public spending. It is all the more surprising that the tax side of public finance keeps attracting more attention and stirs greater emotions than the spending side. Naturally, apart from demands to "cut the spending". By improving administration in that area we can achieve a lot in social policy, in many cases by reducing taxes at the same time. And this is the way to follow in the future.

In the future of particular value will be knowledge of managing the change. We need to think all the time, although sometimes faster and other times more

slowly, depending on the nature and dynamics of the changes taking place. There are issues that require immediate decision, dilemmas which must be solved urgently; you need to think fast. There are also those where errors result from lack of composure, too much haste, acting rashly and then you have to pay for your mistakes. There are questions you need to answer right away, there are also those worth thinking long and hard about before answering. The question of how to get rid of the US budget deficit can be answered immediately when it's asked live in an interview for CNN, but also slow, at a semester-long seminar at Yale. On TV there's no time for that but in life sometimes it's better to count to ten in your head before you say yes or no. Both fast and slow thinking has a good future as long as it's correct thinking, one based on good economic theory, right premises and proper identification of facts. The process of continual changes undoubtedly makes it all more difficult. Although we will know more altogether, in many cases it will be more difficult to make the right decision. Yet the things even more often will be more interesting, which from the intellectual point of view is a big consolation, but from the efficiency perspective it's nearly none at all.

If somebody so desires, the future as a whole can be discussed as a question of managing the change. This will be a very serious problem, because there will be more and more changes. They already are. Training not only managers and economic policy-makers of all levels as well as public administration officials, local government activists and all kinds of professionals in mastering the ability of rational behavior in volatile conditions is an imperative of the time to come. This comment also applies to NGO activists. You need a lot of imagination to practice on case studies from the unidentified future rather than

from the obvious past. Just like it's very useful to consider the alternative history of the "what would have happened if" variety (or what should have been done if the circumstances had been different, if a hypothetical change had taken place in the past compared to the situation that actually happened), it is very handy to play the creative game of alternative future (by its very nature, it is nearly always alternative, either-or), "what should be done if...". This "if" is about change.

Thus it won't hurt if at the very onset of each action cycle, which can be a day or a week, a month or a year, less often a decade or a generation, during which a whole number of things change, we start by reflecting on what and how (or why?) has changed. Since yesterday, over the week, after a month, in a year. It's worth finding time for that, in spite of all the rush. It may be exciting to spontaneously acknowledge the changes taking place, but being systematic is certainly more useful in shaping the future. Being aware of changes provokes and encourages thinking in terms of what will change and how – tomorrow, a week from now, after a month, in a year. Then it's easier not only to think about the future, but also to think ahead of it coming true, so you can best shape it for the benefit of yourself and others.

Success will belong to those administrators, local government and NGO activists, managers, strategists, politicians

and statesmen who can both manage the ever-changing economic conditions (especially when it comes to their organization's adaptability or competitiveness of their companies on the market or that of national economies on a global scale), and impose their own development strategy on reality. A company boss who is only good at management under crisis conditions (well, some think the crisis is still on), but otherwise never finds the time and lacks the ideas to set the company on a healthy path towards the future, cannot be called a man of success. Ministers of finance cannot be called effective if they can make both ends meet in a short term perspective, but it's beyond their ability to create conditions for a long term dynamic equilibrium. You can achieve success only when you know more and better than others.

So, we are not lacking the questions waiting for answers and problems awaiting solutions. Hence this article proposes further discuss numerous topics related to fascinating challenge of long-term dynamic development. It should be balanced in three dimension: as just economic expansion, as environment sustainable growth, as socially equitable development. It depends on the quality of both, microeconomic management and macroeconomic policy. There is no doubt that only a positive synergy of these both spheres of economic activity can pose a chance of success.

### References:

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