

Special Issue in Memoriam Kazimierz Laski

Kazimierz Laski, 1921 – 2015

Remembering Kazimierz Laski

Kalecki's Place in my Career as an Economist

by Kazimierz Laski

Net Private Savings in Relation to the Government's
Financial Balance

by Kazimierz Laski and Leon Podkaminer

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LEON PODKAMINER

MARTIN RIESE

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Kazimierz Laski, 1921 – 2015

BY MICHAEL LANDESMANN, MARTIN RIESE* AND HERBERT WALTHER**

The economist Kazimierz Laski, Emeritus Professor of Economics at the Johannes Kepler University (JKU) Linz and former Scientific Director of the Vienna Institute for International Economic Studies (wiiw), died on 20th October, not long before his 94th birthday. His life covered significant events in 20th century European history – fascism and the Holocaust as well as the construction and collapse of ‘real socialism’ – closely tied with personal milestones.

Laski was born into a Jewish family in Poland in 1921. As a young man he survived the German occupation of Poland and the Holocaust under the most difficult circumstances. After the war, Laski studied at the School of Planning and Statistics in Warsaw and the School of the Polish Workers' Party and was involved in the construction of a new Poland. After receiving his doctorate, he quickly rose to Assistant, Professor and Vice Dean. When a new wave of anti-Semitism was initiated by the Government in 1968/69, Laski lost his professorship and decided to emigrate. He settled in Austria because he found attractive job opportunities at the Institute of Economic Research (WIFO) in the nascent Department for International Economic Studies which later became the Vienna Institute for International Economic Studies (wiiw). He soon received offers from universities too: the Catholic University of Louvain (Belgium) and the Johannes Kepler University Linz.

From 1971 until his retirement in 1991, Laski worked at the newly-founded Johannes Kepler University Linz where he was instrumental (together with Kurt Rothschild) in the establishment of the Institute of Economics and its integration into the international scientific community (e.g. through the successful negotiation of several periods of residency for the renowned Indian economist, Amit Bhaduri, winner of the Leontief Prize 2016). At the same time, and until recently, he was employed at the wiiw where he had also held the role of Scientific Director from 1991 to 1996.

Laski was a type of academic who is becoming increasingly rare: averse to self-promotion, committed to just one thing, possessing a fiery spirit into old age and who does not see the role of science in increasingly complex models, but rather in how it contributes to understanding the (social) world better and to making it a bit fairer. For him, economics was always *macroeconomics*, which is the study of overall economic performance, which prevails even over the heads of the individuals of the time. Laski never tired of repeating the mantra of his teacher, the Polish economist Michal Kalecki (1899 – 1971): an individual must – at least in the medium term – adjust his spending to his income. For the economy as a whole, this relationship is reversed: the expenditure determines the income; it is Peter's spending that determines the production, and thus the income, of Paul. This basic idea (also shared by John Maynard Keynes), in German-speaking countries also known as *Saldenmechanik* (i.e. ‘balance mechanism’), is destructive in many situations: when the state (e.g. Greece) spends less in a situation of high unemployment than it receives as income from taxes and duties (which reduces the demand from

* Associate Professor, Department of Economics, Johannes Kepler University, Linz, Austria.

** Professor of Economics, Head of the Institute for Labour Economics, Vienna University of Economics and Business.

citizens), such austerity policies often only result in decreases in national product, employment and tax revenues so that the budgetary targets for fiscal consolidation are not achieved. A single household, on the other hand (e.g. the often referenced 'Swabian housewife'), can typically improve its 'budgetary situation' through spending cuts.

The microeconomic-obvious cannot be directly translated to the overall economy: a country is not (or at least is a very special) company, one which, in fact, sells its products (or at least most of them) to its own employees. Laski had tried until the end to write against the counterproductive austerity policy in the eurozone; with little hope of success because those governing had managed to anchor their ideology as the only alternative in the minds of the population.

In Austria, he continued his long-term preoccupation with a socialist planned economy, including studies on capital inflows in socialist countries, the 'grey economy', the comparability of pricing systems and many other works. A summation is presented in the book *Marx and the Market* (together with W. Brus, Oxford University Press 1989). After 1989, Laski was an important voice against the so-called 'shock therapy' when rapid privatisation and liberalisation were propagated by many international organisations and whose negative output effects had been grossly underestimated by those same organisations. In contrast, Laski had been right in his forecast of an increased susceptibility to slumps.

With the passing of Laski, the Austrian economic science has lost an inspiring teacher who remained productive into old age as a specialist in a wide range of fields in socio-political and economic policy issues. Several generations of economists have benefitted from his (sometimes hard) teaching and some of them currently hold important positions in science and politics.

Remembering Kazimierz Laski (15 December 1921 – 20 October 2015)

BY JERZY OSIATYNSKI*

Born in Poland, in Czestochowa, his true name was Hendel Cygler. Only in April/May 1943 he got the Roman Catholic birth certificates and residence registration documents of someone his age who by then was most probably no longer alive. This, no doubt, helped him to survive the Holocaust under Nazi occupation in Poland. After the war he kept his assumed name, although he never denied his family one.

During the war Laski fought in the People's Army combat unit headed by 'Gustaw' (pseudonym for Edwin Rozlubirski, later a general in the Polish Army) and was wounded on Freta Street in the last days of the Warsaw Uprising (1 August – 3 October 1944).

In 1945 Laski started studying economics at the Academy for Political Science in Warsaw from which he graduated in 1948. The following year he obtained an assistantship at the Main School of Planning and Statistics. Moving to the Main School was like turning a new page in his life. His work in the School shaped his intellectual capacity, opened new horizons and made him an outstanding scholar and academic teacher. Subsequently, Laski passed in the School through all stages of an academic career, among other being its Deputy Chancellor for Curricula and Research Programme (1961-63).

Laski himself segmented his research output into three periods: (i) prior to Kalecki, (ii) with Kalecki, and (iii) after Kalecki. In the first phase, his research focused on studies in the dynamics of investment and consumption in the course of Poland's fast industrialisation in the 1950s. The second phase represents his close collaboration with Michal Kalecki, whose theories and personality fascinated Laski. He soon became his strong proponent and eager student. It is then that Laski publishes his *Outline in the Theory of Socialist Reproduction*, as well as other papers that developed Kalecki's theory and popularised it.

The significance of those studies went far beyond academia. They set theoretical limits to economic voluntary decision-making and requested central planners to accept constraints imposed by cost-benefit analysis (albeit not too much practical effect). Kalecki, Laski and their close collaborators requested the political decision-makers who forced ever larger investments to consider the resulting short-run changes in consumption. Although from today's perspective, the practical impact of the suggested constraints on politically motivated investment decisions was negligible, it infuriated the communist political leadership for the lack of subordination of elite economic professors. At the same time, however, it distinguished Poland from other centrally planned countries, paving new ways to economic theorising. Moreover, a quarter of a century later, in Poland those post-1956 outposts of economic 'revisionism' facilitated its transformation from a centrally planned to a market economy. The study *From Marx to the Market* (Brus

* Institute of Economic Sciences, Polish Academy of Science. – This is a slightly revised version of my Address given at Professor Laski's Funeral Ceremony in Vienna, 22 October 2015, first published in 'Studia Economiczne' (Economic Studies), Institute of Economics of the Polish Academy of Sciences, No. 2, 2015.

and Laski, 1989) gives an excellent account of the rather conspicuous end of a totalitarian socialism's search for economic rationality and social justice.

In that phase, Laski's research, teaching and organisational initiatives significantly contributed to establishing in Warsaw a research centre which sometimes was called a 'Socialist Cambridge', the central figure of which was Kalecki. This 'Golden Age' of research and development was disrupted, however, by the anti-Semitic purges in Poland in 1968. Laski emigrated to Austria where he first worked at the Austrian Institute of Economic Research and then at the Vienna Institute for Comparative Economic Studies, of which he was Research Director in 1991-96. In 1971 he also assumed a chair at Johannes Kepler University in Linz where he taught until 1991.

By emphasising the role of effective demand in macroeconomic theorising and economic policy recommendations, Laski gave a particular tilt to the research output of the Vienna Institute which from the 1970s until the mid-1990s made it a rather unique study centre. This, as well as the accuracy of their forecasts built on those theoretical foundations, made the Institute's publications of particular interest to business, banks and other research institutes, attracting young students.

The 'post-Kalecki' phase represents Laski's further studies in developing and up-dating Kalecki's theories in the global economy environment, as well as his continuous defence of the theoretical foundations and the practice of government intervention policies based on effective demand theory. These studies made him the truest student and follower of Kalecki. In neglecting the consequences of aggregate supply changes that follow cuts in aggregate demand, he saw, next to crisis-prone adjustments in a market economy, also the cause of economic policy mistakes in the early stages of economic transformation in 1989-90, and especially in the thereby invoked, unnecessarily deep economic recession.

At the time, being a Minister in Tadeusz Mazowiecki's Government, I invited Laski to write for me – in the capacity of my official advisor – a memo on some short-run macroeconomic consequences of Poland's shock therapy. Next, I circulated his memo among senior economic ministers and Government advisors, but the importance of Laski's note was not appreciated by them. Regretfully, time proved his argument right. Moreover, the memo brought Laski full recognition in Europe and elsewhere for the accuracy of its analysis and recommendations.

The memo, together with his many other publications on critical issues of the economic transition of the Central and East European countries from a centrally planned to a market economy, give credit to Laski's intense involvement in proving the viability of a full employment capitalist economy that would meet both the standards of economic efficiency, as well as those of social justice and equal opportunities. With those priorities always in mind, he was consistently in favour of broad government intervention to counter high and lasting unemployment; should the need arise, also at the expense of controlled expansion of government deficits, and of moderation of the rate of household incomes' differentiation.

Until literally the last days of his life, he continued work on his new book, reading proofs and discussing the outlay of its jacket. His *Lectures in Macroeconomics: A Capitalist Economy without Unemployment*, is a textbook based on present day's extensions and development of the theories of Kalecki and Keynes. Ever since the news reached us how grave Laski's illness was, together with the Polish

Economic Society, who are the publishers of his new book, we rushed to let him see the printed results of his over two year-long writing. Unfortunately, we did not make it. Neither did we manage to print a new selection of Kalecki's works – edited and introduced by Laski and myself. Both books will appear sometime in November only; they were meant to be, in a way, his 94th birthday present.

Throughout his life, Laski was exceptionally active, giving guest lectures, attending conferences and seminars. In early June this year, at the Buenos Aires conference on macroeconomic policy-making, he not only presented his paper, which was much appreciated, but also took active part in discussing other papers, and in the evening our 93-ager attended a class to learn to dance the Argentinean tango, that the conference organisers had arranged for its participants.

Notwithstanding the bitter experience of 1968, with no other country – I think – Laski felt as tightly interwoven as with Poland. In the last three years, at the Institute for Advanced Studies in Warsaw, we ran together a series of lectures and seminars on post-Kaleckian and post-Keynesian economics. He travelled from Vienna to Warsaw to read papers and give presentations for the 'Economists' Thursdays' of the Polish Economic Society, at the Institute of Economics of the Polish Academy of Sciences, and at other academic centres. He travelled as often as he possibly could.

My colleagues from the Institute of Economic Sciences of the Polish Academy of Sciences asked me to express their grief, and their best memories of the late Professor Laski. The same refers to the students and staff of the Institute for Advanced Studies in Warsaw, to his many colleagues and admirers at the Polish Economic Society, and the Warsaw School of Economics – his pre-1968 academic home-place.

Many of his former students, assistants and collaborators asked me to pass on their words of sorrow, and of sympathy to his family and his closest friends. Some of those who approached me remembered Laski from the times well before 1968; despite the lapse of time the links appear to be still very strong and emotional.

Kazimierz Laski was curved out of one block of rock, as we use to say in Poland. He was a highly principled man, but with lot of understanding and compassion for others; a man of great wisdom; an unflinching friend. We all treasured him not only for his exceptional scientific output, and his knack for teaching, but also for his affability, sense of humour, affection, and friendship.

Let this memory of him stay with us.

Kalecki's place in my career as an economist*

BY KAZIMIERZ LASKI

My professional life consists of two distinct periods, and the border line between them is linked with the definitive return of the Kaleckis to Poland in 1955. Before being confronted with his teaching, I was a rather dogmatic Marxist, much more a priest of the 'new religion' than a scientist. Only after having met Kalecki I have become increasingly more a critical and professional economist. The privilege to work with him was a great chance offered by destiny which otherwise was not very kind to me.

The Economic Doctrines of Karl Marx by Karl Kautsky was my first confrontation with political economy. This book opened my eyes not only for the history of mankind and its present complexities, but for its predetermined future as well. The study of the first volume of Marx's *Capital* did not produce the same emotions. The distinction between the value of labour force as a commodity and its alleged exclusive ability to produce value added seemed quite convincing as a tool to disclose the nature of capitalist exploitation, but rather quickly I got lost in the German philosophy inclination to distinguishing between the form and the essence of exchange values. It is rather strange that the discussions on Marxian economics in the past decades have been dominated by the labour theory of value, and especially by the so-called transformation problem (from labour values into prices of production) until Sraffa (1963) proved that the transformation in the form proposed by Marx is not a scientific question at all. The scheme of reproduction presented by Marx in the second volume of the *Capital* has impressed me much more than his labour theory of value. This scheme, with the circular flows of production and incomes in the background, brought Marx very close to what about seventy years later became known as the theory of effective demand. However, Marx got involved in the speculation about the rising organic composition of capital (what he had really meant – as rightly pointed out by Steindl [1962] – was rather the respective capital/labour and capital/output ratios), and the resulting long-run fall of the profit rate, which made many of his followers attempt in vain to calculate the date at which the whole system would break down.

In the early 1950s the Communist Party established in Warsaw the Institute of Social Sciences, a hotbed for training Marxist teachers in the Polish universities which with time became in fact a hotbed for revisionists, but this is another story. I was admitted to the Institute as a postgraduate student and could devote all my time to research and reading, mostly of the 'Holy Scriptures'. After finishing my doctoral thesis I continued work at the Institute and, simultaneously, at the Central School of Planning and Statistics (SGPiS), where I had been an assistant already since 1949 and, after defending my doctoral thesis, I quickly obtained the position of assistant professor, and then of professor. The tight ideological limitations made my work more and more difficult. The other source of my disappointment was the growing dissonance between the official ideology and the practice of 'real socialism'. The thaw after Stalin's death was well underway and the social revolts in Poznan, and then in Hungary, were approaching. I was ripe to leave the line of stout believers, as were many of my colleagues and especially our influential teacher Włodzimierz Brus. It was his initiative to invite Michał Kalecki, who had

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just returned for good to Poland, to give in November 1955 two lectures on 'The impact of militarisation on the business cycle after the Second World War' (Kalecki, 1955). I knew his name from reading, but since in the Manichaean world of finely drawn divisions between Marxian and bourgeois economics he was not considered a Marxist, I classified him accordingly and was rather sceptical towards the expected benefits of his lectures.

It is difficult to describe the first impression Kalecki's lecture made upon me. I saw in front of me a man of rather small stature who spoke in a loud voice, but was intellectually a kind of sorcerer who played with the familiar schemes of reproduction but used them for asking the most important and pertinent economic questions in order to arrive at conclusions that were completely opposed to the canons of the 'Marxian faith'. One of them was that inflation was bad, especially for workers, and a balanced budget was good. This was exemplified by his analysis of the effects of militarisation, which according to the ruling ideology at the time was the main determinant of the successful development of capitalist countries. Kalecki did not deny at all the expansive role of militarisation expenditures but showed that their consequences for the capitalist economy depended on the method of their financing. The balanced budget per se, he argued, was neither good nor bad for the economy because the final result depended much on how this balance was brought about. If militarisation expenditures were fully financed by taxes paid by workers alone, then more cannons and less butter would be produced without any change in total output and employment. If, however, the increase in armament expenditures was financed solely by increased profit taxation, profit after taxation would not change while total output and employment would increase. In that case not only more cannons but also more butter would be produced. However, such a policy would hardly be politically acceptable. Finally, in case increased armament expenditures were financed by deficit spending (which – except under hyperinflation – would not give rise to inflationary pressure), not only total output and employment would increase, but also total profits, which would, in turn, in due time lead to an increase in investment and capitalist consumption, and thus to further economic expansion.

I was amazed. Kalecki's logic was flawless, but 'that which must not, cannot be'. I looked for the trick and believed for a while to have found it. Kalecki slightly redefined the notion of two departments by assuming that they were vertically integrated, each of them producing only final goods, while in Marx's schemes of reproduction the first sector produces not only final goods but also intermediary goods for both sectors. However, I realised very quickly that my criticism was childish. The small change introduced by Kalecki clarified immensely the meaning of Marx's schemes of reproduction and put in the centre of analysis the relation between investment goods (produced by Department 1) and consumption goods (produced by Department 2), i.e. the relation which became the cornerstone of Kalecki's theory of effective demand in the early 1930s.

My next meeting with Kalecki was in 1956, at the Second Congress of the Polish Economists Society. He gave a presentation of his 'Dynamics of Investment and National Income in a Socialist Economy' (Kalecki, 1956). His paper rejected the so-called law of faster development of Department 1 compared to that of Department 2 as a condition for sustainable growth. He argued that requiring the producer goods department permanently to grow at a higher rate was tantamount to requiring a permanently higher growth rate of investment goods than of consumer goods, thus a continuous increase of the investment/income ratio, to the detriment of the consumption/income ratio.

It may seem strange why this rather obvious conclusion attracted great and lasting attention, not only mine but of all his audience, ever since Kalecki's first presentation in 1956. However, in that year, the year of Khrushchev's denunciation of Stalin's crimes, Kalecki had the courage to reject the old dogmas not only with respect to capitalist economies, but to socialist economies as well. The most important message of Kalecki's presentation was not his dismissal of a false policy prescription, but his method of analysing economic problems. He demonstrated that in economics (as in other fields of research) consistent conclusions must be drawn from clearly formulated assumptions, with no room for arguments drawn from 'Holy Scriptures'. For me, just as for many others, this was the main message and the guide-post for the future. I had found my guru.

Kalecki's main job after his return to Poland was related to his advisory work in the Central Planning Commission. As he became more and more disappointed with these activities, I tried to convince him that he should move to teaching and share his knowledge with students. It was not at all easy to persuade him, considering that he had never had a teaching position in academia, but at last he agreed to give a one-term course (of two hours a week) in the Central School of Planning and Statistics (SGPiS) on his theory of dynamics of a capitalist economy, and another course on his *in statu nascendi* theory of growth of a socialist economy. I felt very happy until only a few days later Kalecki told me he could not accept my proposal because he had not enough material to lecture for two hours a week. It must be noted in this context that Kalecki almost never referred to other authors and their theories; he presented only results of his own research. I proposed he lectured only one hour and the second one would be devoted to questions and answers and this he accepted.

At the SGPiS, next to teaching Kalecki got involved in intense research. His practical experience in the Planning Commission and the stylised facts elaborated there were the basis for his theory of growth in a socialist economy. His advisory work was inseparable from his theorising; on the one hand, the practical problems with which he was confronted led him to theoretical generalisations, and on the other hand, his theory was the point of departure for his expert advice. From the very beginning of Kalecki's work at the SGPiS I always closely collaborated with him. I can say that his theory of growth of a socialist economy came into being in front of my eyes; we discussed step by step every chapter of his book and sometimes I was able to suggest some improvements. I tried as much as possible to disseminate the ideas of Kalecki's growth theory and especially to include them into the academic curriculum of Polish universities. I was also able to study in depth his theory of effective demand in a capitalist economy and to get when needed additional explanations directly from him.

When in 1968 the group of Kalecki's students and collaborators became an object of rough and politically motivated attacks and I lost my professorship at the SGPiS, the time had come to decide what to do next. Kalecki's opinion that Poland was no longer a place to pursue economics seriously helped me to make up my mind. Thus, in my late 40s, not ready after my war experiences to tolerate a new wave of anti-Semitism (also if disguised as a fight against Zionism), I decided to leave Poland for good with my family. Although almost penniless, in my pocket I had a very positive letter of recommendation from Kalecki 'to whom it may concern' and, even more importantly, a full-load of his theories in my head. Familiarity with Kalecki's theory was the invaluable capital that even the most malicious customs officers could not prevent to take with me abroad.

My first stop was in Vienna where I had to spend a few weeks, mainly waiting for an immigration visa to Canada where I was offered a professorship in economics. However, when I refused to accept the

Canadian consulate officer's well-disposed suggestion that I declared to have been forced to become a member of the Communist Party (which in fact I had left in March 1968 in protest against its anti-Semitic drive), because otherwise I could not have pursued my university career in Poland, my future as a potential Canadian immigrant was decided. Andreas Papandreou, the later prime minister of Greece, who at that time was still the Dean of the Faculty of Economics at the York University in Toronto, started a petition campaign signed by a great number of Canadian economists but to no avail. Required by the petition to explain his decision to the parliament, the Minister of Internal Affairs declared that I was a danger for Canadian security. Most probably this danger would have been much smaller if my behaviour had been more opportunistic.

My stop in Vienna was to be provisional. But, *rien ne dure plus que le provisoire*, and my stay in Austria now lasts already for almost 38 years. With the help of Josef Steindl, the close collaborator of Kalecki in Oxford during the Second World War, and Franz Nemschak, almost immediately I obtained a job at WIFO (Austrian Institute of Economic Research), in the newly established Department for Comparative Economic Studies. I wanted, however, to continue my university career and already in 1971 I was confronted with a difficult choice between a professorship at the University of Linz and the University Catholique de Louvain. Louvain was a much older university, and my French was at that time much better than my German. Indeed I had spent the whole academic year 1966/1967 as a visiting professor in the Haute Ecole des Sciences Sociales in Paris. I did not know the University of Linz and had never been to that city before, but I could not wipe out from my memory the names of some Linz inhabitants who had become horrifying ghosts of my personal history: Ernst Kaltenbrunner, Adolf Eichmann and, the worst, Franz Stengl, the commander of the Death Camp in Treblinka where all my family was gassed. On the other hand, my children continued already their education in German, and my wife was quite fluent in German but knew no French. I had already made some friends, some of whom I had first met in 1962 when I was a visiting professor at the Institute for Higher Studies in Vienna for two months. Moreover, the hospitality that I personally and my family enjoyed since the moment of our arrival to Austria did play an important role. I decided to choose the University of Linz.

Together with Kurt Rothschild we offered at the Linz University, to about 20 generations of students, not only a critical review of mainstream economics but also a radical theoretical alternative in the form of Kalecki's theory. I have made it my duty to pass on Kalecki's teaching to others, and looking back I have the feeling that my effort was not fruitless.

Another task was to develop Kalecki's theory and adjust it to the new economic environment. Among my published papers I would like to select two directions in which I believe to have made some progress. Keynes's teaching was absorbed by mainstream economics and emasculated (contrary to Kalecki's, which was simply ignored). The spectacular result of this operation was i.a. the aggregate demand versus aggregate supply analysis, with macroeconomic equilibrium being achieved similarly to that in a market for an individual good, by the right price adjustment. Together with Amit Bhaduri and Martin Riese (Bhaduri et al., 1999) we proved that the whole construction suffers from basic inconsistency. It did not change academic teaching in any way; there exists almost no macroeconomic textbook that does not repeat the evident mistake demonstrated by us. At the seminar devoted to the centenary of Kalecki's birthday (1999) I presented the paper 'Three ways to ... unemployment' (Laski 2004) in which I argued that in the majority of countries practical economic policy-making does not only disregard Kalecki's proposals for full employment but that it simply contradicts his advice. In that paper I disclosed that the propensity to save started to play an important role that had not been known previously. In some

countries (such as in the United States) the decline in the savings rate gave a push to consumption growth in the late 1990s which in turn led to an increase in investment and accelerated growth of GDP. In some other countries (e.g., Germany) the increase in the savings rate limited the consumption growth and was conducive, under low propensity to invest, to a slowing down of the GDP growth and increasing unemployment.

After retirement from Linz, I was offered the position of the Research Director at the Vienna Institute for International Economic Studies (wiiw) which I held for the period 1991-1996. This was the time when the communist system broke down and the world was confronted with a completely new problem: how to go back from a centrally planned to a market economy. Somebody said that the task was now how to transform scrambled eggs back into eggs. International organisations had a ready-made and uniform answer for all transformation countries in the form of the Washington consensus. We at the wiiw tried – without much success, though – to prevent the approaching disaster in the form of a prolonged recession.

At the very beginning of the shock therapy in Poland I had the privilege to be invited to prepare an experts' report of the expected results of this policy package. I came to the conclusion that GDP would fall over 1990 by 15% to 20% instead of the tacitly assumed (although not published) decline of about 5% (Laski, 1990). In fact, in 1990 GDP fell by 11.6% and in 1991 by another 7%. As far as I know, there was no other economist to foresee this development. This was not the result of any personal prophetic ability; I had simply used the method of Kalecki and tried to calculate the results of the decline of effective demand. My expertise was of course completely ignored and shelved.

Many students and even close collaborators of Kalecki in Poland experienced at about that time a kind of new 'illumination'. They moved directly from the thesis that the market cannot spontaneously adjust the propensity to invest to the propensity to save to the opposite thesis that the invisible hand of the market solves all problems if one is only ready to accept its functioning, and first of all if the state does not interfere with this miraculous mechanism. The proponents of socialism with a human face transformed themselves overnight into passionate free traders. I became a witness of a real development which Joan Robinson had invented only in her imagination. She once wrote that the border between ideology and science in economics is not sharply determined. Imagine, she continued, that somebody changes his political opinions and at the same time his whole economics. This proves that his economic views contained nothing but ideology. If, however, somebody changes his political opinions but sticks to at least part of his economics, this part is – at least subjectively – science, not ideology. Some people need faith. They can replace the belief in Marx and Kalecki by one in Smith and Friedman, but they cannot get rid of some faith.

A number of my former Linz students and collaborators, presently occupying important positions in higher education and government administration, defy mainstream economics and act in the direction of a more efficient and egalitarian society. I feel I have contributed to this as I have also some modest share in the international reputation wiiw has gained over the years. In this way I may have paid back my debt to my host country and contributed at the same time to preserving the intellectual heritage of Kalecki.

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Net private savings in relation to the government's financial balance: some basic principles of macroeconomics disregarded by the European Union's economic policy-makers*

BY KAZIMIERZ LASKI AND LEON PODKAMINER

THE PRIVATE SECTOR'S DESIRE TO RUN A FINANCIAL SURPLUS CANNOT BE REALISED WITHOUT THE GOVERNMENT'S WILLINGNESS TO RUN A DEFICIT

Looking at a national economy from both the income and expenditure sides, one gets the following identity:

$$YD + T + M = CP + IP + G + X \quad (1)$$

where YD denotes the disposable income of the private sector, T is the disposable income of the government (all taxes net of all monetary transfers to the private sector) and M is the income of the rest of the world (RoW) from imports of the national economy in question (the left-hand side of (1)). On the right-hand side of (1) we have private sector expenditures on consumption (CP) and that sector's gross investment (IP), government expenditure on goods and services (G), and RoW expenditure on the national economy's exports (X). By simple rearrangement, we get

$$[(YD - CP) - IP] = (G - T) + (X - M)$$

This is equivalent to:

$$(SP - IP) = (G - T) + (X - M)$$

or, finally:

$$NPS = D + E \quad (2)$$

Private savings ($SP = YD - CP$) comprise household savings and profits retained by firms. In (2) we denote by $NPS = (SP - IP)$ the *net* private savings, by $D = (G - T)$ the budget deficit and by $E = (X - M)$ the RoW deficit (or the current account of the country concerned).

* This text was first published as a chapter in: O. Dejuán, E. Febrero and J. Uxó (eds), *Post-Keynesian Views of the Crisis and its Remedies*, Routledge, 2013.

Ex post, equation (2) always holds because it is an identity. However, even as an identity it points to interesting relationships between sectors, especially when statistical data covering longer periods are available. For the world as a whole, we obviously have $NPS = D$. This is an identity which links the financial balances of the private and government sectors aggregated globally. Budget surpluses ($D < 0$) and even balanced budgets ($D = 0$) do occur, albeit rarely; thus, for monetary economies worldwide, budget deficits ($D > 0$) seem to be the rule rather than an exception. This applies not only to times of war and disasters, but – at least for the industrial countries disposing of longer statistical records – also to periods of peace as well.¹

The world public debt to GDP ratio increased over the last 120 years from about 40% to about 70% and for advanced countries from about 50% to about 100% (IMF, 2011)². Although there were also periods of decline of this ratio, its increasing trend implies not only an increase in debt but also its increase ahead of GDP growth. It implies also – taking into account the fact that the rate of interest (for public debt) was for long periods below the growth rate of GDP – that the budget deficit in most countries must have been positive.

Given that for the world as a whole $E = 0$ by definition and $D > 0$ (as shown by long-term statistical records) we have, according to (2), $NPS > 0$. The private sector of the entire global economy displays a sustained tendency to save more than it invests. The same observation can be made with respect to the European Union (EU). The EU is a group of countries with negligible E . Almost all EU countries have consistently run budget deficits (very much in violation of the Maastricht Treaty). Thus, for the EU as a whole, we also have $D > 0$. In actual fact, the consolidated budget deficits for the entire euro area have been positive since at least 1995.³ It follows that the NPS for the EU as a whole is also positive. Last, but not least, we observe that for $NPS = 0$ – which can be understood as a minimum requirement to the effect that the private sector should not become indebted in the long run – all countries with a passive current account ($E < 0$) must record budget deficits $D > 0$. Of course, all these observations are to be understood as referring to a trend and average values for longer periods – and not as a rule for each country and every year. We also observe that those countries which happen to report budget surpluses ($D < 0$) very often (although not always) record high E . This must be the case if $E > NPS > 0$ (e.g. the case of Norway since becoming a major oil exporting country).

Within the private sector we have two subsectors: private households and firms. It is normally assumed that for most of the time, firms invest more than they save (in the form of profits retained), hence incurring a flow of debt, the volume of which increases over time. This debt makes it possible to increase the firms' productive capacities beyond the levels funded from their own savings (i.e. profits retained). One also assumes that private households are net savers, whose financial assets increase over time. The assumption $NPS > 0$ is thus normally interpreted as a situation in which private households save in excess of the new debts which firms are ready to incur.

The fact that as a rule (or mostly so) NPS is positive can be interpreted as reflecting the *desired* level of private savings (SP) being higher than actual private investments. Positive ($D + E$) helps to narrow the

¹ See e.g. Laski (2008).

² See IMF, Fiscal Affairs Department, Historical Public Debt Database, 2011.

³ Earlier years are not covered by the accessible Eurostat statistics. Most probably the budget deficits were even higher prior to 1995. In 1995 the deficit/GDP ratio for the euro area was 7.2% (falling to 4.3% in 1996). The lowest deficit/GDP ratio (0.1%) was recorded in 2000. The average deficit/GDP ratio for the years 1995-2011 is 3.1%.

gap between private savings and investments. Alternatively, it can be said that the positive NPS must be reflected in the sum $(D + E)$ being positive as well. However, $NPS = (D + E)$ is an identity; as such, it does not tell anything about the direction of causality. In any event, positive NPS must be *counterbalanced* by the sum of the government and foreign deficits. The private sector's desire to run a financial surplus ($NPS > 0$) cannot be realised without the willingness of government and foreign sectors (taken together) to run a deficit. Similarly, the government and foreign sectors (once again taken together) cannot run financial surpluses ($D + E < 0$) without the private sector's net dis-saving (NPS falling below 0) without private sector savings falling short of private sector investment.

At present, the understandable trend throughout much of the industrialised world is for the private sector to increase net savings ($\Delta NPS > 0$). 'Deleveraging' should strengthen private sector balance sheets. Both households and firms (including in the financial intermediation sector) feel they have incurred excessive debt. The deleveraging trend, however, actually clashes with the present overall orientation of fiscal policies. Those policies prescribe fiscal austerity – reducing budgetary deficits. Should austerity prevail, one would have $\Delta D < 0$. Should the private sector succeed in deleveraging, $\Delta NPS > 0$ would be the outcome. Clearly, the identity $\Delta NPS = \Delta D$ would necessarily be violated. However, by their very nature, the identities hold under any circumstances. In reality, the identity $\Delta NPS = \Delta D$ will hold no matter what policy is pursued and irrespective of private sector preferences. What kind of outcome will emerge from the two conflicting tendencies or which of them will ultimately prevail is very much an open issue. In any case, that conflict is likely to incur some 'collateral damage' in the form of weaker growth and higher unemployment.

WHY DO NET PRIVATE SAVINGS TEND TO BE POSITIVE?

One consequence of equation (2) is that in a 'textbook economy' (consisting solely of a private sector – devoid of government and the 'outside world'), NPS would have to be zero. Indeed, in such an economy $D = E = 0$, hence $NPS = 0$. In such a 'textbook economy', investment is equal to savings (both are private) so that $SP - IP = 0$. It must be understood that in such an economy, the private sector as a whole would be unable to accumulate *net* (outside) financial wealth – simply because there would be no party beyond the private sector to supply the financial debt that would constitute the private sector's financial wealth. Surely, economies that rule out accumulation of private sector net financial wealth are conceivable. In all probability, the early 'natural' economies would have fitted that description. However, it is hard to imagine (unless one adheres to 'mainstream ideas') a modern monetary economy without private sector accumulation of net (outside) financial wealth. In a modern economy the private sector accumulates net financial wealth – if not in the form of government bonds, then at least in the form of hoards of cash/ fiat money issued by the government's own central bank. To gain access to the money hoarded, the private sector would willingly supply the government with goods and services that it has produced on its own. (Thereby the government would have to acquire such goods and services, without paying for them fully with the proceeds of proper taxation levied on the private sector). Of course, the private sector's net (outside) wealth would have to be matched by the debt issued by the government⁴ (plus, eventually, the debt issued by foreign parties that the private sector has acquired).

Why does the private sector tend to accumulate outside debt (in particular, that of its own government)? The simplest answer is that the private sector greatly values such debt. For the private sector, public

⁴ See Wray (1998), Ch. 4.

debt *must be* wealth – no matter what the proponents of ‘Ricardian equivalence’ claim. Otherwise, the private sector would not waste ‘good money’ on acquiring it. (Or, the private sector would not trade goods and services it produces for the government’s ‘paper’.)

What kinds of benefits follow from the ownership of public debt? The opportunity to earn interest income on that debt may certainly be one motive. That motive alone, however, does not seem to be decisive. In many countries the rate of interest on public debt is purely symbolic. Japan with its soaring public debt has no difficulty in floating its massively expanding public deficits at interest rates of less than 1%. Interest rates on Switzerland’s public debt gravitate towards zero. Essentially, public debt is in such great demand in the private sector for liquidity reasons (as, of course, stressed by Keynes) or as the trusted store of value or as the necessary capital reserves that facilitate firms’ access to capital markets (and thus private investment, as in Kalecki). In Laski and Podkaminer (2012) our hypothesis was that private sector demand for public debt is even likely to strengthen secularly. This will be accompanied by private sector savings in general rising more rapidly than private investment. The changes observed in the structure of private sector income (with rising inequality in disposable incomes and the emergence of a super-rich class whose members derive their incomes from trade/speculation in various assets and financial instruments rather than from capital investment in productive capacities) are among the factors contributing to the yawning gap between private sector savings and investment.⁵ The emergence of the super-rich is, of course, intimately linked to the ever-progressing financialisation/privatisation of services traditionally provided by the public sector (inter alia, health, education and old-age pensions). Financialisation/privatisation also induces a higher propensity to save for precautionary reasons – without the requisite rise in the propensity to invest productively. The flip side of financialisation of the services formerly provided by the public sector is the rise in private funds, such as the pension funds.⁶ These funds may tend to acquire – especially in turbulent times – growing chunks of public debt. Ageing in a time of ever-increasing financialisation of the pension system may add strength to the private propensity to save. Moreover, technological change may be another factor. The productivity of fixed assets is likely to improve secularly owing to advances in technology – the investment of smaller amounts of real assets is capable of producing more output. This trend may be temporarily interrupted by major inventions (such as ‘electricity’, which called for high initial investment in the construction of power stations, transmission grids, etc.). In the long term, as the supply of goods produced by the private business sector can perhaps be expected to outstrip demand for the same, the desire to save could systematically outstrip the desire to invest.

DESTRUCTIVE FISCAL CONSOLIDATION

The EU policy stance has always stressed the need to limit public-sector deficits. Actually, the Stability and Growth Pact ‘... lays down the obligation for Member States to adhere to the medium-term objective for their budgetary positions of close to balance or in surplus ...’⁷. The Fiscal Compact recently agreed

⁵ The study of the impacts of rising inequality on macroeconomic performance (GDP growth, current account developments, financial stability) has come to the fore of research interests recently (e.g. Rajan, 2010; Berg and Ostry, 2011). More research on the links between rising inequality, rising net private savings and the overall growth slowdown is still needed. In particular, it remains to be examined whether the relatively fast and balanced ($NPS \approx 0$, $D \approx 0$, $E \approx 0$) growth of major industrial countries in the 1950s and 1960s was associated with the rather low/falling levels of inequality then prevailing.

⁶ See Toporowski (2012).

⁷ See Council Regulation No. 1055/2005 amending the Growth and Stability Pact, *Official Journal of the European Union*, 7 July 2005, L. 174/1. The same requirement features in the recent Fiscal Compact (Article 3, point 1(a)).

upon by the majority of EU leaders is designed to strengthen 'fiscal discipline' across the euro area (and beyond). Moreover, the Fiscal Compact imposes the obligation to *reduce* public debt/GDP ratios. In doing so, it actually imposes, on most euro-area countries, the obligation to run – on a long-term basis – budgetary surpluses. Taxation of the private sector (net of transfers to the same) should be persistently higher than income earned by the private sector on sales on goods and services to the government. The private sector in most euro-area countries will 'bleed' for many years to come – for the sake of 'healthy public finances'. The latter are deemed indispensable to the long-term robustness of the private sector itself. (An analogy to the mediaeval 'medical science' and the practice of bloodletting inevitably comes to mind.) The economic and social costs of this austerity hysteria will no doubt be immense.

Supposing D is negative (as required by the Fiscal Compact), NPS would have to be negative as well. Or (remembering that $NPS = SP - IP$) private sector savings would have to be consistently lower than private sector investment. The private sector's financial wealth would then have to drop: for example, via the government redeeming its debt to the private sector (with the proceeds then serving to finance private investment). It is at least debatable whether the private sector would be eager to engage in investment under such conditions. The falling financial wealth and contracting domestic consumer demand might more likely induce falling investment and rising savings, thereby initiating spiralling recessionary adjustment.

The question worth asking is whether it will be possible at all – and under what conditions – to run a euro-area-wide policy which in fact requires that the net private savings of the Member States are persistently negative. Of course, the current account E for some euro-area countries may, on occasion, be positive and high enough to render $D + E$ still positive. A small country (such as Luxembourg) can combine large budgetary surpluses with current account surpluses over extended periods of time – without this having a perceptible impact on its trading partners. A large country (such as Germany) is unlikely to persist indefinitely with high budgetary surpluses combined with massive current account surpluses, the reason being that German current account surpluses are the current account deficits of its partners, such as Italy. The latter country's NPS would then have to be unambiguously negative – on account of both E and D being negative. Thus, any attempts to run budgetary surpluses in one (or more) euro-area countries can only be successful (via expansion of current account surpluses) if those attempts fail in some other euro-area countries.⁸ Incidentally, under the present circumstances it is an illusion to expect that the EU as whole could become a major net exporter to the rest of the world. Germany and some other EU member countries can continue – at least for some time – to run mercantilist (and deflationary) policies which negatively affect other countries (also outside the EU). But there are limits to the beggar-thy-neighbour policies. Such policies will sooner or later provoke retaliatory reactions. The rest of the world (and the United States in particular) is unlikely to remain passive should the whole EU start recording gigantic trade surpluses (for example matching China's). Otherwise, the successful beggar-thy-neighbour policy is self-defeating because it implies accumulation of foreign debt of the persistent trade deficit countries. Once that debt is acknowledged to be unsustainable, growth in the persistent trade surplus countries would have to flag as well. Moreover, the creditor countries would have to write off chunks of their 'bad assets'.

⁸ We abstract here from another difficulty. A combination of current account surpluses with budgetary surpluses implies a shift in a country's private sector net financial wealth. To an increasing degree that wealth would consist of foreign (private or public) debt. At the same time the share/size of debt issued by that country's government would decline. It is doubtful whether the German private sector would actually be eager to substitute bunds for private/public Greek (or even Italian) debt.

The idea of fiscal consolidation as a way out of the present difficulties is related to the diagnosis of the present crisis. In the world as a whole – and especially in advanced countries – over the last decades the debt to GDP ratio increased but private debt increased faster than the government debt. The crisis started when the private household sector could no longer service its debt, which reached about 100% of GDP in the United States (financial institutions debt another 125%, and total debt ratio 500% of GDP). The necessary fiscal interventions of the governments in the US and Europe caused significant growth of public debt in relation to GDP; thus the increase in government debt was the consequence of the crisis, not its cause. Hence to interpret the present crisis as a sovereign debt problem is totally misleading. It is rather a sudden break of a speculative financial bubble whose dark side is increasing debt and inequality.⁹ Also the expression ‘balance sheet recession’ introduced by Koo (2003) pinpoints the notion that the real cause of the present crisis is over-indebtedness of private households and firms requiring the repair of their balance through lower expenditure and higher savings, the real factors limiting their demand.

However, the diagnosis prevailing in European politics is quite different. The reason for the crisis is too high public debt and excessive government spending, hence the necessary solution is to increase fiscal discipline. Wolfgang Schäuble, German Finance Minister, put it this way: ‘The main reason for the lack of demand is the lack of confidence; the main reason for the lack of confidence is the deficits and public debts which are seen as unsustainable’ and, in another place, ‘We won’t come to grips with economies deleveraging by having governments and central banks throwing – literally – even more money at the problem. You simply cannot fight fire with fire’.¹⁰

First, it happens that fire may be – and is being – used very effectively in fighting fire when e.g. we burn parts of the forest in order to prevent the further uncontrollable spread of fire. Second, and much more importantly: What is the intellectual basis of the ‘doctrine of expansionary austerity’ or what Krugman (2012) calls the ‘confidence fairy tale’ (the idea that the confidence fairy would come in and reward policy-makers for their fiscal virtue)? Confidence of business depends first of all upon profits. Let us therefore have a look at the consequences of fiscal consolidation upon profits.

From (2) taking into account that $SP = PR + SH$ we get

$$PR = IP + D + E - SH$$

and by adding to both sides distributed profits PD (equal per definition to the sum of consumption out of distributed profit CPD plus savings out of distributed profits SPD) we get

$$PR + PD = IP + CPD + SPD + D + E - SH$$

$$P = IP + CPD + D + E - SH' \quad (3)$$

where P (gross) profits are equal to $PR + PD$ and SH' are savings of private households minus SPD.

Assuming $D = E = 0$, i.e. a closed economy without a government, we get

⁹ See Papadimitriou and Wray (2012).

¹⁰ Giles (2011).

$$P = IP + CPD - SH', \quad (3')$$

a formula corresponding to Kalecki's famous profit equation: profits are determined by private investment and capital consumption (here: consumption out of distributed profits without the *time lag*) expenditures minus workers' savings (here: private households' savings outside savings out of profits). Equation (3) says that profits of firms are equal to private investments *plus* budget deficit *plus* trade surplus *minus* household savings. It is evident that policy actions successfully reducing budget deficits would *ceteris paribus* be matched by *reduced* profits by firms. But reduced profits by firms are highly unlikely to improve the sense of confidence necessary to induce private firms to invest more. As a rule, strong profits are a precondition for an investment take-off. In other words, the negative D, as required by the Fiscal Pact, must be expected to be recessionary – the more so if at the same time the household sector attempts to accumulate more savings and the business sector does not invest enough.

Of course, recessionary adjustments could, ultimately, steer NPS into negative territory (consistent with the budgetary surpluses). That outcome, however, would feature low (falling) income and high (rising) unemployment levels. At a very low level of private savings, the requisite negative net private savings could eventually be achieved. However, even if economically imaginable, such an outcome would be unacceptable – both politically and socially. We doubt whether this is the outcome that the EU leaders actually desire. On the other hand, we deeply deplore the fact that the economic advisors to the EU heads of state apparently fail to grasp the actual consequences of the policies that they so doggedly advocate.

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* The editors are grateful to Martin Riese, University of Linz, for compiling this list. The complete list of Kazimierz Laski's publications can be accessed at: <http://wiiw.ac.at/kazimierz-laski-s-10.html>

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PPI	Producer Price Index
M1	Currency outside banks + demand deposits / narrow money (ECB definition)
M2	M1 + quasi-money / intermediate money (ECB definition)
p.a.	per annum
mn	million (10 ⁶)
bn	billion (10 ⁹)

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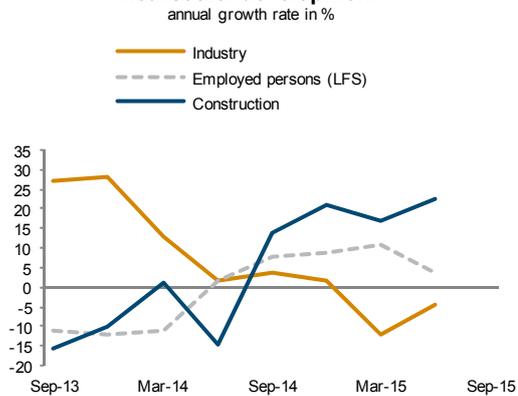
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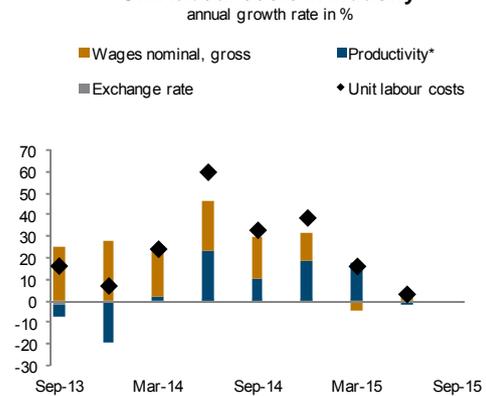
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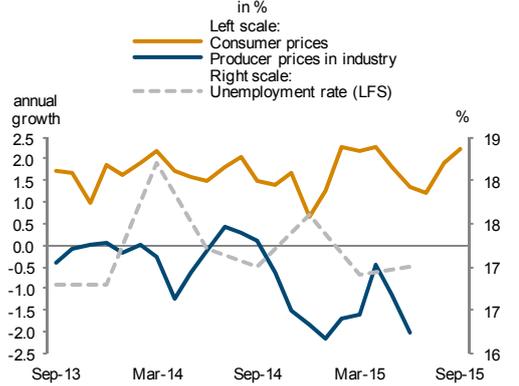
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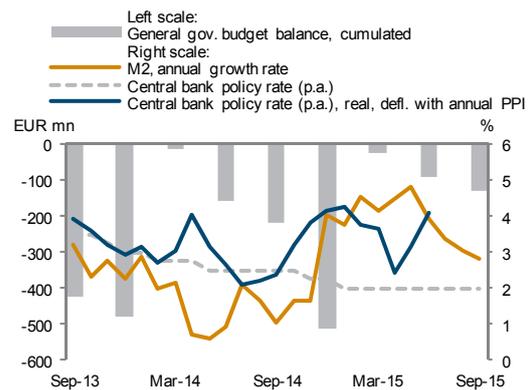
Unit labour costs in industry



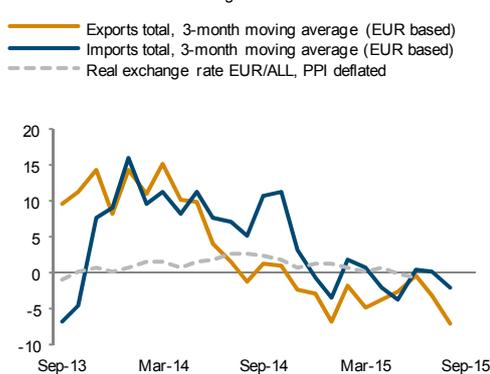
Inflation and unemployment



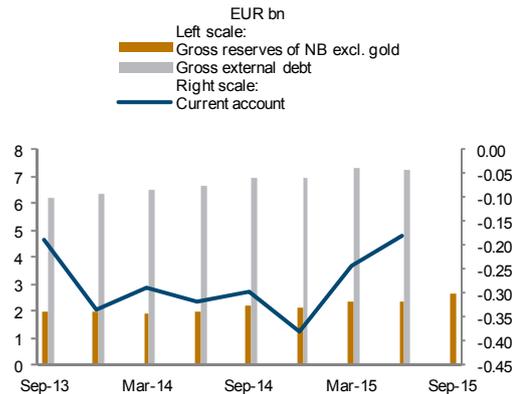
Fiscal and monetary policy



External sector development



External finance



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

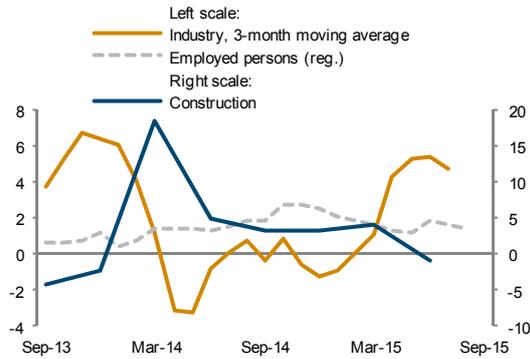
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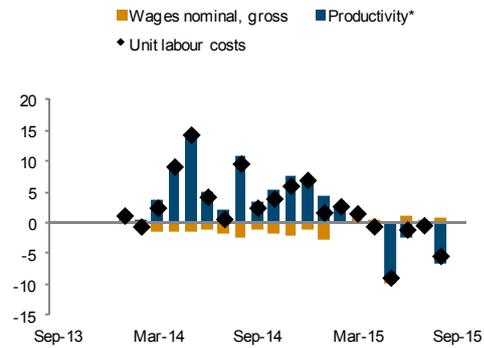
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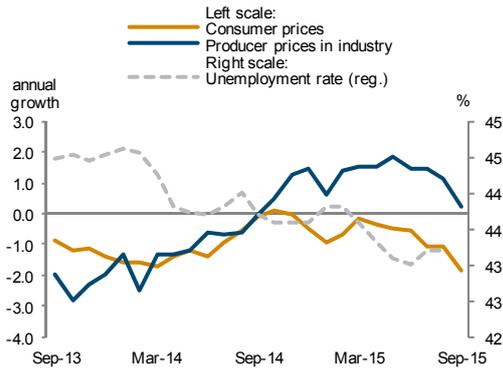
Real sector development
annual growth rate in %



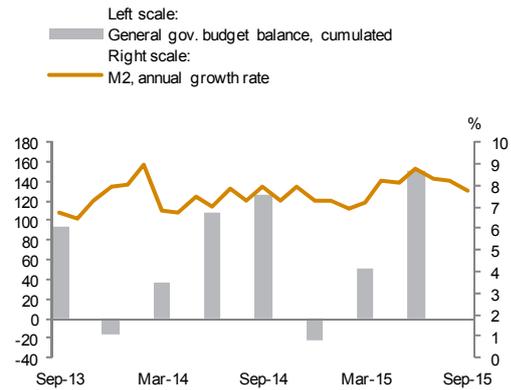
Unit labour costs in industry
annual growth rate in %



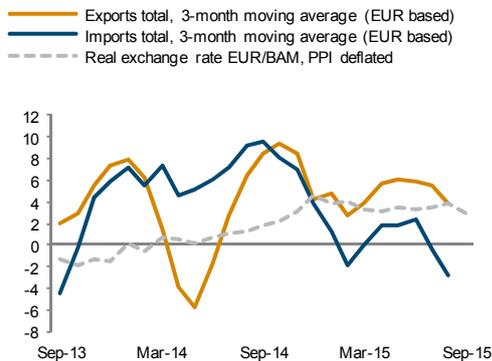
Inflation and unemployment
in %



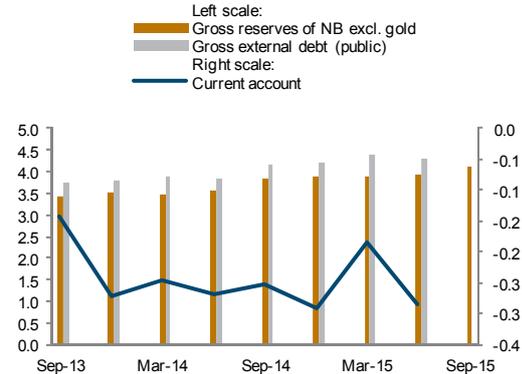
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

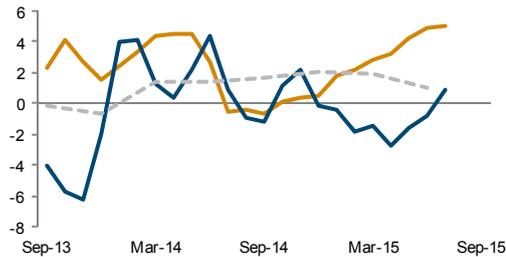
<http://data.wiiw.ac.at/monthly-database.html>

Bulgaria

Real sector development

annual growth rate in %

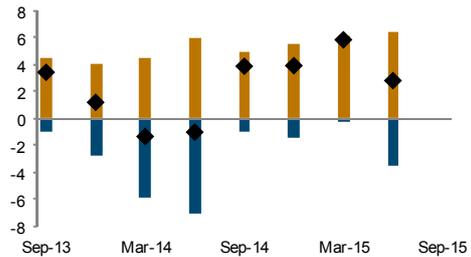
— Industry, 3-month moving average
— Construction, 3-month moving average
- - - Employed persons (LFS)



Unit labour costs in industry

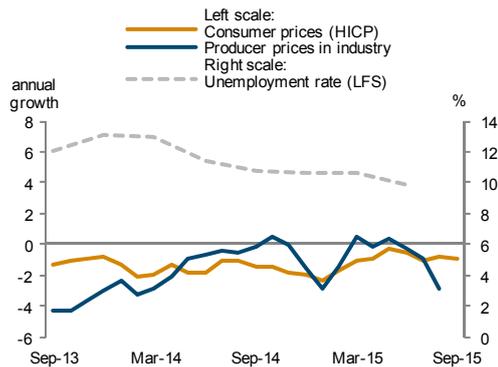
annual growth rate in %

■ Wages nominal, gross ■ Productivity* ♦ Unit labour costs

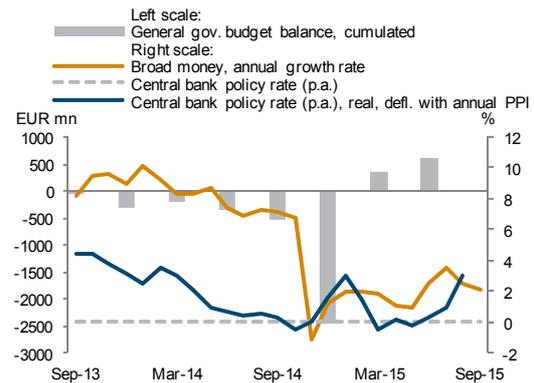


Inflation and unemployment

in %



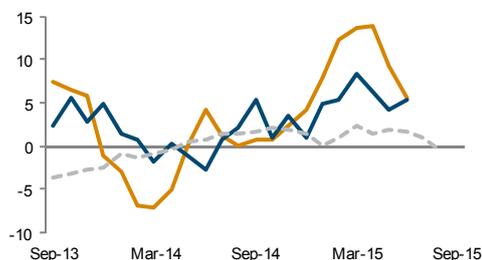
Fiscal and monetary policy



External sector development

annual growth rate in %

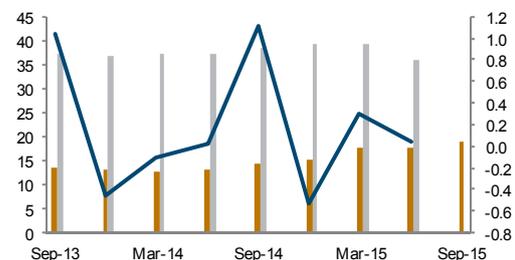
— Exports total, 3-month moving average (EUR based)
— Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/BGN, PPI deflated



External finance

EUR bn

Left scale:
■ Gross reserves of NB excl. gold
■ Gross external debt
Right scale:
— Current account



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

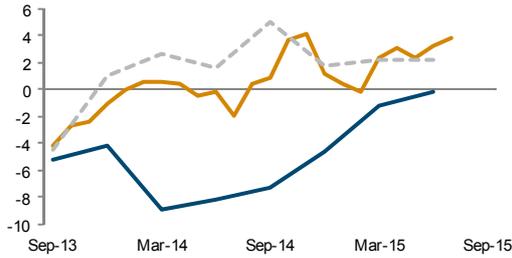
<http://data.wiiw.ac.at/monthly-database.html>

Croatia

Real sector development

annual growth rate in %

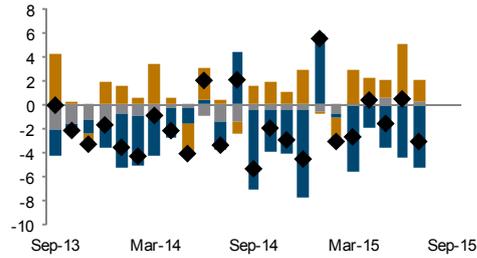
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

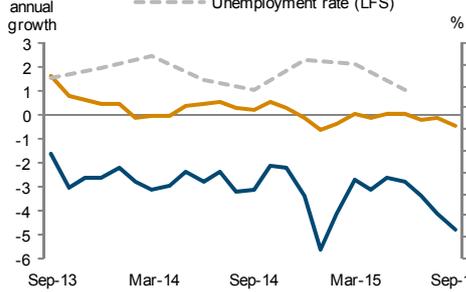
- Wages nominal, gross
- Exchange rate
- Productivity*
- ◆ Unit labour costs



Inflation and unemployment

in %

- Left scale: Consumer prices (HICP)
- Producer prices in industry
- Right scale: Unemployment rate (LFS)



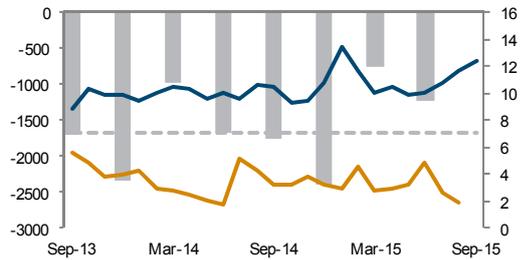
Fiscal and monetary policy

Left scale: General gov. budget balance, cumulated

Right scale: Broad money, annual growth rate

Central bank policy rate (p.a.)

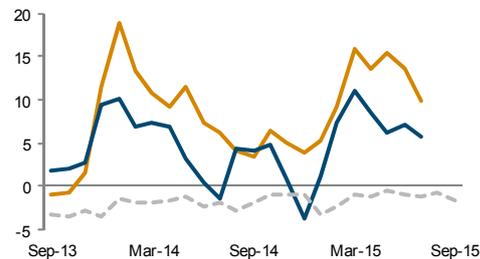
Central bank policy rate (p.a.), real, defl. with annual PPI



External sector development

annual growth rate in %

- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/HRK, PPI deflated



External finance

EUR bn

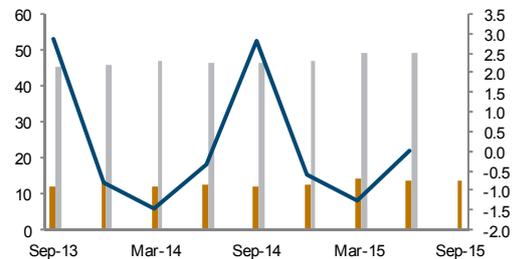
Left scale:

Gross reserves of NB excl. gold

Gross external debt

Right scale:

Current account



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

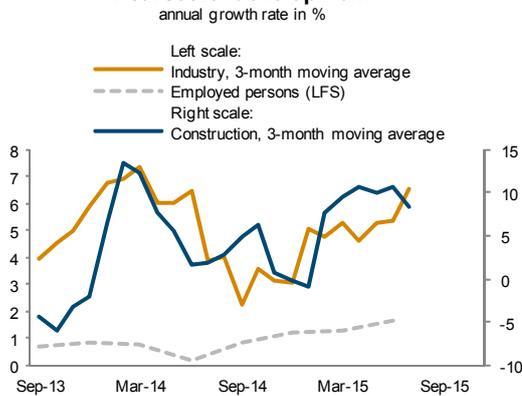
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

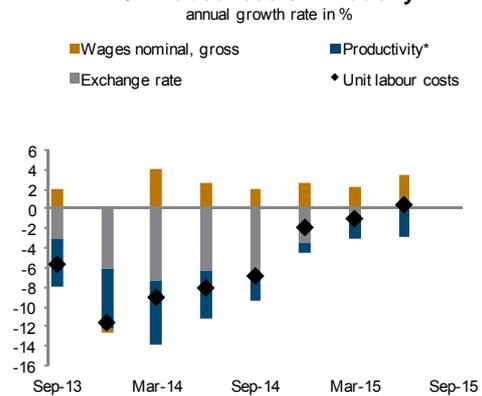
<http://data.wiiw.ac.at/monthly-database.html>

Czech Republic

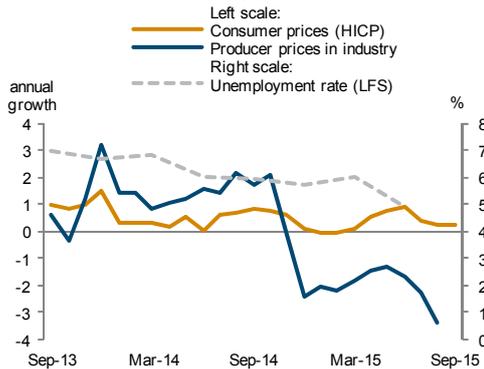
Real sector development



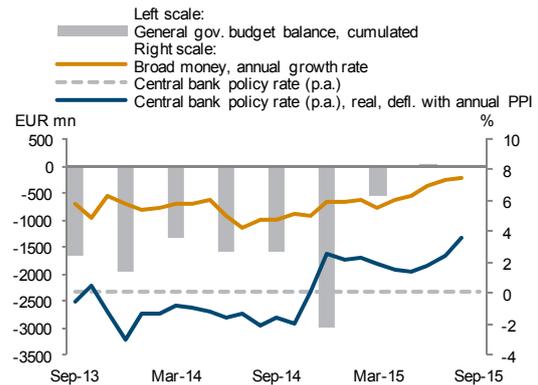
Unit labour costs in industry



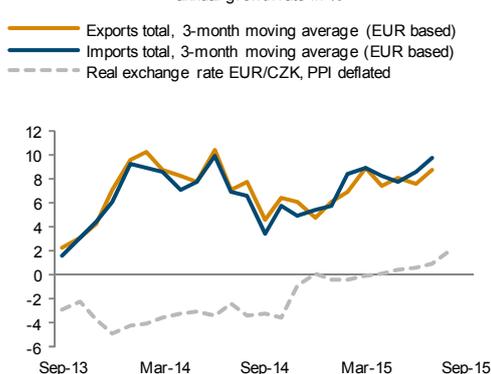
Inflation and unemployment



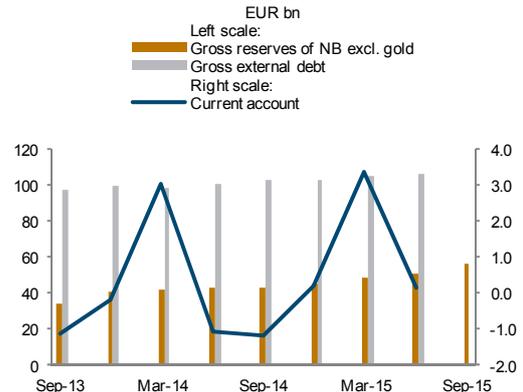
Fiscal and monetary policy



External sector development



External finance



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

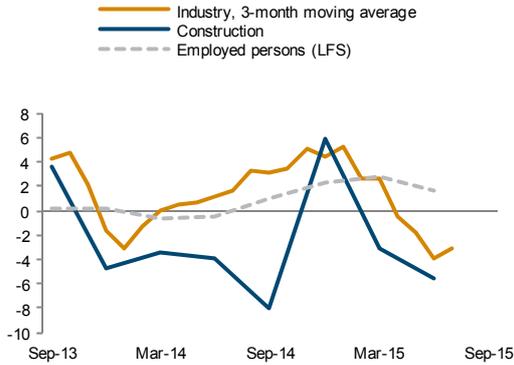
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

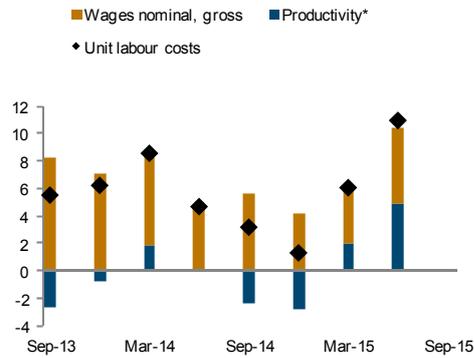
<http://data.wiiw.ac.at/monthly-database.html>

Estonia

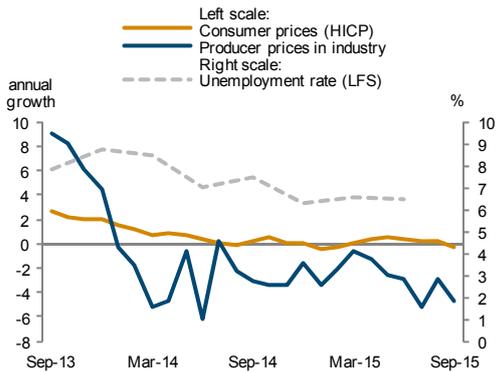
Real sector development
annual growth rate in %



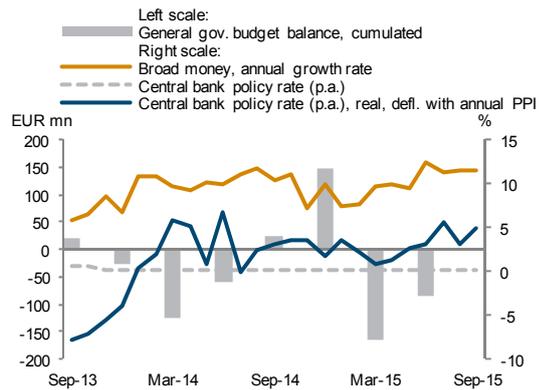
Unit labour costs in industry
annual growth rate in %



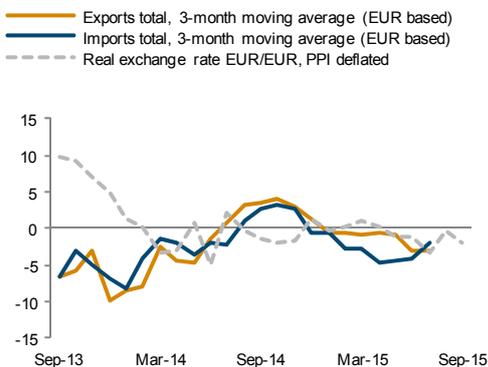
Inflation and unemployment
in %



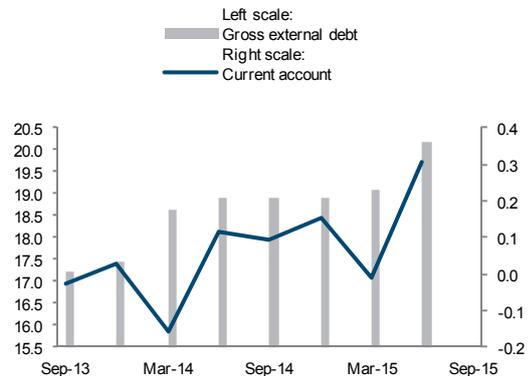
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

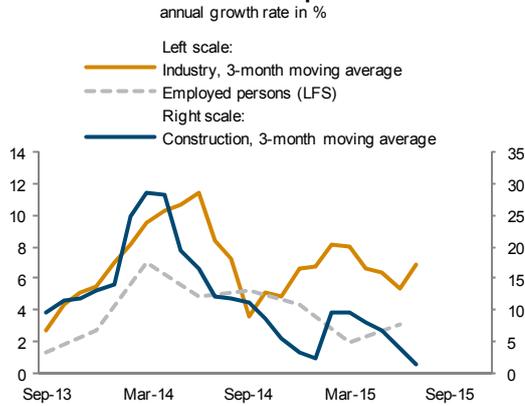
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

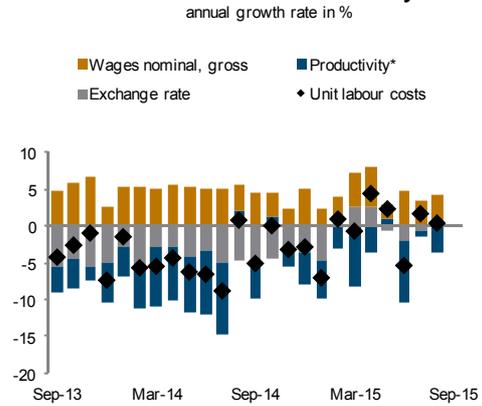
<http://data.wiiw.ac.at/monthly-database.html>

Hungary

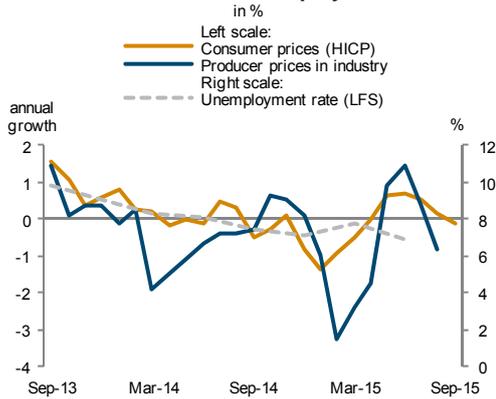
Real sector development



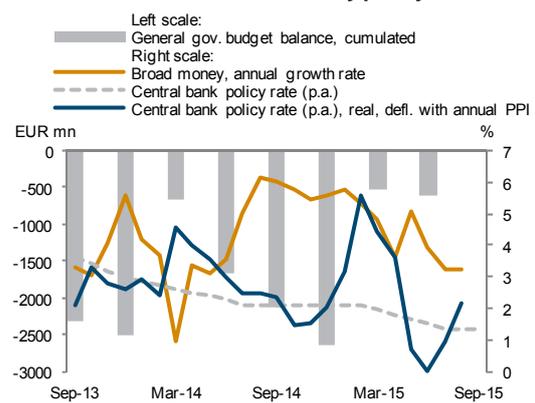
Unit labour costs in industry



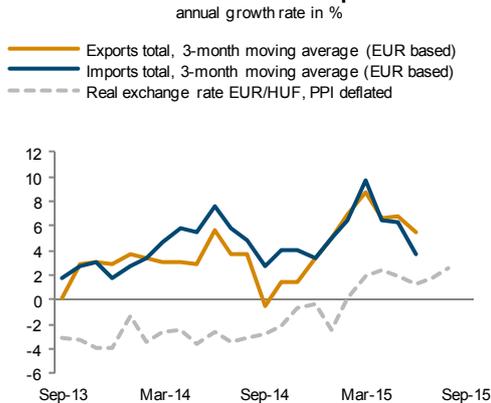
Inflation and unemployment



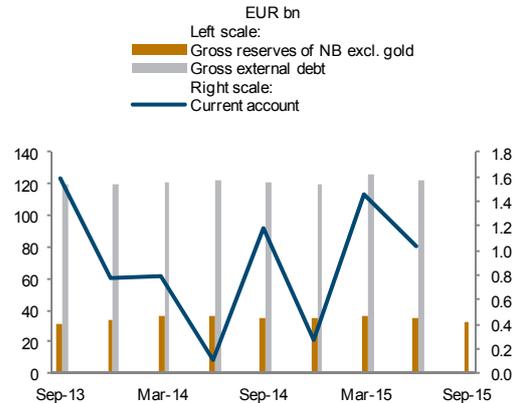
Fiscal and monetary policy



External sector development



External finance



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

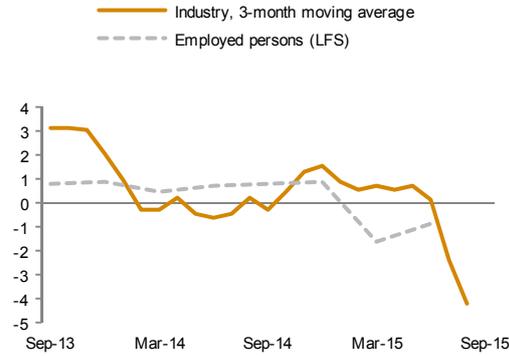
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

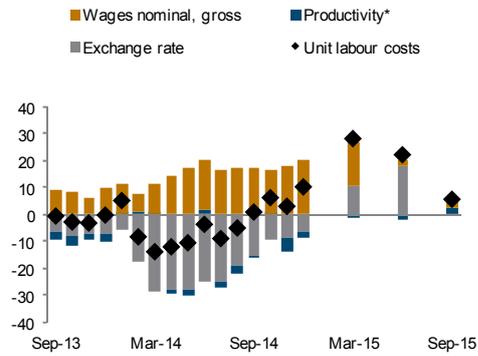
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Kazakhstan

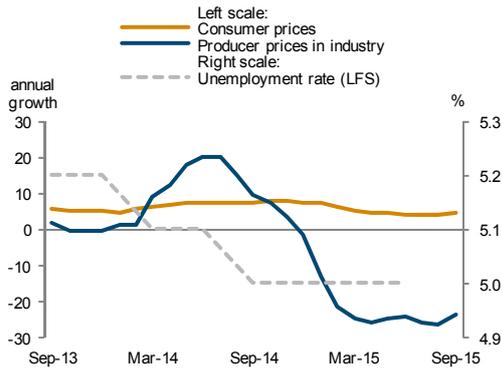
Real sector development
annual growth rate in %



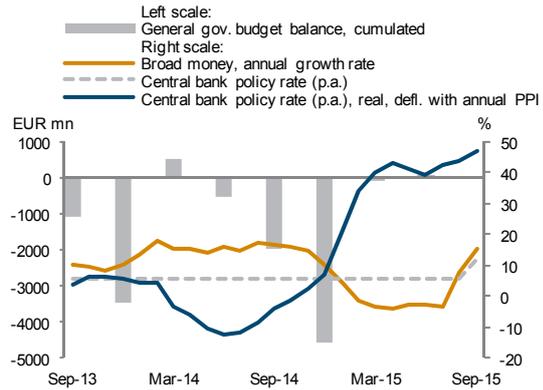
Unit labour costs in industry
annual growth rate in %



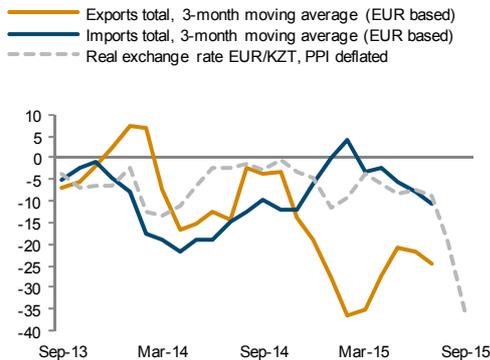
Inflation and unemployment
in %



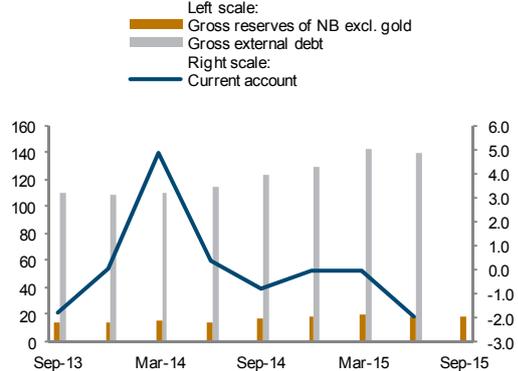
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

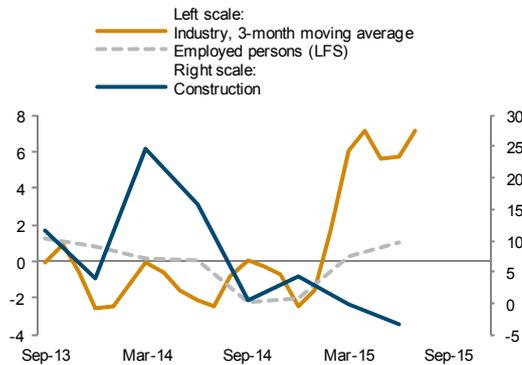
Baseline data, country-specific definitions and methodological breaks in time series are available under:

<http://data.wiiw.ac.at/monthly-database.html>

Latvia

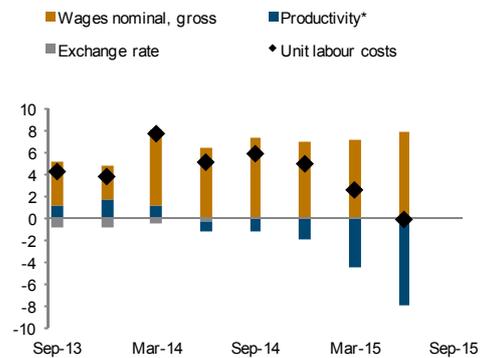
Real sector development

annual growth rate in %



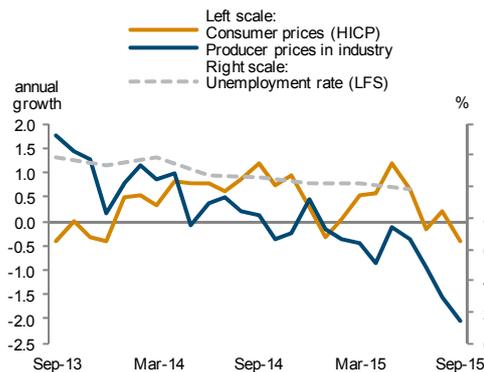
Unit labour costs in industry

annual growth rate in %

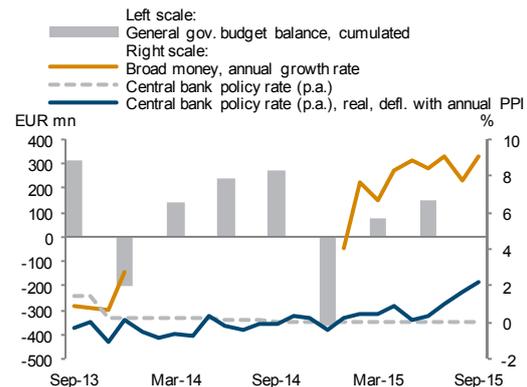


Inflation and unemployment

in %

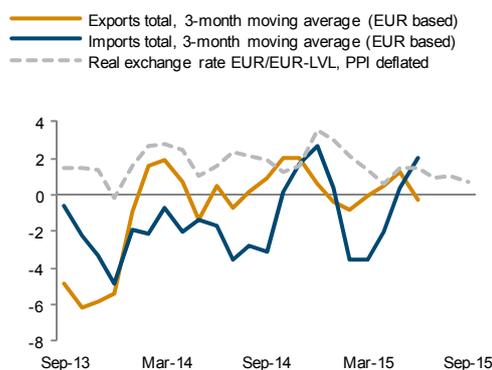


Fiscal and monetary policy



External sector development

annual growth rate in %



External finance

EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

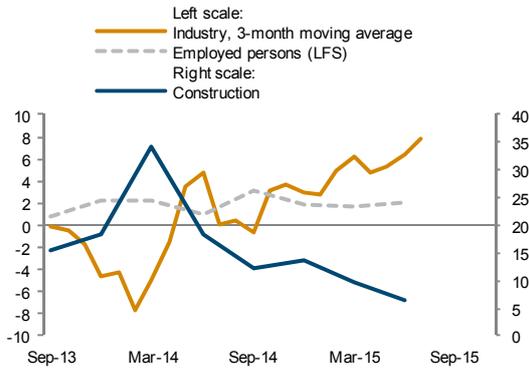
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

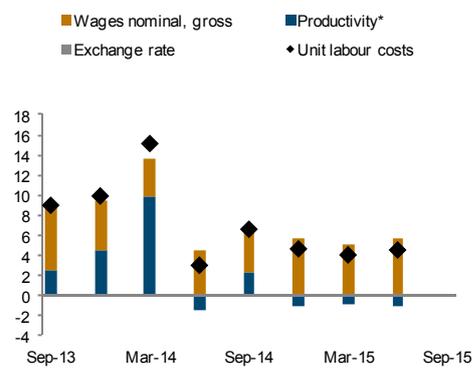
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Lithuania

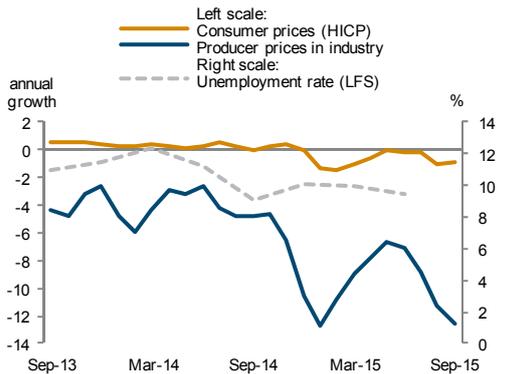
Real sector development
annual growth rate in %



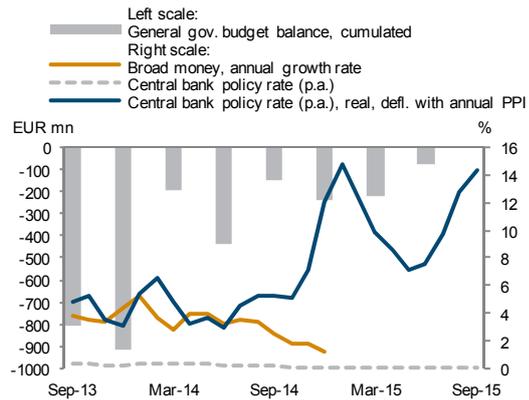
Unit labour costs in industry
annual growth rate in %



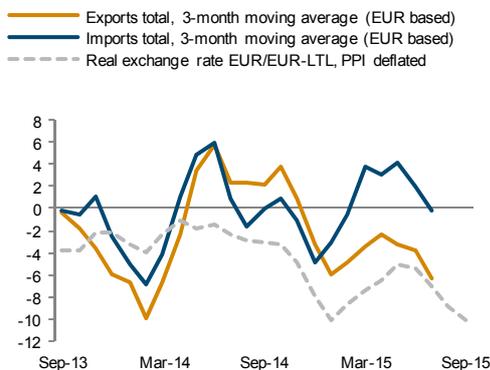
Inflation and unemployment
in %



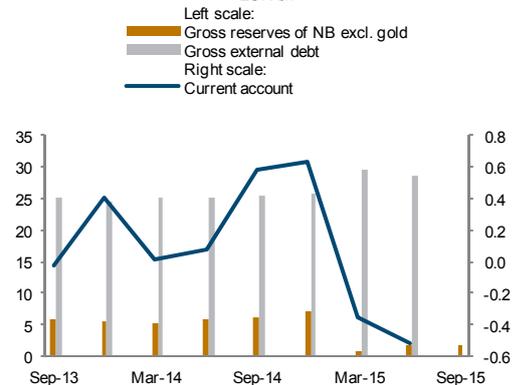
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



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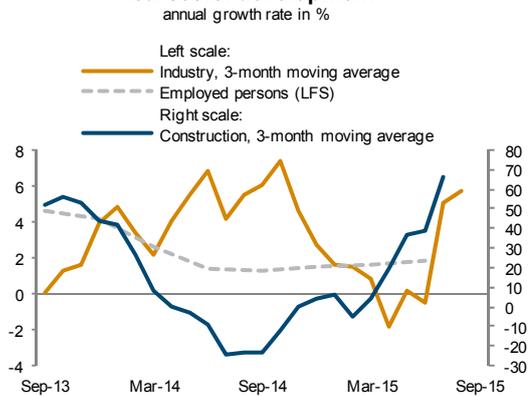
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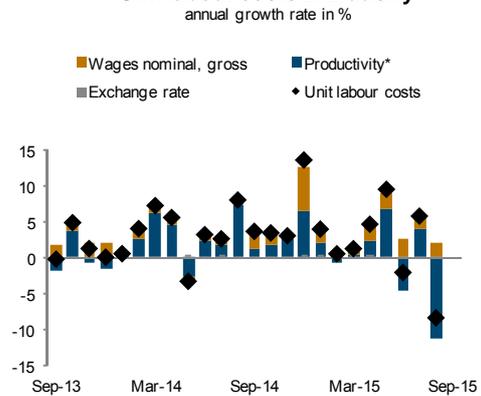
<http://data.wiiw.ac.at/monthly-database.html>

Macedonia

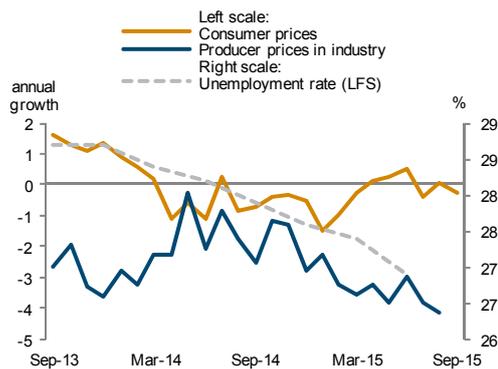
Real sector development



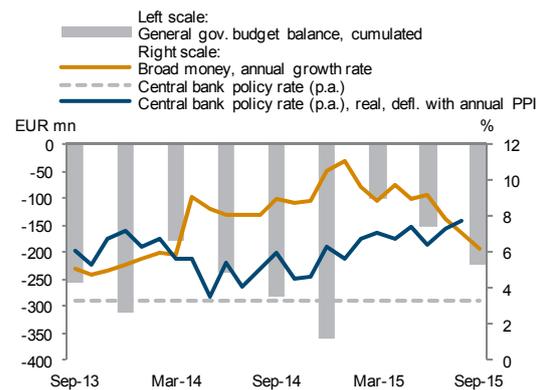
Unit labour costs in industry



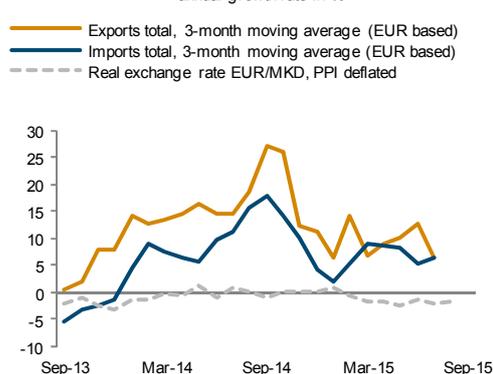
Inflation and unemployment



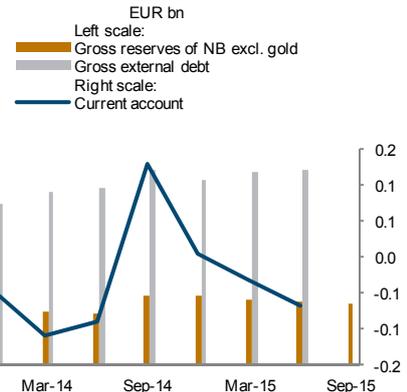
Fiscal and monetary policy



External sector development



External finance



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

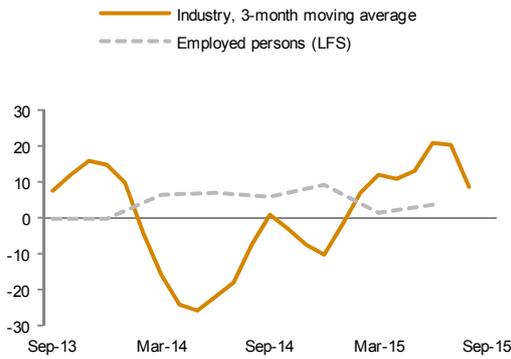
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

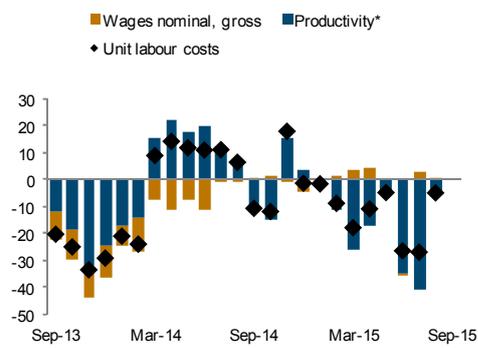
<http://data.wiiw.ac.at/monthly-database.html>

Montenegro

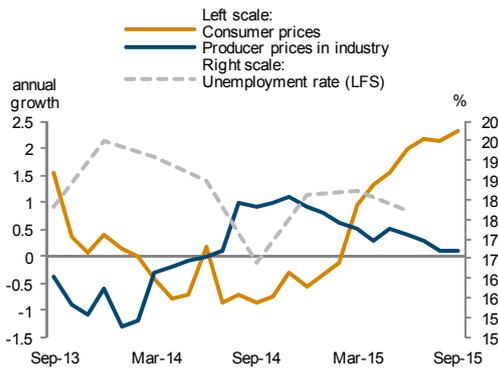
Real sector development
annual growth rate in %



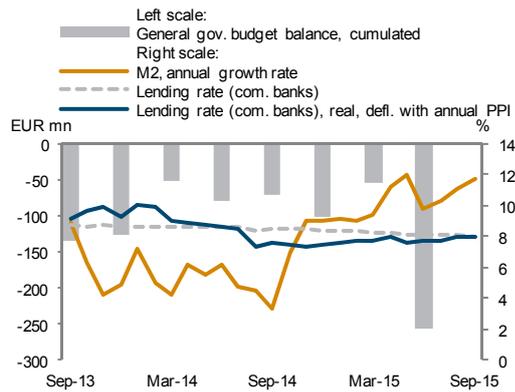
Unit labour costs in industry
annual growth rate in %



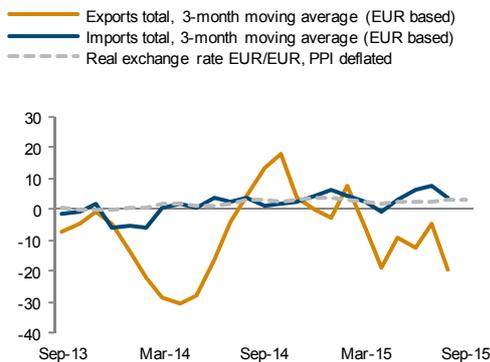
Inflation and unemployment
in %



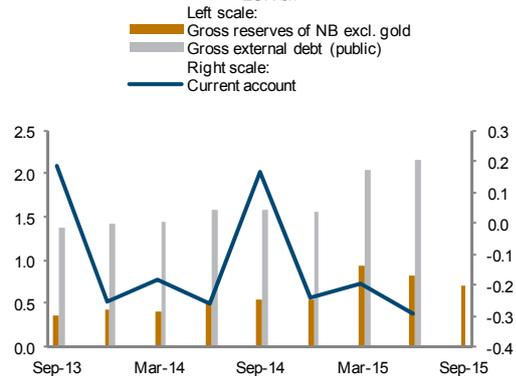
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

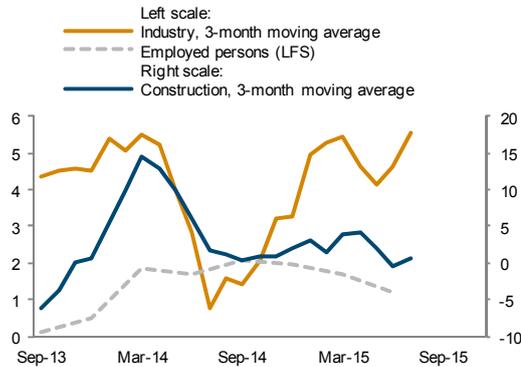
Baseline data, country-specific definitions and methodological breaks in time series are available under:

<http://data.wiiw.ac.at/monthly-database.html>

Poland

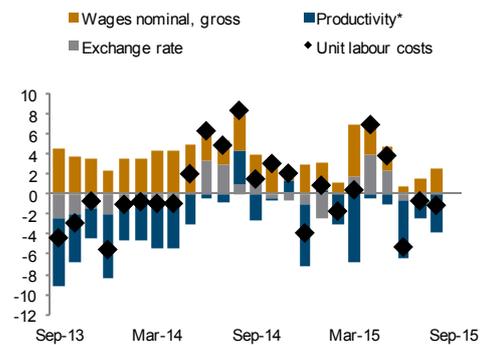
Real sector development

annual growth rate in %



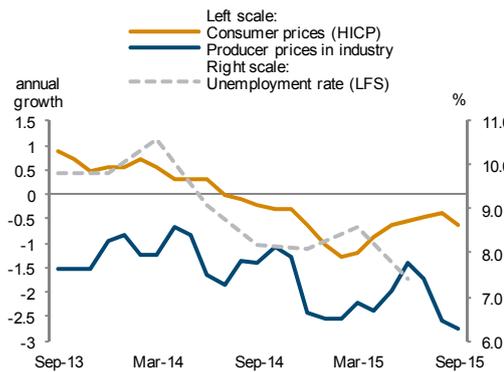
Unit labour costs in industry

annual growth rate in %

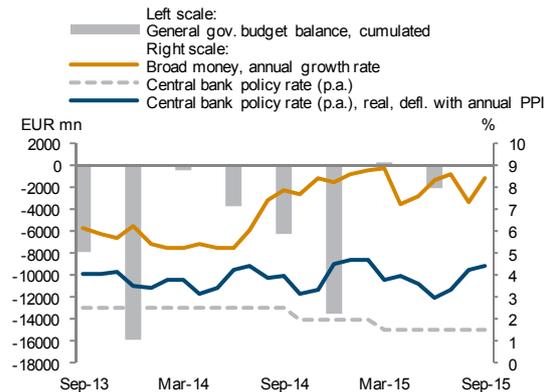


Inflation and unemployment

in %

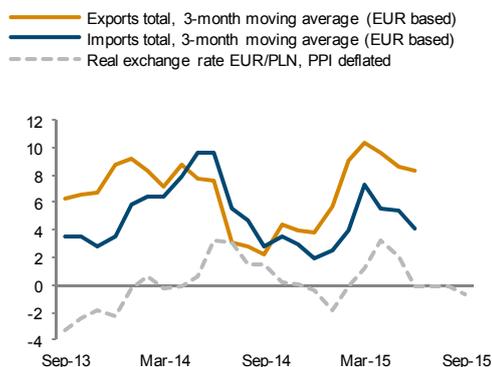


Fiscal and monetary policy



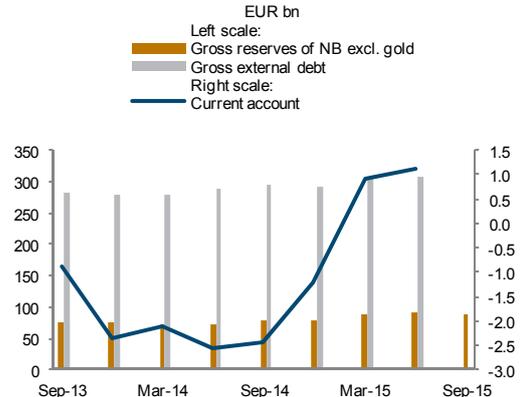
External sector development

annual growth rate in %



External finance

EUR bn



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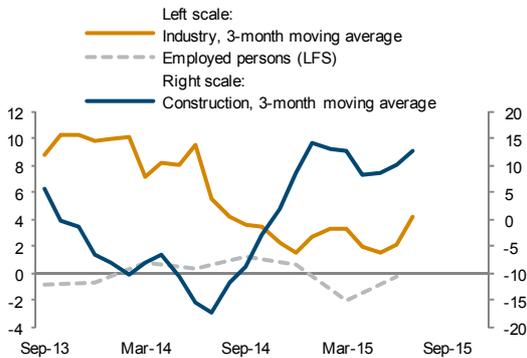
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

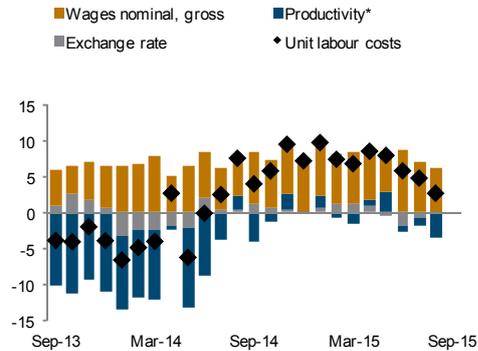
<http://data.wiiw.ac.at/monthly-database.html>

Romania

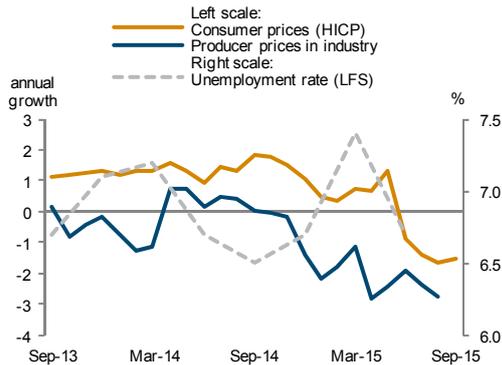
Real sector development
annual growth rate in %



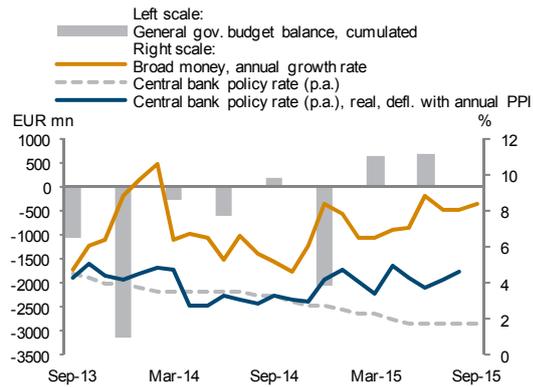
Unit labour costs in industry
annual growth rate in %



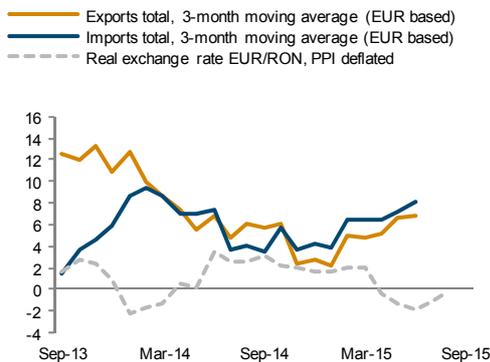
Inflation and unemployment
in %



Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

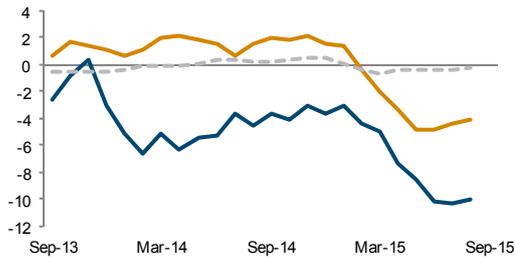
<http://data.wiiw.ac.at/monthly-database.html>

Russia

Real sector development

annual growth rate in %

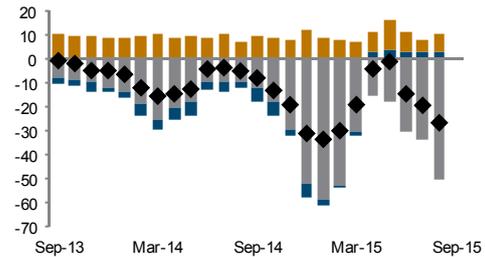
— Industry, 3-month moving average
 — Construction, 3-month moving average
 - - - Employed persons (LFS)



Unit labour costs in industry

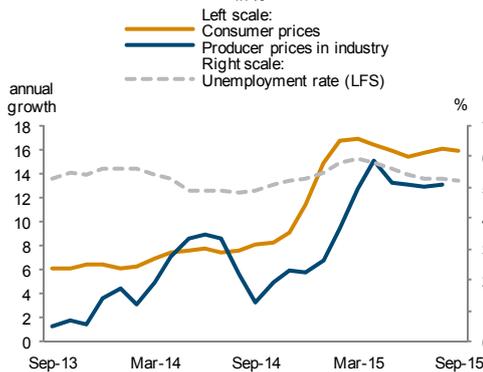
annual growth rate in %

■ Wages nominal, manuf., gross
 ■ Productivity*
 ■ Exchange rate
 ◆ Unit labour costs

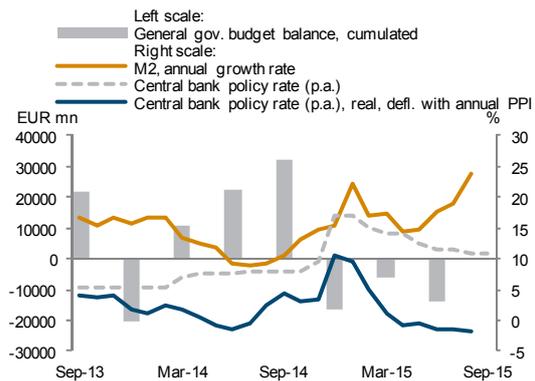


Inflation and unemployment

in %



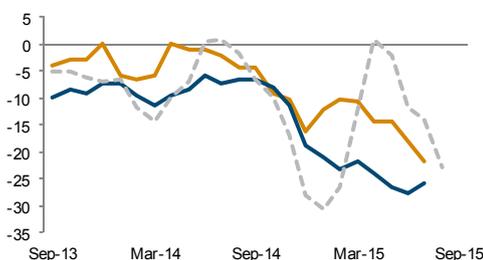
Fiscal and monetary policy



External sector development

annual growth rate in %

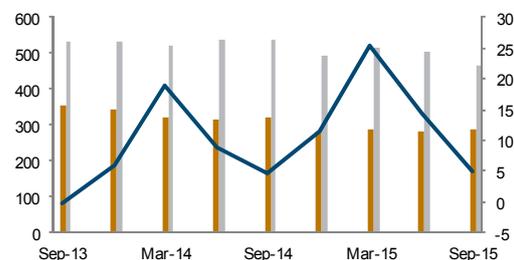
— Exports total, 3-month moving average (EUR based)
 — Imports total, 3-month moving average (EUR based)
 - - - Real exchange rate EUR/RUB, PPI deflated



External finance

EUR bn

■ Gross reserves of NB excl. gold
 ■ Gross external debt
 — Current account



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

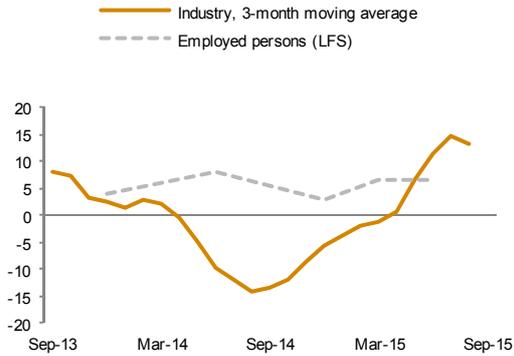
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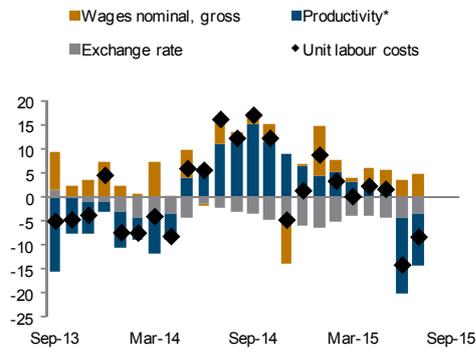
<http://data.wiiw.ac.at/monthly-database.html>

Serbia

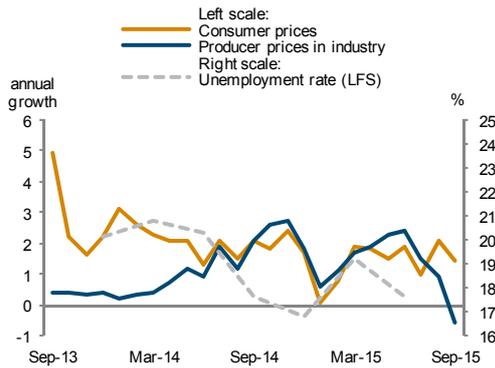
Real sector development
annual growth rate in %



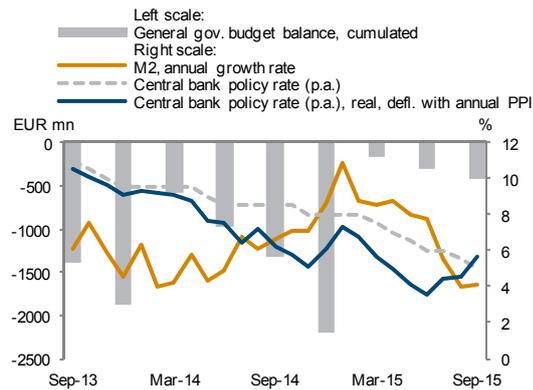
Unit labour costs in industry
annual growth rate in %



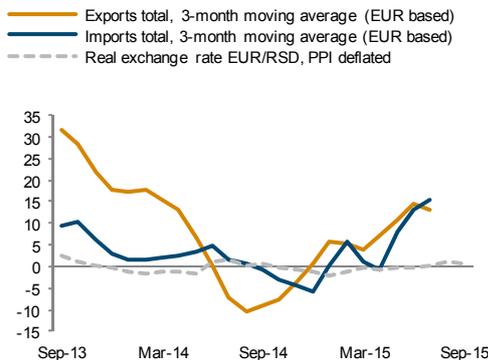
Inflation and unemployment
in %



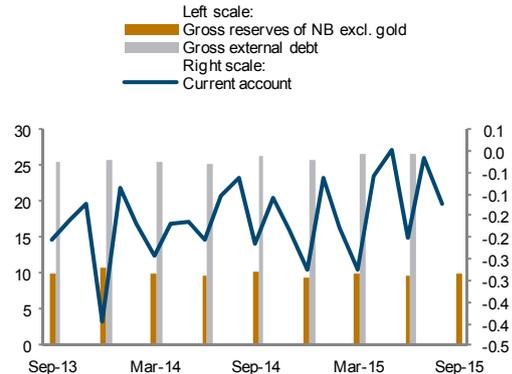
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

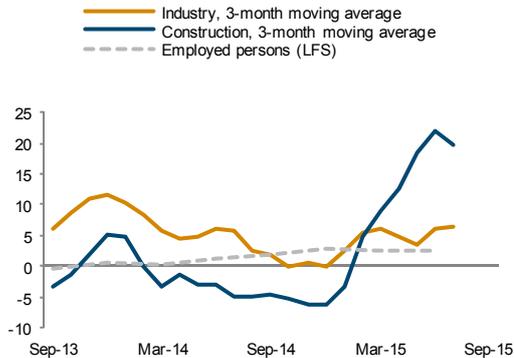
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Slovakia

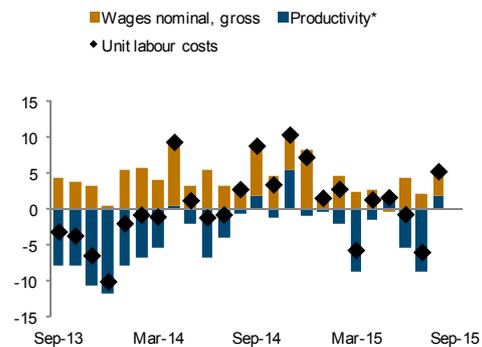
Real sector development

annual growth rate in %



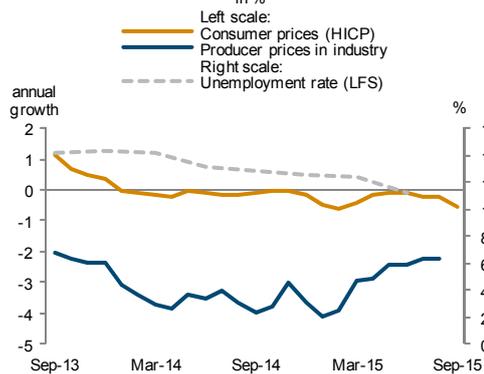
Unit labour costs in industry

annual growth rate in %

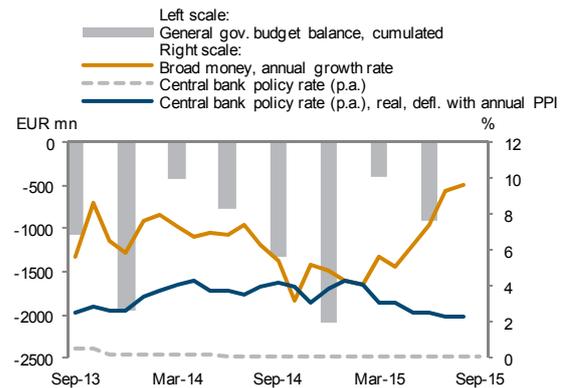


Inflation and unemployment

in %

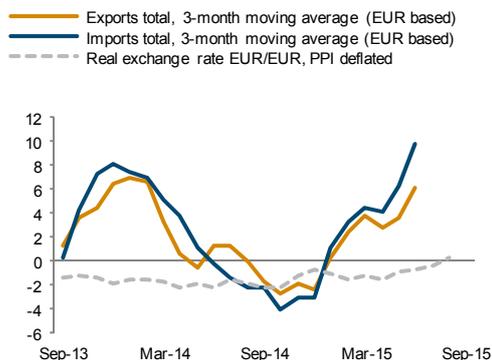


Fiscal and monetary policy



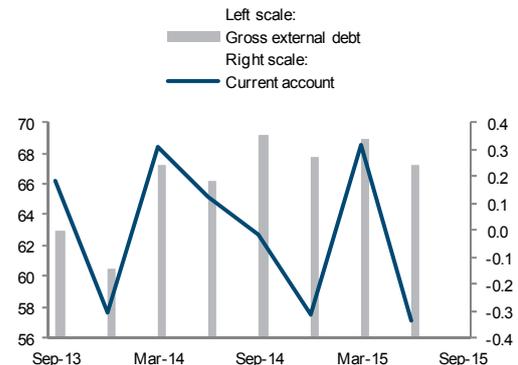
External sector development

annual growth rate in %



External finance

EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

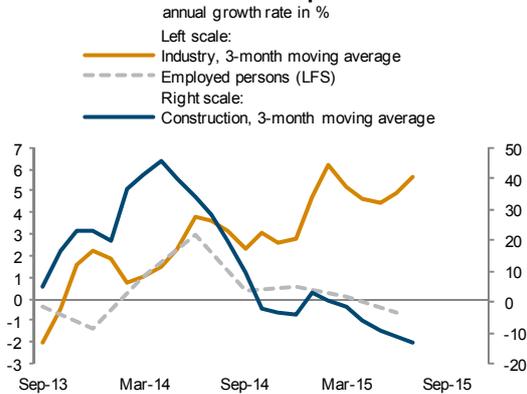
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Slovenia

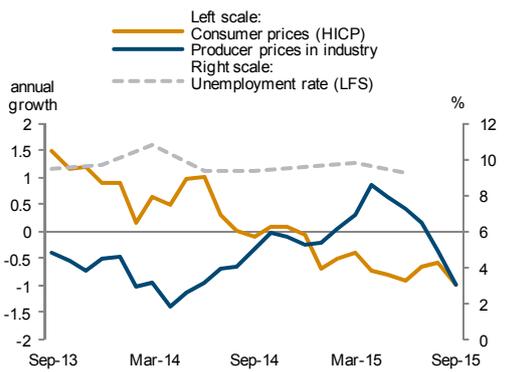
Real sector development



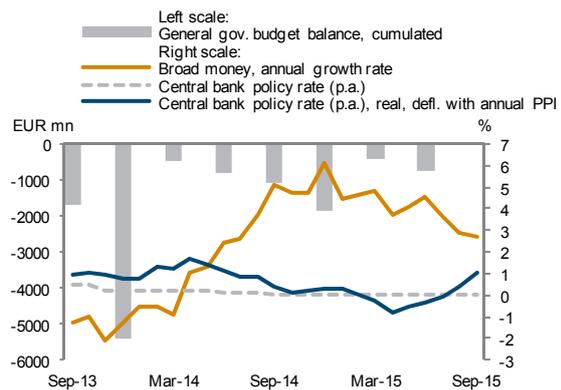
Unit labour costs in industry



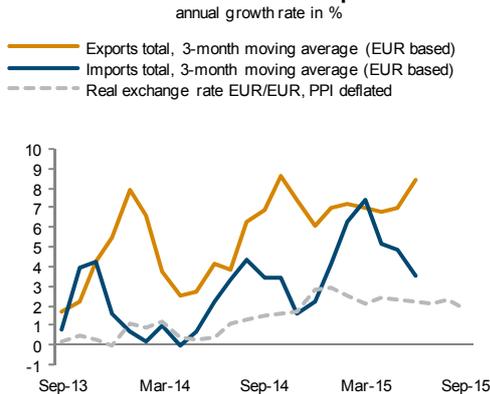
Inflation and unemployment



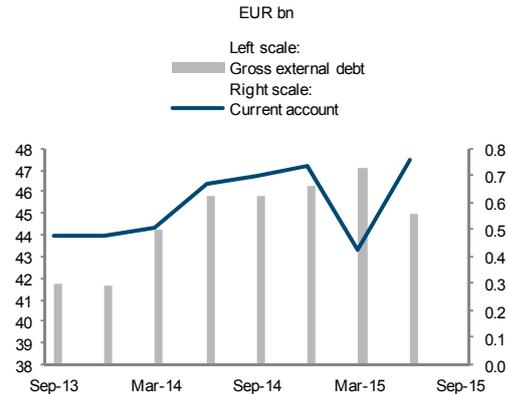
Fiscal and monetary policy



External sector development



External finance



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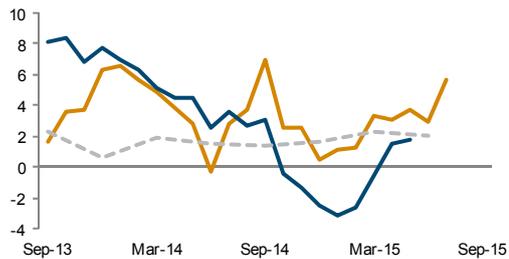
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Turkey

Real sector development

annual growth rate in %

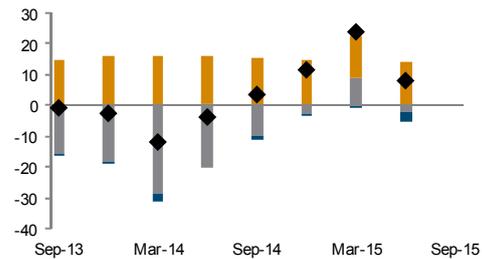
— Industry, 3-month moving average
— Construction, 3-month moving average
- - - Employed persons (LFS)



Unit labour costs in industry

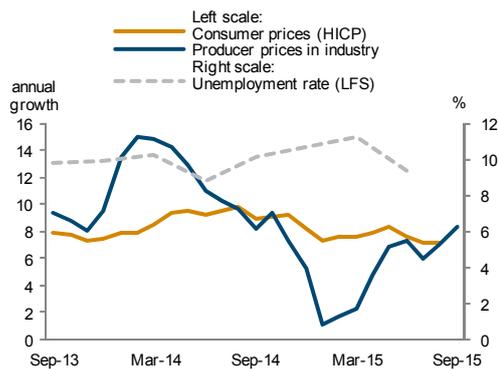
annual growth rate in %

■ Wages nominal, gross ■ Productivity*
■ Exchange rate ◆ Unit labour costs

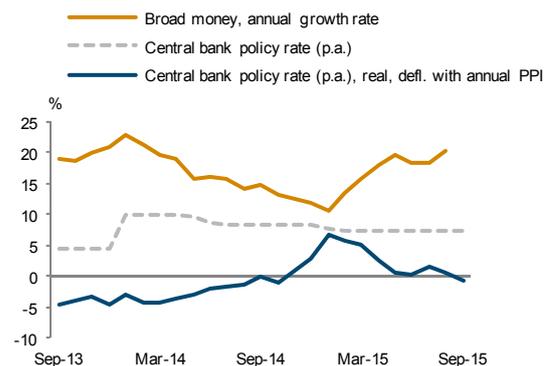


Inflation and unemployment

in %



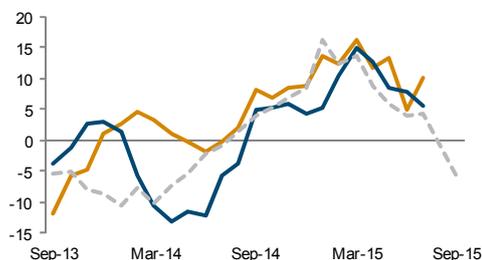
Fiscal and monetary policy



External sector development

annual growth rate in %

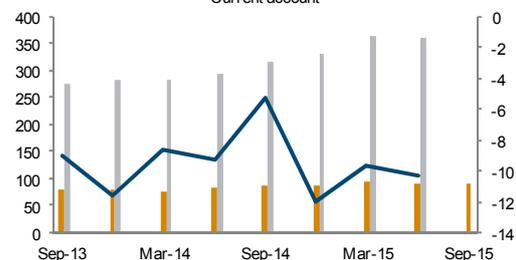
— Exports total, 3-month moving average (EUR based)
— Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/TRY, PPI deflated



External finance

EUR bn

Left scale:
■ Gross reserves of NB excl. gold
■ Gross external debt
Right scale:
— Current account



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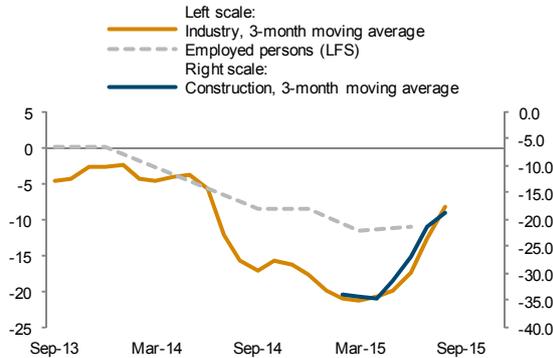
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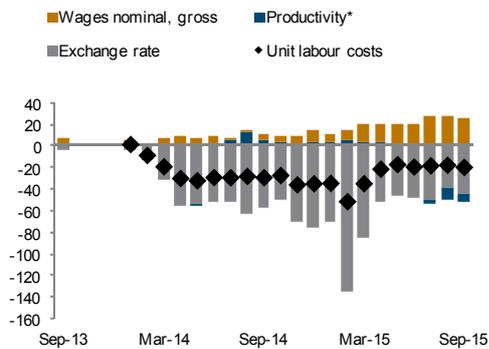
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Ukraine

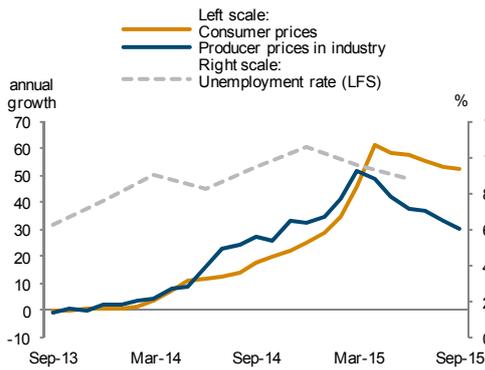
Real sector development
annual growth rate in %



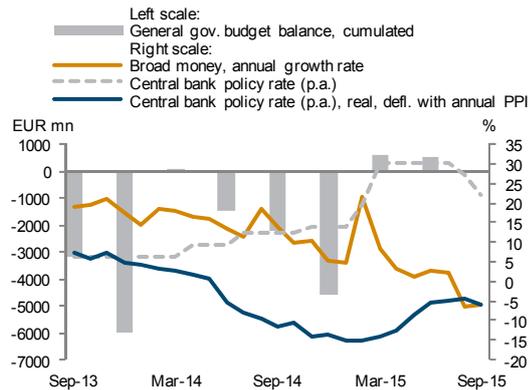
Unit labour costs in industry
annual growth rate in %



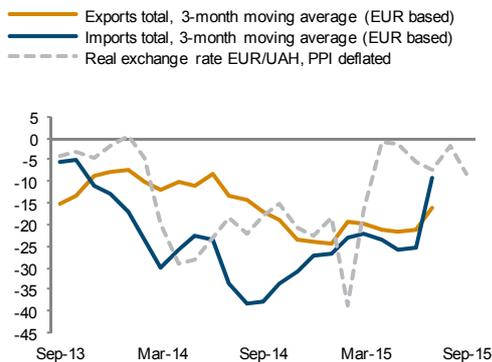
Inflation and unemployment
in %



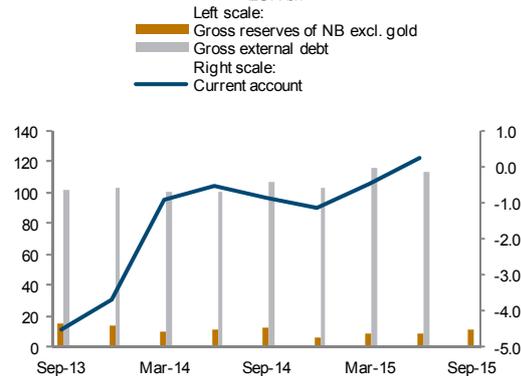
Fiscal and monetary policy



External sector development
annual growth rate in %



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EUR bn



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