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Ethical issues in the early works of accounting*

Abstract

Accountants in Poland have recently had the opportunity to celebrate the 20th anniversary of the introduction of the Accounting Act. The act was passed by the Polish Parliament in 1994. 500 years earlier, a treaty on double-entry accounting system was published by Pacioli. The publishing of *Tractatus XI. Particularis de computis et scripturis* was a momentous event marking the beginning of a new field of economics. Double-entry accounting was in use since Cotrugli introduce it some thirty years before Pacioli published his work.

Recently, in accounting as well as in economics, emphasis has been put on ethics, moral values, and professional attitudes. It is worth considering whether, or to what extent, these were present in the early works of accountancy from 550 years ago and how accountants approached these matters at the beginning of the written history of accounting.

This article presents the main ideas included in the guidelines set by Pacioli and Cotrugli regarding double-entry systems and investigates if ethical guidelines were present there. It turns out that the author of an essential work in the history of accounting, as well as his predecessor, devoted much attention to the moral attitude of the merchant, their appropriate behaviour, their attitude towards customers, and their colleagues and competitors.

Keywords: accounting, ethics, history of accounting

JEL Classification: B16, M41

* The article is an updated version of the paper published in Polish in *the Annales. Ethics in Economic Life*, *18*(3), 73–83.

1. Introduction

Recently, the Polish accountants had an opportunity to learn about the 20th anniversary of the introduction of the Accounting Act that was passed by the Polish Parliament in 1994. 500 years earlier, Luca Pacioli's treaty on double-entry accounting system was published. The publishing of *Tractatus XI. Particularis de computis et scripturis* was a pivotal event, marking the beginning of a new discipline of economic science.[1] Accounting as it is known today, and treated as one of the field of economics is based on the principles described as early as in the 15th century (Ziętowska, 2014, p. 179), known since the ancient times of Mesopotamia (Dobija, 2012, p. 6). The concept of double-entry accounting had been known a long time before the treaty was published and circulated in Europe. And it was not only because of Pacioli, but also due to the work of, among others, Benedetto Cotrugli, who described it 36 years before Pacioli. Since Cotrugli's work was published later, Pacioli is considered the father of accounting. It is believed that the main reason for a 100-year delay in the publishing of Cotrugli's treaty was its title, which referred to mercantile ethos, which was not commonly recognised at the time (Niemczyk, 2010, p. 87). For this reason, Pacioli's is treated as the beginning of accounting as a science (Ziętowska, 2014, p. 180).

It is worth investigating how these ethical concerns were approached by the scholars at the beginning of accounting as a practice.

The article aims to present the main ideas in Cotrugli's and Pacioli's works—related to double-entry accounting and, in doing so, it will also try to identify ethical guidelines these authors advocated. Accounting historians agree that the concept of double-entry accounting was not invented by one person (Banaszkiewicz, 2013, p. 36). Cotrugli and Pacioli did not create the accounting system they described. The two lived among great traders, and the invention of the printing press made it possible for them to publish their experience, enquiries, and treaties on double-entry accounting systems (Ziętowska, 2014, p. 179). The Duality Principle—essential in accounting—originated in a long historical process and describes the initial balance between heterogeneous assets and homogeneous capital (Dobija & Jędrzejczyk, 2011, p. 8). This principle also gave rise to other important elements of accounting such as the double-entry rule[2] and balance. Both treaties that this paper presents describe these rule in detail. It is worth noting that they remain unchanged to this day despite all the changes in the opinions of economic and financial experts. One of the issues that still remains unresolved has to do with the concept of capital—its interpretation is diverse (and this concept is crucial in economics), it lacks unanimous explanation and definition (Mikuła-Bączek, 2006, p. 158). With the development of accounting and technology, people sought the best method of recording economic events in account books (Banaszkiewicz, 2013, p. 36).

[1] For more details cf. Niemczyk (2010).
[2] For more details on the history of double-entry accounting cf. Rogozina (2012).

2. The balance principle and ethical guidelines in Cotrugli's writings

We can find a description of dual-entry accounting in the first book of the treaty *Della mercatura e del mercante perfetto*, chapter XIII on proper bookkeeping (Cotrugli, 2007, p. 18). It has been proven that the manuscript of the treaty is the oldest work describing dual-entry accounting in a scientific manner. Moreover, Cotrugli also authored three other treaties on different topics *De uxore ducenda* [On marriage], *Della natura dei fiori* [On the nature of flowers] and *De navigatione* [On sailing]. The treaty *Della mercatura e del mercante perfetto* was written as the second and dedicated to Francisco Stefani, a merchant from Dubrovnik (Cotrugli, 2007, p. 16). Pacioli, whom we will discuss later, knew this manuscript and appreciated it (Niemczyk, 2010, p. 87). The treaty *Il libro dell arte di mercatura* is the most important of all four of Cotrugli's works. When reading it, we notice how detailed and vast were the knowledge and experience of this medieval merchant, but we also find information about his ethos and the spirit of contemporary economics. This made him one of the precursors of modern economics (Ziętowska, 2014, p. 188). Cotrugli, according to his plan, wrote his book in such a way so that it could be useful "not only for those of our century but also for future generations" (2007, p. 38).

As mentioned before, chapter XIII, Book One, is the most important fragment from the perspective of the history of accounting. However, accounting also has an ethical dimension and so the remaining content of the work, related to the moral aspect of business activity and behaviour of merchants, is no less interesting (Ziętowska, 2014, p. 189). Book Three describes the qualities that every merchant have, which is ethical in character, not unlike Book Two that deals with merchants' attitude toward religion (Cotrugli, 2007, p. 17). Ethical issues are also described in Book One, also called the technical book, which in a way goes against the structure of the work, but here we can interpret it as showing how important ethics was to the author (p. 19). In Book I, chapter XIII, Cotrugli wrote about the *appropriate* method of keeping accounting books. This chapter also includes remarks on (Ziętowska, 2014, p. 189):

(1) the importance of handwriting, pens and account bookkeeping,
(2) dual-entry accounting,
(3) office organisation, correspondence,
(4) and a summary.

The author claims that since it is not possible to remember everything that happens in business activity, people record transactions in accounting books. Such record-keeping "not only safeguards and keeps in memory business transactions and deals" but are also crucial in "avoiding arguments, conflicts and taking things to court" (Cotrugli, 2007, p. 78). These serve to remind the merchant of everything they do or give, who "owes them and to whom they are indebted to," and all the activities that merchants "depend on" (p. 78). Cotrugli claimed that merchants should keep at least three books, which he calls a notebook, a diary, and a great book (p. 78), and assigns these different functions. Describing the great book, he explained its (still valid) structure (p. 79):

(1) "the goods you have must be the debtor, while the capital must be the creditor";
(2) "each sum […] must be written twice, the first time as the debtor, the one who has to give back, the second time as the creditor, who must receive";
(3) "[t]he sum on the right side of the book is not unlike the debit, the one on the left is the one we demand";
(4) "debtors and goods are in debit and credit relation";
(5) "collating at the beginning of the year your income and debts, that is everything you spent and lost, will give you everything that remains as the capital entry for loans and gains, so you will easily achieve balance and assets."

This description clearly shows the principles of duality and dual-entry, which remains the core of accounting (Ziętowska, 2014, p. 191). By only slightly changing the wording and the style, we can get the modern-day shape of accounting rules, but even without these changes accountants should have no difficulty reading them.

Cotrugli (2007) also wrote about organising the work connected with bookkeeping and recommended keeping order, labelling papers (when and where they came from), answering correspondence, and its proper storage. Every month, these should be packed and stored as the "most needed" things because they are "information for the merchant" (p. 81).

These fragments, taken from Cotrugli's work, are crucial for accounting. They describe the way it was seen at the time, how long it has been practised, and that it was an area of theoretical investigation, with terms such as capital, debit, credit, assets and balance. Accounting work has a natural, ethical, dimension to it. Cotrugli, as a merchant had a lot of experience in trading, was able to see the disorder and violations that his contemporary merchants perpetrated (Ziętowska, 2014, p. 188). At the time, merchants kept their books on their own. Cotrugli believed that being a merchant, and so also an accountant, was a calling that required absolute human engagement and for this reason he devoted so much attention to the ethical side of their actions. He believed that a "merchant is more of a public figure than others" (2007, p. 86). He also characterises the ideal merchant who is most importantly proud of their profession, aware of their personal value as well as the benefits that their work provides for the country and the community (p. 21). Their versatile education should also be noted because ideal merchants are also knowledgeable about philosophy, logic, and the humanities. The author also claimed that the dignity and profession of merchants are significant due to the following four reasons (pp. 117–118):

(1) creating the common good,
(2) respect for their beneficial and worthy management of goods,
(3) their connections in the higher social classes,
(4) respect for the trust they enjoy.

Cotrugli (2007) paid significant attention to knowledge and believed in its unique value; he highlighted that it was necessary for the merchant to receive a proper education, which would make them versatile and well-behaved individuals, capable of understanding others and coping with any and all circumstances (p. 23). He understood justice according to contemporary rules (that are in operation even today) as, e.g. that "it is not allowed for those who have property as a pledge to gain any profit from it" (p. 103). The author claimed that they should deduce it from the main debt. Similarly, he wrote about how unfair a deal was that involved giving money ahead of time and paying less for the goods than the evaluation of how much they "will be worth later, or their current worth" acknowledging only the price that was currently valid (p. 104).

3. The theory of accounting and Pacioli's ethics

Summa de arithmetica geometria proportioni et proportionalita by Pacioli, published in 1494, is essentially a mathematical work, but one of its chapters is devoted to the Venetian method of accounting (Hońko, 2013, p. 41). Pacioli is described as a scholar who managed to comprehend the entire domain of his contemporary science—the whole of the scientific knowledge of the 15th century—when there was no separate field of economics or physics, and accounting was just a natural application of mathematics (Dobija & Dobija, n.d., p. 23). Pacioli's mathematical model of an enterprise consisted of the following elements (Niemczyk, 2010, p. 92):[3]

(1) money is the number and measure of economic processes,
(2) Assets = liabilities,
(3) gain = income – costs.

It is claimed that the fundamental equation of accounting—the Duality Principle—which can be found in Pacioli's work evolved into the domain of economics because it was Pacioli who differentiated material resources and the homogeneous medium they included—the capital. For this reason, it is also claimed that the concept of capital appears in his work (Dobija & Dobija, n.d., p. 23). Pacioli is considered to have been a very versatile teacher and scholar (Hońko, 2013, p. 42), a renown scientific authority (Dobija & Dobija, n.d., p. 23), a mathematician, philosopher and a logician (Niemczyk, 2010, p. 92). Despite the fact that his treaty is practical in character, he formulates certain definitions, like the aforementioned concept of "capital" or the term "cash register" (Hońko, 2013, p. 45). Accounting, since Fibonacci and Pacioli, has been based on the Duality Principle, which describes the same resources as economically dual; as heterogeneous assets and homogeneous abstract capital (Dobija, n.d., p. 2). Some believe that Pacioli never

[3] The first claim refers to the rules of sum recording. Money as a number is inherently connected with the simple structure of an account. The second claim refers to several other rules of accounting—subjectivity, dual-entry and balance creation. The third claim refers to the rule of periodisation and economic rationality.

explained the essence of dual-entry recording, stating only that "[...] capital always has to be the creditor at the beginning on the main book and the diary, while the register must be the debtor" (Hońko, 2013, p. 46). Nevertheless, the claims in his work are sufficient to say that he formulated this principle and that explaining it thoroughly was impossible partly due to how careful he had to be considering the novelty of his ideas. Lesław Niemczyk (2010) writes about it and highlights (p. 89):

(1) the contemporary structure of science, with no room for the eighth discipline; Pacioli himself knew that economics was a separate discipline within liberal arts, but it could not fit into the system of science at the time (it would be the fifth element of the second group, which then had bad connotations);

(2) the fact that Pacioli had enemies who were able to harm him; it was because Pacioli was granted certain privileges by the Pope, which made some powerful members of the clergy jealous.

Niemczyk (2010) states that "Pacioli's responsibility for the fate of the new research program" was reflected in the fact that *Summa* encompasses economics understood as a dry method of mercantile bookkeeping, but even such a depiction of ideas "allowed the educated to have insight into the mercantile method [...]. Potential enemies could not see anything that would violate the static order of the Middle Ages." Niemczyk believes that this ploy, an example of unconventional research policy, made it possible to preserve economics in the work. He thinks that it is reasonable to say that momentous events in economic history (the Great Industrial Revolution and the Great Information Revolution) can be partly attributed to Pacioli, who diagnosed the mechanisms of the Great Trade Revolution and presented its basic "code" in his work.

When it comes to describing Pacioli as a uniquely versatile teacher, we can see that many scholars agree that the main factor that made his book so successful, apart from its factual content, was the way he presented the subject or its special didactic quality because *Summa* was written from the perspective of a mentor sharing his experience (Hońko, 2013, p. 42). Besides that, Pacioli nor only taught accounting terminology and account bookkeeping but he also explained the relationship between economic activity and book records (p. 44).

Pacioli made many references to the Christian faith and ethics of merchants, whom he considered the foundation of the state (2007, p. 124) and people enjoying great social trust. He wrote that in great republics, there was nothing more valuable than the "faith of a good merchant," that people swore upon (p. 61). He highlighted the importance of Christian symbols, ordering the readers to begin each book in the name of God and the sign of the cross, just like he wanted all business to begin in the name of God (pp. 63, 71). Owing to Pacioli's suggestions, we can understand the importance of the systematic character of recording, which guaranteed their falsifiability, lowered the risk of fraud, but also of following ethical principles in accounting (Hońko, 2013, p. 46). The awareness of the risk of unethical practices is clear in Pacioli's writings. In chapter 24, he wrote that all operations recommended by him were indeed just safety measures, which should be taken due to: "dishonesty, which our time is full of" (2007, p. 108). Later in the same chapter, he demanded that the rules are obeyed so that nobody can accuse the merchant of dishonesty (p. 113). When describing a method of creating balance, he addressed his words directly to accountants and claimed that a good accountant needs to know the grounds for all records and the reasons for all the differences between them "to avoid any suspicion regarding the book" and that they need to act in such a way "as to always preserve mercantile reliability" (p. 188). Pacioli believed that the perfect merchant needs the knowledge of accounting because "if they are not also a good accountant, they blindly wander in their business, which can result only in harm" (p. 122).

Pacioli in Treaty XI often refers to mercantile habits, suggest exemplary solutions, good practices, and paints the picture of a "good" or "perfect" merchant (Hońko, 2013, p. 46). Such a merchant was characterised by honesty, systematic work, attention to detail, preference for order in documentation, and a good organisation of their accounting work. Unlike Cotrugli, Pacioli did not write about the principles, habits, norms, practices and qualities of a good merchant in a separate chapter, but rather he described them in various parts of his work. These ethical aspects were used as justifications for some of the practices he recommended. They were supposed to shape the proper attitude of a merchant or an accountant when performing certain duties. This shaping of character takes place on reading the book, somewhat simultaneously to gaining factual knowledge. He was also aware that applying his recommendations can be imperfect, that it risks improper or unethical execution, and so he gave motivational advice which justified constant striving for high quality of work: "for your everyday business activity not to seem arduous" (Pacioli, 2007, p. 68). Maybe because of this, *Summa*, and especially Treaty XI which is an accounting manual, enjoyed so much popularity (Pogodzińska-Mizdrak, 2007, p. 18). Scholars suggest that the main didactic qualities in Pacioli's manual are (Hońko, 2013, p. 49):

(1) ordered content presented in the form of short chapters;
(2) announcements for the material to be covered and later revisions, which facilitate controlling progress;
(3) a simple style and understandable definitions;
(4) a complete example, enabling following new records in account books;
(5) references to contemporary practice and mercantile habits.

Thus, the manual—we may say, within our present-day framework of qualifications—educates in knowledge, skills, as well as social competencies, including ethics, shaping the characters of its readers.

4. Conclusions

The history of accounting as a research area is underappreciated, despite its size and richness (Ziętowska, 2014, p. 180). This article presents just two renown individuals from the history of accounting: Pacioli, considered to be the father of accounting while Cotrugli, remained unknown until recent scholars rediscovered his work. The author showed how these two teachers of merchants and accountants perceived accounting and how they thought about economics in general. It turns out that each of them devoted much attention to moral values and mercantile ethics. At the time, it was the mercantile ethics that accounting ethics was an element of (Turzyński, 2013). In their works, they recommended keeping account books in an ethical way—they wrote not only the aspect of the balance rule, dual-entry accounting, reliability, but also about the proper attitude in the mercantile profession, whose inherent part involved bookkeeping. At the time and many years after, there were no accounting services, which is so common nowadays. These two authors taught the same principles of accounting, divided the records into 3 books and described them in a similar way. These taught how to conduct the business of accounting honestly, and how to be a perfect merchant. They spread the same ethical values, but in a slightly different way: by creating special chapters devoted to the topic, as was the case of Cotrugli, or weaving them into factual descriptions, as in Pacioli's writings. The fundamental qualities of a merchant and the ethical values they described and demanded are, e.g. the awareness of the importance of their profession and the social trust it enjoys, the sense of responsibility, also for the state, the sense of dignity of the profession, appropriate knowledge and skills, being just, honest and reliable. They also named certain characteristics of the mercantile trade such as attention to detail, being systematic, tidiness, respect for business partners, answering correspondence, the ability to understand people and do well in any circumstances. It seems that this list of characteristics or ethical qualities is still relevant today. Unfortunately, even though accounting has evolved so much since that time, the same cannot be said about its ethics. When it comes to following ethical principles in practice, our current situation provides little evidence for their historical development and reinforcement among merchants and accountants.

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Ethical aspects of normative theories of accounting*

Abstract

The aim of this article is to show ethical aspects of the so-called normative accounting theory (NT), with particular emphasis on the ethical and normative theory (ENT), important for the development of accounting as a science, taking into consideration its social function. Attention is focused on the so-called axiological layer with regard to the methodological foundation (pragmatic methods and related metascience) concerning the work of theorists in Western Europe. Although in the years 70s shall be considered as unscientific and begin the process of domination positive theory of accounting. It seems that the 21st century has brought about a rebirth of specific ethical and social topics in the field of accounting.

The importance and usefulness of ethics in accounting have been growing due to changes in accounting and social needs driven by a turbulent environment, as well as changes in science.

Keywords: methodology, ethics, normative theories, accounting

JEL Classification: M40, M41, M49

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1. Introduction

The aim of the article is to analyse ethical aspects of accounting at the theoretical level.[1] The adopted research method is based on a literature review. The nature of the relationship between ethics and accounting is determined to a large extent by the character of accounting as a science.[2]

Normative theories (NT) of accounting, which are part of the so-called alternative theories, are one of the key aspects of the formation of the scientific and social character of accounting as a science.

2. Ethics and accounting

Economic activity is not a morally neutral sphere,[3] although moral issues are difficult to quantify. Currently, in the real socio-economic life, high social "demand" for ethical issues can be seen. Despite the fact that ethical issues seemingly do not concern accounting,[4] contemporary changes in the accounting environment, e.g., the financial crisis, mean that accounting cannot afford the "loss of trust" (Wójtowicz, 2000, p. 133).

The aim of ethics[5] is to search for sources of morality, exploring the effects of morality, or lack thereof, on people and to seek basic philosophical premises on the basis of which moral requirements can be created rationally along with an ordered set of normative and directive convictions that would uniformly regulate

[1] The theoretical area of accounting is particularly characteristic of management and financial accounting (Maślankowski, 2009, p. 109).

[2] Accounting is rooted in practice. In the academic discourse on accounting, it is emphasised that accounting is a science that is still searching for proof that it is a science. According to the Regulation of the Ministry of Science and Higher Education of 2011, it is not formally and legally a separate entity. Its characteristic feature is a close connection with the discipline of economics (visible gradual independence) (Cieślak, 2011, p. 33; Jastrzębowski, 2014, p. 99).

[3] Consistency between moral and legal standards seems to be particularly important (Pogonowska, 2000, p. 10).

[4] For example, Havel simplifies the importance of accounting as a science by saying: "But what is the point of accounting if what shapes our lives is difficult or impossible to count? I wonder what an economist/accountant would do if he or she got the job of optimising a symphony orchestra? The answer is as follows: it would eliminate all pauses from Beethoven's concerts. In the age of world complexity and increasing social expectations, this view (in quantitative terms) of accounting is contested. It is difficult to retain research methods neutral in terms of evaluation in disciplines related to social and human aspects" (Sedláček, 2011, pp. 9–10).

[5] Ethics is a concept very often confused with morality treated as a social phenomenon, which is the subject of research of ethics understood as a science. Morality is the total sum of judgements that dominate in a given era or environment, as well as the norms, principles and ideals that define certain views and behaviours as appropriate.

all areas of public and private life.[6] In addition, it emphasises values "difficult to interpret" for economists, such as justice, truth and honesty.[7]

Two specific ethics, which are neither identical nor exclusive, seem to be extremely important for accounting. The first is management ethics (in the market economy system), which is a reflection on the moral context of this sphere of social relations.[8] The other one is business ethics, which is distinguished within broad economic ethics as its dominant area and as the field of ethical reflection focused on people playing the role of entrepreneurs in companies (the subject of analysis is, among others, the sense of duty of representatives of this group, taking into account social values applied in running a business) (Filek, 2001, p. 14). It seems that this ethics is closer to the issues faced by accounting. This is particularly evident when accounting is considered as a universal international business language that enables communication among all participants of economic life.[9]

At present, the following division of general ethics exists:

(1) metaethics (Kant, Hume) focusing on questions concerning the essence, nature or ontological status of ethical concepts;

(2) normative ethics answering the question of how to behave (setting standards and norms of conduct);[10]

(3) postmodern ethics (relativism), according to which values, norms and assessments are relative, dependent on the place and the evaluator.[11]

Taking into account two extreme positions, the following should be distinguished:

(1) utilitarianism (a typically economic approach aimed at maximising profit) whose name comes from *utilitas*, i.e. a *benefit* (utility). It was created on the basis of Protestant ethics as an expression of consequential ethics.[12] This approach states that an act is ethical as long as it brings a good (in terms of its utility) result.[13]

[6] In the theoretical sphere, ethics, economics and accounting science are distinguished, while in the practical sphere—morality, business (management) and accounting practice (Klimczak, 2006, p. 40).

[7] They are expressed in accounting principles (true and fair view, fair value) (Ciastoń & Mandecka, 2014, p. 93).

[8] Systemically and institutionally, these issues also fall within the area of social philosophy and social ethics (Dietl & Gasparski, 2002, p. 74).

[9] This is not a novel approach as examples of medieval accounting ethics are known. Cortuglio or Matthew from Cracow used the so-called Rule of the Master and St. Benedict's Rule as well as theses of "the father of accounting"—L. Pacioli (1494). It should be emphasised that the first ethical concepts were created within the framework of the American Association of Public Accounting (AAPA) in 1905 (Garstka, 2015; Turzyński, 2013, p. 138).

[10] Two approaches of Baker (2015) are used in accounting, as they come together in the following question: how do you know that a given issue is an ethical one? In the epistemological dimension, ethical issues are perceived as determined by individual decision makers (atomistic view) or by social and historical factors (social view). The latter approach is normative. In addition, we can also deal with a combination of epistemological and normative dimensions (p. 267).

[11] Descriptive ethics is mentioned as the third one (Gaffikin, 2007, pp. 3–5).

[12] Utilitarianism was created by Bentham, who presented a moral doctrine based on the overriding norm of the Greatest Happiness Principle.

[13] There are two approaches to normative ethics: consequentialist and deontological (Ketz, 2006, p. 48; Vasiljeviene, 2005, pp. 48–49).

(2) Kantian ethics, which comprises the ethics of duty, ethical absolutism (social approach),[14] deontological ethics (acts independent of consequences) and autonomous ethics (a lack of external authority) (Klimczak, 2006, p. 46). It comes down to an absolute internal moral imperative ("ethical practical reason") that can provide a universal basis for human behaviour.[15]

3. The specificity of ethical and normative theories

Attempts to create an accounting theory in order to improve accounting practice have been made mainly in the 21st century.[16] The division into positive (PT) and normative theories (NT) is part of the relationship between positive economics (the neoclassical core) and normative economics.[17]

Accounting was positioned primarily within positive economics. The concept of *normative accounting* was introduced by Mattessich in the encyclopaedia of Chatfield and Vangermeersch.[18] It can be applied based on two basic meanings: a narrow meaning—to indicate the formal determination of a norm, principle or law that articulates a particular value or set of values (prescriptive moralising) and a broader meaning—a "value-laden" one (the opposite of the term "value-free"), regardless of whether the value is articulated as a norm or not.

Normative theories are embedded in the sphere of subjectivism, i.e. they are associated with ontological idealism and epistemological rationalism. They are a product of the society in which they were created and cannot be regarded as ethically neutral. These theories consist of recommendations, conclusions, opinions, and judgments about how things should be (the desired condition). They focus on existing value systems and do not form new ones (Szychta, 2013, p. 256). Positive theories, however, only explain the economic reality (description) without assessing social and economic phenomena (Łada & Kozarkiewicz, 2013, p. 163; Sawicki, 2013, p. 219).

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[14] Ethics of law and justice is derived from it.

[15] This ethics is moving towards responsibility (this is particularly evident in the concept of Corporate Social Responsibility (CSR) analysed later).

[16] Accounting theories are proposals for accounting policies and practices (theory shapes practice through the accounting policy). The conclusions of some theories are recommendations for the accounting policy pursued in a given country (setting standards and rules of financial accounting) or for individual companies' policies in the field of accounting. Theory does not have to be fully applicable to practice, but it should provide a framework for new concepts (ideas and procedures), no matter when they are applied and verified. In this dimension, it is an attempt to "escape from practice" from which accounting is derived (Hendriksen & van Breda, 2002, p. 43).

[17] The division into positive (value-free) economics, normative (value-laden) and the art of economics (applied economics) was introduced into economics by J.N. Keynes (Garstecki, 2012, p. 40).

[18] The 1950–1960 period is the "golden age" of normative research, while the period of intensive studies in this field in the United States, Australia and Canada falls between the years 1960–1970. This sort of categorisation, however, is extremely vague, as such research appeared both earlier and later. Nelson (1973) also defined the scope and nature of those studies by calling the 1960–1970 period the "golden age in the history of a priori research in accounting" (Chatfield & Vangermeersch, 1996, p. 102).

The mainstream (MS) of accounting, as well as of economics, is composed of positive studies, using research methods typical of empirical (aposterioric) sciences. This is in line with the conventional approach.[19] Normative theories are usually considered unscientific and are classified under heterodoxy.[20]

Table 1. Positive and normative theories: Their structure and verification

The name of the theory	Normative theories	Positive theories—descriptive—“pure” science
Griffin’s model	Taste: “valuable because desired”	Perception
Type of knowledge	*A priori* knowledge—internal type of knowledge.	*A posteriori* knowledge—derived from the observation of everyday life (business practice).
Method	Deduction (prescription). The dominance of qualitative methods.	Induction (prediction). The dominance of quantitative methods.
General characteristics	Based on “means-ends” analysis. The terms “should”, “ought to” are used, i.e. answers to questions about how things should be are provided.	Faithful reflection of reality. For example, the effects that accounting exerts on the environment are explained. Questions: why? what? how?
Conclusions	Answers to normative questions always depend on the objective function.	Obtained answers are to be important for decision-makers. They are not universal in their nature.
Theoretical basis	Practised by people of science, accounting theorists who are looking for postulated solutions and accounting tools that better describe reality. The first creators included: Sprague (1907), Paton (1922) and Canning (1929)	Practised by practitioners. Neoclassical theories in economics (marginal economics). The development of ideas: Comte, Jensen, Rochester School (Watts, Zimmerman, Ball, Brown), Chicago School (Friedman), and agency theory.

Note. Adapted from “Accounting, a multiparadigmatic science,” by A. Riahi-Belkaoui, 1996, Westport–London: Greenwood Publishing Group, p. 8 and “Accounting theory,” 2004, Illinois: Cengage Learning EMEA, p. 398.

In the NT framework, Mattessich distinguished the following two main types:

(1) pragmatic and normative theories, classified according to the period in which they were created (1950–1975). The research mainly concerned determining the postulates and principles of financial accounting, and determining the form of modern accounting, etc. (Hendriksen & van Breda, 2002, p. 33);

(2) conditional-normative accounting methodology—Mattessich (1992; Szychta, 1996, p. 77).

[19] The term “normative” is not a synonym for “deductive”, just as the term “positive” is not a synonym for “inductive”. No NT can exist without observing certain facts from the real economic world, and at the same time no PT can be developed without deductive reasoning (Szychta, 1996, pp. 226–227).

[20] In economics, there is a division into the following types of economics: conventional, orthodox and traditional as well as non-standard, unconventional, heterodox, and alternative. Mainstream researchers perceive accounting as a context-independent practice, apolitical and economically rational (neoclassical approach) and as a tool to reflect the reality of an economic entity. The symbolic transition from normative to positive theory took place in the 1970s, Peirson and Brown called PT neoempirical theories (realistic ontology). Those researchers recognised that there was an objective external reality, independent of human actions (Baxter & Chua, 2003, pp. 97–126; Humphrey & Lee, 2004, p. 64).

Assuming that accounting does not represent a specific economic reality of an economic entity but instead creates it, accounting should bear responsibility for the social effects it causes. This approach is characterised by the use of normative ethical theories (NET) within which the subject of research has been extended to include ethical analyses.

When classifying theories according to the demographic criterion, it should be stated that the first normative ethical theories were created in the works of German scholars from the German Normative School in the 20th century.[21] In particular, the contribution of two German scholars should be emphasised: Schär and Nicklisch.[22] Their theories contained an important ethical element according to which entrepreneurs should optimise performance and methods of operation for the general social good (e.g. minimise production costs for the benefit of consumers) instead of maximising corporate or personal profits. The indicated researchers preferred a holistic approach.

The British Normative School was a continuation of this approach. In the 1970s, a research trend under the leadership of Hopwood, Cooper and Powell,[23] who represented an undeniably ethical approach, was established. According to Hopwood (1989, p. 141):

> accounting [...] is no longer seen as merely residing in the technical domain, serving the role of a neutral facilitator of effective decision-making, accounting is slowly starting to be related to the pursuit of quite particular economic, social and political interest.[24]

Therefore, it cannot be separated from the environment to function neutrally in relation to other entities. As a result of evolutionary processes, corresponding to the level of development, accounting has become an important component of modern management on the scale of economic and social organisation (Kaczocha, 2015, p. 247).

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[21] In the history of Germany, the Fugger family and the academic traditions of German accounting are closely related to the development of business administration. Important figures include the lawyer Simon and Professor Schmalenbach—the creator of dynamic accounting theory, who adopted a normative ethical approach to accounting theory, which is evident in the original edition of his works: *Dynamische Bilanz* and *Kostenrechnungund Preispolitik*. Later he gave up the ethical-normative approach, limiting himself to the maxim that "waste should be avoided" (Biondi & Zambon, 2013; Fülbier & Gassen, 2011, p. 13).

[22] The first one was a pioneer of accounting ethics, a professor in Zurich and Berlin, the author of the first theory of accounting. For Nicklisch, a philosophical approach in business is the key to understanding and explaining economic phenomena. He draws attention not only to empirical research but also to values and social norms. Philosophy such as idealism, materialism and romanticism had a significant influence on it. Like Fichte, he stressed the role of society and responsibility towards the community. The publications of Schär and Nicklisch were not scientific works on accounting.

[23] In 1975, Hopwood established a journal entitled *Accounting, Organizations and Society*. In this particular journal alone, in the years 1980–2003, 91 articles whose authors reflected on the issues related to accounting practice in reference to Foucault's works were published. He held the position of the editor from 1976 to 2009. In 1977, he became the main founder of the European Association of Accountants (Chapman, Cooper & Miller, 2009, pp. 10, 30; Miller, 2010, pp. 1–5).

[24] It is characterised by relatively low predictability, a lack of universalism and the use of qualitative elements which are difficult to measure (Hopwood, 1989, p. 141).

As part of this approach, which has found its continuation also on the American continent, two varieties can be distinguished:

(1) moderate approach. Interpretative studies were focused on understanding the social nature of accounting. Their goal was not to criticise and promote radical social change but to explain and show facts and relationships.[25] The proponents of this approach claimed that accounting must reflect the changing ontological, epistemological, methodological and logical assumptions that appeared in other social sciences.[26] In the light of this approach, accounting was not created only by capitalism, industrialisation, ownership or organisational structures. Its creation and functioning were seen as a rather complex phenomenon due to the interweaving of many different influences. The hermeneutic philosophy (explaining the relation of the individual to the community) is also important in this dimension, including the ethical interpretations of such philosophers as Heidegger, Gadamer or Ricoeur which provide the theoretical basis for the analysis of broadly understood ethics in accounting.[27]

(2) critical accounting research which is a development of the moderate approach and is embedded in the Kantian tradition (it has been developed since the 1980s). Representatives of this research tradition conduct an extensive analysis of the hermeneutical role of accounting (as a method of human activity leading to the location of its factors in the social environment) and its place as an information system.[28]

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[25] It refers to the social philosophy of Foucault and Derrida (who writes about responsibility). The interest in the ideas proclaimed by Foucault in accounting began in the late 1970s in Great Britain. Concepts such as “knowledge,” “discourse,” “power” or “disciplinary society” are the main components of his theory. In the works of Foucault, issues of the philosophy of power (why the social order in the modern world is increasingly less based on external strength and control and increasingly more on the internal disciplining of individuals) occupy a special place. This is the basis of many studies brought together under the name of governmentality. From his perspective, ethics concerns the relationship that a person should have with him or herself and the way in which a person perceives and creates him or herself as a moral subject (Benton & Craib, 1993, pp. 191–192).

[26] In this case, it is important to consider four paradigms of Burrell and Morgan, who proposed a typology based on two dichotomous meta-metrical dimensions: assumptions about the nature of science (objectivism-subjectivism dimension) and assumptions about the nature of society (regulation-radical change dimension) (Laughlin, 1987, pp. 479–502).

[27] Hermeneutics is a science dealing with studying, explaining and interpreting written sources in order to determine their proper content and accurate meaning. One can also encounter the definition of the hermeneutic circle. According to this definition, the understanding of the whole is achieved on the basis of the understanding of its components, and the understanding of the components is based on the understanding of the whole. As in the case of dialectical thinking, the whole is important, and the process of thinking is treated as “moving back and forth between the whole and the part.” Consequently, any objective examination is not possible, and truth only exists as a shared interpretation. Knowledge can be considered knowledge only if it is accepted by observers (Garstecki, 2012, pp. 44–47).

[28] An important distinction of critical theory is the rejection of positivism as the sole arbitrator and creator of knowledge. The studies of the critical trend of accounting are mainly presented by the journal entitled *Critical Perspectives on Accounting* established by Tinker, Lowe and Cooper. Many works are also published in *Accounting, Auditing & Accountability Journal*. As befits an alternative trend, these journals are not on the list of high impact factor scientific journals, which reflects the status and reputation of the journals in the scientific community (Maćko, 2013, p. 82).

This approach was created primarily by social theorists and philosophers, including Horkheimer, Adorno, and Habermas,[29] who cooperated at the Institute for Social Research in Frankfurt in the 1920s, and who are colloquially referred to as the Frankfurt School.[30]

Habermas's ethics of discourse (communication) played a significant role in this dimension.[31] The ethical approach from this perspective assumes that the internal contradictions of capitalism (instability, injustice), especially in the Anglo-Saxon version, cause ethical problems. Therefore, research in the field of accounting should lead to an exploration of power and conflict in society, and should, therefore, focus on the impact of accounting reports on the distribution of profit and value. State-controlled accounting regulations are also important, in particular, in social and environmental areas, preventing the so-called "dirty business".

From the perspective of accounting as a science, the control function is of particular importance in an ethical context, as indicated by Burzym.[32] Its development allows one to determine the social function of accounting, referred to as a stimulus function,[33] which concerns the socio-economic rationalisation of management and the implementation of economic decisions in enterprises and institutions, including an ethical reflection on and the ethical effects of undertaken activities.[34] In this way, it becomes a social good through the socialisation of control

[29] As well as: Armstrong, Chua and Cooper. There are three main stages in the development of this approach: the first—until the mid-1970s, the second—encompassing later works of Habermas, and the third—concerning the works of Habermas's students. The works of the University of Sheffield are a continuation of his approach (Lowe, Tinker). The proponents of critical theory also include Laughin, who believed that critical accounting is always contextual, has social, political and economic consequences, is undertaken to introduce change, i.e. improvement, covers the micro and macro sphere, and is interdisciplinary (Laughlin, 1999, p. 77; Roslender, 2006, p. 253).

[30] They operated at the University of Frankfurt am Main in 1923–1932, and from 1933, subsequently: in Paris at *Ecole Normale Superieure* and in New York at Columbia University, then after 1949 again in Frankfurt. In the course of forty years, this school evolved from criticism to describing the capitalist society, its affirmation and criticism of socialism. Important figures influencing the development of the school were: Lukacs (inspired by the theories of young Marx), who proposed the analysis of the role of superstructure factors in society, e.g. ideology, literature, art, etc. In addition, Gramsci, who was involved in the promotion of Marxist theory in Italy and showed the capitalist domination even with regard to accounting, stating that "accounting is a product of an elite group" (Bobryk & Zychowicz, 2006, p. 5; Dubiel, 1981; Roslender, 2006, p. 249).

[31] According to him, discourses are organisations and social structures that reflect the life-world (systems). In addition, they create mechanisms that are to help the systems reflect the needs of the life-world (steering media). Thus, discursive and effective communication is introduced, which enables conflicts to be resolved through discourse. He therefore created a new basis for social values and norms: a communication community (Klimczak, 2006, p. 81).

[32] Accounting fulfils a number of functions, for example: information, analytical and reporting, evidential, optimisational, motivational, and attestation (compliance with a set of rules) functions (Samelak, 2009, p. 10).

[33] The purpose of accounting is to present the internal and external effects of business operations from a social point of view (Szot-Gabryś, 2013, p. 79).

[34] Accounting stimulates ethical actions in this respect if the numerical image of economic activity and its results communicated to the public are characterised by transparency, reliability and international predictability regarding the methods of counting and communicating. This means creating barriers that limit anti-social behaviour (Burzym, 2008, p. 83).

and evaluation, and through the application (on an ever-wider scale) of obligatory accountability of companies and institutions.[35]

NETs also include the third trend of social responsibility, also known under other names, which encompasses responsibility towards the natural environment and sustainable development. It is a subset of social accounting. His proponents include such figures as: Riahi-Belkaoui,[36] Gray, Owen, or Pearce (Szychta, 1996, p. 90).

The basis for these considerations is the previously indicated CSR, which is a multi-faceted and holistic issue.[37] CSR means a constant commitment to ethical action and contributing to economic development as well as the improvement of the quality of life of employees and their families, the local community, and society as a whole. It is also a concept of voluntarily taking into consideration social and environmental aspects by organisations. CSR means focusing on profits while at the same time respecting the law and the principles of ethical conduct as well as supporting the environment and society. In this dimension, three main types of responsibility are emphasised: economic—profit making, legal—compliance with the law, and philanthropy—charity and ethics.[38]

The implementation of social responsibility requires an adequate source of information, which is always corporate social responsibility accounting, social accounting[39] or social and economic accounting.[40] Currently, there is no comprehensive and cohesive concept of social responsibility accounting (it is analysed in the context of financial or management accounting). According to the postulate of Gabrusewicz, it should be created using normative methods. Social responsibility accounting measures and publishes information that takes into consideration the burdens and benefits for society resulting from the activity of a specific economic entity shown in a descriptive or qualitative form, indicates the places where these burdens and benefits are created, and applies an ethical approach throughout the

[35] Ethics, professionalism and accountability are accounting values and can be considered as foundations of accounting. "Accountability means an obligation to provide an account (not necessarily a financial one) or a list of activities for which someone is responsible. It is also the responsibility of those who rule for their choices, decisions and actions." It began to develop when universities introduced a system for assessing students' development through examinations (Gabrusewicz, 2010, p. 13).

[36] He dealt with, among others, the issue of the influence of behavioural factors on accounting and the relationship between economic phenomena and data derived from accounting and other areas. They are based on assessments of the workforce, consumers, the local environment, etc. He emphasised the importance of morality in accounting: honesty, ethics, social responsibility and truth. He took into consideration such ethical perspectives as utilitarian and deontological ones as well as the notion of rightness (Riahi-Belkaoui, 1992).

[37] The main sources of CSR according to Filek (2013) are philosophical (a new paradigm of responsibility), ethical and business (business ethics as the first stage that facilitated the understanding of the philosophical paradigm of responsibility) and political (democracy) (pp. 13, 95).

[38] In the economic dimension, the ethically desirable effect called Pareto optimality plays an important role. This effect loses significance in the context of public goods, therefore a wider ethical approach is needed (Paliwoda-Matiolańska, 2014).

[39] It is perceived in microeconomic and macroeconomic terms. Riahi-Belkaoui distinguishes it from the so-called socio-economic accounting. Social accounting was initiated by Hicks in 1942 (Filek, 2013, pp. 158–159).

[40] Derivative ideas have also developed, e.g.: environmental accounting (Szychta, 2007, p. 70).

process of measuring and presenting the burdens and benefits to society (Gabrusewicz, 2010, p. 60). In this area, research aims to induce changes in existing systems and forms of accounting that extend the scope of captured events, information needs, users, and reporting units, as well as the language and nature of data.[41]

4. Conclusions

It should be emphasised that the research carried out in the framework of normative theories has been of great importance for the development of accounting as an applied social science and has constituted a preparatory phase for starting empirical research in accounting, and thus—for initiating considerations of its ethical dimension in practice. It has been a "big step" towards taking into consideration value in the framework of accounting. At present, there is a trend observed in economics to expand the influence of heterodox economics. It seems that this will also apply to modern accounting as "the accounting theorist deals with ethical issues at every turn" (Gabrusewicz, 2010, p. 60). Expectations towards accounting in this regard are constantly growing. At this point, however, the analysis touches on the issue of empirical research, which goes beyond the scope of this article.[42]

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[41] Science and practice have not developed any universal tool enabling the efficient measurement of benefits resulting from pro-social and pro-environmental activities. The concepts of this responsibility are often proposed in the form of separating environmental costs (cost account—information and audit subsystem in the accounting system) from the typical financial reporting. Another problem for accounting theory is CSR measurement (Szot-Gabryś, 2013, p. 78).

[42] This is evidenced by the existence of contemporary organisations focused on ethics, e.g.: the Association for Practical and Professional Ethics or the Australian Association for Professional and Applied Ethics.

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The influence of religious principles on the formation of the accounting system*

Abstract

Factors such as different cultural determinants undoubtedly affect "the shape" of the economy. Mueller, Hofstede and Gray, among others, have studied the impact of the cultural factors on an economy, especially in fields such as accounting. Reflections on the topic have also appeared in the Polish literature, although relatively late. One of the cultural factors is, beyond doubt, religion, forming some ethical attitudes through the transfer of certain values which become the guiding principles for individual actions, exerting an obvious influence on the applicable standards in a given society. The author does not claim to consider the relations between religion and ethics, as only issues concerning a possible to demonstrate influence of religious norms on accounting are raised in the article. The aim is to discuss briefly the impact of Christianity, Islam and Confucianism on accounting systems and practices based on literature studies. In conclusion, the question arises about the sense of the convergence of accounting standards, at least in the context of the current efforts undertaken in this field.

Keywords: ethics, religion, accounting

JEL Classification: M41, N20, Z12

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1. Introduction

There is no doubt that many of the cultural determinants impact the shape of an economy. The impact of cultural factors on the economy, as well as its specific fields, including accounting, has been studied, among others, by Mueller (1967), Hofstede (1980, 1984) and then by Gray (1988). Lately, reflections on the topic have also appeared in the Polish literature (cf. Adamek 2009, 2011a, 2011b, 2012; Bonca, 2010; Kamela-Sowińska, 2006).[1] One driving cultural factor is religion, cultivating ethical attitudes through the transfer of certain values that become the basic principles for individual actions influencing the applicable standards in a given society. The author does not claim to consider the relations between religion and ethics, or, business ethics. The focus in the article is on the influence of religious norms on accounting. The literature review demonstrates that Christianity, Islam and Confucianism have affected the accounting practices.

Cultural, social, economic and political factors (different in many countries) have a significant impact on expectations formulated in relation to financial statements in terms of information that they should provide as well as tasks faced by the accounting system. Each country uses the accounting system—despite its far-reaching standardisation—in a manner adapted to the specificity of these factors, harmonised with the general principles on which the functioning of the economic system is grounded (cf. Adamek, 2012, pp. 28–38, 122; Diaconu & Coman, 2006, p. 30).

The literature and business practices reveal the necessity of maintaining high ethical standards in accounting, information and auditing system of the past and present financial management of the economic entities/organisations. Religion can be held, at least, partially responsible for such ethical accountability. Due to the role, that accounting has to fulfil, the reliability of the information provided by it is an indispensable condition of its existence and the demand for data generated by this system. This reliability is also necessary for the justification of the privileged status of the accounting profession in the public service—with trust and honesty as its foundations.[2] An individual's ethics is an internal belief system that determines how this individual perceives the world; the impact of the external environment in this area is undisputed. Culture and ethics converge; the individuals develop their ethics on their culture. Religious beliefs are, largely, determinants of the proper ethical behaviour.[3]

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[1] The ethical principles of the auditing or accounting professions are often considered (cf. Szczepankiewicz, 2007; Szczepankiewicz & Dudek, 2007).

[2] This trust has been damaged in recent years by a number of public financial scandals (e.g.: the case of Enron) (cf. Satava, Caldwell & Richards, 2006).

Sources can be seen in the mid-1990s, when (mainly in the USA) a profound change took place in the business system of values—ethical values from absolute ones (rooted in Judeo-Christianity) started to evolve towards relativism (cf. Lehman, 2004; Onyebuchi, 2011, pp. 275–276).

[3] Ethics as defined by Onyebuchi is the "systematic study of conduct based on moral principles, reflective choices, and standards of right and wrong conduct" (cited after: Young, 2013, p. 27; cf. Wiseman & Young, 2014).

The development of accounting systems in countries with different cultural determinants, where value systems developed on the basis of Christian beliefs, Islam, Confucian philosophy or Buddhism, indicates that religion unambiguously (though to a varying degree) affects the practice in this the field.

2. Christianity and the "Western" accounting model

The idea of early Christian and then Roman Catholic *sacrum–profanum* weighs heavily on the Christian way of understanding and assessment. Every activity and action in the past was clearly defined as sacred and sacrosanct (*sacrum*) or earthly (*profanum*). Money and everything related to it was considered as "worldly" (the *profanum* sphere).[4] A kind of justification for economic activity, including accounting, as a secular practice linked to usury condemned and forbidden by the Church was the support provided for *sacrum* (God's work, the Church's activity) by procuring funds for its functioning (through donations or the purchase of indulgences) (Carmona & Ezzamel, 2006, after Young, 2013, pp. 35–36).

Protestantism marked a new perspective in the perception of economic activity. The recommendations of Reformed Christianity are spelled out in the quotation from the letter of Saint Paul to the Corinthians (10:31): "so [...] whether you eat or drink, or whatever you do, do all to the glory of God" ("Biblia Tysiąclecia," 1982, p. 1130). Every manifestation of human activity can therefore be treated as an action for the glory of God, depending on one's intention.

Classical economics of the 18th century was based largely on Protestant ethics, glorifying diligence and praising the accumulation and multiplication of wealth obtained through hard work (in contrast to Catholic ethics, emphasising the "non-utilitarian" virtues). As Nasr says, the ethical, religious roots of Western economics were quickly marginalised.[5]

The original division into *sacrum* and *profanum*, on the one hand, and the justification for the accumulation of worldly goods, on the other hand, have strongly influenced the entire Western culture. In the course of its development, Western civilisation has become increasingly materialistic. Faith no longer has political or economic consequences to the same degree as before (Afifuddin & Siti-Nabiha, 2010, p. 1143 et seqq.). In principle, since the end of the Middle Ages, Christian institutions have gradually ceased to emphasise the consonance of the Christian faith with business activity, even in the context of public service. Secular Western culture, whose implications were indicated in the Introduction to

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[4] This conviction can be based on the Gospel of Saint Matthew (6:24): "No one can serve two masters [...] You cannot serve God and money" ("Biblia Tysiąclecia," 1982, p. 1130).

[5] According to this author, the publication of works written by Smith, Ricardo and J.S. Mill presenting their economic concepts that stress the "excessive" importance of the accumulation of wealth on par with entrepreneurship (this concept has started to lose its original meaning of "economic activity", becoming more commonly identified simply with the ability to "get rich") has led to the situation in which, on the one hand, economics has become a scientific discipline, and on the other hand, a form of social activity, if not detached from ethics, then increasingly often diverging from it (Nasr, 1993, p. 205).

this article, has to some extent "freed up" business (including accounting) from religious morality based, among others, on empathy and taking into account in one's conduct the rights of other people or the increasingly abstract "social good" (p. 1143). This fact has had serious consequences for modern business practices in Western culture, resulting in the "reorientation" of business—including professional accountants—from the perspective of "social service" to "personal achievements" and "money making," considered an indicator of professional success and social status. If ethical norms, including personal views on what is right and wrong, become relative, it allows one to make one's own decisions based on personal opinions, disregarding general principles, which potentially leads to corruption. If relativism becomes the norm, people find ways to circumvent the law without feeling any discomfort of conscience. A person accepting such an ethical system assumes at the same time that the principles work differently in business than in other aspects of life. This model is based on self-deception and "abstract greed" (Satava, Caldwell & Richards, 2006, p. 273).

Economic liberalism, within which the Western model of accounting developed, is, in fact, a result of ideas derived from various sources (such as the neoclassical school of economics, the works of Smith or Friedman) (Holton, 1992, pp. 54–69). The current principles of this tradition can be summarised as follows:

(1) private property rights,
(2) individualism,
(3) personal utility (which can also be seen as self-interest or selfishness),
(4) rationality,
(5) market self-regulation.

Capitalist society is based on the doctrine of individual private property. It recognises public property only when it is necessary (e.g., when social good requires it), and state ownership when experience indicates the need to nationalise certain branches of the economy. Respect for private property is one of the most important basic principles of liberalism that affects the accounting system and its standards. The Western accounting model is based on microeconomics (cf. Jaworska, 2011; Taheri, 2011). Thus, accounting is focused on the enterprise as an entity that influences through its market activity the entire economy and on the provision of financial information for investors and creditors as well as the managerial staff.

According to the economic liberalism, the maximisation of profit and the individualisation of benefits become the main goals of business management. Thus, accounting as an information system focuses on the profit and loss account, evaluates the company in terms of revenues and expenses (i.e., the revenue-cost approach to determining profits) (cf. Jaworska, 2011; Taheri, 2011). Similarly, to the entire economic system, accounting is based on the entity theory. The basis of business, defining its legal framework, is secularity, and with it, the dichotomy between business and morality that applies to the accounting system, has developed as part of economic liberalism. The accounting policy is primarily focused on goals (to a much lesser extent on values), and the approach to accounting principles is purely technical, albeit limited by codes of professional ethics. In this model, the concept of time value of money is widely recognised and used, and charging an interest rate is acceptable (Bonca, 2010, p. 50 et seqq.; Jaworska, 2011, p. 80). In terms of the type of information identified by the accounting system, their scope covers internal, tangible economic events subject to monetary measurement, while maintaining the principle of limited disclosure; therefore, the historical cost becomes the measurement.

3. The influence of Islamic religious principles on the formation of the accounting system and financial reporting in Muslim countries

Islam, as its faithful emphasise, is more than just a religion—it is a culture, a worldview and a lifestyle for the faithful to practice (Hamid, Craig & Clarke, 1993). Islam, as perhaps no other religion, interferes in many manifestations of its followers' activity,[6] and therefore affects the way in which a business is conducted. Unique solutions in the ways in which the businesses are conducted, and the bookkeeping practices in Muslim society are a great example of how far accounting can be integrated into fundamental religious principles (Maali & Napier, 2010). In Islam, there is no concept of *sacrum* and *profanum*, as these spheres permeate each other. Earthly life is connected with the spiritual and religious spheres, everyday actions prepare the faithful for "higher" acts of a spiritual dimension. This also applies to business activity and, therefore, accounting (Afifuddin & Siti-Nabiha, 2010, p. 1134 et seqq.). The Islamic economy, limited by religious law, operates based on three fundamental principles (As-Sadr, 1994, pp. 51–55):

(1) multifaceted ownership (complex and heterogeneous),
(2) economic freedom within specified limits,
(3) social justice.

Sharia law formulates special demands with regard to financial practices, absolutely binding for followers and forming an original model, different from the Western one, of the functioning of economic systems in Muslim countries. These postulates also have a significant impact on accounting standards, its practices and the formula of financial statements. They come down to three prohibitions (cf. Adamek, 2012, p. 47 et seqq.; Bonca, 2010, pp. 50–52, 66–81; Czerny, 2015, pp. 22–23, 25; Moin, 2013, pp. 4–5; Samad, 2004, pp. 3–5):

(1) the prohibition of *riba* (interest)—no possibility of charging interest,
(2) the prohibition of *gharar* (speculation)—any activity involving speculative risk is prohibited and the faithful are obliged to avoid it; speculation in essential necessities and natural resources is particularly disgraceful,

[6] Muslims believe, as do the Christians, that they will answer for their deeds to God on the Day of Judgment, receiving rewards or punishments accordingly. Therefore, they must obey Sharia law at every moment and in every aspect of life. Sharia law along with the Quran creates a universally accepted code of ethical norms that determine arbitrarily what is wrong and what is right in the eyes of God.

(3) the prohibition of involvement in the production or consumption of goods that are *haram* (prohibited from the religious point of view), and one requirement—to pay *zakat*, which is an obligatory type of tax in Muslim countries.

The accounting system in Muslim countries has developed and formed on the basis of the above-presented principles, hence its considerable difference from Western standards. The basic discrepancy in the perception of the need to comply with certain standards and solutions as well as in the attitude towards their formulation and refinement between the representative of the Islamic world and the West results from a completely different perception of the law. In the West, laws are made to adapt to the existing situation, to regulate it, while in the Muslims' opinion it is the situations that need to be shaped in order to conform to the Law of God (Taheri, 2011, p. 5; cf. Mutahhari, 1993, p. 206). At the same time, as in all major religions, Islam requires ethical behaviour in contacts with others (responsibility and ethics are highly valued in this culture) and respect for resources.

Islam accepts ownership in various forms without favouring one of them (As-Sadr, 1994, pp. 98–114). All property belongs to God, man is only its trustee; the ownership of the property is connected with obligations towards other people and consideration of their rights; however, the scope of ownership (of any type) may be changed and interpreted depending on the needs and circumstances.[7] The principle of limited economic freedom follows indirectly from this fact. Everyone is a guardian of social trust and individual property rights should be limited by the public interest. The success of the individual and society depends on the balance between the spiritual and material needs of man. The system of distribution of goods and capital in Islamic society accepts differences in wealth but rejects excessive social stratification. Fair distribution of income is implemented by means of the prohibition of charging interest and the obligatory *zakat* tax. Accounting, therefore, provides the financial information relevant to government and society as a whole (i.e. the major users of financial statements). Moreover, the fundamental issues are tax revenues, such as *zakat*[8] and others, as well as the manner of their spending. The Islamic accounting model is therefore based on macroeconomics.

On a micro scale, Islamic financial statements must provide information about the economic and social significance of decisions made in a given business entity,[9] useful for assessing the efforts of the management and all company employees made in order to exploit the resources necessary to achieve the company's business and social goals in accordance with legal and ethical standards. In addi-

[7] There is an ongoing discussion between Islamic lawyers and economists whether the state can enforce a certain flow of goods and capital as well as their distribution in accordance with the requirements of social justice, from the affluent to the poorest and most needy citizens, or whether this should be done only "through persuasion" (cited after Rahman, 1997, p. 3 et seqq.; cf. Chapra, 2006; Shari'ati, 1987; Siddiqi, 1981).

[8] Adamek (2012, p. 53) points out that since the goal of Islamic accounting is to provide information that is important from the point of view of *zakat*, this proves the existence of a weak link between the task that the Islamic accounting faces and the concept of objectivity.

[9] Such as the treatment of employees, honest payment of taxes, charitable activities, and the impact exerted on the natural environment.

tion, financial statements should provide information allowing for the assessment of management effectiveness in the field of income distribution in terms of achieving economic justice. The financial report should include a full and fair picture of the company and its activities in accordance with the principles contained in Sharia law. All activities that are not compliant with this law are *haram*, and therefore, considered illegal and immoral (Baydoun & Willett, 1997, p. 19). At this point, Sharia law is consistent with the known and recognised in the Western world principle of "true and fair view."

Another characteristic of this accounting system is the fact that it is based on the theory of ownership. This is because in the light of Islam as a canon of principles, everyone is responsible for their own actions—religious negligence as well as economic and financial activities in which they are engaged. There should be no separation between an enterprise as an economic entity and its owner, who as the owner of assets is responsible for liabilities and receivables. It would be immoral to release the owner from liability for company debts while maintaining the right to profit. It would be a kind of forbidden speculation (the possibility of obtaining benefits excessive in relation to the risk undertaken) (after Taheri, 2011, pp. 4–5; cf. Belkaoui, 1993, pp. 166 et seqq., 233; Khan, 1994, p. 5 et seqq.).

The consequence of accepting the theory of ownership is the recognition of the balance sheet as the most important among financial statements (the static approach). The interaction between the company and the environment is closely monitored (in the social context), especially the income distribution mentioned above. As Taheri (2011) emphasises, in this model, the profitability of the enterprise is a derivative of responsible management of assets and liabilities and keeping the balance between assets and liabilities (p. 5). The perception of business activity through the prism of revenues and costs orients accounting towards cost management (striving to minimise costs), which often leads to "inhuman conduct" (Adamek, 2012, p. 54). Rules that are not in line with Islamic teaching, i.e. the historical cost, should not be the basis for property valuation; hence, valuation should be carried out, for example, based on current exit prices (Taheri, 2011, p. 5; cf. Gambling & Karim, 1991, pp. 39, 84, 88–99).

One of the fundamental differences between the Western and Islamic economies, reflected in the formation of the accounting system, is the approach to tax issues. In Western countries, the tax is treated as a burden that companies should avoid if possible (which results from the focus on profit and assessment of the effectiveness of business operations from this perspective). For a Muslim, *zakat* is "alms" (the literal meaning of the word) which the people poorer than the ones whose assets exceed a certain limit are entitled to. It is collected and distributed by the state which implements the principle of social justice; tax evasion or attempts to reduce the amount of tax paid are both a sin and an impoverishment of society, and cannot be considered legal. The obligation to pay *zakat* causes a number of problems for accounting, as the *zakat* rules are inconsistent with the generally accepted accounting practice (GAAP). The main problem is the incompatibility of the whole *zakat* concept with the precautionary principle. It claims that while carrying out valuation, one should ensure that the value of assets and revenues is not overstated and liabilities and costs are not understated. However, lowering the value of assets would mean a lower tax liability. In the context of the tax-related approach discussed above (Islam encourages generosity), it would be a sin. By nature, the Muslim accountant focuses on avoiding underestimating the value of assets or inflating the value of liabilities, acting against the precautionary principle. Another problem is the method of valuation of inventories and receivables. *Zakat* is paid only on the surplus of (Rahman, 1997, p. 4):

(1) assets constituting the actual property of the company,
(2) productive assets,
(3) assets held by the company throughout the whole year.

In accordance with generally accepted accounting principles, inventories should be valued at the lower of the two values: the manufacturing cost or the market value (usually the net sales value, less often the purchase value or replacement value). In practice, as noted by Rahman (1997), citing Clarke (1996, p. 204), the manufacturing cost is most often used in the balance sheet valuation. Meanwhile, only the selling price is significant for *zakat* purposes. Muslims, following the GAAP recommendations in valuing inventories, would break their own law (Rahman, 1997, p. 4). Regarding valuation of receivables, *zakat* is only payable on net receivables. The *zakat* tax obligation does not take into account the existence of doubtful debts and no provisions for bad debts are created (p. 4).

The necessity of applying Sharia law means that Islamic accountants have problems to comply also with other accounting principles commonly adopted in Western civilisation, such as the principles of monetary measurement. It leads to a limitation of the scope of information relevant to the Islamic recipient of the accounting report, which cannot be expressed with this measure. The above-presented differences result from an alternative way to the Western one of defining money used in Islamic economics. Money is not referred to as “capital” but as a “medium of exchange.” “Capital” comprises only resources that can be used in the production process.[10] Under the conditions of inflation, the currency loses the attribute of a “fair” and “honest” unit of measurement. Islamic economists, therefore, propose the use of the replacement cost, the current value model or basing the value of money on the precious metal parity (Adamek, 2012, pp. 59–60). In addition, the accrual principle, which is one of the most important accounting principles, is controversial. Proponents of this principle argue that it is an instrument for correctly estimating wealth, a basis for calculating *zakat*, and it also harmonises with the majority of Islamic financial products. Numerous opponents indicate, however, that according to the accrual principle, the entity is forced to pay *zakat* on assets that it has not actually received. This principle also undermines the basic assumptions of the *mudaraba* contract, based on the distribution of cash profits, which is widely used in business contracts in Islamic countries. Its popularity is due to the fundamental prohibition of charging interest. The rationale is the belief that capital should be invested productively (Rahman, 1997, pp. 5–6;

[10] Money does not meet the requirements of such definition of “capital” (neither as a banknote nor as a coin—it has value only as a material that was used to create it) (cf. Behesh’ti, 1992, p. 126; Bonca, 2010, p. 84; Czerny, 2015, pp. 21–22; Kamali, 1994, pp. 25–36; Zaman, 2005, pp. 27, 31 et seqq.).

Taheri, 2011, pp. 5–6). According to the religious message, one can earn only through one's own work and cannot multiply capital based on the use of someone else's property. In practice, therefore, the interest rate cannot apply. With an emphasis on deriving income from an exchange, which as an *ex-post* income is a determinant of economic success and multiplies wealth, the Islamic doctrine treats interest as *ex-ante* income, undue and immoral payment, as it is determined without relation to the outcome of the economic venture (Adamek, 2012, p. 46). Therefore, the key element of Islamic banking, apart from providing interest-free funds, is the concept of profit and loss sharing (PLS). In accordance with Sharia rules, the parties to the transaction must divide both profits and losses resulting from a given undertaking (cf. Accounting and Auditing Organization for Islamic Financial Institutions, 2010; Bonca, 2010, pp. 83–85; Iqbal & Mirakhor, 1987, p. 112 et seqq.).

To sum up, although the practical dimension of accounting is perceived in Muslim countries as a kind of transaction registration technique, its theoretical assumptions differ fundamentally from the Western, American-British model. This causes a number of difficulties in adjusting Islamic accounting to applicable "global standards" (GAAP or IFRS). Due to the absolute necessity of observing religious norms, a different purpose of financial statements and the hierarchy of their users in Muslim countries, "conventional" financial statements cannot be applied. Hence the consistent development by the Accounting and Auditing Organisation for Islamic Financial Institutions in recent years of its "own" accounting standards, is in line with Sharia law, which is to apply in all Muslim countries.

4. Confucianism and Asian accounting models

Confucianism is a philosophical-religious system strongly associated with the Asian continent (such as Buddhism or Islam). The civilisation of Asia differs from the West by an exceptionally strong system of duties and obligations that bind community members (cf. Drelich-Skulska, 2007; Gawlikowski, 2001, 2009). The teachings of Confucius have had a strong impact not only on the shape of social organisation, including the way the economy functions but also on the perception of the role of the accounting system in business—and thus the formation of this information and audit system. The teachings can be generally summarised by the following theses (Drelich-Skulska, 2007, p. 72l; cf. Mikułowski-Pomorski, 1999, p. 108):

(1) stability of society is based on the inequality of interpersonal relations;
(2) the family is the prototype of a social organisation;
(3) "virtuous conduct" is encapsulated in the slogan: treat others the way you would like to be treated;
(4) virtue in relation to human life goals consists of nurturing abilities, acquiring education, hard work and savings (understood as not spending more than necessary).

Based on these assumptions, Asian countries have developed elements of the economic system that seem to be common for the entire continent (regardless of the political and economic system prevailing in a given country). The most important of these elements are (Nowakowski*,* 1990, p. 111):

(1) collectivism (the development of the individual and his or her activities are carried out within the group which is the point of reference and support),
(2) home (all social ties are based on the concept of family connections, family hierarchy and family responsibility),
(3) loyalty and reliability (people occupying a higher position in the hierarchy are morally obliged to be responsible for their subordinates),

in conjunction with social values widely accepted in Asia such as:

(1) social order and good organisation,
(2) respect for tradition,
(3) harmony in society,
(4) respect for authority,
(5) ensuring accountability of public officials,
(6) freedom of speech.

These elements determine not only the way societies function but also how business should be conducted (bin Mohamad, 1999, p. 157). Confucianism emphasises cooperation as an expression of harmony that should characterise a society, therefore, competition is treated as a non-productive factor. It emphasises that profit and ownership should not be a motive for human activity (it is worth noting that competition "in the industry" in Asian markets is much milder than in the Western world).

Bloom and Solotko (2003) indicate the relationship between the doctrine of Confucianism and accounting—first, the historical stability of the form and structure of accounting and its adaption to traditional practices, which results from the deep respect of Asians for tradition in general (p. 30). It is worth noting that up to the 1920s, the use of the three-column record as a tradition-enshrined model of financial reporting technique was common in Asia (Gao & Handley-Schachler, 2003, p. 55). Additionally, the type of information provided by Asian accounting systems—mainly of a macroeconomic nature (as in Islam, the recipients are primarily the state administration bodies, which is influenced—apart from historical determinants—by collectivist tendencies and respect for the hierarchy in Asian countries). Respect for traditional solutions also manifests itself in the static nature of Asian financial reporting (the current balance sheet is treated as a historical "government census" delivered to the provincial governor or "courtier" by minor officials), rarely supplemented with measurement and calculation of profits and losses.

The influence of the Confucian doctrine is also noticeable when it comes to the legal regulation of accounting in Asian countries. This regulation is usually based on a minimal codification of principles and rules that safeguard the social good (it is perceived through the prism of the relationship between the role and importance of personal development, loyalty as well as ethics and morality of the individual as factors determining and increasing the benefits of society).

Conservatism and excessive risk avoidance (the attachment to the historical cost, smoothing of income varied over time) are other characteristics of the accounting system and accounting practices in Asian countries that can be linked to the Confucian system of rules.

A certain contradiction can be noted between nepotism and discretion that characterise Asian business activities (resulting from Confucian subordination to the virtue to loyalty—towards the state, family, friends) and the approach to disclosing financial statements, which in turn is based on such values as honesty and truthfulness. Honesty and truthfulness are not generally in contradiction with loyalty but may prove to be contrary to the discretion and respect owed to the elders, superiors or family members (the virtue ranked very high in the Confucian values system). In principle, however, the audit function of accounting is accepted. Auditing (e.g., of accounting books) is justified (it is consistent with the concept of loyalty and does not undermine trust), as the transparency of information, its verifiability, fosters openness, which is also one of the Confucian virtues. It also favours maintaining the social order and responsibility of public officials.

In general, accounting, as well as people dealing with it professionally, are subject to a kind of discrimination in thus organised society. This is due to the assumption that every member of the society should be able to look after his or her finances and commercial transactions. In the strong hierarchy of social positions characteristic of Asian societies, the accounting profession is assessed relatively low, its mission—as the role of the accounting system—is servile (the role of an enumerator), and in many cases perceived as unnecessary. Accounting should provide data primarily on a macro scale, useful for the authorities, providing insight into the state of assets and the condition of the entire economy as well as the well-being of society (serve the public good). Its audit function is relatively best perceived and understood.

5. Conclusions

The above-presented short review of accounting systems operating in various cultures in the context of religious principles prevailing in these cultures clearly indicates that they have developed differently, depending on the impact of cultural factors. It seems that among the three accounting systems discussed in the article, accounting widely regarded as "conventional", more specifically its British-American model, is currently the least often linked with religious principles. However, as already indicated, the need for preserving high ethical standards, which is considered necessary in the case of accounting, also points to a connection with religion—Christianity—when the conventional model is taken into account. Most ethical systems are in their fundamental principles consistent with its message, and some of them have grown because of religious doctrine. Accounting systems that have developed in Asian countries are closely linked to the religious and philosophical doctrines of those regions. The strongest impact of a religion is visible on the Islamic accounting. However, since accounting as a system has not been created and developed "for itself" but within the economic system, there is no doubt that the religious factor had in the past (and still has, at least in some cultures) an impact on its formation (just as it has influenced the development of different economic models). One can only debate on the strength of this influence. At the same time, the question arises about the reasonableness of far-reaching standardisation of accounting and the actual possibility of its convergence. Proponents of the standardisation process point to its advantages: it is to improve the adherence to the basic accounting principles—consistency and comparability. This would allow foreign investors to read the content of financial statements in a consistent manner, enabling them to make better decisions (Zarzeski, 1996, after Young, 2013, p. 40). However, the question arises as to whether the harmonisation of standards and principles to which the accounting system is subjected, advanced far enough, will not result in, contrary to the underlying assumptions, the deterioration of the usefulness of financial statements and, hence, their quality. Cultural values, including religion, have shaped differently both economic systems and organisational culture, and—what this article aims to prove—also accounting practices. With regard to financial reporting, the circle of its recipients varies and different expectations are formulated as to the information that it should provide. These differences cannot be easily reconciled by implementing a universal accounting standard as a specific role model for all. It is worth noting that the accounting standardisation process is—as for now—a kind of "imposition" of Western accounting practices on the globalising world. Breaking the accounting out of its economic and cultural context will create a model that will continue to be the most useful for the "Western" recipient. Moreover—the image of the company included in the financial statements, although easily understandable for the recipient, may be distorted, as it does not take into account the specifics of the social, political, legal and economic determinants of the environment in which the company operates.[11] Standardisation in its present form is not seen as integration, and in many countries, it is perceived as an arrogant attempt to impose Western solutions, without considering different cultural patterns, as if based on the conviction that Western culture and its standards are better than others (Young, 2013, p. 41; cf. Hamid, Craig & Clarke, 1993).

It seems that these issues will gain further importance in the future, as in the world of cultural differences, the universal accounting standard is extremely difficult, if at all possible, to develop, and the process of accounting harmonisation should take into account this fact where necessary. Otherwise, it will not meet its goals. Even in an era of progressive globalisation, it cannot be expected that entire societies will quickly "reorient" their fundamental systems of values.

[11] The need to consider these factors, as well as the 'needs of society', has been already mentioned by Mueller (1967), and more recently by Oluku and Ojeka (2011, p. 917). Also Zarzecki, discussing the advantages of harmonising the accounting system, draws attention to the fact that "countries have already established markets and financial needs" as well as "developed accounting standards"—all based on the "cultural context" (after Young, 2013, p. 40).

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Unfair practices in the insurance market: Describing unfair clauses*

Abstract

In a market economy, the protection of consumer rights is an extremely important issue. This also applies to the insurance market where these issues are generally understood as ones related to the conclusion and execution of insurance contracts.

The insured person is exposed to many dangers, being the weaker party in the insurance market, since insurance companies, as professionals, can easily impose convenient transaction terms.

The article aims to identify market practices including unfair terms imposed by insurance companies. It provides examples of such unfair terms and conditions in the form of so-called abusive clauses in insurance contracts and points to the consequences of their use.

Keywords: insurance market, unfair clauses

JEL Classification: G22, L51

1. Introduction

In a market economy, the protection of consumer rights is an extremely important issue. This also applies to the insurance market, understood as all the issues related to the conclusion and execution of insurance contracts.

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In our opinion, every insured person is a consumer. The insured are exposed to many dangers, being the weaker party in the market, since insurance companies, as professionals, can easily impose convenient transaction terms. Therefore, the insured require adequate legal protection and education.

The aim of the article is to point to unfair market practices including so-called abusive clauses used by insurance companies. Examples of the use of abusive clauses are provided, and the consequences of their application are indicated. The article is written on the basis of a literature review.

2. The concept of abusive clauses—EU Directive 93/13/EEC

Until recently, the term "abusive clauses" was known only to legal experts. This concept is identified with the definition of prohibited contractual clauses, and the Civil Code refers to prohibited provisions (the so-called grey clauses).

In the insurance market, many contracts are concluded—regarding both life and non-life insurance. In many cases, insurance companies have ready-made contract templates. They are rarely subject to in-depth analysis or negotiation. Professional insurance companies take advantage of this fact, introducing into so-called standard contracts provisions convenient from the point of view of their own interests and disadvantageous to the insured. These provisions will be henceforth called abusive clauses.

An extensive analysis of the concept of *prohibited contractual provisions* is provided in the literature (Skory, 2005). The provisions used in the General Terms and Conditions (GTC) of life insurance contracts have recently been analysed (Office of Competition and Consumer Protection, 2010). In the discussion on the results of this analysis, the vagueness and ambiguity of their wording—or even how they mislead the consumer (the insured)—are indicated.

The practice of using abusive clauses is quite long, as evidenced by the Resolution of the Committee of Ministers of the Council of Europe of 1976, in which the work on a directive prohibiting the use of such provisions was initiated. The resolution indicated the need to protect the consumer (the insured person) from unfair provisions. Directive 93/13, adopted by the Council of the European Union on April 5, 1993, regarding unfair terms in consumer contracts, is also worth mentioning. The concept of abusiveness is based on formal and material premises that include (Czublun & Stykowski, 2007, pp. 36–37; Kowalewski, 2006, pp. 110–116; Rokita, 2007, p. 35):

(1) a lack of individual negotiations between both parties to a contract,
(2) a violation of the principle of good faith between both parties to a contract,
(3) a gross disproportion of rights and obligations to the detriment of the consumer.

This directive obliges the Member States to build a system of verification of contract templates, including abusive clauses.

According to Directive 93/13/EEC, Article 3.1, a contractual term which has not been individually negotiated shall be considered unlawful if, contrary to the requirement of good faith, it causes a significant and unjustified disproportion of contractual rights and obligations to the detriment of the consumer. Article 3.2 stipulates that the contractual clause cannot be considered individually negotiated if it has been drafted in advance of the conclusion of the contract and the consumer has not been able to influence the substance of the term, particularly in the context of the pre-formulated standard contract.

In the case when a person running a business claims that the contractual clause has been individually negotiated, this person bears the entire burden of proof of this fact.

The conducted research on the use of abusive clauses in selected countries has led to the following conclusions (Skory, 2007):

(1) specific legal solutions that comply with Directive 93/13 have been developed in Germany and France,
(2) fairly direct translations of Directive 93/13 have been made in Hungary and the Czech Republic, while the content of this directive has been modified in Hungary and adapted to the legislation in this country.

In practice, the consumer has limited possibilities to pursue claims in another country in the face of the interpretive diversity of consumer protection provisions. It is worth mentioning the government institutions dealing with consumer protection:

(1) Consumer Direct (UK),
(2) Commission on Abusive Clauses (France),
(3) European Consumer Centre (Germany, the Czech Republic, Slovakia),
(4) European Consumer Centre of Hungary (Hungary).

3. Polish legal regulations

The first regulations in Poland concern the Act of March 2, 2000, on the protection of consumer rights and the liability for damage caused by a dangerous product. This Act replaced not very clear provisions in the area of combating prohibited provisions in contracts in force in previous years.

It was, however, the next amendment to the Civil Code of February 14, 2003, that introduced the definition of the consumer as well as the provision on prohibited clauses. The Civil Code stipulates that

> the provision of the contract concluded with the consumer (the consumer contract) can be considered unlawful. The subject of the regulation is a known natural person who concludes a given contract for purposes not directly related to his or her business or professional activities.

In accordance with Article 76 of the Constitution of the Republic of Poland of April 2, 1997:

> public authorities shall protect consumers, customers, hirers or lessees against such activities threatening their health, privacy and safety, as well as against dishonest market practices. The scope of such protection shall be specified by statute.

The above-presented provision of the Constitution forms the direct basis for consumer protection. In 2000, the Act on the protection of certain consumer rights and the liability for damage caused by a dangerous product was introduced (*Journal of Laws* 00.22.271). In 2007, the Act on combating unfair commercial practices was published (*Journal of Laws* No.17, item 1206). A commercial practice is understood as an act or omission on the part of an entrepreneur, the manner of proceeding, or a statement or commercial information, in particular, advertising and marketing, directly related to the promotion or purchase of a product by the consumer. The Act states (Article 4.1) that the practice used by an entrepreneur in relations with consumers shall be unfair whenever it is contrary to good customs and significantly distorts, or may distort, the economic behaviour of the average consumer prior to, during or after the conclusion of a product contract.

In accordance with Article 4.2, in particular, a commercial practice shall be regarded as unfair whenever it is misleading or aggressive and whenever a code of conduct is used that is contrary to law. Misleading may concern the concealment of information, the omission of material information, or the non-disclosure of commercial nature. Polish legislation in this regard can be seen as quite sufficient, due to the activities of the Office of Competition and Consumer Protection (UOKiK) as well as the Court of Competition and Consumer Protection.

It is also worth noting that abusive clauses concern more voluntary than compulsory insurance. The construction of compulsory insurance (e.g., automobile liability insurance, farmers' liability insurance, the liability insurance of various professional groups) is a creation of the legislator in which it is difficult to find abusive clauses.

The situation is completely different in the case of voluntary insurance. Each insurance company creates its own General Terms and Conditions of Insurance. Different departments of insurance companies are involved in the construction of insurance terms and conditions, including legal departments. These departments, due to their professional knowledge, should not allow general insurance conditions with abusive clauses to be constructed; meanwhile, the opposite is true. By means of abusive clauses, attempts are being made to blur the liability of insurance companies.

4. The register of clauses

In Poland, the Register of Prohibited Clauses is available.[1] The list of prohibited clauses is not a closed set. New items are systematically being added. The Register of Prohibited Clauses applies to various industries. Among the 1,760 (as of 20.12.2009) prohibited clauses, 54 concern insurance companies (Cerera, 2009).

[1] http://www.uokik.gov.pl/pl/ochrona_konsumentow/niedozwolone_klauzule/rejestr_klauzul_niedozwolonych/

On the list of insurance companies whose regulations have been disputed, Ergo Hestia and Warta (14 prohibited clauses each) appear most often. Most entries come from the years 2007–2008.

Article 385 of the Civil Code contains a list of 23 prohibited contractual provisions (the so-called grey clauses). The Article states that "in case of doubt, unlawful contractual provisions are those which especially, etc." As a consequence, it can be assumed that terms other than those specified in the Code may be considered prohibited provisions if they violate good customs or the interests of the weaker party, i.e., the consumer. It is worth noting that the prohibited provisions in the Civil Code are very general, ambiguous phrases.

5. Examples of abusive clauses used in non-life and life insurance

Referring to the prohibited clauses listed in the Civil Code, let us note, for example, the wording in Paragraph 18, which stipulates that "the contract concluded for a definite period of time shall be extended if the consumer for whom a disproportionately short time limit has been reserved fails to declare otherwise." This clause may apply to insurance contracts where, due to inflation processes, it is necessary to index the sum insured (Malinowska, 2009). Imposing indexation is an unlawful practice of life insurance companies.

Similar wording is provided in Paragraph 21, in which the performance of obligations or liability is made conditional upon the insured fulfilling unnecessarily burdensome formalities. This problem concerns claims adjustment at successive stages of claims settlement, especially life and non-life insurance claims (cf., for instance, Jaraszek, 2007).

Some authors have noted that all abusive clauses can be divided into three groups (Ziemiak, 2008). The first group deals with the issue of premium refund. The following clause can be provided as an example: "In the event of termination of the contract, the premium for the unused period of insurance is refundable only if during the period of insurance there was no damage for which the insurer paid or is obliged to pay compensation" (the judgement of the Court of Competition and Consumer Protection of 25 June 2007 in the case XVII AmC 74/07).

The second group consists of provisions in the GTC of Insurance. For example: "The insurance contract may be terminated by either party by providing one month's written notice in the event of payment of compensation or refusal to pay compensation" (the judgement of the Court of Competition and Consumer Protection of 11 October 2007 in the case XVII AmC 68/06). It is worth noting that these clauses are often coupled with other clauses of the GTC of Insurance stipulating in favour of the insurer the possibility of making various types of deductions from the premium amount refunded or completely excluding its refund.

The third group comprises provisions in the GTC regarding various types of deductions, handling fees, etc. As an example, the following provisions can be indicated: "Refunds for the unused period of insurance will be provided after deducting handling costs in the amount of 20% of the refunded premium” (the judgement of the Court of Competition and Consumer Protection of 25 June 2007 in the case XVII AmC74/07) or “In the event of withdrawal from the contract or its termination, part of the premium will be refunded, deducting handling costs amounting to 10% of the refunded premium—no more than PLN 200” (the judgement of the Court of Competition and Consumer Protection of October 2007 in the case XVII AmC 68/06).

In 2010, the Office of Competition and Consumer Protection published several examples of disputed clauses concerning the premium refund (Table 1).

The summary presented in Table 1 shows that insurance companies are still using different types of wording to avoid refunding premiums.

It is also worth paying attention to the phenomenon of the emergence of many prohibited clauses appearing in all kinds of sales promotions (Bobowska, 2009). Most cases involve the manipulation of commodity prices in retail trade.

Table 1. Provisions that should not be included in insurance contracts

Provisions disputed by the Office of Competition and Consumer Protection (UOKiK)	What rights the client actually has
The refundable premium is determined proportionally to the unused period of insurance coverage and the unused sum insured.	The premium should be refunded taking into account only the insurance coverage period (the refundable amount should not be affected by any reported claims).
The insurance does not cover damage to a vehicle illegally introduced into the customs territory of the EU, i.e., when [...] incorrect data have been provided in the customs declaration or another document.	The insurance terms and conditions should specify what documents and data are referred to (though they may sanction, e.g., reducing the value of the car in the customs declaration).
If the “valuation” option has been adopted in the insurance contract, the compensation is determined on the basis of [...] valuation, excluding VAT.	Compensation should be estimated taking into account the applicable prices, i.e., including VAT.
In the case of withdrawal from the insurance contract or its termination by either party, the premium for the unused period of insurance coverage is refundable only if no compensation has been paid or if the company is not obliged to pay it.	The payment of compensation does not deprive the client of the right to the premium refund for the period between the withdrawal or termination of the contract and the date on which the contract would expire under normal conditions.
In the absence of an arbitration clause, disputes arising under the insurance contract shall be resolved by a common court which has jurisdiction over the insurer’s statutory seat.	The client has the right to have the case heard by the court with jurisdiction over the place of his or her residence.
The insurance premium is payable in advance for the entire insurance policy period and is not refundable.	The client has the right to the premium refund for each day of unused insurance coverage.

Note. Adapted from “Firmy ubezpieczeniowe stosują w umowach zapisy wcześniej zakazane przez urząd antymonopolowy,” by M. Jaworski, 2010, January18, *Dziennik Gazeta Prawna*, *11*(2642), p. C11.

6. Consequences of the occurrence of abusive clauses

The immediate consequences of the occurrence of prohibited insurance clauses involve the emergence of conflict situations between the insurance company and the insured. The most severe conflict situations are set to be investigated by the Insurance Ombudsman, among others. Complaints addressed to the Insurance Ombudsman derived from the "Interpretation of insurance regulations" group form the premise of abusive clauses.

In 2008, they constituted approx. 2.8% of all complaints addressed to the Insurance Ombudsman, which in comparison with 2007 is an increase of 0.3%. This is due to the difficulties encountered by the insured in understanding the issues related to non-life and life insurance and provisions in the General Terms and Conditions of Insurance. The insured see in the institution of the Insurance Ombudsman a professional and objective source of information and insurance education, serving to explain legal issues which raise doubts among consumers related to their application in practice (2009, p. 5). Many complaints were associated with the premium refund for the unused period of insurance coverage, e.g., due to the early loan repayment period.

The complainants pointed out that before signing the contract, they did not receive the GTC, only information that taking out an insurance policy is a prerequisite to receive the loan.

Another consequence of abusive clauses is the loss of the image of an insurance company. A cheated consumer causes the loss of many other clients for the insurance company. Apart from that, due to the existence of abusive clauses, insurance companies reduce their liabilities, decrease the value of compensations paid, and generate positive technical insurance results.

The literature does not provide data on the reduction in compensation paid as a result of the use of prohibited clauses. This issue requires separate research.

The use of abusive clauses in the General Terms and Conditions of Insurance violates the interests of the insured. For such practices, the President of the Office of Competition and Consumer Protection may impose financial penalties up to 10% of the income earned in the accounting year preceding the year of imposition or up to twice the average compensation in the event of failure to achieve revenues that year (Czublun & Stykowski, 2007, p. 37).

In conclusion, it is worth referring to the judgement of the Supreme Court of 13 July 2006 (III SZP 3/06), which states that once prohibited clauses are included in the register, they are prohibited from future use (Cerera, 2009). This means that the appropriate organisational units of insurance companies ought to keep track of the content of prohibited contractual provisions.

7. Conclusions

The presented considerations show that prohibited clauses, conventionally called abusive clauses, are being used in the insurance market. These are general provisions which include words that are not sufficiently defined, allowing for freedom of interpretation. Poland, like other countries, is obliged to apply EU Directive 93/13/EEC. The provisions in Polish legislation in the sphere of consumer/the insured protection comply with the requirements of EU law.

In spite of fairly stringent laws protecting the weaker party, i.e., the insured, abusive clauses are still being used, and not only in insurance practice. In the article, the problem of the use of prohibited clauses in the General Terms and Conditions of non-life and life insurance has been only signalled. Further research is needed in this area.

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Ethical problems at work in the opinion of employees of selected banks*

Abstract

The paper presents ethical problems faced by the employees of selected banks in Poland. The theoretical section of the paper describes the codes of ethics in banking, especially those concerning the moral aspects of working in banking. The empirical part of the paper presents the results of research on the ethos of bank workers. Quantitative and qualitative analyses were carried out using a special Internet forum devoted to the banking sector. The study includes a content analysis of comments posted by the bank employees on the Internet forum.

Keywords: work in banking, ethics at work, banking, work, ethics

JEL Classification: A13, G21, M12, M54

1. Introduction

According to a poll conducted in March 2016 by TNS Polska on the reputation of the Polish banking sector in 2016, 48% of Poles expressed a positive opinion about banks, 42% were neutral, and 10% had a negative opinion. Among the sample, 61% trusted the banks operating in Poland, while 26% did not. This poll focused primarily on bank clients. Since banking, for its workers, represents the

* The article is an updated version of the paper published in Polish in the *Annales. Ethics in Economic Life*, *19*(3), 129–142.

work environment, it is worth investigating issues such as professional relations, management methods, adherence to ethical principles and values by managers and other employees, and mobbing. This paper is a result of research on the opinions of bank employees and their workplaces—the banks.

A fundamental research question issue for this investigation is the set of ethical dilemmas faced by the bank employees in their workplace and their interactions with the customers while offering customer care and financial consulting. Thus formulated research problem can be divided into several specific areas: the issues regarding ethical dilemmas, workplace atmosphere, occurrence of mobbing, the pressure to sell bank products, salary satisfaction, and other gratifications of working in a bank. The goal this research was also to gain an understanding of the organisational culture of contemporary banks and the operations of the branches employing people who have direct customer contact. We began with a hypothesis that the work atmosphere in the banks currently operating in Poland and the ethical culture of their financial advisors are influenced by high pressure from the bank managers to increase the sales of banking products. Consequently, the importance of utilitarian (business) goals often causes the employees of the banking sector to overlook ethical principles.

The paper consists of three distinct parts. In the first part, we present the methodology and in the second part we discuss its results. The final section presents our conclusions and a short discussion on the results of our research.

2. Research methodology

To achieve our research goals, we used content analysis. We analysed a professional internet forum for banking sector employees.[1] The applied research method, along with statistical analysis and historical and comparative analysis, is one of three strategies for non-reactive data collection (Babbie, 2009, p. 250). It allowed us to insulate the research process so that it did not affect the behaviour of the analysed individuals, which made it possible to look at our research subject from a distance (pp. 356–357). Content analysis involves analysing recorded human communication. Wimmer & Dominick (2008) define content analysis as a method "of investigating and analysing information in a systematic, orderly and quantitative manner in order to measure variables" (p. 211). Sołoma (2002) notes that we call "every linguistic expression a transfer of information" (p. 96). Therefore, content analysis can pertain to the communication of the online forum members, who communicate freely, without any interference from the researcher. This method also makes it possible to analyse communication over a long period of time. However, the adopted method, apart from its advantages, also has certain downsides. The biggest problem is related to maintaining homogeneous standards for qualifying and interpreting the analysed content. This is because of how subjectively researchers receive the content (p. 98).

[1] The forum can be found here: http://www.forum-bankowe.pl.

The study was conducted in March and April 2016. 817 posts (messages written by the members of the online forum) were analysed. Specifically, we chose the opinions regarding 10 banks. These banks were selected in a purposeful manner, i.e. we included the institutions whose work conditions were most often commented on by the forum users. Therefore, it should be noted that the interpretation of our results should not be generalised to be representative of all banks operating in Poland. Also, a question arises if the "popularity" of a given bank (i.e. how often a given bank was discussed) was in any way related to the amount of negative and/or positive opinions about it. We should also take into consideration the fact that the users of the forum be a specific group of employees, perhaps more dissatisfied with or more sensitive to moral issues. If this is the case, the opinions they expressed do not reflect the position that can be said to be representative of the entire group of banking sector employees. On the other hand, we should also bear in mind that some positive opinions on the forum could have been inspired by the banks' executives (especially those responsible for the communication and image of their companies).

Because of us choosing this research method, the research tool we designed and adopted was content analysis questionnaire, filled by the researcher.

More detailed information about the number of posts and how often they were browsed by the users can be found in Table 1.

The analysed content was published on an online forum between 2011 and 2016. Most of opinions (more than a hundred for each bank) pertained to Credit Agricole, Alior Bank, PKO, Getin Bank and ING Bank Śląski. The analysed forum also turned out to be a very popular site and a source of information for internet users (especially the banking sector employees). April 2016 saw more than 322 thousand-page views (which are not equal to the number of users visiting the forum, however). If each person read the opinions about each of the analysed banks only once, their number can be estimated to amount to 32 thousand at most. However, considering the differences between the numbers of views of opinions on each bank, we should assume that this number is lower.

Table 1. The number of posts and the frequency of viewing them by the users

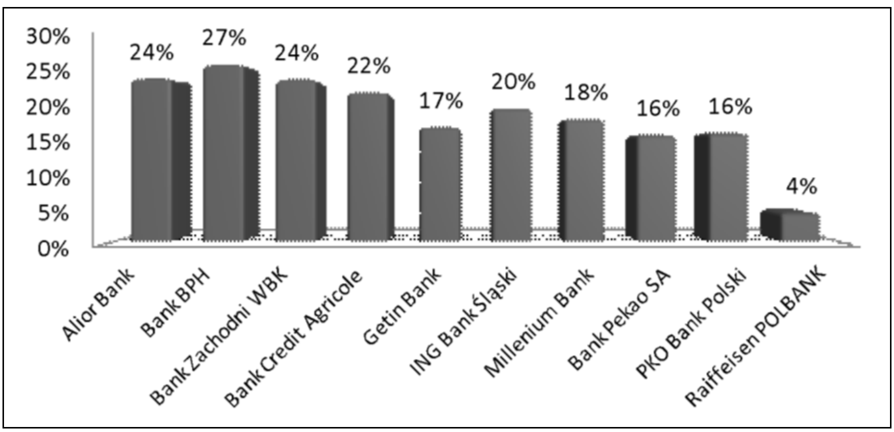
Bank	Number of analysed posts	Number of user views	First entry on the bank
Alior Bank	149	50 080	August 2011
Bank BPH	55	22 342	March 2012
Bank Zachodni WBK	24	18 842	September 2011
Bank Credit Agricole	168	50 205	March 2012
Getin Bank	112	39 485	September 2011
ING Bank Śląski	102	9 781	March 2011
Millennium Bank	27	11 991	December 2012
Bank Pekao SA	16	14 282	September 2011
PKO Bank Polski	125	72 225	August 2011
Raiffeisen POLBANK	39	33 566	December 2011
Total	**817**	**322 799**	**-**

3. Research results

Our research results will be presented in the order of importance of a given research problem, which was assigned according to the frequency of opinions on the topic.

Among all analysed opinions, 163 users (21%) reported bad work atmosphere. In the quantitative perspective, bad work atmosphere was most often reported by the employees of Bank Credit Agricole (37 opinions) and Alior Bank (34 opinions). The highest percentage of negative opinions about the atmosphere at work was presented by the employees of BPH Bank, Alior Bank, Bank Zachodni WBK and Bank Credit Agricole. The distribution of opinion regarding bad work atmosphere is presented in Graph 1.

Selected comments on workplace atmosphere are presented in Table 2. It should be noted that an undesirable atmosphere at the workplace was reported least often in Raiffeisen POLBANK. The results of our research present a very disturbing picture in terms of workplace atmosphere in the banks operating in Poland. The relations between the employees turn out to be very much objectified, especially considering the relationship of the management towards the bank advisors. This attitude is characterised primarily by a high pressure for constant sales improvement, which almost all actions of the employees and managers focus on. Many analysed employees' comments indicate the destructive influence work has on their mental health and family life. We also found many opinions reporting on the sense of relief and satisfaction experienced on ending work for the bank (even if this was a result of being fired). Because some of the analysed comments are very drastic and terrifying, it is worth presenting them verbatim (Table 2).



Graph 1. Percentage of opinions regarding bad work atmosphere in the bank.

Table 2. Example comments on bad workplace atmosphere

ALIOR BANK
"If you want to be treated like a camp number and are a masochist with no family or private life, I wholeheartedly recommend it."
"I haven't worked in that swamp for over a year. When I feel down I always remember that terrible, slave-like time in Alior... I feel better immediately. Working there is disgusting."
"I have never regretted anything more than taking that job. You could feel the atmosphere of that camp almost from the first day of training."
"Cameras and bugs are […] from the very beginning. The microphone is attached to your screen and everything you say is recorded, and then taken for your evaluation, which obviously affects your bonuses."
"I worked I that swamp for a year and two months and it is a big experience I had here. It's not about the gaining skills but a chance for survival."
BANK BPH
"Employees can't cope mentally—many people are on psychotropics."
"I don't recommend working in a bank to anyone. They are camps, exploitation, humiliation and definitely no fair play."
"I handed in my resignation last month myself and even though I can't find other work I'm very happy."
"And the atmosphere...grave, people who've been working in that bank for more than 2–3 years are mentally exhausted and new ones come and go."
"[…] I quit BPH almost two years ago and my family finally has a mother and a wife."
"The worst thing is that you don't know who informs and whom. You must be careful about what you say and do because you never know what you not right."
BANK ZACHODNI WBK
"I worked there for almost a year, and then I handed in my resignation because I couldn't take it anymore. I have nightmares to this day."
"Working in a bank—never experienced anything positive."
"You want to traumatise yourself—work for BZ WBK."
BANK CREDIT
"Agricole Meeting after hours till midnight... No breakfast break... Stressful atmosphere."
"My heart goes out to all the former and some present employees of that concentration camp."
"Even if I had to chew dry bread and drink tap water, I would never come back."
"I'll put it like this – it's difficult to survive, to understand what is happening. People forget their personalities in their fight for survival—it's pathetic. The worst thing is that our families and friends suffer."

"A dream job became a nightmare job. I pity those who must work there. I quit it and I'm happy."

"To have a drink is almost impossible. Toilet? Forget it! Supposedly you have a 15-minute break (never used it myself)."

"Now I have neurosis... which I got when I was working at that wonderful, friendly company. Meanwhile, my marriage almost broke up (my husband couldn't cope with me unloading my frustration after work)."

"I'm dreaming of a day when this nightmare is over, and I will once again have the will to work and live. I won't recommend working in that bank to anyone, not for the world, it's not worth losing your health and family life."

GETIN BANK

"Watch out because Getin will destroy you and if you have a family, they will destroy them too..."

"I worked in Getin for 5 years and now I'm a wreck of a man."

ING BANK ŚLĄSKI

"A trainer comes at least twice a week, and stands behind us all day long and listens if we plug each client with the same stupid things […] a complete absurd."

MILLENNIUM BANK

"The employees of MB are treated as objects in a literal sense…"

"You will find no justice in the corporation, unless by some miracle. So, either deal with it, or be among the frustrated slaves. Do your job; don't let everything get to you."

BANK PEKAO SA

"Generally, terror, nervous atmosphere, treating employees like dirt."

PKO BANK POLSKI

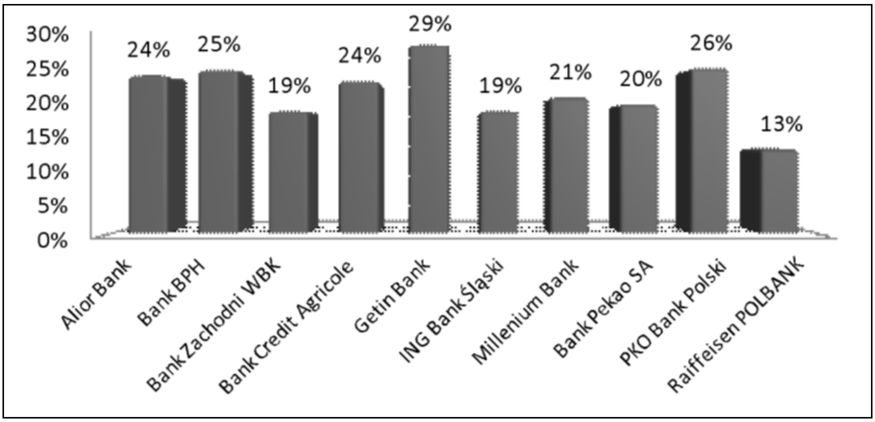
"The only certain thing is depression because you get up in the morning and you don't want to put your clothes on to go to work."

"Frankly, when I get up to work I have stomach-aches, so it's not normal."

RAIFFEISEN POLBANK

"I really don't recommend it, there's unbelievable employee turnover—last year 32% of employees. handed in their resignations."

Bank advisors are highly pressured by their management to achieve ever better sales results. All analysed employees' opinions indicated constant high pressure from the management for increasing sales of financial products even at all costs (we found here the most—no fewer than 185 opinions, which amounts to 24% of all analysed posts). The percentage of opinions regarding the scale and amount of pressure experienced by the employees from their management is shown in Graph 2.



Graph 2. Percentage of opinions reflecting high pressure on increasing sales

Table 3 presents selected opinions regarding the sales of banking products. The analysis of the entire forum content showed high employee turnover. The employment policy of these institutions shows a preference for individuals who exhibit the potential to increase sales. They do not necessarily have to be trained in finance or banking. The main recruitment criterion is the ability to sell products and acquire new customers, even at the cost of forfeiting the professional ethics of a bank employee. The pressure to sell becomes the fundamental element of the organisational culture in the analysed banks. Many analysed opinions describe the lies that the employees must tell the customers to achieve the sales goals set by their management.

Table 3. Examples of opinions on sales pressure

ALIOR BANK
"To all those who are considering it—I discourage you, even if you are desperate and have been looking for a job for a long time. Wrecked nerves, pressure and rate race for results are not worth it. You will regret it as I did."
"A job with almost no perspectives because 80% of it involves working with pensioners' account who must be forcibly convinced/lead into loans and such."

“Plans, sales, it’d be best to take all your friends and family to the bank and then they still fire you because you fell 1000 short of the plan.”

“The only thing that counts there are sales, knowledge or ethics are less important […] If you simply have a human, empathising attitude to your customers and you’re not a predator, you will quickly perish.”

BANK BPH

“Fair play sounds great. It’s a pity it’s all a show. I’m working in this bank and most certainly there is no fair play there—it’s just empty words. Slavery and a work camp, where cheating and pitching products to the customers is your everyday routine. Sales plans which make you lie, employees paying for the accounts they open for nothing for their friends, family, and clients taking loans as technical accounts, free of charge.”

“Explaining why a customer took just a 1000 PLN loan for a year, he could have 20 000, he could have paid it off over 96 months—your fault, you can’t sell things.”

“Clients get poor products because sales pressure makes employees pitch them junk.”

BANK ZACHODNI WBK

“As an advisor […] forget your ethics on the first day because you will be pitching structures for 2 years, the ones which let your client earn 1% in 2 years […] Now, look that client in the eye.”

“Unethical sales are routine, you lie to the clients only to sell the product. The myth of banking is long dead, rat race, stealing clients, no objectivism. These are the norm.”

BANK CREDIT AGRICOLE

“They will sooner fire you for not doing your sales plan than for your lack of ethics.”

“The tell you to pitch loans to clients who already have several (find it hard to make ends meet).”

“The worst was “helping clients realise their needs”—to me, it’s ordinary pitching and lying to the naïve elderly, people who don’t know anything about banking.”

GETIN BANK

“The fact is that if you are well paid it means that you lie to your clients all the time, only to sell the product.”

“Mentally I’m ruined—and the clients are cheated, these are facts. Getin is work for a skilled fraud—and if you’re not, they will make you one...”

“Unfortunately, working in a bank is not easy and involves most of all switching off your conscience and sacrificing yourself at the cost of your family life. Lying to clients is painful; unfortunately, we are lied to in every area we know little about.”

“And what is worse they plainly tell you—if you want to earn, sell products for 15 years, the client will get nothing, the bank will increase its profit, and you will not look the client in the eye when you meet them in the street. I know one thing for sure, I can't lie, so I'm running away of here."

"It doesn't matter how you sell—the bank will make you a fraud as it did me."

"You pitch shit to people who don't need it at all. You also don't need the bank to be happy. Seriously, there are many other interesting places where you can make money honestly."

"When it comes to working at Getin Bank, I don't recommend it to honest people who don't like lying."

ING BANK ŚLĄSKI

"Generally, it all lacks humanity, and nobody cares about anything but sales."

"It seems normal that sales results count in banks, after all, today only the results matter, drugstore employees have their sales plans for cosmetics, and so what's so strange about it?"

MILLENNIUM BANK

"And when it comes to supporting, it looks like this: 10 e-mails a day saying: sell, and improve our ideas for sales."

"It's getting more and more difficult to sell anything because people simply can't afford to go further into debt. Despite that, sales plans are still increasing, and nobody cares how you're going to do it."

BANK PEKAO SA

"Sales, sales—customer satisfaction doesn't matter, results matter."

PKO BANK POLSKI

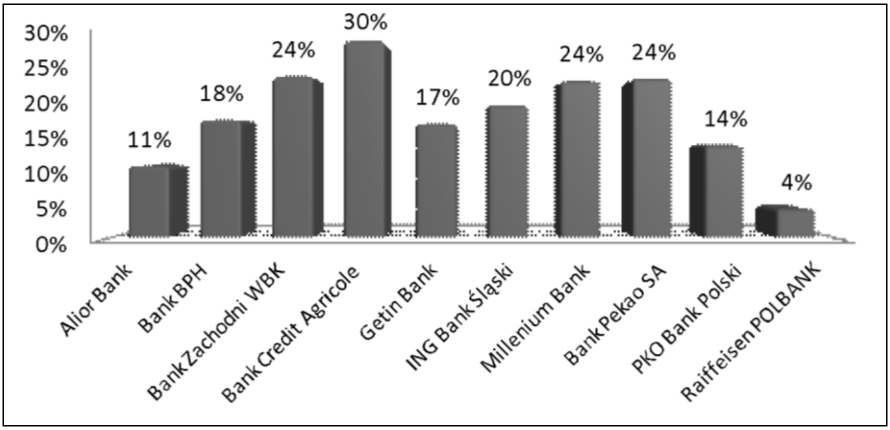
"Sales plans with products majority of which are junk and the clients lose money, earn nothing... sad but true."

"Dear all—I deplore the situation that took place/is taking place in Our Bank. I'm sorry that we can't work in peace—that we are a result, not people."

RAIFFEISEN POLBANK

None.

The third characteristic problem discussed in the analysed forum was the negative evaluation of the management personnel (151 opinions, which amounts to 19% of all the analysed posts). The most negative opinions were expressed about the management at Credit Agricole (30% negative opinions—49 messages about this bank), Bank Zachodni WBK, Millennium Bank and PKO Bank Polski (24% negative opinions each). The smallest number of such opinions pertained to Raiffeisen POLBANK (4%). The percentage of negative comments about bank management is shown in Graph 3.

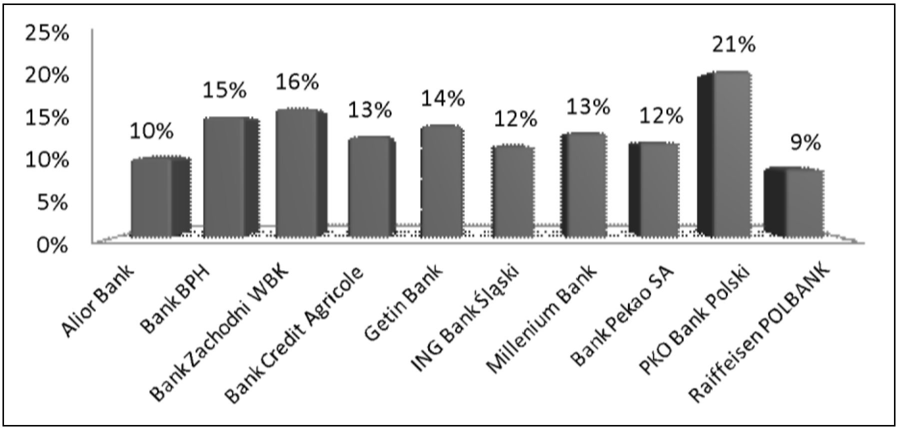


Graph 3. Percentage of negative opinions about management

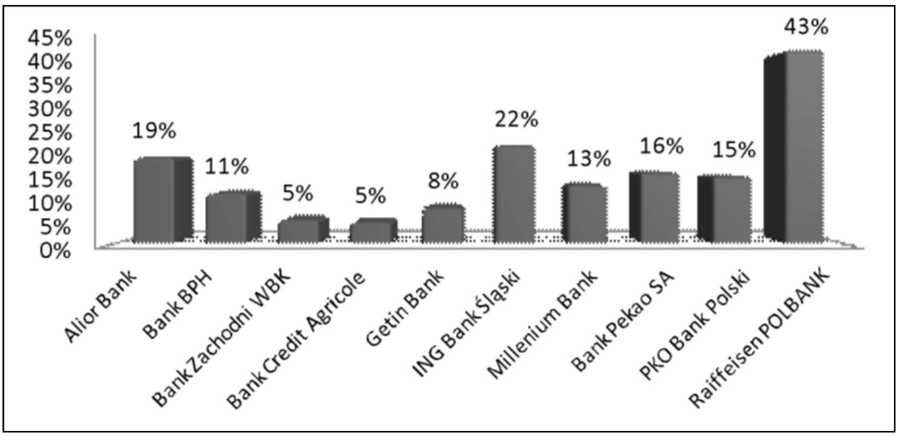
Negative evaluation of the management personnel most often pertained to their lack of competences and management skills, their concentration on the sales process and sales results, constant supervision over the effects of work and the necessity to justify inability to realise sales plans, creating stressful atmosphere, instrumental treatment of employees, unfair distribution of bonuses, building the atmosphere of destructive competition, mobbing practices, threatening, threats of being made redundant or moved to a different branch. The forum users also pointed out either the low quality of, or a lack of training. They had to learn about the banks' procedures and their IT systems on their own. The training conducted in banks aim at developing sales skills; involve frequent rehearsals of sales role-play and teleconferences devoted to sales. The users also noticed that the key to being promoted to managerial positions is most often either good sales results or connections in the bank. As a result, the managers are not selected since their management skills. The role of managers in the banking sector seems to focus on one goal only: increasing sales of their employees. The opinions of the forum users show that they are aware of the situation their managers are in, that they are under constant pressure and control of the executives higher up in the hierarchy. Everybody is focused on achieving the best sales results of banking products, especially the most profitable ones.

The analysed opinions of employees show that workplace mobbing practices are rather frequent. Information on mobbing in banks is shown in Graph 4.

The basic motivation for applying for a job at a bank turns out to be the salary (which is understandable). We learnt, however, that remuneration was not an especially important topic. At the same time, we found a few opinions reflecting an ongoing tendency to lower the basic salary as well as the commission on the sold banking products. We noted several opinions expressing dissatisfaction with the lack of raises, the lack of paid overtime, and arbitrary rules of granting bonuses. Information on the percentage of opinions about low salaries is shown in Graph 5.

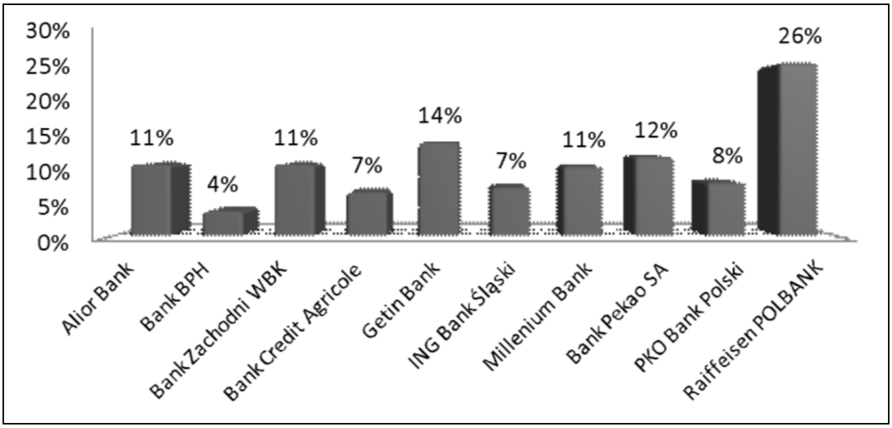


Graph 4. Percentage of opinions on mobbing practices



Graph 5. The percentage of opinions about low salaries

Our analysis of the forum users' opinions about work showed that the clear majority of them were negative. About 9% of the comments (74 posts) reported some positive aspects of working in a bank (some of the analysed comments were mixed—the employees described both positive and negative aspects of their jobs). Relatively the most positive opinions pertained to working in Raiffeisen POLBANK and it was the only institution with positive comments about the work atmosphere. In the remaining banks, job satisfaction was connected most of all with salaries, sometimes with the character of the job which involves customer contact, which is a source of satisfaction to the employees (Graph 6).



Graph 6. Percentage of opinions about work satisfaction

To present the positive opinions about working in a bank, selected comments of banking sector employees are shown in Table 4. It should be noted, however, that they are usually morally dubious.

Table 4. Selected positive opinions about working in a bank

"Salary on time is a plus."
"It's not all peachy, but I appreciate what I have. Surprisingly, I can mentally rest even though 8-hour workday is a fairy tale."
"Bonuses were indeed nice (if you lied to your clients)."
"To sum up, this work pays well but at a very high price."
"You can cope somehow and the only thing that keeps me here is the really nice clients and a very good department manager, who supports me all the time."
"Because I work at ING and I'm proud of it—I hope that I will never regret it."
"If you work fine, you get the results."
"I have no reason to complain about my salary."
"I use all this and I'm just an ordinary customer advisor. I do my job with pleasure and a natural smile because I like customer contact."

We found several positive comments about workplace atmosphere from several years earlier (before changes, consolidation, takeover—generally, based on content analysis, we can say that it was before 2010), when working in a bank involved less pressure on achieving sales goals. It raises a question of if and how it is related to the crisis that began in 2009, which saw western banks face serious problems. Perhaps the increasing pressure on ever better results be an attempt to make up for the losses in parent banks by achieving the highest possible profits in the countries where the financial crisis did not affect the banks so heavily (as was the case in Poland).

Another potential reason for the worsening of the atmosphere in banks may be the high saturation of their clients with banking products and the increasing difficulty in selling new ones (especially loans).

In 2013, the Polish Bank Association (ZBP) adopted the Code of Banking Ethics, one part of which is devoted to HR policy. According to the Code, each employee "should be treated by their employer with respect and dignity […]. The employees should be treated fairly and should be provided with opportunities for promotion and development." The code also obliges banks to "provide the employees with a friendly work environment and to counteract any discrimination and mobbing." It also mentions that banks should provide a chance for anonymous reporting of unethical practices. Banks also should train their employees in business ethics and promote the adopted ethical codes. If we were to draw any conclusions solely based on the presented above results, it would turn out that there is a vast discrepancy between these recommendations and reality.

4. Conclusions

Our research problem, despite its methodological shortcomings, was to some extent successfully resolved. The results of the content analysis of a professional online forum present the dark side of the banking sector, which is primarily focused on financial results, which results in enormous pressure on increasing sales results of banking products. Such a strategy gives rise to negative consequences for the workplace atmosphere and the relationship between the employees and their managers. The bank managers exert constant pressure on branch managers to constantly increase their sales. Branch managers, with their imposed sales plans, transfer these expectations onto bank advisors, whose work is evaluated according to just one criterion: the effectiveness of their sales. Ethical principles and honesty have in fact no place there—these are the opinions of bank employees themselves. The lack of effectiveness in sales leads to redundancies and significant employee turnover. It is assumed that the newly recruited employees will generate more sales, also because of their families and friends. Working in a bank, in light of our analysis, does not provide happiness or satisfaction. There are just a few exceptions—the opinions suggesting satisfaction from high salary earned in return for sufficient sales effectiveness. For some employees, an advantage of such a job is the contact with customer.

Our research provides an insight into the organisational culture of banks, especially the institutions with customer care units. Our analysis shows deterioration in the banking sector work culture in recent years (we found many comments suggesting that before the financial crisis in the West, which began in 2007, working in a bank involved less pressure on achieving sales goals). Another potential reason for the worsening of workplace atmosphere in banks can be the high saturation of the clients with banking products and, in consequence, the increasing difficulty in selling them new ones (especially loans).

Considering the weaknesses of our research (the problem of representativeness of the professional forum users) we can hope that the full picture of the professional culture in the banking sector is more optimistic and closer to the ethical principles espoused in the Code of Banking Ethics. However, our analysis of the forum provides us with certain information and can make us doubt if ethical standards are adhered to in the banks currently operating in Poland. It seems necessary to conduct further research to investigate this issue in more detail.

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Statistics and ethics*

Abstract

The article concerns ethical rules compiled by both public statistics and users of public statistics. Ethical rules in statistics are partly codified in the European Statistics Code of Practice published by Eurostat, the statistical bureau of the European Union. The implementation of this code is subject to periodical reviews. The second part of the paper deals with various manipulations of statistical data performed by their users. The thesis of the paper states that if non-ethical practices appear, either in public statistics or in manipulations by users, they are relatively quickly denounced. This thesis is supported by some empirical facts.

Keywords: public statistics, Eurostat, statistics users, manipulations of statistical data

JEL Classification: C18

1. Introduction

In democratic societies, public statistics is an institution of public trust, which results from the official or state character of national statistical offices. Public statistics are financed from public funds, and statistical offices in their substantive activities are independent from state authorities. Activities of national statistical offices are regulated by law, as they constitute a vital element of governmental

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administration responsible for the most important part of the state's information infrastructure.

The aim and mission of official statistics are to describe and present reality, including economic and social reality, i.e. facts, processes and phenomena, by means of numbers and indicators. The significance of public statistics for society imposes many requirements and obligations. One of the most important is the reliability of official statistics, and the professional ethics of statisticians is its important determinant.

The article consists of three parts. The first part deals with the compliance with ethical principles in the system of creating official statistics. The second part presents various forms of manipulating statistical data by statistics users. The third part refers to the effects of unethical activities related to statistics.

2. The ethical dimension of the rules governing statistics

After 1989, a significant transformation of Polish official statistics took place. In the central planning system, public statistics did not follow many rules applicable in democratic societies. It was controlled by the power apparatus, which meant that its independence was severely limited. There are no known cases of direct falsification of data derived from statistical surveys. It is difficult to verify the anecdotal story that statisticians adjusted the amount of crops in agriculture to the numbers given by Władysław Gomułka, the First Secretary of the Polish United Workers' Party, during his speech at the annual harvest festival. However, no statistical research that might be inconvenient for the authorities, such as the study of the retail price index according to the rules applicable in developed economies, was undertaken. Significant methodological reservations towards the methodology used (Zienkowski, 1984) at the time have been reported. The cost of living index was also calculated for several social groups (employees, farmers, pensioners); however, under the conditions of market imbalance and common shortages, this gave a distorted picture of the situation, not only misleading in terms of the growth of retail prices but also the rate of economic growth (Zienkowski, 1982).

The basic principles of statistics were commonly violated through:

(1) the non-disclosure of the results of some statistical surveys,
(2) the selection of a group of privileged recipients of statistical survey results,
(3) the unrestrained use by the authorities or disclosure to the public of particular units of information obtained from statistical reports.

Such a legacy of official statistics in Poland and other countries undergoing systemic transformation was an important reason for codifying the rules of official statistics at the level of international organisations, the Statistical Commission of the United Nations and the European Commission (Eurostat, the Statistical Office of the European Union). This happened in the first half of the 1990s, thanks to the efforts of the Central Statistical Office and statistical offices of Central and Eastern Europe. Such actions were taken mainly due to the fact that the new authorities of the countries undergoing transformation showed great reluctance to abandon the use of the three aforementioned principles applied in the central planning system.

In 1994, the UN Economic and Social Council announced the Fundamental Principles of Official Statistics.[1] Ten principles were formulated with ethical aspects present in the five listed below:

(1) Principle 2 refers to the use of professional methods and ethics in the collection, processing, storage and presentation of statistical data.
(2) Principle 3 requires statistical offices to present statistics in accordance with scientific standards regarding sources, methods and statistical procedures to facilitate the correct interpretation of data.
(3) Principle 4 states that statistical offices are entitled to comment on the erroneous interpretation and misuse of statistics.
(4) Principle 5 gives statistical offices freedom in selecting statistical data sources (statistical surveys, administrative records) with regard to quality, timeliness, costs and burden on respondents.
(5) Principle 6 refers to statistical confidentiality: data pertaining to an individual or an entity acquired by statistical offices must remain strictly confidential and may only be used for statistical purposes.

The principles of the United Nations Statistical Commission determine the basic rules of professional ethics, especially in the field of using scientific knowledge in all undertaken activities. The application by statistical offices of the commentary principle concerning the proper use of statistics occurs in serious cases.

The statistical confidentiality principle is important, since only full trust on the part of respondents that this principle is respected leads to statistical offices being provided with true information in their statistical reports (Wyżnikiewicz, 2009).

The European Statistics Code of Practice was announced in 2005 and amended six years later.[2] It includes 15 principles divided into three parts: the first one concerning the institutional environment (6 principles), the second part referring to the use of statistical processes (4 principles), and the third part describing the practices related to the results of statistical surveys. It can be said with only a slight exaggeration that the professional code of conduct of a statistician is quite detailed, and contains many ethical aspects. The code encompasses the following issues:

(1) professional independence (1 principle),
(2) commitment to ensuring adequate quality [of statistics] (4),
(3) confidentiality of statistics (5),
(4) impartiality and objectivity (6),
(5) sound methodology (7),
(6) appropriate statistical procedures (8),
(7) non-excessive burden on respondents (9),
(8) cost-effectiveness (effective use of resources) (10),
(9) relevance (11),
(10) accuracy and reliability (12),

[1] http://unstats.un.org/unsd/dnss/gp/fundprinciples.aspx
[2] http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-32-11-955/EN/KS-32-11-955-EN.PDF

(11) timeliness and punctuality (13),

(12) coherence and comparability (14),

(13) accessibility and clarity (15).

All rules have detailed explanations and indicators (from 3 to 8), and their implementation, as well as compliance with the rules, are regularly monitored by Eurostat.

Experience shows that two important principles of official statistics are particularly significant: the statistical confidentiality mentioned earlier (principle 5) as well as equal and simultaneous access to statistics (an aspect of principle 15). The authorities cannot have privileged access to published statistics.

The fundamental UN principles and the code of practice were amended at the end of the first decade of the 21st century under the influence of the experience derived from the first years of applying these rules in practice by statistical offices.

Statistical offices apply the general rule of announcing publicly more than a year in advance the specific dates (with exactness to the day and time) when important statistical information will be published. This stemmed from the intention to make public statistics independent of political events, as in the 1960s there were cases in the USA of announcing economic indicators during election campaigns, which was sometimes interpreted as interfering in those campaigns. Meanwhile, political objectivity and neutrality are obvious rules of public statistics.

Life has shown that the European Code of Statutory Practices has not been respected by all the European Union Member States. At the beginning of January 2010, the European Commission announced a report entitled *Report on Greek Government and Debt Statistics*[3] presenting the manipulation and falsification by the Greek government of statistics on the country's budget deficit and public debt. The obvious reason for this action on the part of the Greek government was the fear of revealing to the European Commission their irresponsibility in the management of EU funds, which included, among others, politicians "buying" the electorate through financing various social (and other) benefits, often using European funds directly. The scale of the fraud was significant, and it is amazing that despite the numerous reservations made by Eurostat, the practice of fraud continued until the unprecedented disaster of the Greek public finances.

For example, the Greeks presented Eurostat with an estimate of the budget deficit for 2002 at 1.2% in relation to gross domestic product. In the so-called notification process, the Eurostat adjusted that figure to 3.7%, and today we know that the actual deficit of the Greek budget in 2002 was 5.2% of GDP. In its so-called creative accounting, the Greek government used the assistance of experts from a well-known American investment bank.

The purity of the rules requires that statistical offices refrain from dealing with the preparation and publication of economic forecasts. The reliability and precision of macroeconomic forecasts are generally small, and the credibility of statistics published by statistical offices would suffer in such cases. In addition, it

[3] http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/COM_2010_REPORT_GREEK/EN/COM_2010_REPORT_GREEK-EN.PDF

would not be entirely achievable to eliminate the possibility of twisting statistics to fit previously published forecasts. It should be remembered that GDP and its aggregates are largely based on estimates. Until recently, Eurostat expanded statistical tables with GDP growth rates published on the Internet with forecasts provided by the European Commission, but in 2013 it abandoned that practice.

However, there are no contraindications regarding the preparation and publication of demographic forecasts by statistical offices. Making such predictions requires the availability of very detailed data which remain in the sole possession of statistical offices. In addition, the accuracy of long-term demographic forecasts is incomparably greater than the reliability of macroeconomic forecasts.

3. Ethics of statistics users

The level of economic knowledge in Polish society is low[4] as a result of both the mental legacy of the central planning period and the marginalisation of economic knowledge in the mainstream education system. Consequently, knowledge of statistics is at a low level. This situation is conducive to unethical activities consisting in the abuse of statistical data in order to meet various goals by politicians, trade unions, employers, and above all the media, often oriented towards providing bad (unfavourable) information that according to publishers "sells well", attracting readers.

Some abuses in the interpretation of statistics result directly from ignorance, others from ill will stemming from different interests, and sometimes those abuses result from both of these reasons. The social and economic processes in the modern world are becoming increasingly complicated, and the same is happening with statistics describing these processes. For the interpretation of some statistical indicators, apart from economic or social knowledge, it is necessary to familiarise oneself with the so-called meta-information, or explanations, definitions, and ranges of statistical information.

Frequent misinterpretations are encountered in the case of Gross Domestic Product, which describes the volume of the newly created value, i.e., production, and is incorrectly interpreted by many as an indicator of prosperity or standard of living. The general objection formulated against GDP concerns the fact that it incorrectly measures changes in the standard of living, though this indicator was not actually designed for this purpose.

The Central Statistical Office reports the GDP growth rate using two systems which are compliant with international standards. The first approach refers to the growth rate in constant prices from the previous year, while the other one, concurrently published, submitted to Eurostat and used for international comparisons, is

[4] In the report entitled *The Level of Economic Knowledge of Poles* [Stan wiedzy ekonomicznej Polaków] prepared by the Freedom Institute and Raiffeisen Polbank concerning a study conducted in January 2014 on a sample of one thousand people, the respondents were asked, among others, about the level of inflation in 2012. Almost half of the respondents answered "I do not know."

provided in 2010 prices. An economist associated with the political opponents of the PO-PSL (Civic Platform and Polish Peasant Party) coalition, after hearing the two differing estimates of the GDP growth rate, published an article[5] entitled *Is the Central Statistical Office Just Mistaken or Has It Decided to Join the Electoral Campaign of The Current Government?* The author also accused the Central Statistical Office of a "lack of reliability and incorrectness of the research apparatus."

In turn, a journalist from *Puls Biznesu* accused the CSO of the "biggest slip-up in years" in connection with the routine revision of the quarterly GDP growth rate.[6] He stated that: "this mistake seriously undermines confidence in this institution [...] because the Central Statistical Office could not explain why the mistake had been made." Meanwhile, revisions of GDP are a normal practice of statistical offices, as the pressure of public opinion and economy participants to quickly provide information about the economic growth rate is enormous. Therefore, statistical offices provide further approximations of this index. In the same quarter, in the United States, the GDP growth rate was revised from -0.1% to +0.4%. Nobody in the USA talked about the loss of credibility by the Bureau of Economic Analysis, the statistical institution of the US government dealing with GDP estimation, for this reason.

Frequently, the media create myths concerning economic phenomena that subsequently persist in the social consciousness. At the end of November 2013, in the weekly magazine *Polityka* (No. 48), the main theme of the issue was: "Polacy zarabiają za mało. Pracujemy wydajniej" [Poles Earn Too Little. We Work More Efficiently] (p. 22). The author of the article stated that "over the last 10 years, the share of wages in GDP has decreased by as much as 16 percentage points." She relied on OECD data obtained from Eurostat (which had previously been provided by the Central Statistical Office) and converted experimentally under certain assumptions with full information on the incomparability with national data. Using the definitions adopted in national accounts, it can be shown that in the years 2002–2012 the share of wages in the Polish GDP decreased, but only by 2.9, and not by 16 percentage points.

This type of manipulation of statistical data should be treated as seeking at all costs statistical data that confirm the journalistic thesis without taking into account their methodological correctness and compliance with reality.

Journalists from *Gazeta Wyborcza* behaved in a similar manner at the end of 2013 in a large article on business websites, quoting Eurostat that in 2012 labour productivity had increased in Poland by 5.6%, which was accompanied by a 0.1% drop in real wages.[7] Meanwhile, Eurostat had provided information about labour productivity per hour, with the reference that there was a break in the time series, meaning incomparability in time. One should not directly compare macroeconomic values (a change in the level of remuneration) with averaged microeconomic

[5] http://wpolityce.pl/polityka/185648-czy-gus-sie-tylko-myli-czy-postanowil-sie-wlaczyc-w-kampanie-wyborcza-obecnego-rzadu

[6] http://www.pb.pl/3097434,90894,o-jedna-dziesiata-od-recesji

[7] http://m.wyborcza.biz/Firma/1,116167,15112769,Polak_poprawia_wydajnosc_w_pracy__Ale_lepiej_nie_zarabia.html

values (labour productivity per hour). In other words, the substantive value of such information is questionable and, in principle, it should not be made public in this way also due to its high social sensitivity. In May 2014, the Eurostat table showed an increase in labour productivity in 2012 of 2.1%, still including the information about a break in time series.[8] In this case, the lack of imagination on the part of the Eurostat officials was noticeable. In addition to the journalists from *Gazeta Wyborcza*, journalists from *Polityka* also reported 5.6% in the aforementioned article.

Considerations related to retirement age are an example of another misinterpretation of statistical data. It is often claimed that a man retiring at the age of 65 will only receive his benefits for 7 years, since the average life expectancy for men in Poland is 72 years. Meanwhile, the life tables of the Central Statistical Office show that a man who is currently approaching 65 years of age in Poland still has an average of over 15 years to live, and it is an 81-year-old man who has an average of 7 years to live.[9]

The examples of interpreting statistical data by journalists quoted here show a lack of diligence on their part and also a reluctance to familiarise themselves with the so-called meta-information, or explanations, including methodological ones, referring to the published statistical data. C. Radhakrishna Rao (1994) points to the need to "train journalists to inform about statistical issues."

4. The effects of unethical and quasi-unethical operations performed on statistical data

The unethical actions of the Greek government in connection with its falsification of public finance statistics have had many consequences in Greece, the euro area countries and throughout Europe. First of all, they led the country into a deep economic crisis, resulting in a dramatic deterioration in living conditions, rising unemployment and falling income of the population. Secondly, these actions led to the instability of the single European currency, putting many creditors at risk of losing billions of euros lent to the Greek government and Greek banks. Thirdly, the rescue package for Greek public finances resulted in the allocation of taxpayers' money of the euro area countries, which caused justified social discontent in these countries and put politicians in a difficult position. Fourthly, the credibility of statistical offices in the European Union countries was undermined. Fifthly, the paradigm of the safety of investing in government debt securities was overturned, which contributed to an increase in interest rates on a global scale.

The doubtful thesis about the low earnings of Poles promoted by *Polityka*, the influential weekly magazine, became deeply embedded in the social consciousness, including that of economists, who, uncritically embracing this twisted

[8] http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do;jsessionid=9ea7d07d30db2d9be926a63349b78e32e459f428336b.e34MbxeSaxaSc40LbNiMbxeNbh8Le0?tab=table&plugin=0&pcode=tsdec310&language=en
[9] http://old.stat.gov.pl/gus/5840_4721_PLK_HTML.htm

press fact, encapsulate this piece of information with various theories and considerations on the economic policy in Poland. The overstated increase in labour productivity in 2012 was been widely commented on. Information of this kind provides trade unions with a strong argument during negotiations on pay rises with employers and the government.

The examples of directing complaints, or even accusations, against the CSO provided in the article undermine the trust in Polish official statistics and its credibility in an unfair and unjustified manner. In other words, there is a lack of care for the public good that public statistics is. Such actions result, to a large extent, from the insufficient economic knowledge of journalists, and are also an element of the strategy of media competition which involves, among others, concentrating on "bad news" as well as on creating such messages based on incorrectly interpreted statistical data.

The conclusion from the article is that if there are instances of unethical behaviour in the operation of the public statistics system, then the probability of exposing such activities is high. The unethical behaviour of some media reporting statistical data is sometimes corrected by statistical offices, but more often this leads to a lowering of confidence in public statistics. Some media activities also result in the distortion of statistical information, which often leads to the disinformation of its recipients.

It should also be emphasised that statistical information is not always provided in a way that is understandable for people with little economic knowledge. Therefore, statistical offices should pay more attention to presenting the results of statistical surveys in a way that does not raise any doubts, even among poorly-oriented recipients.

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Is there a growing social acceptance of earnings inequalities in Poland?*

Abstract

In our studies, we deal with the estimating of the optimal ranges of earnings—the optimal Gini indexes which are favourable to the maximisation of GDP growth in Poland. We suspect that the optimal Gini coefficients expressing the whole of society's acceptance of earnings inequalities can increase.

In the article, we formulated a hypothesis on society's habituation to increasing earnings disparities. We verified the hypothesis on the basis of the model of economic growth using data from 1970 to 2007. We carried out econometric studies in two stages. In the first stage, we estimated the optimal Gini coefficients for short subsequent sub-periods. In the second stage, we studied the character of changes in the optimal Gini coefficients.

In the studies, we proved the hypothesis on society's habituation to increasing earnings disparities. The optimal Gini coefficients increase along with the increase of differences in earnings and the increase of the economic level per capita. The growth of the optimal Gini coefficients may be slowed down.

Keywords: social acceptance, earnings, inequalities, econometric model, Poland

JEL Classification: D6

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1. Introduction

In previous studies (Chen, 2003; Kumor & Sztaudynger, 2007), the parabolic effect of earnings (income) inequalities on economic growth was confirmed. On the basis of those studies, optimal earnings inequalities were determined—the optimal Gini coefficients at which economic growth was maximised. Optimal earnings differentiation is thus identified with the disparity which is the most socially acceptable and socially just in the utilitarian approach.

The studies assumed the stability of the optimal value of income (earnings) differentiation. According to this assumption, the optimal value of this disparity did not change over time. The sense of social justice, determined by the optimal Gini coefficient, was the same throughout the entire period considered.

Now, we reject this assumption. We assume that the optimal Gini coefficient may increase with growing earnings differences. The increase in the optimal Gini coefficient may result from the effect of the gradual habituation of the whole of society to growing earnings inequalities.[1] If, in the coming years, earnings differentiation increases, the optimal Gini coefficients will grow as well. The effect of society's habituation to growing earnings inequalities may result from the gradual enrichment of society. An increase in production per capita improves the living conditions of society and creates more opportunities for its development.

We put forward the hypothesis on society's gradual habituation to growing earnings differentiation.[2] Social acceptance of increasing earnings inequalities can be seen on the basis of observations in sub-periods.

We will verify the hypothesis concerning society's habituation to increasing earnings differentiation using the economic growth model in which the GDP growth rate will be explained by an increase in the investment rate, the employment growth rate and the parabolic function of earnings inequalities. The analysis will include observations from the years 1971–2007. The research period will be divided into several years of non-separable sub-periods. Estimates of optimal earnings differentiation will be carried out on the basis of each sub-period separately. In the research, we will use the method of least squares.

We assume that the optimal Gini coefficient will grow increasingly slowly as earnings inequalities grow. Then a growing number of lower and middle-income people will protest against excessive differences in earnings. We will attempt to investigate the nature (slowdown) of the increase in the optimal Gini coefficient. At this point, we put forward the second hypothesis that the increase in the optimal Gini coefficient will be slower and bounded from above. To verify this hy-

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[1] In the years 1970–2006 in Poland, the Gini coefficients (GINI) ranged from 20% to 35%. Since 1990, there has been systematic growth. In 2006, the Gini coefficient increased by approx. 2/3 in relation to the 1989 value (cf. Kumor, 2009).

[2] The hypothesis proposed by J. J. Sztaudynger.

pothesis, we will use in the research a nonlinear function with a horizontal asymptote. Bounding the growth of the optimal Gini coefficient will allow us to set the social acceptance threshold for earnings inequalities.

In the studies of the bounded growth of the optimal Gini coefficient, we will use a model in which the variability of the optimal Gini coefficient will be explained by the variability of GDP per capita.

2. Theoretical foundations

Too large and too small differences in earnings are harmful to the economy. Optimal earnings (or income) differentiation favours the building of social bonds that characterise the best interpersonal relationships and the optimal allocation of production factor resources. Earnings inequalities are optimal for economic growth when they allow for the maximisation of GDP growth.

Earnings (income) inequalities constitute the basis of comparisons between people. There are also other areas of comparison, based on, among others, property, personal happiness, the degree of satisfaction of one's needs, freedom, power, or legal and political treatment (cf. Kot, 2004). A diversified level of satisfaction of these categories in society is important in terms of shaping income inequalities and vice versa; income (earnings) inequalities have an impact on the diversified satisfaction of other human needs. There is a correlation between the possibilities of fulfilling various social needs. Ensuring distributive justice, that is, reaching a compromise in one area of comparisons between people, must involve the simultaneous recognition of inequalities (or equalities) in other areas as being just. Hence, "[...] equality of opportunities may be accompanied by a significant degree of income disparities [...]" (pp. 49, 53).

Does social acceptance of earnings inequalities (identified with the optimal Gini coefficient) remain unchanged in time? We suspect that it is not the case. The optimal Gini coefficients may increase with growing earnings inequalities or an increase in national wealth (e.g., GDP level) per capita. This effect may result from society becoming accustomed to increasing earnings differentiation (cf. Cornia & Court, 2001, p. 22) or from the formation of the political system that strengthens the structure of the economy based on the motivational function of earnings (cf. Baumol, 2007, pp. 545–548).

Furkiss stated that income (earnings) inequalities tend to be "self-sustaining". Thus, as noted by Amartya K. Sen (2000), many "victims of long-standing failures and deprivation [...] do not consider radical change." People become reconciled with their own fate "taking pleasure in small mercies [...]" (p. 20).

The change in the optimal Gini coefficient (its increase) might have been caused by the process of gradual personnel replacement and the introduction of innovations in the field of human resources management initiated in the 1990s. Personnel changes in senior and middle-level management positions, aimed at employing people who are better qualified and prepared for the current needs of enterprises, were forced by growing market competition. Enterprises that did not manage to do this lost their position in the market and sometimes even the possibility of conducting further business activity. With the increase in the general level of competence of the senior staff, income (earnings) inequalities grew, and social acceptance increased gradually for better remuneration of the management. Employees could identify their own well-being (including, among others, job security or higher earnings) with the special skills and high competencies of their employers.[3]

To study this phenomenon, we will divide the research period, which covers the years 1971–2007, into several sub-periods which will be analysed separately. Due to the relatively short research period (37 years), the above-presented procedure is difficult to perform. To estimate econometric models, time series of at least a dozen years are needed. Therefore, the tests can be carried out on the basis of sub-periods whose time intervals overlap. An example of verifying the hypothesis concerning society's habituation to growing earnings inequalities is presented in Fig. 1.

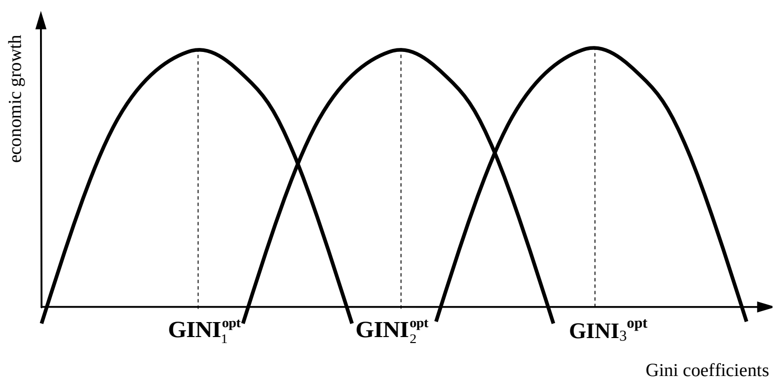

Figure 1. The effect of society's habituation to changes in earnings inequalities

In Figure 1, three parabolas represent the dependence of GDP growth on earnings inequalities. These dependencies are presented in non-separable sub-periods for which the optimal Gini coefficients were determined separately. These coefficients will be estimated on the basis of rolling sub-periods (rolling regression), e.g., 18-year-olds: 1971–1988, 1972–1989, etc. For the subsequent sub-period moved in time (e.g., by 1 year, with a fixed number of years), the optimal Gini coefficient increases. The parabolas then move to the right along the horizontal axis.

It is worth asking the following questions: if the changes of the optimal Gini coefficient along with the moving of the sub-period in time are continuous, is there any boundary for these changes? To what value can the optimal Gini coeffi-

[3] As indicated, for example, by Boni (cf. Kowalik, 1997, p. 302). Salaries of employees and employers (fully-employed persons) are used in CSO representative surveys to calculate Gini coefficients of earnings inequalities (more on the subject in Kumor, 2006).

cient increase?[4] We assume that the increase in the optimal coefficient in the subsequent years (along with the increase in the earnings spread over time, and the economic level per capita) may decrease, until the full potential of the earnings (income) motivational function is fulfilled and the social effect of the sense of exploitation prevails. Social acceptance of growing earnings inequalities will practically cease to increase as a result of stabilisation during a fair distribution of earnings (the optimal Gini coefficient) and a fair distribution of other goods (e.g., property, the degree of satisfaction of needs, freedom, legal and political treatment) mentioned earlier.

Figure 2 shows a gradual increase in the optimal Gini coefficient. The increase in the optimal Gini coefficient, plotted with a concave function, decreases with the upper bound determined by a horizontal asymptote. This means that for the subsequent sub-periods, the optimal Gini coefficients will approach the threshold of social acceptance of growing earnings differentiation.

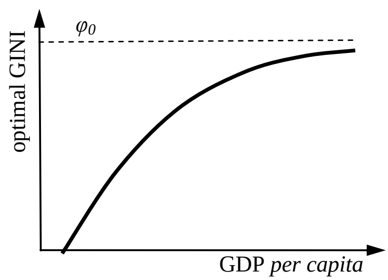

Figure 2. Dependence of the optimal Gini coefficient on the level of GDP per capita

Note. GINIopt = φ_0 – horizontal asymptote; GINIopt – optimal values of the Gini coefficient, % (vertical axis).

3. Analysis of the effect of growing social acceptance of earnings inequalities

In econometric studies, we will use a modified economic growth model (1) based on the model proposed by Kumor and Sztaudynger (2007). The modification consists, among others, in removing the investment rate from the list of explanatory

$$\boldsymbol{G\dot{D}P} = \alpha_0 + \alpha_1 \boldsymbol{\dot{L}} + \alpha_2 \boldsymbol{\Delta}\left(\frac{\boldsymbol{I}}{\boldsymbol{GDP}}\right)_{\boldsymbol{-1}} + \alpha_3 \boldsymbol{GINI_{-1}} + \alpha_4 \boldsymbol{GINI_{-1}^{2}} + \alpha_5 \boldsymbol{u8081} \qquad (1)$$

variables due to the most frequently received wrong sign and the insignificance of variables in our research. Instead of the investment rate, its increase was introduced into the GDP growth model.

[4] We are asking about it being bounded below, based on the definition of the Gini coefficient, i.e. 100%.

where:

$\dot{GDP}$ GDP growth rate in constant prices, %,

$\dot{L}$ employment growth rate, %,

I/GDP investment rate (investment— GDP ratio in current prices), %, Δ—variable increment,

GINI Gini coefficient, %.

u8081 dummy variable, separating the years 1980–1981,

α_i model structural parameters, where $i \in \{0,1,\ldots,5\}$

ε random component.

The entire research period (1971–2007) was divided into sub-periods of several years. Econometric research was carried out on the basis of observations from short sub-periods overlapping by 1 year. Correct signs of parameter estimates or the largest values of Student's t-statistic of parameter estimates at variables were obtained for 18-year sub-periods. Estimates for the remaining analysed variants, 15, 19, 22 and 25-years, were rejected.

The results of the ordinary least squares method (OLS) are presented in Table 1.

Table 1. Optimal Gini coefficients

No.	Years	$GINI_{opt}$	No.	Years	$GINI_{opt}$
1.	1970–1987	22.5	11.	1980–1997	26.2
2.	1971–1988	22.6	12.	1981–1998	27.7
3.	1972–1989	22.7	13.	1982–1999	29.1 *
4.	1973–1990	23.2	14.	1983–2000	27.1 *
5.	1974–1991	23.4	15.	1984–2001	27.2 ***
6.	1975–1992	24.2	16.	1985–2002	28.0 **
7.	1976–1993	24.5	17.	1986–2003	28.7 *
8.	1977–1994	25.6	18.	1987–2004	28.6 **
9.	1978–1995	25.5	19.	1988–2005	29.2 ***
10.	1979–1996	25.5	20.	1989–2006	29.5 ***

Note. Based on model estimates (1). $GINI_{opt}$ – a series of optimal values of the Gini coefficient calculated on the basis of the results of estimation using the least squares model (1), %; the highest level of significance (corresponding to the smallest value of Student's t-statistic) of the parameter estimates at the Gini coefficient squared to the power of one and two was marked with asterisks, ***: 1%,**: 5%,*: 10%.

Table 1 presents a series of 20 optimal values of the Gini coefficient. The optimal Gini coefficients were ordered into the sub-periods including the 1-year lag of Gini coefficients in model (1). For example, if earnings inequalities in 1987 were equal to the optimal Gini coefficient (22.5%), economic growth in 1988 would be maximised.

Only some of the optimal values of the Gini coefficient are precisely estimated. This is indicated by the significance levels (marked by asterisks in Table 1) of parameter estimates with the Gini coefficients estimated on the basis of model (1). The highest *t* statistics (i.e. no more than 10% of the significance levels) for parameter estimates characterising the impact of earnings inequalities on GDP growth were obtained for the last eight sub-periods, i.e. the years 1982–1999, 1983–2000, ..., 1989–2006.

The results are presented below.

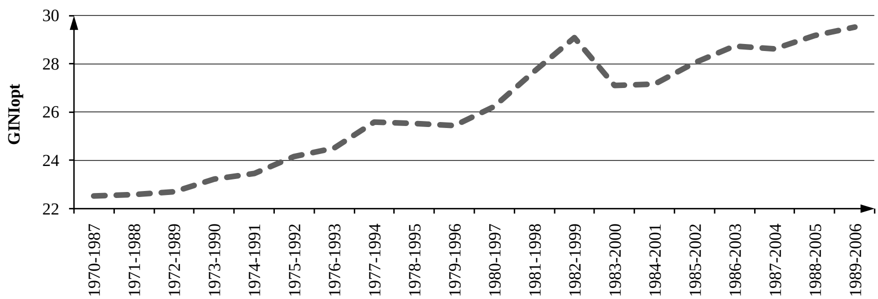

Figure 3. Optimal values of the Gini coefficient

Note. Based on Table 1. GINIopt—optimal Gini coefficient, %.

Fig. 3 presents a series of the optimal Gini coefficients. It is characterised by an upward trend. The lowest value, 22.5%, was obtained in the years 1970–1987. The highest, 29.5%, was obtained in the years 1989–2006. The optimal values of the Gini coefficient increased by 7 percentage points.

4. Analysis of the variability of optimal values of the Gini coefficient

In the next step of the analysis, we will examine the non-linear influence of the level of GDP per capita on shaping the optimal values of the Gini coefficient. This dependence can be mapped using the shape of the curve shown in Fig. 2. To verify the hypothesis concerning the increasingly slow growth of the optimal value of the Gini coefficient, we will use a model with a nonlinear function with a horizontal asymptote:

$$\boldsymbol{GINIopt} = \varphi_0 + \varphi_1 \frac{\mathbf{1}}{\boldsymbol{GDPpc_{-1}}} + \boldsymbol{\varepsilon}; \quad \varphi_0 > 0,\ \boldsymbol{GDPpc} \geq \left(-\frac{\varphi_1}{\varphi_0}\right) \qquad (2)$$

where:

GINIopt a series of optimal values of the Gini coefficient (from 0), %,

GDPpc GDP per capita (2007 constant prices, PLN),

φ_0, φ_1 model parameters,

ε random component.

In order to continue our research, we assigned the optimal values of the Gini coefficients (from Table 1) to the penultimate year from each sub-period.[5] The optimal value of the Gini coefficient (in Table 1) from the first sub-period (the years 1970–1987): 22.5%, was assigned to 1986, from the second sub-period (the years 1971–1988): 22.6%—1987, etc.

In our opinion, the penultimate year of the sub-period is the most representative one. Social acceptance of earnings inequalities results then from the past and current feelings of people. It is connected with people "remembering" better the latest experiences related to, among others, earnings differentiation.

The results of model (2) estimates carried out by means of the MNK method are presented below (for years 1992–2005).

$$\underset{}{\boldsymbol{GINIopt}} = \underset{(34.8)}{35.0} - \underset{(-7.8)}{151.8}\frac{1}{\boldsymbol{GDPpc_{-1}}} \qquad (2')$$

$$\boldsymbol{R^2} = 0.834 \quad \boldsymbol{DW} = 1.64$$

Parameter estimates have signs consistent with the postulated ones.

Based on model (2) in Fig. 4, a curve convergent to the horizontal asymptote was drawn. The intersection of the horizontal asymptote φ_0 with the ordinate (vertical) axis is determined by the estimate of the parameter at the absolute term, 35%. The value of 35% means the upper bound of growth of the optimal value of the Gini coefficient was caused by the increase in the level of GDP per capita. In Fig. 4, the optimal values of the Gini coefficient corresponding to the level of GDP per capita (from the previous year) are marked with rhombuses (◊).

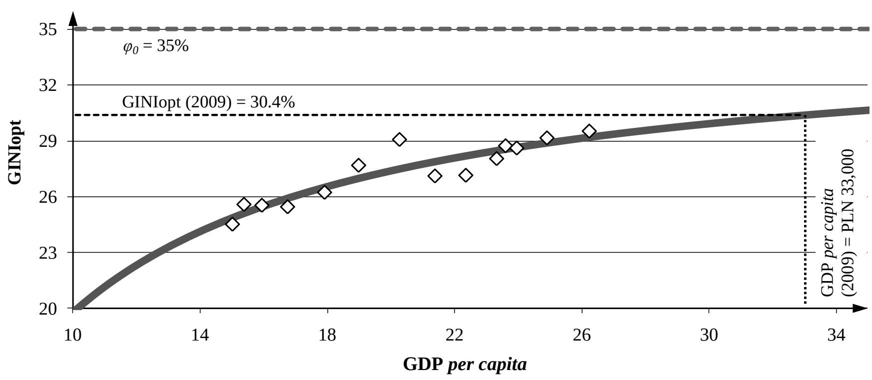

Figure 4. The curve characterising the non-linear dependence between the optimal values of the Gini coefficient and GDP per capita

Note. Based on model (2)'where GINIopt = φ_0 – horizontal asymptote; $GINI_{opt}$ – optimal Gini coefficient, %; GDP *per capita* – level of GDP per capita (in constant 2007 prices, PLN).

[5] This assigning was done on the basis of the best results of multivariate analysis.

The research results of model (2) presented in Fig. 4 allow us to confirm the positive impact of GDP per capita on optimal earnings differentiation. The increase in the optimal values of the Gini coefficient gets increasingly smaller in relation to the level of GDP per capita.

The Gini coefficient, $\varphi_0 = 35\%$, can set the social acceptance threshold for an increase in earnings differentiation (in infinity). As mentioned earlier, for 2005, the optimal value of the Gini coefficient was set at 29.5% (from the 1989–2006 sub-period in Table 1). The difference between the values of the Gini coefficient: maximum, $\varphi_0 = 35\%$, and optimal, 29.5%, is 5.5 percentage points. This difference means that in the following years, with the increase of GDP per capita, the optimal values of the Gini coefficient will grow. For example, if GDP per capita grows by 1.1 thousand PLN per year (as in the last 10 years on average), according to model (2), the optimal value of the Gini coefficient will exceed 30% in 2009. Over the next 30 years, the optimal Gini coefficients could reach 30.5% in 2010, 31.6% in 2020, 32.3% in 2030, and 32.7% in 2040, *ceteris paribus*.

5. Conclusions

In the light of the results obtained, the hypothesis concerning society's habituation to growing earnings differentiation has been confirmed. The optimal Gini coefficients increase with an increase in differences in earnings and an increase in the economic level per capita. This means that acceptance of earnings inequalities is growing in society.

Based on our model, we have set the bound of this growth. The growth of the optimal Gini coefficient is decreasing and convergent asymptotically to 35%. In our opinion, the 35% Gini coefficient defines the long-term social acceptance threshold for an increase in earnings inequalities. In subsequent years in which the level of GDP per capita grows, social acceptance of growing earnings differentiation will become increasingly smaller.

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Economic growth and the optimal inequality of income[1]

Abstract

Inequality of income is one of the significant factors forming social capital. Two views dominate among economists dealing with the influence of income inequality on economic growth.

On the one hand, a too low level of income inequality does not motivate people to increase their labour productivity. Low inequality of income might result from an extended social care system and a GDP burdened with social transfers. A good example may be a situation when an unemployed person refuses to accept a job offer and prefers unemployment benefits to a slightly higher salary. Moreover, a lack of incentives for an employee who fails to acknowledge the economic sense of increasing the productivity of his or her work might lead to a slower growth of the economy.

On the other hand, a contrary view suggests that an increase in inequality of income has a negative impact on the economy. The accumulation of wealth by a small number of citizens raises doubts about the good use of that wealth for the investments necessary for the growth of the economy. Excessive inequality of income is confronted with the disapproval of a significant part of society and is regarded as unfair and unjustified. It may also increase the crime rate, decrease trust and, more generally, lead to the weakening of social capital.

The arguments presented above lead to the hypothesis that the influence of income inequality on the growth of the economy has a non-linear, parabolic character.

We have confirmed this hypothesis in growth models of the US and Swedish economies. We assess the historically optimal inequality of income measured by the Gini coefficient at 46% and 24% for the US and Sweden, respectively. The

[1] The article contains excerpts from the paper of Pawlak and Sztaudynger (2008).

optimal inequality of income for Poland was assessed previously at 29%. The dissimilarities may result from differences in culture, society, educational level and diligence.

Keywords: income inequality, economic growth, optimal inequality

JEL Classification: O15, O47

1. Introduction

Social capital, alongside the classical factors—physical capital and human capital—is an important factor in economic growth. The social capital resource consists of many social and economic phenomena, such as the level of interpersonal trust, trust in institutions, crime, or a sense of belonging to a community.

A sense of belonging to a community depends on whether the community provides security, access to education, and the belief that my income is fair compared to the income of the people I encounter on different planes, not only at work but also in the commercial (seller-buyer) sphere, within the family or in the neighbourhood. A subjective sense of income fairness depends to a large degree on income differentiation. Although income inequality, as such, is not considered to be part of social capital, in our opinion it is a significant indicator of this capital.

We are interested in the results of the verification of the hypothesis that income inequality, socially recognised as relatively "fair", positively influences economic growth. This relative "fairness" will be sought by means of the optimal income inequality model. The selection of the optimum criterion is the key in this respect. In the described research, it was the standard maximisation of economic growth—the growth rate of labour productivity (GDP per employee). One can, however, imagine other criteria of optimality, e.g., maximising the employment growth rate (minimising unemployment) or maximising the quality of life. The latter is unfeasible due to too short time series, but what is most intriguing is how to divide income so that society is most satisfied.

This article will compare the results of separate surveys for several countries. These are the United States, where income differentiation is one of the highest among developed countries, Sweden with one of the lowest levels of income inequality, and Poland.

I will justify the view that the optimal income inequality due to the GDP growth rate is different in the countries studied, which makes it difficult or impossible to use panel data.

The approach used an econometric model of economic growth to which a synthetic measure of income inequality was introduced in a non-linear way. There are two seemingly contradictory views on the direction of the influence of income inequality on economic growth. One of these views presents the positive impact of income inequality, while the other indicates that as the income gap increases, the growth of the economy slows down. An extensive list of several dozen publications confirming one or the other point of view is included in the doctoral thesis of Pawel Kumor (2010).

We believe that obtaining statistically significant assessments of the model to which income inequality has been introduced in a non-linear way allows for the reconciliation of the two views. We think that with insufficient income differentiation, its increase will, through increased labour productivity, accelerate the economy. On the other hand, any further increase in income inequality, when it is already high, will have a negative effect, slowing the economy down.

The following hypotheses were verified:

(1) income inequality has a significant impact on economic growth;

(2) optimal income inequality exists, which is related to both economic efficiency and social justice, and a deviation from this value will bring measurable economic losses—a slowdown in economic growth;[2]

(3) optimal income inequality varies from country to country.

2. Income inequality and economic growth

I analyse economic growth using the labour productivity function. Taking into account the influence of two variables: the capital/labour ratio as well as the technical and organisational level, this function has the following form (Sztaudynger, 2005, p. 15):

$$X_t / L_t = A_t \; f(K_t / L_t), \tag{1}$$

where:

X_t	Gross Domestic Product,
X_t / L_t	labour productivity,
L_t	employment,
K_t	value of fixed assets at constant prices,
K_t / L_t	capital/labour ratio,
A_t	represents the technical and organisational level.

Function (1) can be converted as follows:

$$\overset{\circ}{X_t / L_t} = \overset{\circ}{A_t} + f(\overset{\circ}{K_t / L_t}), \tag{2}$$

where circles over the variables denote growth rates. If, in place of the growth rate of technical infrastructure, we introduce the investment rate, which is often done in growth models, then function (2) will take the following form:

[2] The first two hypotheses have been confirmed for Poland (cf. Kumor & Sztaudynger, 2007a; 2007b).

$$\overset{\circ}{X_t / L_t} = \overset{\circ}{A_t} + f(I_t / X_t)\,, \tag{3}$$

where:

$\overset{\circ}{X / L}$ labour productivity growth rate,

I / X investment rate (investments in relation to GDP at current prices),

$\overset{\circ}{A}$ growth rate of total factor productivity.

The growth model may include several other growth factors: technical and organisational progress, the inflation rate, convergence, as well as social capital or human capital. These variables have not been introduced into model (3); hence they are represented by the growth rate of total productivity denoted by $\overset{\circ}{A_t}$, also known as the Solow residual.[3]

In the analyses of factors of economic growth, social capital is becoming increasingly important. Social capital is defined is defined as the degree to which the organisation of society is characterised by a network of organisations, a set of norms and trust, all of which aid cooperation and provide benefits as well as create the potential to solve social problems (Sirianni & Friedland, 1995). To the aforementioned trust, Sztompka (2002) adds solidarity and loyalty created by connections and networks of contacts. Defining social capital, he emphasises the fact that these organisations are often developed in the process of forming self-governing, voluntary associations and informal groups (pp. 222, 224). He also stresses that mutual benefits not only have an economic and financial dimension but are also related to power and prestige (p. 368).

Gracia (2002) defines social capital as:

> the ability of society to coordinate social entities in the framework of a joint project. Such coordination capacity can only be based on shared social values: on the culture of the common good. (pp. 189–201)

In the definitions quoted, it is emphasised that social capital serves cooperation, organisation or the coordination of society.

Research on social capital has been conducted since the mid-1980s by, among others, Putnam, Coleman, and Bourdieu (Sirianni & Friedland, 1995). Social capital is not directly scalar measurable. The factors that determine it are difficult to measure, which is probably why the variables which indirectly represent this capital started to be introduced into econometric growth models only from the beginning of the 1990s. One such variable is income inequality.[4] Research on the impact of income inequality on economic growth[5] was initiated in 1993 by Galor and Zeira (Ferreira, 1999, p. 8) based on the following model:

[3] It is worth noting that the size of this residual decreases as the number of other growth factors not previously taken into account increases (Solow, 1967, p. 45).
[4] An extensive collection of data on income inequalities in more than a dozen countries can be found on the World Bank website: http://databank.worldbank.org/data/source/world-development-indicators.
[5] The following quasi-reverse dependence is also the subject of interest of economists: the impact of the level of income on income differentiation which can be described by the Kuznets curve (Ferreira, 1999, p. 2). I will not deal with this issue.

$$\overset{\circ}{X/L} = \overset{\circ}{A} + f(I/X, Gini), \tag{4}$$

The Gini coefficient is the measure of income (wage) inequality.

There are two views in the literature regarding the influence of income inequality on economic growth: one with a negative impact and the other with a positive impact.

The view about the negative impact of initial income inequality on the rate of economic growth prevails. The mechanism of this impact can be explained as follows:

(1) the poorer the average (median) voter, the higher the taxes, the stronger the political pressure on the redistribution of income, and the greater the disruptions (the grey zone that violates trust and social capital);
(2) an increase in income inequality leads to social and political conflicts, which negatively affects social capital;
(3) poor people have fewer life opportunities than the rich, and they do not fully realise their economic potential, as they usually do not receive a proper education or bank loans;
(4) poor employees' performance is limited as they cannot imagine that they can be promoted (progress) above a certain level (cf. Persson & Tabellini, 1994, pp. 602–604; Ferreira, 1999, pp. 9–13; Morrissey, Mbabazi & Milner, 2002, pp. 5–7, 17).

A negative impact of the initial income inequality on the rate of economic growth was confirmed by, among others, Persson and Tabellini (1994, pp. 607–608) as well as Barro (2000, pp. 41–42)[6] for developing countries (low GDP per capita).

Some studies, especially those concerning developed countries, show the positive impact of income inequality on economic growth in the medium and short-term (e.g. Barro, 2000; Dollar & Kraay, 2002, pp. 195–225;[7] Morrissey, Mbabazi & Milner, 2002, p. 7;).

A positive impact may occur when there is insufficient remuneration (or excessive taxation) for the most industrious and effective individuals in the process of GDP creation. Small income differentiations would suppress any motivation for more efficient work. Therefore, increasing income inequality, when it was too small in the base period, will result—in my opinion—in productivity growth.

"Reconciling" these divergent results of econometric research is possible if we use a non-linear function with the maximum to describe the relationship between income inequality and economic growth. It will then be possible to determine the optimal level of income inequality $Gini_{opt}$, in terms of maximising economic growth—GDP growth per employee (Cornia & Court, 2001; Sztaudynger, 2003, pp. 76–77).

[6] Barro assumed that the income inequality parameter would increase along with the GDP logarithm. On a panel data sample, he obtained a negative income inequality parameter estimate which grows along with an increase in GDP.

[7] Dollar and Kraay refer to the research of Forbes (2000) as well as to the research of Li and Zou (1998).

3. Justice and efficiency

Income inequality in a market economy seems to be obvious and natural. For example, it is generally accepted that a better-educated employee with specialist knowledge, more professional experience or a managerial job is better paid than an employee without an education or specialisation, with shorter seniority or who is in a job not connected with accepting a great deal of responsibility.

This situation motivates the personal development of individuals. Employees interested in improving their financial situation devote more time to expanding their professional competences, acquiring specialist knowledge, developing new skills, or learning about modern technologies. By doing so, they are able to do the same job in a shorter time or achieve better qualitative results. On the macroeconomic scale, this means an increase in labour productivity in the economy and, as a result, also a higher level of domestic product, even when employment remains unchanged. It seems, therefore, that optimal income inequality can have a significant impact on bringing the economy closer to the level of potential output.

What happens, however, when income inequality is not seen as fair? Can the unfair— in social perception—distribution of income in the economy be effective on a macro scale? These questions lead to seeking methods for their empirical verification.

We believe that both too low and too high income inequality causes economic losses, deviating the economy from its potential growth. This situation can be seen in the figure 1.

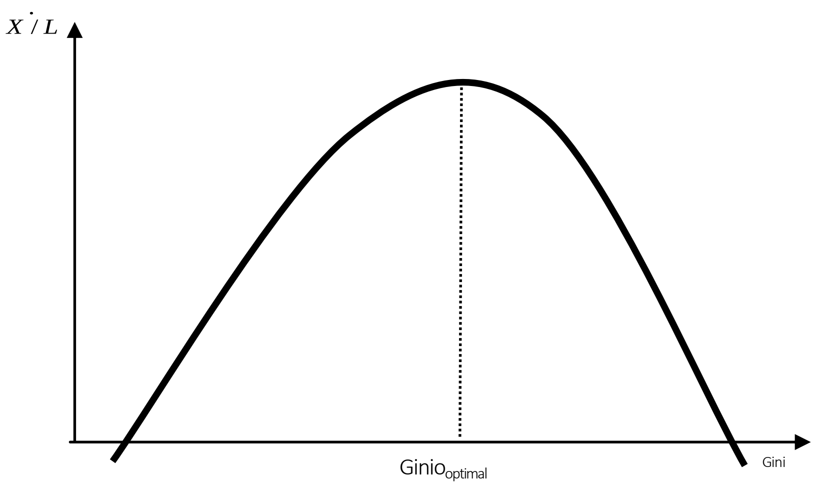

Fig. 1. Economic growth as an income inequality function

Note. Adapted from "Inequality, growth and poverty in the era of liberalization and globalization," by G. A. Cornia and J. Court, 2001, Helsinki, The United Nations University WIDER, and "Modyfikacje funkcji produkcji i wydajności pracy z zastosowaniami," by J. J. Sztaudynger, 2003, Łódź, Wydawnictwo Uniwersytetu Łódzkiego.

Increasing income inequality when it is smaller than $Gini_{optimal}$ helps to accelerate the economy. In turn, increasing income inequality when it is greater than $Gini_{optimal}$ has the opposite effect. When income inequality is lower than optimal, employees with high development potential, well-educated specialists, feel that they are not remunerated well enough. The income they receive does not differ significantly, in their opinion, from the income of employees with lower professional qualifications. As a result of the lack of sufficient motivation, they will not use their full potential, and therefore aggregate production in the entire economy will be lower than the potential production.

This situation may be caused by a tax system that is too restrictive in relation to people earning the most, which will limit their production and investment activities. The effect is similar, as the domestic product will remain at a level lower than the potential GDP it is possible to achieve when there is fair (optimal) income inequality.

Now let us consider the situation when income inequality is higher than optimal. Employees with lower incomes begin to feel psychological discomfort. In their opinion, income inequality is unfair. The difference in earnings between the group of the worst and best earners is so great that it cannot be explained by the difference in the level of education, predispositions or professional qualifications. Therefore, income inequality ceases to be a motivating factor to increase labour productivity in this group of employees.

This may mean that the tax system is too liberal, and the group of the least-paid is a beneficiary of transfers of public funds to an insufficient degree. This causes unrest, social conflicts, and makes populist parties opt for the quick equalisation of income. In the economic sense, this leads to the situation when the group of least-paid earners is not involved enough in the creation and distribution of the domestic product.

What is optimal in terms of the economy, and at the same time socially just, is the differentiation of income in which all individuals—the less able and professionally active as well as the most entrepreneurial—participate to a similar, high degree in the economic development, engaging their physical and mental capabilities.

The level of social acceptance of income inequality may vary from country to country.

Figure 2 presents income inequality measured by the Gini coefficient in the United States and Sweden as well as income inequality in Poland.

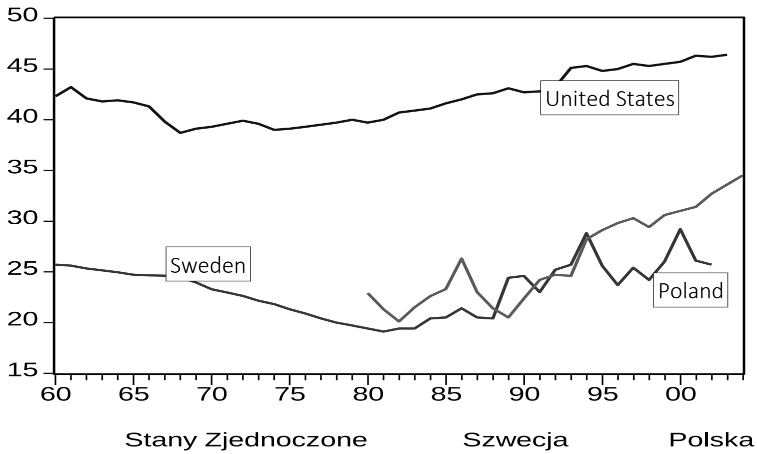

Fig. 2. GINI income inequality in the United States and Sweden, wage inequality in Poland

Note. Adapted from World Income Inequality Database V 2.0a by United Nations University, World Institute for Development Economics Research, 2005 (for USA and Sweden) and "Nierównomierność rozkładu płac," by P. Kumor, 2006, *Wiadomości Statystyczne*, *9*, 1–12 (for Poland).

4. Optimal income inequality

In model (4), estimated for the United States, Sweden and Poland (Pawlak & Sztaudynger, 2008), we have confirmed the hypothesis about the non-linear, parabolic impact of income inequality on economic growth.

It turns out that the optimal income inequality for Sweden is almost twice lower than the optimal income inequality for the US economy. This situation is presented in the figure 3.

In the case of Sweden, the optimal income inequality, measured by the Gini coefficient, is 23.9% over the period 1964–2002. For the United States, the income inequality at the level of 45.7% should be considered optimal over the period 1964–2002. In Poland, the optimal wage inequality was estimated at approx. 29% (1985–2007) (Kumor, 2010, p. 145).

We believe that such wage inequalities best correspond to the social sense of pay differentiation justified by differences in effort and contribution (education, qualifications, work complexity and diligence) in the creation of GDP.

Income inequality, measured by the Gini coefficient, for developed countries, is usually within the range of 25% to 40%. The United States and Sweden are therefore unusual in this respect.

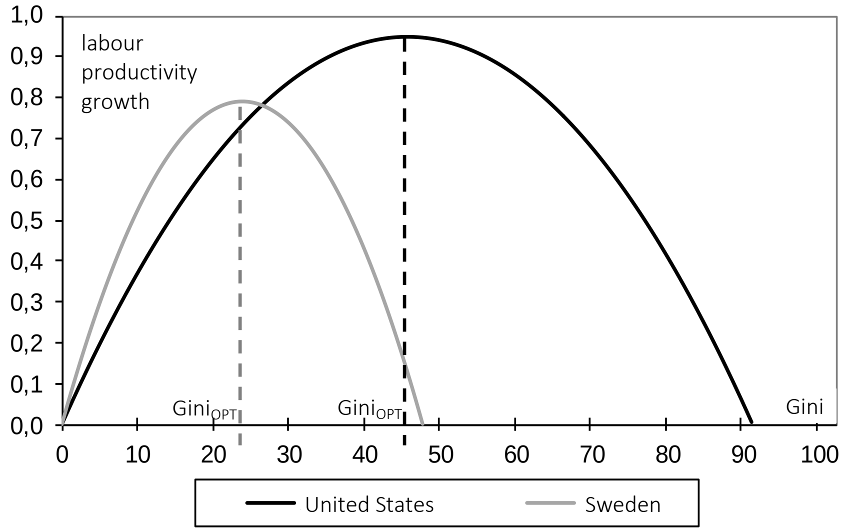

Fig. 3. The rate of labour productivity growth and income inequality

Why is there such a disproportion between the optimal income inequality in the United States and Sweden? We think that this results, first and foremost, from cultural and social differences. Sweden is known for its social equality policy, while the United States is a country where there is a significant hierarchical order of society.

In the United States, although equality formally exists, there are still significant differences between white and non-white citizens in the sphere of education and wealth. These differences are largely inherited by subsequent generations. Sweden is a more homogenous country when it comes to the colour of the skin or the origin of its inhabitants. Immigrants appeared when a strong attitude towards the equality of citizens had already developed in society.

With the optimal income inequality, we can estimate the losses incurred by the US and Swedish economies due to the deviation of income inequality from the optimum.

5. Conclusions

The research results confirm the hypothesis about the influence of income inequality on economic growth. By introducing income inequality into the model of economic growth in a non-linear, parabolic way, the value of the optimal income inequality for the economies of the United States, Sweden and Poland was calculated.

If we conclude that the research results are reliable, we can say that the analysed economies, due to their suboptimal income inequality, lose almost 1 percentage point of their growth rate annually. On average, this means a slowdown in the economies of approx. one third. It is worth realising what a big loss the economy incurs if the economic policy of a country does not take into account such a significant measure of social capital as income inequality.

Our research shows that the optimal income inequality in the United States is almost twice as high as in Sweden. The optimal inequality in Poland is a few points higher than in Sweden. The reasons for these differentiations are to be found in educational, cultural and social differences.

To a large extent, such large differences hinder research on the basis of panel data samples, and in many cases even undermine their rationale.

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Family and economic growth in Poland New estimation results*

Abstract

Economic growth is mostly explained by investments and employment growth. Since the mid-1990s various social categories have been introduced into the economic growth analysis, such as trust, crime and income inequality, etc.

According to sociology and psychology, it is the family that constitutes interpersonal relationships and is an indicator of happiness and quality of life. It can be said that happy people better fulfil their social roles and also work better. We put forward the hypothesis that family ties have an influence on economic growth. More precisely: the more divorces (relative to existing marriages) there are, the slower economic growth is.

This hypothesis was confirmed in an analysis of Poland's economy in the years 1995–2017. Due to the disintegration of family ties measured by the divorce rate, Poland's annual economic growth was slowed by about a 1 percentage point on average. This estimation is based on the productivity (GDP to labor ratio) growth model which, along with the divorce rate, also includes the investment and new marriage rates.

Keywords: economic growth, family, Work-Family Balance, econometric model, marriage, divorce

JEL Classification: A13, C01, O11, O41, O47

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To My Loved Ones – My Family

1. Hypothesis: unstable families—a slowdown in the economy?

An important component of social capital is family social capital, i.e. family ties capital. Family capital, so far, has been sporadically introduced into econometric models of economic growth. As if society was important, and the family—the immediate environment—less important or even not important at all.[1] I attempt to use the statistics of marriages, divorces and fertility as measures of family social capital. Then the links between these categories and economic growth are examined.

Parallel considerations of family and economy constitute a formalised, model look at Work-Family relations. My main hypothesis assumes the dominance of balance over conflict. In model terms, it is the hypothesis about the dominance of balance, i.e. that a well-functioning family fosters the economy and vice versa. The parameters describing these interactions should be positive.

I believe that an analysis of the economy separated from the family is an oversimplification. This is not a new point of view, as already Adam Smith (2006), referring to the stoic idea of proper conduct and Aristotle's concepts, said that:

> among those primary objects which nature had recommended to us as eligible, was the prosperity of our family, of our relations, of our friends, of our country […]. (p. 250)

The most lasting relationships that connect people are family ties, i.e. the ties between spouses, parents and children, grandparents and grandchildren, and siblings. The permanence and importance of family relationships stem from tradition, culture, religion and the institution of marriage.[2] The permanence and strength of parents' relationships with children additionally depend on organic maternal and paternal ties.[3] We love (or hate) most often and in the most lasting manner and we are loved (or not) in the family, the quality of our lives, as well as a sense of happiness and security are dependent on family ties.[4] It seems that relationships with people outside of the family circle are weaker and cannot replace family ties,

[1] One can guess that this incorrect gradation of importance is a result of the conviction that the strength of family ties is not suitable for statistical measurement.

[2] Kocik (2006) points to the fact that "the institution of marriage and family has often been more important than religion, ethnicity, civic background or nationality, as they have been changed for the sake of sanctioning of the marriage and family" (p. 60).

[3] Similarly, one can see the role of such ties in the relationship between grandchildren and grandparents.

[4] Smith (2006) states that "[a]fter himself, the members of his own family, those who usually live in the same house with him, his parents, his children, his brothers and sisters, are naturally the objects of his warmest affections" (p. 198). Zubrzycka (1993) justifies the importance of love in the family by saying that love creates the readiness for mutual understanding and respect, allows one to provide and feel a sense of security, and generates loyalty in sharing work and responsibility (p. 95). Adamski (2002) claims that above all in the family man can satisfy *the need for feelings* and this has a huge impact on people's attitude and life activity (pp. 41–42).

due to a lack of "irrevocable" kinship and institutional character, as well as weaker cultural and religious support of their permanence.

The basis of the family is marriage.[5] Sources of family permanence are derived mainly from the unbreakable nature of blood ties and the legal institutionalisation of marriage. The permanence of marriage is strongly supported by tradition, culture and, especially in Poland, by religion.[6] Catholic religion gives marriage the rank of an indissoluble sacrament. John Paul II in *The Letter to Families* (1994) emphasised that man "cannot ʻfully find himself except through a sincere gift of self.ʼ […] The gift of the person must be lasting and irrevocable" (p. 11).[7] In a context wider than the one related to the family, John Paul II asked: "Can an individual find complete fulfilment without taking account of his social nature, that is, his being ʻwithʼ and ʻforʼ others?"[8] A family breakdown, and in the extreme case, a divorce, is a crisis in the life of each of the spouses and their loved ones. It is the crisis of family now and in the next generations, the crisis of humanity.

Kocik (2006) states that the family "[…] links the human being in all phases of life with society, culture, nation, and social class. It motivates economic, social and cultural activity, it shapes the personality traits of man" (p. 58). Similarly, Tyszka (1980, quoted after Kocik, 2006, p. 59) writes that the micro-world of the family is integrated into the system of general social, economic and cultural processes of a given country.[9]

> […] married people are happier than single ones, have higher incomes, experience warmth and emotional support, [...] live longer than single people. (Slany, 2003, pp. 41–42)

> […] ʻA good familyʼ creates the best environment for primary, deepest socialisation, being an irreplaceable source of a sense of security and stability for an individual, as well as an inspiration for development and self-realisation. (Kocik, 2006, p. 314)

[5] A traditional family consists of spouses and their children (also adopted); as well as people related by affinity or consanguinity. Attempts are made to extend the scope of the family concept to include cohabitation. In English, the concept of the family is more akin than in Polish to the concept of household.

[6] The role of religion was already emphasised by Smith (2006): "[…] The administration of the great system of the universe, however, the care of the universal happiness of all rational and sensible beings, is the business of God and not of man. To man is allotted a much humbler department, the care of his own happiness, of that of his family, his friends, his country" (p. 215).

[7] *The Letter to Families* is not of a scientific nature, it is cited as an illustration of the position of the Catholic Church, which significantly affects people's attitudes. The importance of the family is in fact smaller for people who declare a low participation rate in religious practices. Cf. Centre for Public Opinion Research, 2008, p. 5.

At the turn of the 20th and 21st centuries, strong attacks on the institution of the family were carried out at the UN forum. In the documents of UN special sessions, attempts were made, among others, to replace the word *family* with the word *partnership*. An important role in blocking these attempts was played by representatives of Poland. Cf. Kropiwnicki, 2008.

[8] The question was asked by John Paul II during the celebration of the World Day of Peace in 2005 (p. 3). Cf. Bauman, 2007, pp. 357–358.

[9] Kocik (2006) adds that "the analysis of family life cannot be limited only to matters within the family but must also concern the external relations of the family—its embedding in society, its structures, processes and culture" (p. 59).

In the four above-mentioned statements, the motif of the relationship between the family and the economy as well as the development of an individual—the development of human capital in the long run—can be seen.

Already Smith (2006) claimed that the permanence and importance of the family are diminishing due to the development of civilisation associated with the growing legal protection of man of even the "most humble station" (p. 277).

A modern attempt to describe the decline in the importance of the family is the theory of the second demographic transition (dating back to around 1960). This transition consists in an individual's pursuit of self-realisation and autonomy, the rejection of traditional values for the benefit of the liberal ones, the improvement of the living conditions of the population as a result of the development of services and technical progress. This improvement of living conditions, among others, makes life easier on one's own and reduces the interdependence of family members. As a result of the second demographic transition "[…] the family and child are less important than a couple or an individual." The increase in the importance of alternative relationships for the family is evident (Slany, 2003, p. 31).

We will measure decreasing family capital by the ratio of divorces to existing marriages.[10] We treat this relationship as an indicator of:

(1) unstable family,
(2) weakening of family ties (family capital),
(3) weakening of family and social cooperation skills (including economic and professional ones),[11]
(4) increasing uncertainty and risk in people's lives,[12] as it is impossible to fully replace family ties by the relationships with people outside the family circle.

In Poland, in the years 2016–2017, approx. 190,000 marriages, 40,000 less than at the beginning of the 1960s, were concluded. On the other hand, the number of divorces increased in this period three and a half times from approx. 18,000 to 65,000.

Not every divorce reduces family social capital. When there is a long-term conflict between spouses, when the marriage does not sufficiently fulfil important functions, when it does not provide attention, safety, and care, and it does not satisfy emotional needs, a divorce is a lesser evil than staying in marriage at any price.

In practice, determining the line beyond which the spouses should divorce is infinitely difficult. This difficulty results from the need to take into account the interest

[10] As the number of couples who live together outside a formal relationship (cohabitate) grows.

It can also be argued that 40% of such couples become married (in the USA, according to Castells, 1997). Of these marriages, up to 50% end in divorce (cf. Slany, 2003, pp. 43–44). Hence, it can be assumed that one of the reasons for the growing phenomenon of divorces is a rising popularity of cohabitation which results in less durable marriages. Slany (2003) notes that cohabitation unions are not invested in (emotionally and materially, including children), whereas "[…] in the case of marriage, there is certainty that the investment is legally and socially protected" (pp. 44, 49).

[11] Paweł Starosta drew attention to this aspect during a conversation we had on November 19, 2008.

[12] "The family has an enormous social value [...] as a factor stabilising individual and social life" (Kocik, 2006, p. 63). The family's tasks include, among others, "[...] providing all of its members with a sense of security and respect" as well as appropriate material conditions (cf. Zubrzycka, 1993, p. 97). Both tasks are very important for the effective participation of people in the creation of the domestic product.

of all family members, including children,[13] not only during the divorce, but also later—until the end of their lives, and even the lives of the next generations.

We put forward the hypothesis that the weakening of family ties, measured by the frequency of divorces, resulted in a slowdown in economic growth in Poland.[14] We will verify this hypothesis using an econometric growth model in which there are also other variables: investments, inflation and crime.

2. Family social capital

Social capital can be described as the potential resulting from the closeness of interpersonal relations and the strength of social bonds which serves social interests, and not only group or individual interests.[15] Social capital is only partially measurable using many categories. Putnam (2000) distinguishes 14 such indicators and states that trust in other people dominates among them. It dominates in the sense that it is the most strongly related to other measures. The impact of trust on economic growth has been confirmed by Zak and Knack (2001).[16]

Many researchers have studied the impact of income inequalities on economic growth. If income inequality is not consistent with a sense of justice of a major part of society, it has a negative impact on interpersonal bonds and cooperation of people in economic processes. It seems very interesting to seek to determine the income inequal-

[13] The interest of children is particularly difficult to determine, especially when children are not grown up. Then adults try to express the interest of children, as a result this interest is not usually sufficiently represented (cf. Wallerstein & Blakeslee, 1989).

[14] Several discussants (e.g. Czyżewski) rightly see the need to explain also the divorce rate, i.e. the need for an analysis of a mutual impact between a family breakdown and economic growth. The results of estimating the inverse relationship are included in Appendix 1. The divorce rate was positively significantly related to the Gini coefficient (wage inequality) with lags of two, three, and four years, as well as with GDP per capita, and negatively correlated with GDP growth per capita lagged by two, three, four, five, and six years). Cf. "Divorce and Economic Growth…," 2008.

[15] The line between the group and social interest is very difficult to draw practically. The social interest, it seems, can be identified with the common good. Following Gryżenia (2007), the common good will be understood as "[…] integral and full development of [each—J.J.S.] human being, realised in shared life, taking into account and using material resources", i.e. the conditions and limitations of social life. Human development, in the framework of the common good, provides man with knowledge, love and freedom. "Full development, both physical and mental, can only be achieved in the framework of participation in social life. [...] Members of society united by a common goal, renouncing a certain range of rights, gain other goods that they could not achieve without social coexistence."

A special common good is the national common good, which, I think, in economic terms is closely related to economic patriotism (cf. Koźmiński, 2008). According to Koźmiński, this patriotism should be based on building a competitive advantage, not on protectionism.

The family is the cradle of patriotism and the common good. Both these values are passed from generation to generation. It seems that economic patriotism consists in striving for the economic development of the country (nation) in the long-term, among others, to ensure the well-being of one's own family, also in the perspective of the next generations.

[16] Zak and Knack's research was based on a sample of 32 countries. Their growth model is described in Sztaudynger (2005, pp. 72–74).

ity which is optimal for economic growth (more in Chen, 2003; Cornia & Court, 2001, pp. 23–24; Sztaudynger, 2003, pp. 68–71).[17]

Another measure of negative social and moral capital[18] is a crime, whose impact on economic growth in Poland has been confirmed (more in Sztaudynger & Sztaudynger, 2005, pp. 68–71). The influence of a typical social capital indicator—voter turnout—on economic growth in the territorial system has been also verified (Paszkiewicz, 2009).

Henderson has even introduced the term *love economy*, based on various forms of altruism, voluntary work, social and family cooperation, selfless care for children, elderly and sick people, respect for the natural environment and the rights of future generations, as well as protection of resources—human and natural ones (Pietila, 1997). Love is understood in this respect as a willingness to selflessly serve other people.[19] The love economy is realised mainly in households, and its "products" include, among others, strong family ties as well as physical and mental health of family members.

The love economy is based primarily on social capital, and to a lesser extent on money and financial capital. Man's goal and success are not primarily wealth and profit, but gaining lasting, good relationships and ties with other people,[20] among others, with family members. *Homo oeconomicus* does not take on the superior role. Smith (2006) emphasised this in the initial period of man's activity:

> How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. (p. 11)[21]

In surveys, Poles were asked about the most important values they followed in everyday life. "Family happiness" was indicated more than four times often

[17] Research for Poland, the USA and Sweden indicates that the income inequality optimal for growth was almost twice as high in the USA as in Poland and Sweden (Kumor & Sztaudynger, 2007; Sztaudynger, 2018). In Poland, wage inequality has been increasing since 1991 and at the end of the 1990s exceeded the optimal level for growth (Cf. Kumor & Sztaudynger, 2007). Kowalik and Kozłowski (2007) emphasise that "Polish capitalism creates wealth for some, but it destroys society. In this sense, it is deeply immoral" (p. 15).

[18] We will not deal with moral capital that characterises individuals. Moral capital consists of such features as justice, beneficence and temperance (cf. Ratnapala, 2003), as well as honesty and truthfulness, fulfilment of the agreements and keeping one's word, reciprocity in relations with others and remembering about one's duties (cf. Kochanowski, 2002, pp. A8–A9). If each of the cooperating persons is characterised by a high level of moral capital, it contributes to social capital.

[19] Combining love with creativity seems interesting: creativity should be "understood not only as artistic or scientific activity, but as man's entire fulfilment in love as a person." The self-realisation of a person is the pursuit of something "new," "non-existent yet." (Przesmycki, 2002, p. 176).

[20] That is why, I think, John Paul II said: "earn a heavenly account, not an earthly bank account" (quoted after Półtawska, 2005, p. 25).

[21] According to Twardowski (2007) "all sainthood consists in a fight against selfishness. This is a lifelong battle for the rest of your life, as it is extremely difficult not to think about yourself" (p. 257).

Janina Filek (2009) points out that Smith as "the creator of economics defeated the philosopher of morality, and the victorious attitude for eternity set a certain pattern of thinking about man (as *homo oeconomicus*) and determined the objective relation of man to man". Above I have sought to present Smith's moralising views.

than "prosperity and wealth".[22] This can be treated as confirmation of the dominance of the love economy. "For real happiness, man needs a family"—92% of Poles say that, and only 6% think that without a family, one can live happily (Centre for Public Opinion Research, 2008, p. 3).[23] It is not surprising then that Poles value the family the highest among all values, that it is the most important life goal (Kocik, 2006, pp. 73–76).

Family social capital (family capital) is understood as the ties between family members that serve their cooperation and are not at odds with the social interest. These ties are expressed in attitudes of respect, trust, love, interest, help and care for family members.

Becker (1976) created the economic theory of the family. He emphasised that such characteristics as honesty, reliability, solidarity, the capacity for cooperation and sacrifice, diligence, and fondness for order are formed in the family. Similarly, Fukuyama (1995) claimed that an environment that is particularly conducive to the emergence of trustworthy people is a well-functioning family. All these features are very useful in economic activity.

3. Several reasons for divorce

The destabilisation of the marriage and family is a result of general changes in values: from the traditional values such as a call for duty to the values of self-fulfilment (Mariański, 1997, p. 78).[24] The role of a woman has been dismantled, and her expectations of an equal position in her professional life and in married-family life have been aroused but not satisfied (Mikołajczyk-Lerman, 2006, p. 29).

> In the emerging divorce mentality, marriage is not understood as a life-long choice but as a contract [...] on the mutual provision of services that can be terminated at any time. To some extent, it is an extension of the consumption mentality to marriage and family […] and perceiving them as one of many "things" that one can have or not have, according to one's preferences […]. (Mariański, 1997, p. 75)[25]

[22] The respondents were able to point out some of the most important values they followed in everyday life. 78% indicated family happiness, and 18% prosperity and wealth (Centre for Public Opinion Research, 2008, p. 3).

[23] This was clearly expressed by an actor Jan Nowicki who said that "[…] there was no time for people […] I paid the highest price for it—I paid with loneliness. A lack of pleasure derived from contact with family" (Jagas, 2008, p. 82). Kępiński (2015) wrote that "the joy of life is brought solely by giving love" (p. 92). Stuhr (2008) claims that: "[…] the family taught me and still teaches openness […]" without it "[…] I would be a terribly hollow man" (pp. 258–259). And he writes about the strength the family has given him.

[24] Rosset's monograph *Rozwody* [*Divorces*] (1986) has made a great contribution to the study of the family crisis.

[25] Similarities to buying on a whim consumption can be found here.

Mariański (1997) calls this phenomenon the mobility of marriage and family. "A marriage is concluded not so much according to the criterion of 'till death do us part,' but rather 'temporarily,' as long as love and affection continue" (pp. 74–75).[26]

The weakening, disintegration, deinstitutionalisation of the family allows for relatively free decision making, but they do not protect against doubt and uncertainty (more in Mariański, 1997, p. 68 et seqq.).

In the post-modern world, there occurs the deinstitutionalisation of marriage, which "[...] ceases to be the only authorised 'place' of sexual activity (the separation of sex from marriage). The protest against sexual taboos is made in the name of freedom, progress, autonomy, self-expression, self-fulfilment, social reform, the abolition of restrictions and control. For some, it provides the evidence of the unlimited sexualisation of culture, the perpetuation of unlimited freedom, a lack of responsibility, dangerous individualism, the sign of the gradual disintegration of family life, and its decadence, while for others it is the pursuit of normality, and even a yardstick of postmodernisation" (Mariański, 1997, pp. 75–76).[27]

Becker (1990, p. 411) believes that the tendency to divorce is the greater the smaller the importance of "specific investments", including children[28], acquired knowledge of the partner's habits and views.

Mariański (1997, p. 78) formulates the thesis that deinstitutionalisation processes affect the marriage more than relationships between parents and children. However, this thesis raises some doubts. Although couples more often live together without marrying, a number of institutions replace parents and often weaken their relationships with children (nursery, kindergarten, summer camps, extracurricular education institutions, orphanages, retirement homes, nursing homes, etc.). Parents, devoting time to themselves—their professional career, hobbies, recreation, education—are willing to entrust children to these institutions. Similarly, later, adult children devote time to their own pursuits and not to their old parents, placing them in care homes for seniors. Also, the pension system provides income for elderly people, making them independent from their children's material help.[29] It can be said that there is a **substitutional institutionalisation** in relation to the institution of family, especially with regard to its caring functions.[30] Replacing the family in its functions makes it seem less needed. It is easier then to make a decision about divorce.

[26] Other term would be "the unstable of marriage and family."
[27] The estimate of the proportions of both attitudes is provided by a survey conducted in 2006 among French single men aged 18–65. Over half of these men dream of a lifelong relationship with a woman. Only 11% of the respondents indicated casual affairs (Grabowska, 2008, p. A23).
[28] The specificity of such investments lies in the fact that in the case of separating a child from one of the parents, the pleasure felt by the child is smaller (Becker, 1990, pp. 432–433).
[29] Andrzej Kacprzyk drew my attention to the role of the pension system (cf. also Kocik, 2006, p. 358).
[30] The analysis of the choice between supporting the family or developing the institutions taking over its functions was carried out by Kropiwnicki (2002, pp. 330–331).

4. Several consequences of divorce

Giddens (1991) emphasises that after a divorce many people

> […] lose confidence in their own judgements and capabilities, and may come to feel that planning for the future is valueless. They sense that life gives hard knocks and is essentially unpredictable; they conclude that the best-laid plans go awry and become discouraged about setting long range or even short-range goals, much less working towards these goals. (p. 17)

According to Wallerstein and Blakeslee (1989), the effects of divorce and their durability are underestimated. Most often a divorce improves the situation of at most one of the ex-spouses (more often a man). One of the most important, unexpected by the authors, conclusions is that the biggest losers are the children. "Children of divorce grow up with the notion that love can be transient and commitment temporary, but all children—even those raised in happy, intact families—worry that their families may come undone as well" (p. 307).[31]

Divorced people usually earn less than working people with similar qualifications and positions. Lower earnings result in lower saving rates. In addition, saving rates decrease with the lower number of people in the household, which is a consequence of the divorce.[32] A decrease in saving rates leads to a fall in investment, which in turn slows down economic growth.

The social status of a divorced man is worse than the status of a married one and a bachelor, although better than a divorced woman (cf. Gapik, 1989, quoted after Mikołajczyk-Lerman, 2006, p. 54). The fall in the status of divorcing spouses can be explained by their failure to fulfil a very important, if not the most important, role in life. This limits the trust of other people in them and in whether they will be able to meet other important social, professional and family roles.

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[31] 52 families—ex-spouses and their 110 children—were surveyed in California in the years 1971–1983. For over 90%, it was the breakup of their first marriages. The study was conducted during the divorce period and then five and ten years after the divorce.

I would like to quote the final part of the book written by Wallerstein and Blakeslee (1989, p. 308): "When six-years old John came to our center shortly after his parents' divorce, he would only mumble, 'I don't know.' He would not answer questions; he played games instead. First John hunted all over the playroom for the baby dolls. When he found a good number of them, he stood the baby dolls firmly on their feet and placed the miniature tables, chairs, beds, and eventually all the playhouse furniture on their heads. John looked at me, satisfied. The babies were supporting a great deal on their heads. Then, wordlessly, he placed all the mother dolls and father dolls in precarious positions on the steep roof of the dollhouse. As a father doll slid off the roof, john caught him and, looking up at me, said, 'He might die.' Soon all the mother and father dolls began sliding off the roof. John caught them gently, one by one, saving each from falling to the ground.
'Are the babies the strongest?' I asked.
'Yes,' John shouted excitedly. 'The babies are holding up the world.'"

[32] Liberda (2000) indicates how the saving rate in Poland grows with the increase in income and the increase in the number of people in the household (pp. 87–91).

Divorce is most often associated with the restriction of parental functions of one or both parents. And yet spouses, or former spouses, never cease to be parents. This limitation of parental functions violates the child's right to live in a full family, which, in my opinion, may be considered as a violation of the child's dignity.[33] Bauman (2008) states that:

> […] the life worthy of a human being and the respect a human being is entitled to due to its humanity constitute the highest value that cannot be overridden or compensated for by any other values, even the richest and the most diverse ones; also, and mainly because all other values are values in so far as they serve human dignity, its defense and cultivation. (p. 338)[34]

The above-presented considerations make us hypothesise that a stable family is a necessary condition for stable economic growth due to the fact that:

(1) it exerts a medium and long-term impact on adult working family members; we will attempt to capture this impact in the econometric model;
(2) it exerts an intergenerational impact[35]—on children[36] (more than long-term, multi long-term one); this impact will not be described in our model, as this would require the use of long-term (5–10-year) data from many countries as well as a longitudinal and cross-sectional sample.

We hypothesise that the weakening of family ties, measured by the intensification of the divorce phenomenon, has resulted in a slowdown in Poland's economic growth.[37]

5. Divorce relationship to existing marriage

The intensification of the divorce phenomenon will be measured by the ratio:

$$divr = div / mar$$

[33] Bauman (2007) emphasises that "dignity is a human invention. Dignity is man's humanity" (p. 336).
[34] Półtawska links dignity with honour and faithfulness, adding: "yet without faithfulness there is no trust" which allows a person to live. In her opinion, family abandonment is a disaster for everyone (2005, pp. 11–12).
[35] At the 8th Congress of Polish Economists in November 2007, Sadowski recognised a lack of intergenerational analyses as the main weakness of economic sciences. I think that the lack of such analyses is not accidental. In intergenerational analyses, the long-time that passes between cause and effect makes it very difficult to carry out the empirical verification of relationships.
[36] This is referred to as "investments in children" (mentioned, among others, by Slany). The period of such investment is usually from 15 to 25 years (from birth to undertaking employment by the child). These investments determine the level of a young person's education, physical and mental health, as well as material resources and the image of the family and family name (family and social capital). A family breakdown and divorce limit all these investments. This means that a young person starts work from the level of lower social and human capital, and thus generates lower production (the comment made by J. M. Sztaudynger).
[37] Next, we intend to examine the strength of family ties measured by women's fertility. Both of these measures are subject to certain fluctuations, having a source in demography—in the differences in the population number of successive generations.

where:

div the number of divorces in thous.
mar the number of existing marriages in mil.
divr divorce rate i.e. number of divorces on 1000 existing marriages.

Divorce rate depends on the age structure of the population and changes in the divorce law. It takes values from the two to nine range.

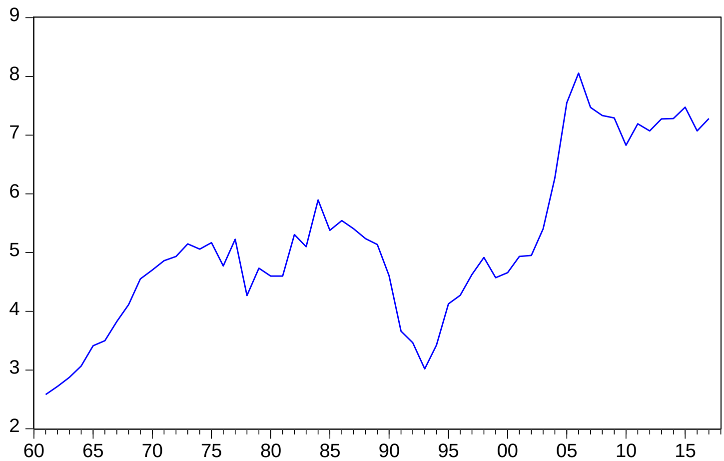

Figure 1. Divorce rate

Note. Adapted from the Central Statistical Office of Poland data.

The graph shows the family divorce rate in the years 1960–2016. The following stages can be distinguished:

(1) the first period of growth until the mid-1970s,
(2) the period of stabilisation:1975 to the mid-1980s,
(3) the period of decline: from the mid-1980s to 1993,
(4) the only period of rapid growth from 1994 to 2006,
(5) a small decline and stabilization from 2007 to the end of the investigated period.

6. Family social capital and the economic growth model

The impact of the divorce rate on economic growth is examined based on the labour productivity function:

$$(\overset{\circ}{GDP/L})_t = \overset{\circ}{A_t} + \beta(invest/GDP)_t - f(divr),$$

where:

GDP	gross domestic product,
L	labor (number of persons employed),
GDP/L	GDP per person employed,
$invest$	investments,
$invest/GDP$	investment rate—gross fixed formation as a percentage of GDP,
$divr$	divorce rate,
A	total factor productivity.

To smooth agriculture fluctuations I use endogenous variable as two years average. In the similar manner all other variables were transform to two or more years averages.

$$(G\dot{D}P/L)_{t,t-1} = 0.13\Delta(invest/GDP)_{t,t-1} + 0.74\sum_{i=1}^{i=4} divr_{t-i} - 0.03(\sum_{i=1}^{i=4} divr_{t-i})^2 + 0.16(marriar_{t-1} - marriar_{t-7})$$

$R^2 = 0.882$ $S_e = 0.60$ DW = 2.12

where:

$marriar$	marriage rate, i.e. number of new marriages on 1000 existing marriages

dots mean growth rates.

The values of Student's t-statistic are above 2.6, so all structural parameters are significant with probability 0.98 or higher.

The divorce rate was introduced parabolically. This allowed me to determine the rate of divorce optimal for economic growth.

Equation confirms the negative impact of the disintegration of family social capital on labour productivity. The divorce rate occurs with a lag of one, two, three and four years. On average, in the considered period, the slowdown amounted to approximately 0.6 percentage point. The real average labour productivity growth rate in the analysed period was of the order of 3.3%. From the model, it follows that if the family disintegration had not been growing, the rate would have amounted to approx. 3.9%.

This model shows the effects of an increase in the divorce in Poland in the years 1995–2017. If the divorce had not been increasing since 1995 (it amounted to 38 tous. and to 65 tous.in 2017), in 2017 GDP would have been approx. 25% higher. This means that as a result of the growing divorces between 1995–2017, six years of dynamic economic growth have been lost.

I am particularly interested in the components that link parabolically an increase in labour productivity rate with the divorce rate:

$$(G\dot{D}P/L)_{t,t-1} = 0.74\sum_{i=1}^{i=4} divr_{t-i} - 0.03(\sum_{i=1}^{i=4} divr_{t-i})^2$$

The parabola reaches the maximum for the divorce rate of 4.1. In the years 1995–2017, the slowdown in economic growth due to a significant increase in the divorce rate seem to be overestimated. This can be explained by the assumption that the optimal divorce rate was constant over time, while it can be assumed that it shows a tendency to increase as the role of marriage decreases.

7. Conclusions

The weakening of family ties and divorces belong to the sphere of the private life of every human being. My intention was not to violate this privacy. It is worth, however, realising that, apart from the painful, individual dimension, this problem has also a general social and macroeconomic dimension. It results, among others, in a slowdown of economic growth whose effects have an impact on each of us, even if we belong to the most ideal family.[38]

The research confirms the impact of the divorce rate on a slowdown in economic growth. We confirmed that the intensification of the divorce causes a periodic (temporary) decrease in the rate of economic growth. On the basis of this assumption—based on model (1)—we can conclude that in the years 1975–2017 an average annual slowdown of economic growth caused by divorce was of the order of 0.6 percentage point. If not for this slowdown, the average annual GDP growth would have amounted to 4.3%. This meant a slowdown of economic growth of <u>more than one-fifth</u>.

On the basis of the model a reduction in the divorce rate from the current level of would give a permanent acceleration of economic growth. Further reduction in divorce rate would slow down the "current" economic growth. The model has been constructed in such a way that it leads to a specific recommendation of a certain number of divorces. As has already been mentioned, the negative intergenerational effects of divorce are not taken into account here.

The hypothesis has been confirmed, assuming that there is an optimal divorce rate for growth—that some marriages are so ill-conceived that they should end in divorce,[39] seems more likely.

In further research, we will also take into account the reverse relationship—the impact of economic growth on divorces.[40] Then it will be possible to cap-

[38] As it seems, this statement cannot be included in the so-called "ideology of growth," which is one of the causes of the crisis of values. In this ideology, it is emphasised that the most important is economic growth, and broadly understood values, including family values, are ignored or treated as secondary. We, on the other hand, say that the crisis of family values causes a slowdown in economic growth.

[39] Janina Godłów-Legiędź calls a divorce in such marriages "a lesser evil."

ture the interdependencies: the intensification of the phenomenon of divorce slows down economic growth, which results in an increase in the number of divorces,[41] etc. There is, therefore, a negative spiral intensifying the mutual impact of economic growth and divorces (family disintegration).

Sójka at the conference "Ethics in Economic Life" in May 2005 poses the question: "Does *homo economicus*—an individual's aspiration to maximise one's benefits[42]—stand in contradiction to ethics as a reflection on human obligations, the way to strive for good, justice and human rights […]?" The article assumes that the fulfilment of family responsibilities and striving for the happiness of the whole family are important goals for people. We have formulated the hypothesis that the rate of achievement of these goals is decreasing, which we indicate by pointing to an increase in the phenomenon of divorce. This slows down economic growth and hence interferes with *homo oeconomicus*. We have shown this on the scale of the economy as a whole. The question remains whether it can be seen on a single person or family scale. Can a person see that the breakdown of his or her family hinders and slows down the pursuit of maximising his or her own economic benefits?

The conclusion I seek to draw from this text is as follows: **A permanent marriage and family, as an important factor ensuring a stable and dynamic development of the economy, is important for using the potential of the entire economy. Family values[43] support *homo oeconomicus* and do not compete with it. Family values are a necessary condition for an efficient economy and economic success**.

In the article, we have sought to show that the weakening and breakdown of the family have slowed down economic growth in Poland. This is only one of the many negative dimensions of the influence of the weak family on each of our lives. Therefore, one should agree with the sociologist Slany (2003) stating that:

> Significance should be restored to the marriage and family. Reconstruction should be carried out by families themselves, the church, neighbourhood groups, the mass media, and not by state subsidies or government programmes [...]. The family has existed for thousands of years, but it has turned out that in modern times it is something extremely fragile. It should be supported and its universal values should be emphasised. After all, it is the basis of our existence, the foundation of our morality and the foundation of the social organisation. The family is the most powerful social capital; its formation is and should be the most important type of investment in social capital. (pp. 49–50)

[40] The estimation of the divorce equation are included in Appendix 1.
[41] These interdependences are characterised by significant lags of up to nine years.
[42] Twardowski (2007, p. 257) calls the struggle with one's own selfishness the pursuit of sainthood.
[43] Jacek Filek (2005) says that: "the values are not only recognised by 'understanding' their content [...] but values are also felt", and man is willing to follow these values in life. The act of opening to the values is a total act of the entire person (p. 39).

The purpose of my analysis is to better understand the importance of the family and stimulate the will oriented towards family values. The sphere of feeling the values should be beyond the scope of considerations as one that cannot be treated objectively.

In the presented models, we do not take into account the diverse intergenerational effects of divorce. They include, among others, the weakening of trust in loved ones, parents, and as a consequence, the weakening of trust in other people, which is destructive to social capital and rebounds on many people.

A divorce is usually a statement that one cannot live with one's spouse, that it is not worth living together. Abandoning the family by a husband or a wife is tantamount to the abandonment of children by one of the parents, even if the divorce is accompanied by an assurance that this is not true. It is difficult for a child not to think that "[…] father abandoned not only my mother but me too […]". This weakens the child's self-confidence, which makes it difficult to acquire knowledge and improve human capital. I think that this aspect is not sufficiently strongly emphasised in the considerations of sustainable growth. This kind of **growth is growth that does not damage the natural environment, but also does not destroy interpersonal** relationships **and the social environment, in particular, the family environment.**

In conclusion, I will quote three thoughts. Erich Maria Remarque: "No one can become stranger than the person you once loved." And this happens to divorced spouses. Georges Sand: "There is only one happiness in this life, to love and be loved." This happens easily in stable and good families.

Appendix

The values of Student's t-statistic are above 3.4, so all structural parameters are significant with probability 0.98 or higher. The only exception is parameter 2.0 significant with probability 0.93.

Divorce ratio equation, 1970–2017 sample

$$divr_t =$$

$$= 1.63 - 2.0\, GDPpc_{t-2} - 2.9\, GDPpc_{t-4,5} + 0.04 \sum_{\imath=1}^{\imath=4} gini_{t-\imath} + 0.05\, marriar_t + 0.67 divr_{t-1}$$

where:

GDP_{pc} GDP per capita,
divr divorce rate, i.e. the share of the number of divorces in the existing marriages (%),
GINI coefficient of income inequality in %.

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