

INTRODUCTION: EU EASTERN ENLARGEMENT HOPES AND PROBLEMS RELATED TO FDI

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1. The transformation countries that are expected to take part in the first round of the European Union's eastern enlargement (further: Candidate Countries, CCs) have already some time ago concluded association agreements with the EU. Hence the investigation of problems related to that important event should concentrate on the changes the enlargement introduces in comparison with the association status. More specifically, trade liberalization (with some exceptions) between the EU and the CCs has already been realized, therefore the issue of gains resulting from international trade is not relevant when the enlargement's consequences are analysed. Real changes refer to labour markets, capital markets, agricultural and regional policies and last but not least to the so-called *acquis communautaire*. Some of these questions are investigated in the present issue of MOST.

In this introduction we intend to examine the macroeconomic consequences of the strong increase in the inflow of foreign capital, especially FDI, to the CCs to be expected after the enlargement.

2. Investment has an income and a capacity effect.¹ The former refers to the flow of incomes created during the gestation period of investment projects while the latter comes into existence when the investment project is finished and ready-made transferred to the investing firm. When the income effect occurs the capacity effect does not yet exist; when the capacity effect materialises the income effect is gone.

Let us denote domestic investment (being the sum of private and government investment) of time t put into operation at time $t + 1$, the incremental capital/output ratio (ICOR) and the coefficient of amortization, respectively, by ID , v and a . Using these variables we get the (net) increase of capacity by $(1/v)I - aY$, where $(1/v)ID$ denotes the (gross) increase of capacity in time $t + 1$ and aY measures the influence of amortization on capacity losses in $t + 1$ in terms of net output in time t . The increase of GDP in time $t + 1$ can be equal or not to the increase of capacity, depending on the income effect particularly of investment. If we denote the influence of the income effect by uY , where the variable u denotes the changes in the rate of capacity utilization in terms of Y , we get for the net increase of GDP in time $t + 1$

$$\Delta(Y) = (1/v)ID - aY + uY$$

Dividing both sides by Y we get

$$g = (1/v)id - a + u \quad (1).$$

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where g and id denote the rate of growth of GDP ($\Delta Y/Y$) and the domestic investment/GDP (ID/GDP) ratio, respectively. (The latter will be called 'investment ratio' for short.) The most important variables in equation (1) are the terms id , the investment ratio, and u , the rate of change of capacity utilization. At $u = 0$ the level of capacity utilization remains constant and this implies that capacity output and produced output show the same growth rate. This situation implies also that income and capacity effects are equal. At $u > 0$ produced output grows faster than capacity output. This is possible if free capacity exists, a circumstance which persists in a capitalist economy as a typical phenomenon during most of the business cycle (and often even in the boom phase). If, however, $u < 0$, then capacity output grows faster than produced output, and the relative capacity excess increases. It is possible in this case that GDP stagnates or even falls although capacity increases. The variability of the rate u is very characteristic of the capitalist economy, especially the possibility that u changes not only its value but even its sign during the business cycle. This factor should be taken account of in a short-term projection of growth and even in the longer-term analysis because the average value of the rate u over longer periods may change also.²

Steady state growth is characterized by a constant growth rate of GDP and its elements. According to (1) this means constant id , v and a while $u = 0$ because capacity utilization in steady state is constant (but not necessarily full). In order to accelerate growth, the ratio id has to increase. This means that investment has to grow faster and consumption slower than GDP when growth is accelerating. ('investment' and 'consumption' replace the terms 'domestic investment' and 'domestic consumption' for the sake of brevity; the same applies to related terms). When the ratio id decreases, then growth would slow down while investment and consumption would grow slower respectively faster than GDP. Acceleration or deceleration of growth are transitory phenomena which sooner or later come to an end, giving way in a theoretical model to new steady state at a higher (acceleration) or lower (deceleration) growth rate.

We want to discuss three questions in this paper: first, internal difficulties related to growth acceleration; second, the proper proportion between employment and labour productivity growth; and third, external difficulties related to the acceleration of growth. All these questions will be discussed from the point of view of CCs and in the context of FDI (or – in a broader sense – availability of capital imports). At the beginning we assume that foreign trade difficulties do not occur. Only further on will this question be treated as a central point.

3. It is obvious that growth acceleration should constitute the very basis of CCs' economic strategy. This is necessary because these countries have a much lower per capita GDP level than the EU average and also because any country's welfare increase depends on economic growth. Growth acceleration depends very much on the initial level of capacity utilization. If the level of capacity utilization is low then growth acceleration is possible through an increase of coefficient u even at given id ratio. As long as there exist capacity reserves, investment and consumption can increase *pari passu* with GDP. This situation can last for quite a while (although not

persist for many years), because capacity increases also though not as fast as GDP (hence u while positive would decline and go towards zero). The limiting factor in this situation is not capacity but aggregate demand, and first of all the growth of investment as a decisive factor determining savings and aggregate demand.³ Hence, the main difficulty is constituted by firms' investment decisions, and the main goal of government policy is to create favourable conditions for them. Monetary policy can be helpful by easing credit conditions as well as by deficit spending (used e.g. for improving infrastructure) to give some initial impetus to private investment.

The role of FDI under these conditions is not decisive though still important. It is important because it brings with it technical and organizational progress which as a rule is at present not available in CCs without foreign know-how. It is not decisive because it may substitute instead of complementing investment and, thus, may result in an invariable investment ratio. If FDI is accompanied – as happens in CCs (and not only there) – by an import surplus, aggregate demand may even suffer. (Laski et al., 1993; Laski and Bhaduri, 1997; Laski, 1997).

The situation is quite different if the initial level of utilization is high and can practically not be increased. Under these conditions the only way to accelerate growth is to increase *ceteris paribus* the investment ratio id , which in turn implies that investment increases faster and consumption slower than GDP. Hence future gains in consumption require present sacrifices, at least in this form, a contradiction that has to be solved in one way or another. In somewhat more technical terms, we have

$$Y = CD + ID + E \quad (2)$$

where E denotes the export surplus ($E > 0$) or import surplus ($E < 0$). Dividing both sides of (2) by Y we get

$$1 = cd + id + e, \quad (3)$$

where $cd = CD/Y$ and $e = E/Y$ denote the consumption ratio and the export surplus ($e > 0$) or import surplus ($e < 0$) ratios.

From (3) we get

$$\Delta(id) = -[\Delta(cd) + \Delta(e)] \quad (3')$$

or, because the savings ratio $sd = id + e$,

$$\Delta(id) = [\Delta(sd) - \Delta(e)]. \quad (3'')$$

According to (3') $\Delta(id) > 0$, at $\Delta(e) = 0$, when $-\Delta(cd) > 0$, i.e. when $\Delta(cd) < 0$. Thus, an increasing share of investment requires a declining share of consumption. This is the rational element behind the requirement that under similar conditions also the savings ratio has to rise. Indeed, it seems that according to (3'') the requirement $\Delta(sd) > 0$ leads to $\Delta(id) > 0$, when $\Delta(e) = 0$. In reality the opposite is true. The very intention to increase domestic savings through real consumption

cuts (if investment does not increase *pari passu* with these cuts) would only reduce GDP and the intended increase of savings would not materialize. On the other hand, a real increase of investment would impose an increase of savings (under assumed conditions- rather with, than without inflation, depending mostly upon the reaction of nominal wages to rising investment).

If, however, $\Delta(e) \neq 0$, we can have, according to (3), $\Delta(id) > 0$ if $\Delta(cd) < -\Delta(e)$, $\Delta(e) < 0$. Hence, the consumption ratio does not necessarily decline if the import surplus (export surplus) ratio rises (decreases). If absorption ($Y - E$) increases in relation to GDP, as has happened lately in CCs, id may rise without a corresponding decrease of cd . This means that acceleration of growth may occur without sacrifices in consumption (as defined earlier) because the latter increases at least as quickly as does GDP. Hence FDI staying mostly behind the growth of the import surplus is the decisive factor making this kind of development at all possible. Of course, in the long run, at least for some time to come, absorption would have to be lower than GDP. Accordingly, long-run consumption would have to be lower than it could have been if growth acceleration were to be achieved without an import surplus. On the other hand - disregarding other factors - it is much easier to accept some losses in the future when the level of consumption will be higher, than at present when the consumption level is lower.

From a certain point of view the best way to accelerate growth in the presence of an increasing import surplus would be to devote it *in toto* to investment. This way would be rather difficult to follow in an economy in which investment decisions are made mostly by firms, and even maintaining the initial investment ratio may already be considered an achievement. In practical terms this may mean that the investment ratio would not change very much under the influence of increasing FDI. Still acceleration of growth may occur if, given id , the efficiency of investment increases (i.e. the v coefficient decreases).

4. The second question we want to discuss refers to the proportion between employment and labour productivity in our model. At steady state growth not only GDP and its parts but also employment and labour productivity grow at a constant rate, denoted, respectively, by g_l and g_p , where $g = g_l + g_p$ (if g_l and g_p are relatively small). In CCs there is significant unemployment. Only by accelerating employment growth in relation to labour force growth, the unemployment rate can be reduced. The only way to achieve this goal is to increase the GDP growth rate by $\Delta(g) > 0$ and the growth rates of employment and labour productivity by $\Delta(g_l)$ and $\Delta(g_p)$, respectively. Of course, given $\Delta(g)$, the higher (smaller) $\Delta(g_l)$, the faster (slower) the decline of the unemployment rate. Hence, government policy should wherever possible support technical progress embodied in the investment projects that at any given acceleration of growth would favour the increase of employment. Of course this strategy would result in weaker acceleration of labour productivity, because given $\Delta(g)$, the higher $\Delta(g_l)$, the smaller $\Delta(g_p)$.

The condition 'wherever possible' is to be taken seriously. Very often the quality of the product would require a well-defined labour-saving (and capital-intensive) technology. In that case labour-intensive (and capital-saving) technologies - even if

they are available but do not secure the same quality – would have to be neglected if the product cannot compete with similar goods. However, in other cases where the quality does not suffer (or suffers but not too much), the possibility of labour-intensive (and capital-saving) technologies should not be discarded. Such technologies could at given id ratio accelerate growth by reducing v and increasing gl . True, the lower ICOR would slow down the growth of labour productivity, but by using more intensively the most important factor of production, the labour force, it would improve not only the economic but also the social situation. It seems that these possibilities can be found first of all in agriculture, in retail trade and in the building industry. (The problem of agriculture, looked at from this point of view also, is analysed in the present issue of MOST in the papers by A. Wos and Z. Lukas).

FDI, especially their zFDI part, are looked for because they bring to the CCs badly needed modern technology, know-how, management and marketing. As a rule these technologies are labour-saving and capital-intensive. They are important and the government policy should support this kind of investment – in industrial production in general and in manufacturing in particular, in telecommunications and wherever no real choice of technique exists. (The role of FDI as a vehicle of modernizing manufacturing in transition countries and their integration with the EU is the topic of G. Hunya's paper in the present issue of MOST.) But should the government actively or passively support FDI also, e.g., in retail trade, if the small shopkeepers losing their jobs are expected to increase the volume of unemployment rather than find a new occupation? In this and in similar cases not only private costs and benefits but also external effects, especially external costs (unemployment benefits, social transfers) should be taken account of in economic calculations. One should not forget that also in industrialized countries technical progress did not start in all sectors simultaneously and the modernization of e.g. retail trade on a massive scale started rather late.

5. We move to the last topic, to the question of the difficulties in foreign trade (or balance of payments) as the most important bottleneck in the acceleration of growth in CCs (Landesmann and Pöschl, 1995). Generally countries on a relatively low level of economic development meet with difficulties in foreign trade as soon as they start accelerating growth in relation to that of industrialized countries, their main trading partners. This applies in particular to the CCs, which for a long time were rather closed economies, especially in their relation to the world market. These countries have in general a poor commodity structure of exports with a high share of raw materials and of low value added products. (The existing and emerging structure of foreign trade in transition countries is investigated in the present issue of MOST by D. Rosati.) The markets for these goods suffer more from changes in the trade cycle than do the markets for more sophisticated goods. Another difficulty arises from the fact that CCs have to grow faster than their trading partners, hence foreign demand for their exports does not grow as quickly as do their imports. The latter grow even faster than GDP because of often increasing import intensity.

The improvement of competitiveness (especially when this term covers not only relative unit costs but also the relative quality of tradables) is the most important

factor in alleviating or altogether removing the difficulties in foreign trade by expanding the export possibilities. (The problem of competitiveness measured by relative labour costs is analysed in this issue by P. Havlik. Also in the paper by H. Gabrisch in the present issue the problem of competitiveness plays an important role, in particular with respect to Germany's *new länder*.)

This implies special policies supporting investment oriented towards the modernization of old and the creation of new export capacity as well as towards modernization of infrastructure, including in this notion the development of education and science as well. The direct positive role of FDI, especially zFDI (where z denotes the 'real' part of FDI), in this respect is evident. Another factor which serves the balance of trade but acts more quickly is a competitive real exchange rate (Rosati, 1997). Given the domestic wage level it facilitates exports and makes imports more expensive. A competitive real exchange rate is in the short and medium term of utmost importance in preventing the import surplus from getting out of control. It should, however, be stressed that the exchange rate can play this role only if foreign demand for exports and domestic demand for imports are characterized by sufficient price elasticities as stipulated in the Marshall-Lerner condition.⁴ This condition is often not fulfilled in CCs, nor in the majority of developing countries. CCs export mostly products at a relative late phase of their life cycle position on the market, characterized by low elasticity of foreign demand, and import products with opposite features characterized by high elasticity of home demand. In this situation the improvement of competitiveness in the medium and longer run depends more on modernization of production than on competitive unit costs or real exchange rates. On the other hand, the possibility of using the exchange rate as an instrument to ease difficulties in foreign trade is limited by its impact upon the price level, especially when – as is the case in the CCs – the inflation level is rather high.

For all these reasons negative foreign trade balances in CCs – as for countries in a similar situation – are for some time more or less unavoidable. Either they are financed from outside, or the growth rate of GDP and imports have to be adjusted to the country's export possibilities. From this point of view FDI, and capital imports in general, play a special role, namely they help to overcome a growth bottleneck that would otherwise put a brake on any growth acceleration. However, FDI in contrast to other capital imports plays a direct role in modernizing the CCs' economies. It is hoped that the FDI inflow after the eastern enlargement of the EU will greatly intensify and help to fill the technological gap so far existing between them and even the poorest EU members. Very often, however, FDI is treated as a magic device opening all doors. This applies also to difficulties in foreign trade which, according to some expectations, increasing FDI would spontaneously overcome.

In reality it is not so clear whether foreign firms act in this direction and whether they themselves do not constitute part of the problem. Big international corporations are first of all interested in the CCs' local markets. Of course, they export a lot, but they import a lot as well. Being international by their very nature, they import components from outside, and in this sense are import-intensive. There exists some evidence that foreign firms as a whole not only do not improve the balance of trade,

but may even be responsible for a large part of its deficit.⁵ It may be that this situation will change with time for export-intensive firms, especially in manufacturing. However FDI, as it happens, is frequently engaged in activities with low export intensity (telecommunications, energy, banking and insurance, retail trade).⁶ Thus, if we treat all foreign firms as one special sector, this sector would help to solve the difficulties in foreign trade if not only its parts directly involved in foreign activities but also the sector as a whole were to become a net exporter. This is important because sooner or later a capital importing country has to balance at least its current account.

The general conditions for such an outcome are not simple. The problem was already investigated by Domar (1959). Bhaduri (1987) analysed the relation of net foreign borrowing to domestic savings, which he has treated as a crucial variable in determining whether it would lead in the future to a growth path that can be sustained without relying on increasing foreign capital inflows. It is quite obvious that a propensity to export higher than the propensity to import in firms created with the help of this capital is a necessary condition of such a sustainable process of growth because otherwise the dependence on foreign capital to finance imports has to increase with time. However, this is not a sufficient condition because – in non-technical terms – the export propensity must be higher than the import propensity by a certain factor to meet the growing interest payments on the stock of accumulated capital inflows associated with financing the current account deficit. This problem deserves serious analysis under the conditions prevailing in CCs and can here only be indicated.

6. This paper is theoretically oriented. The statistical data in the two tables attached to the text intend just to illustrate the analysis. In Table 1 we present gross domestic savings SD by 'use' (domestic investment ID and export surplus E) and by 'origin' (private savings of private households and of the business sector SP plus government savings SG) all as a per cent of GDP (denoted by sd, id, e, sp and sg, respectively). The data in Table 1 refer to four transition countries which have started already negotiations with the EU.

The period covered by the data is extremely short, hence it is possible to formulate only weak hypothesis. It is interesting to compare the inflow of FDI and the export or import surplus. In the Czech Republic, the average for both items in 1990-93 was 2.1% and 1.9% (export surplus) but in 1994-97 only 3% against 4.5% (import surplus). Thus in the second period FDI alone could not finance the import surplus. A similar situation has prevailed in Hungary: in 1989-92 and 1995-97 the average FDI inflows were higher than e, but in 1993-94 they were lower. It is probably not accidental that a financial crisis erupted in these countries when FDI could not finance the balance of trade deficit.

A rather weak relation can also be observed between budget deficits and FDI inflows. In 1990-96 Hungary had the highest average deficit spending ratio (4.4%) and the highest average FDI ratio, while the Czech Republic was characterized by average budget surpluses (0.3%) and the second highest average FDI ratio.

Another observation is the fact that the rate of growth is not related to the

Table 1 GROSS DOMESTIC SAVINGS BY USE AND BY ORIGIN

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
<i>Czech Republic</i>													
sd by use, % of GDP	.	.	31.3	31.6	30.6	29.9	36.7	27.4	20.2	20.1	22.8	28.5	28.4
	.	.	29.3	27.4	26.8	28.6	29.9	27.1	18.0	20.5	28.0	35.5	33.9
e	.	.	2.0	4.1	3.8	1.3	6.8	0.4	2.2	-0.4	-5.2	7.	-5.5
sd by origin, % of GDP			.	.	.	.	.	4.0	4.0	7.0	.	.	.
sg	.	.	.	.	.	.	.	23.5	16.3	13.1	.	.	.
sp	.	.	.	.	0.2	2.1	3.4	1.9	2.2	5.0	2.5	4.5	.
FDI inflow, % of GDP	.	2.1	0.6	2.1	4.5	-1.2	-11.5	-3.3	0.6	3.2	6.4	3.9	1.0
GDP, real change in % against preceding year													
<i>Hungary</i>													
sd by use, % of GDP	27.1	25.5	26.2	28.0	29.9	28.0	19.5	15.3	11.7	15.7	22.7	25.7	1997
	25.0	26.9	26.7	25.3	26.6	25.4	21.5	16.1	20.0	22.2	23.9	26.8	
e	2.1	-1.4	-0.5	2.7	3.3	2.6	-1.0	-0.3	-8.2	-6.5	-1.3-	1.1	.
sd by origin, % of GDP													
sg	.	.	.	.	.	6.0	3.0	-13.0	-7.9	-10.2	-7.9	-2.3	
sp	.	.	.	.	.	22.0	16.5	28.3	19.6	25.9	30.6	28.0	
FDI inflow, % of GDP					0.6	1.8	4.7	4.4	6.4	3.2	10.2	4.6	5.2
GDP, real change in % against preceding year	-0.3	1.5	4.1	-0.1	0.7	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.4

<i>P o l a n d</i>													
sd by use, % of GDP	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
id	27.7	28.9	28.8	32.6	38.5	25.6	19.9	15.2	15.6	15.9	18.0	20.2	.
e	.	.	.	.	.	7.1	-1.9	1.5	1.0	1.01.3-2.8.	.	.	.
sd by origin, % of GDP													
sg	.	.	.	.	.	.	-0.9	-2.5	0.9	1.0	1.2	1.6	.
sp	.	.	.	.	.	.	18.9	19.3	15.6	15.9	18.2	15.8	.
FDI inflow, % of GDP													
sd	3.6	4.2	2.0	4.1	0.2	-11.6	-7.0	2.6	3.8	5.2	7.0	6.1	6.9
GDPI real change in % against preceding year													
<i>S l o v e n i a</i>													
sd by origin, % of GDP	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
id	.	.	.	.	.	29.4	26.2	24.5	20.4	23.2	21.9	22.5	22.6
e	.	.	.	.	.	17.2	16.9	17.6	19.3	20.6	23.2	23.4	24.1
sd by origin, % of GDP													
sg	.	.	.	.	.	12.2	9.3	7.0	1.1	2.6	-1.3	-0.9	-1.6
sp	.	.	.	.	.	.	.	.	2.5	2.6	2.6	2.7	1.2
FDI inflow, % of GDP													
sd	.	.	.	.	0.7	1.8	2.7	1.3	1.6	2.6	2.2	1.0	3.3
GDPI real change in % against preceding year													
sd	.	.	.	-1.7	-1.8	-4.7	-8.9	-5.5	2.8	5.3	4.1	3.1	3.8

sd – domestic savings in % of GDP; id – domestic gross capital formation in % of GDP;

e – balance of goods & NFS in % of GDP; sg – general government savings in % of GDP; sp – private savings in % of GDP.

Source: WIIW database incorporating national statistics; own calculations.

intensity of FDI penetration and not even to the investment rate. The average share of FDI, the average investment ratio (in square brackets) and the average growth rate (in round brackets) in 1990-97 amounted in Hungary to 5.1%, [22.1%] and (0.7%), in the Czech Republic to 2.5%, [27.8%] and (-0.9%), in Slovenia to 2.1%, [20.3%] and (0.6%) while in Poland to 1.7%, [18.6%] and (3.4%). Hence, the highest growth rate was observed in Poland where the share of FDI and of investment was the lowest. In Hungary the share of FDI was the highest, the share of investment the second highest and the rate of growth poor. In the Czech Republic the highest investment ratio and the second highest FDI ratio were accompanied by a negative growth rate for the period as a whole. Although these observations cannot be understood as an explanation of growth differences in individual countries, they can nevertheless provide some food for thoughts.

Table 2 presents data for the southern EU members, Greece (since 1981) and Spain and Portugal (since 1986) and for reference Austria and Turkey, two countries outside the EU (Austria until 1995). The average yearly inflow of FDI in 1985-96 in the three southern member countries was quite impressive; it amounted to about 2% of GDP in Spain and Portugal (USD 8.9 and 1.3 bn) and 1.2% of GDP in Greece (USD 1 bn). Growth slowed down in Austria and in the southern EU members in the second period (1985-97) compared to the first one (1960-85), especially in Greece. The highest growth rate in the second period and in both periods taken together was observed in Turkey, a country with very low FDI (0.4% of GDP and USD 0.6 bn per year in 1985-96) and outside the EU. One may conclude that EU membership and even a massive FDI inflow would not necessarily result in accelerating growth and even in preventing deceleration of growth. One cannot exclude, however, that without the injection of foreign capital the situation would be even worse.

Table 2

	GROSS DOMESTIC PRODUCT, 1960-97		FDI INFLOWS, 1985-96			
	growth rate in %		average			
	1960-85 average	1985-97	GDP USD mn	FDI	FDI % of GDP	
Greece*	5.9	1.7	Greece	81477	1001	1.2
Portuga	14.6	3.2	Portugal	61176	1347	2.0
Spain	4.7	2.9	Spain	428848	8908	2.1
Austria	3.6	2.5	Austria	157057	1207	0.8
Turkey	4.9	4.8	Turkey	129233	578	0.4

* 1960-81; 1981-97
Source: OECD.

Source: OECD, World Investment Report,
United Nations UNCTAD, 1997.

9. Conclusions: The basic contradiction between consumption and investment at a high level of capacity utilization can be eased with the help of FDI. The policy towards FDI should take into account the proper proportion between employment and

labour productivity growth. FDI in CCs has been and will be in future an important factor in modernizing their economy, especially manufacturing. FDI, together with other forms of capital imports, play a very important role in easing the foreign trade bottleneck, hence in achieving a growth which otherwise could not be sustained. On the other hand, FDI does not seem able to accelerate growth, which is determined first of all by internal factors. In the long run the CCs would be able to balance their foreign trade and, what is still more important, their current account only on the following condition: Foreign firms who are active in foreign trade and in a position to become net exporters must assure at least the current net payments abroad of those foreign firms who by their very nature cannot become net exporters.

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Notes

¹ This does not apply to foreign direct investments if during their gestation period they do not create any domestic incomes. Let us imagine a 'greenfield investment' which is airborne by a foreign plane and ready-made without any domestic inputs. This investment would have a

capacity effect but no income effect. In reality the border line cannot be drawn so exactly. Every greenfield investment would have some domestic inputs, it can even have a lot of them, hence an income effect. On the other hand, private investment of nationals can have large foreign inputs, hence a very weak income effect. As a rule, however, FDI would have weaker income effects than private investment of nationals.

² Equation (1) has been introduced in 1959 by Kalecki (1992, pp. 131-34) for the socialist command economy, in which the problem of aggregate demand could always be solved by a *fiat* of the government. Hence he assumed that the coefficient u was relatively constant and positive, presenting continuous improvement of capacity without any investment. The assumption of a constant u – as Kalecki himself pointed out – has to be dropped in a capitalist economy, where capacity utilization cannot be assumed to be constant.

Glikman (1997) has estimated the average value of coefficient u in Poland for 1992-96 at 1.4%. In relation to the average growth rate of 4.9%, the share of coefficient u was then between one fourth and one third of achieved total growth.

³ Kalecki wrote in 1952: '... investment, once carried out, automatically provides the savings necessary to finance it ... investment finances itself' (Kalecki, 1952, p. 50). Almost half a century later William Vickrey wrote: 'With unemployed resources available, saving is neither a prerequisite nor a stimulus to, but a consequence of capital formation, as the income generated by capital formation provides a source of additional savings.' (Vickrey, 1996, p. 2)

⁴ This condition specifies that the sum of 'price elasticity of foreign demand for exports' and 'price elasticity of domestic demand for imports' (the latter weighted with the initial relation of imports to exports) is larger than 1.

⁵ According to a report of the Polish Research Institute IKCHIZ, in 1995 foreign firms and firms with foreign capital participation exported USD 7.9 bn, while their imports amounted to USD 12.2 bn. Their import surplus was then about USD 4.3 bn and represented an important part (about 70%) of the total Polish import surplus in 1995. (*Rzeczpospolita*, 29-30 June 1996, p. 8)

⁶ For a detailed discussion of problems related to FDI see Hunya (1996, pp. 19-21) and Hunya (1997, pp. 275 and 295).