POLICY PAPER SERIES

1/2015
JANUARY 2015

POLAND'S POST-COMMUNIST ECONOMIC TRANSFORMATION AND THE COUNTRY'S 10 YEARS OF THE EUROPEAN UNION MEMBERSHIP – CRITICAL INSIGHT

Adam Oleksiuk
Jacek Białek

CENTER FOR EUROPEAN AND INTERNATIONAL AFFAIRS
University of Nicosia

1/2015
January 2015

POLAND'S POST-COMMUNIST ECONOMIC TRANSFORMATION AND THE COUNTRY'S 10 YEARS OF THE EUROPEAN UNION MEMBERSHIP – CRITICAL INSIGHT

Adam Oleksiuk
Jacek Białek

POLAND’S POST-COMMUNIST ECONOMIC TRANSFORMATION AND THE COUNTRY’S 10 YEARS OF THE EUROPEAN UNION MEMBERSHIP – CRITICAL INSIGHT 1/2015

Nicosia, January 2015

Press: Center for European and International Affairs, University of Nicosia

Adam Oleksiuk

Adam Oleksiuk, Ph.D. Economist, graduate of the Faculty of Management at the University of Warsaw. Obtained Ph.D. degree from the Warsaw School of Economics. Numerous academic internships, i.a. at the Stockholm School of Economics in Riga (Latvia) and at the Saxion University of Applied Sciences in Enschede (Netherlands). Academic teacher. Currently Assistant Professor at the University of Warmia and Mazury in Olsztyn. As a lecturer teaches part-time at private sector's universities in Poland. Lectured at foreign universities, including within the framework of Erasmus and Erasmus + scholarships. Accumulated professional experience from the Government Center for Strategic Studies, Ministry of Regional Development and Polish Agency for Enterprise Development. Held management positions in the private sector's companies. Author of over 100 publications (including books and articles in Polish and foreign journals) in the field of innovation and economic competitiveness, the EU cohesion policy and creation of socio-economic strategies.

Jacek Białek

Jacek Bialek. MA in International Relations from the University of Warsaw and MBA from the joint-programme of the University of Warsaw & University of Illinois At Urbana Champaign. Recipient of the scholarship from the Joint Vienna Institute where he completed the intensive Applied Economic Policy Course.. Experienced Civil Servant (Central Office of Planning, Government Centre for Strategic Studies, Ministry of Regional Development, Ministry of Infrastructure and Development) with an a two-year teaching episode at private universities. Completed post-graduate academic programmes, i.a. Postgraduate Studies in Strategic Analyses (Warsaw School of Economics) and English-language Foreign Policy Studies (at the Polish Institute of International Affairs). Author and co-author of over 30 scientific articles and of 3 books on various economic issues (macro and microeconomics, international economics and geopolitics, regional development, effects of Poland's EU membership).

POLAND'S POST-COMMUNIST ECONOMIC TRANSFORMATION AND THE COUNTRY'S 10 YEARS OF THE EUROPEAN UNION MEMBERSHIP – CRITICAL INSIGHT

Key words: economic transformation, transformation recession, EU membership, socio-economic development, dependent development.

Abstract: The article assesses the achievements and failures of the socio-economic transformation of Poland over the last 25 years. The authors start with a brief description of "transitology" (understood as a theory of post-socialist transformation). Subsequently they elaborate on the condition of the Polish economy on the eve of transformation process, and then proceed to discuss the initial stages of the reform by presenting the main actions taken by the authorities to create conditions conducive to the introduction of a market economy. Much of the article is devoted to a presentation of selected macroeconomic parameters relevant to the transformation period and to the development model established in the course of Poland's tryst with market economy. The authors conclude by presenting the future challenges to the national economy and by recapitulating the main successes and failures of the country's 25 years of post-communist economic transformation.

Introduction

In order to make an unbiased assessment of the outcome of the socio-economic transformation in Poland and of the country's entry into the European and global economy, one has to take into account not only a personal perception of reality of the last 25 years, but also the highly contradictory opinions of numerous authors.

Due to the existing divergence of analytical perspectives, it should not come as a surprise that the population at large finds it difficult to make an unequivocal assessment of the socio-economic processes of the last quarter century. In 2013, 45% of those surveyed within the framework of the cyclical research project "Social Diagnosis" were unable to express athe definite opinion about the post-1989 transformation (compared to 60% "undecided" respondents in 1997). 54% of those capable of forming such an assessment, perceived the transformation as a failure, while only 12% considered it a success (2013 Social Diagnosis Study 2013, p. 25). This survey is a challenging starting point for presenting our personal opinion about the transformation process, basing our formulations rather on the available scientific evidence than on an emotional spur of the moment reaction (as is often the case with public opinion surveys).

Transitology – theory of the post-socialist's systemic transformation

After 1989, the issue of system transformation in Poland and in other post-socialist countries of Central and Eastern Europe became a matter not only of public interest but also of social science (primarily of economics) research, analysis and theoretical inquiry. As the premises, problems, dilemmas and patterns of the transformation process (which have a fundamental significance for the directions of development of the sizeable part of the world) emerged, a new direction of research – called transitology was established to create theoretical foundations for the post-socialist systemic transformation. It should be also underlined that the European Union's enlargement in 2004 to include 10 new member states constituted also an important stage of the economic transformation.

The political economics of transformation is an important area of the transitology. It is of key importance that there were no theoretical foundations for those underlying concepts or models of the said transformation, which were central to the reorientation of the socio-economic policy. Nevertheless it does not follow that the countries undergoing the said transformation were lacking accumulated scientific expertise related to the systemic changes – namely to pro-market reforms implemented within the framework of a socialist economy.

There are two contradictory approaches, present within the domain of political economy, to athe market-oriented transformation - namely approval and disapproval of "market fundamentalism" (the neo-liberal orthodoxy or national neo-liberalisms). However, there are also alternative concepts which are taking shape on the basis of analysis and of generalizations formulated on the basis of objective patterns observed in the economies subject to the transformation process.

In principle, the process of pro-market system transformation in Poland can be regarded as now complete. This is demonstrated Such an outcome has been stimulated also by the country's convergence towards the EU standards and subsequently by the EU membership. Therefore, a discussion of the fundamental problems and of major dilemmas coupled with some formulation of judgments and conclusions related to the said process is now fully justified.

Among the fundamental elements of the process of a system-wide transformation there should be enumerated: macroeconomic stabilization, liberalization (deregulation) and privatization of the economy. In the most general terms, two interdependent issues come to the fore. The first one is of a theoretical and "doctrinal" nature and concerns the "substance" of the systemic transformation, while the second one relates to the practical, strategic dimension of the process and concerns the development of the post-socialist economic order - namely the said order's long-term goals as well as the means of their implementation.

It has to be underlined that particular theories inspire and impact individual transformation strategies in various ways. The impact of neo-classical economic theory on a development strategy will be different to that of a neoliberal one or of a "evolutionist" one - particularly as far as the pace and sequence of changes are concerned.

Each strategy is based, to a varying degree, on theoretical uderpinnings, and purports to pursue certain functions, which are formulated as the strategic objective. It has to be further underlined that the said objective should be understood not as a state to be achieved, but as a process with a specific "vector" of changes. In other words the issue boils down to the superiority of the dynamic approach to the strategic objectives over the static approach to the problem.

A pro-market transformation, more precisely a pro-capitalist one, should in fact aim not at building traditional capitalist institutions (which reflect the past or present shape of the capitalist system) but at creating institutions that will be compatible with the direction of the global mainstream, objective socio-economic process – namely globalization. This will decide whether the criterion of economic efficiency (effectiveness) on a macro and micro scale will legitimize the systemic transformation.

It is not yet evident which model (or models) of the market economy will ultimately arise as an outcome of the globalization process. Consequently, it is not yet obvious what will remain of the currently observed five main models of the capitalist market economy:

1) Anglo-Saxon model - represented primarily by the U.S. and the UK, which assumes the maximum possible limitations on the state's regulatory functions in the national economy;

2) Rhenish model – in which the mezzo-economic level and institutional investors (banks, industrial companies, etc.) play an important role;

3) Statist model (Romanesque - mainly French one) - in which the public sector plays an important role in key areas of the economy;

4) Nordic model, which involves enhanced social functions of the state;

5) Mixed Austrian model, in which the presence of "statism" is similar to the one observed under the French variant, and in which the social partnership is of high importance.

The main issue of system transformation is the path leading to the implementation of the chosen objective - namely what to do, and which methods, means, pace and sequence of changes to apply. From the point of view of Poland's EU membership, the issue of the regulatory functions of the state takes on particular importance. The theory of transformation indicates that innovation (or any changes) are mainly the result of state action, of implementation of the state's original concepts or of imitation of foreign models.

The role of the state in an economy subject to transformation should not be presented in a framework of dilemmas - such as: spontaneous development versus development controlled by the state, markets versus the state, liberalization versus state intervention - but should focus instead on the choice between a big or small scope for state intervention in the economy - particularly in relation to the market. Every modern economy and every modern market is regulated by the state - whether directly or indirectly - especially if the state pursues certain social objectives. Therefore, the issue boils down to the scope and instruments (economic or administrative) which will be used to effect the systemic transformation. Neo-classical economics, neo-liberal concepts and the neo-liberal transformation strategies based upon them, imply far reaching deregulation of the economy and most of all of the market. Economic freedom (including openness to the world), freedom of establishing enterprises, freedom of trade and of shaping prices, serve as objectives for such strategies.

The presence and importance of foreign capital in the transformation economies, the degree and scope of its penetration on the macro and mezzo scale in individual branches –namely in key (strategic) ones and in other branches, constitute the main thrust of transitology studies. It is directly related to the issue of maintaining economic sovereignty of individual states, and of their ability to independently shape the pace and direction of economic developments and to protect the domestic capital in the context of globalization.

A key issue, one closely related to the assessment of the paths to market transformation and of the efficiency of the adopted methods of its implementation, concerns the economic and social costs of transformation in general and of its various methods - including in particular the collapse of economic growth (the so-called transformational recession), downgrading the quality of life and the rise in unemployment.

Post-socialist systemic transformation is a process of significant changes, which result in the replacement of a centrally planned and centrally directed state economy with a system of private market economy, accompanied by the introduction of political democracy. Changes in the mechanism for allocation of capital and labor are accompanied by changes in the mechanisms of distribution of the national income and wealth. The rationale and impulses behind these changes, which have been maturing and surfaced earlier in different countries - though at different times-, have been grounded in both economic and socio – political domains. It has to be underlined also that EU membership and the opportunities stemming from access to structural funds allowed Poland to accelerate the completion of the transformation process and changed the perception of the country in Europe and in the world.

Starting point of socio-economic transformation

There is universal consensus among numerous authors that in the late 1980s the Polish economy was in critical state. The country was virtually bankrupt, based on deeply distorted structures and coping with pervasive shortages and with misallocation of resources. On the other hand, unemployment was practically non-existent, though the motivation to work was low and falling due to insufficient links between individual contribution and received "rewards".

In the 1980s the average annual GDP growth rate was close to zero (as will be shown later it was actually slightly negative), with the GDP per capita (at PPP) being, on average, lower than USD 2000 (about 10% of the level of Western European countries). The country's foreign debt (which at the end of 1989 reached USD 42.3 billion or 64.8% of GDP) and the budgetary deficit (estimated in the middle of 1989 at 12% of GDP) constituted serious burdens for the economy. Poland was unable to finance its investment needs, the presence of foreign capital was negligible and capital-markets were non-existent. The rationing of basic goods (such as meat and sugar) continued, significantly reducing consumer choice, while lack of trust in the national currency led to the "dollarization" of the economy.

Poland's highly inefficient public sector was generating about 70% of Gross Domestic Product and over 90% of industrial production, with international trade completely controlled by the state. Most state-owned enterprises were technologically and organizationally obsolete, and therefore incapable of producing goods demanded in the West, while the demand from socialists countries was weakening. Despite very low labour costs, deep external imbalances persisted, with the current account deficit reaching approximately 10% of the country's GDP (Belka 2013, p. 9).

Moreover, the political system, was incapable of generating the social approval indispensable for any successful attempt at comprehensive economic reform. Those half-hearted attempts to reform centrally-planned economy undertaken by the communist authorities between 1982 and 1988 proved ineffective, mostly due to the top-down method of their implementation within the undemocratic form of governance.

Socio-economic transformation. First steps and initial results

Under such circumstances the first decisive step towards a departure from the socialist paradigm of socio-economic development was taken at the end of December 1988 with introduction of the so-called "Wilczek's Law" (the Act on Economic Activity). This stated that "everyone was equally entitled to undertake and conduct economic activity". In our opinion, the said regulation created the foundations for unshackling the entrepreneurial spirit of the sizeable part of the population and therefore served as a springboard to the subsequent effective transformation of the socio-economic order and to the internationalization of the national economy (Sadowski 2014). Wilczek's Law can be interpreted as an outgrowth of the fact that in the second part of the 1980s the communist party's nomenclatura, being aware of approaching sea changes in the country's socio-economic order, stared to accumulate productive assets. However, even if Wilczek's Law constituted an expeditious move by the communist authorities, it ended up serving the interests not only of the farsighted members of the nomenclatura but also of other entrepreneurially-minded segments of society.

The situation changed further with the political breakthrough, which followed the completion of Round Table discussions (held from February 6th to April 5th of 1989) between the authorities and the representatives of Solidarity. The Round Table agreement, was instrumental in preparing the ground for radical political changes - namely for the partially free elections of June 1989 and for ensuing creation of the Mazowiecki's government. This political breakthrough set the institutional stage for profound socio-economic reform which was to touch almost every aspect of the political and economic life of the country. It should be underlined that before the Mazowiecki's government came to power, another important step had been taken on the path leading to transformation, namely, liberalization of the prices of foodstuffs introduced in the summer of 1989 by the government of Mieczysław Rakowski – this latter move proved to be one of the reasons for an accelerating rate of inflation (in 1989 prices grew by 640%).

On September 12, 1989 the first non-communist government, headed by T. Mazowiecki, was voted in by Parliament. Shortly afterwards, the commission of experts (which involved among others, representatives of the IMF) headed by Leszek Balcerowicz, finished work on a plan of far-reaching reforms aimed at transforming the country's economy into one based on a model of "western capitalism". At the end of the year the Plan was approved by the International Monetary Fund, which offered Poland a stabilization fund of USD 1 billion (with an additional stand-by credit of USD 720 million). Subsequently, additional loans – earmarked, i.a. for the modernization of country's exports - were granted by the World Bank. At the end of **December of 1989** Parliament approved 11 Acts, which constituted the legal embodiment of the philosophy of the **Balcerowicz Plan (Economic Stabilization Program)**.

The economic reforms envisioned in the said Plan were aimed at: abolishing central planning, implementing measures tailored to stabilize the economy (introduction of "real" prices, implementation of stringent monetary, fiscal and income policies, as well as strengthening the national currency), liberalizing the majority of prices and eliminating rationing of goods. The authors of the Plan were determined to open the economy for international economic exchange uncontrolled by the state, to make the zloty internally convertible, and to introduce limited liberalization of capital flows. They were looking forward to creating conditions for competition on the domestic market and to setting in motion a privatization process aimed at the transformation of the economy's ownership structure (Kowalik 2000, p. 271).[1]

In short, the Balcerowicz Plan had two overarching objectives, with its **main short term goal being to counter inflation** - as a precondition for pursuing the second objective, namely to **introduce system-wide changes aimed at establishing a market-based economy.**

[1] T. Kowalik stresses that the so-called „small privatization" was implemented rapidly, through sale or lease of state-owned pharmacies, stores, and small productive units.

Therefore, the first stage of the plan encompassed efforts aimed at stabilization of the economy, which implied, among other policies: budgetary cuts, elimination of subsidies on numerous goods and services, liberalization of the majority of prices, as well as liberalization of wages and interest rates.[2]

The second stage of reform involved system-wide changes indispensable for creating a uniform and simple tax system, for assuring ownership rights in an environment free of state interference in economic transactions, and for planned full privatization of the state's assets.

The Balcerowicz Plan was instrumental in setting a market mechanism in motion, with prices starting to reflect the interplay between demand and supply. Inflation was also curtailed (though much less decisively than initially predicted), the zloty was strengthened and a small budgetary surplus was achieved in 1990. The Plan was not only instrumental in commencing the process of privatization and demonopolization of the economy, but also created foundations for the establishment of a capital market and encouraged the inflow of foreign direct investment. It should be also underlined that in **December 1991** Poland signed an **Association Agreement with the European Communities**, firmly anchoring the country's political reorientation towards Western-style democracy.

The fact that Poland's socio-economic system was reshaped in a very short period constitutes per se, an achievement of historical proportions. According to Zdzislaw Sadowski, this transformation has allowed Poland to decisively modify conditions of socio-economic life, placing the country on the development path characteristic for the Western civilization (with attendant technological and organizational changes creating conditions for economic progress) (in: Karpiński 2011, p. 88).

[2] The prices of fuels and energy were to remain under the state control.

The years following the introduction of the Stabilization Plan, brought about reallocation of resources, which led i.a. to the **reduction in the number of employed at state-owned companies by over 3 million people**. The public sector's share of employment in the national economy dropped from 75% in 1989 to about 50% in 1990. The said "reallocation" was particularly evident in industry. A. Karpiński (et. al) focus on what they perceive as **errors committed in the process of industrial restructuring**, and estimate that 2.4 million jobs liquidated in industry led to deterioration of the quality of life of 7 million people (laid off industrial workers and their families).[3] Some authors, wondering whether the scale of deindustrialization and of attendant job losses could have been less pronounced, attribute the large scale of industrial downsizing to the **lack of strategy for industry** on its path to the market economy, and profess that the reformers failed to identify industrial elements (e.g. high-tech industries, the industrial research and development base) which should have received extended protection in the adjustment period (Karpiński, Paradysz, Soroka, Żółtowski 2013, p. 315).

Another penetrating critique of the early stages of the transformation process was presented by Professor T. Kowalik, who found that the results of the Balcerowicz Plan's implementation differed significantly from expectations, with the only positive exception being rapid achievement of equilibrium on the goods market. Professor Kowalik explains, for example, that inflation was expected to fall to single digits by the end of 1990, while actually it took nine years to bring it down to that level. He also points out that the **GDP was forecast to decline in 1990, by 3%, while in reality it shrunk by 7.5%** (followed by another 7% drop in 1991). Unemployment was supposed to be transitory and not to exceed the level of 400 thousand people; however, **in the first year of transformation**

[3] The deterioration of living standards of workers of state-owned-farms (PGR) constituted another painful aspect of the transformation process.

the number of unemployed exceeded 1 million and in the second year it climbed to 2 million people.

It should also be mentioned that real wages in national economy declined even more sharply at the beginning of the transformation process than did the GDP – in 1990 they declined by 24.1%, and did not start growing until 1994. Their subsequent growth was lower than the GDP growth until 1998 and they reached the level observed in 1989 only as late as 2004.

Though such critical opinions stem from their authors' deep concern for the development potential of the country, one has to remember that the critics of transformation process had the benefit of hindsight, while **Polish authorities, when commencing reforms, were not in position to debate the dominant socio-economic paradigm** of that time ("institutionalized" as the "Washington Consensus"). Poland, facing a debt trap, was subject to pressures from the owners of capital. Therefore, Polish authorities, aiming at attracting foreign capital and at entering the EU (at a later stage of transformation) had to pay serious attention to the expectations of international economic organizations and of international business.[4]

It is however, imperative not to confine the assessment of the transformation process to an analysis of the first few years of reform, since the **"transformation recession"** was observed only on the initial stage of the said process, which subsequently brought about the **uninterrupted economic growth recorded since 1992 and EU membership** with its attendant positive impact on the nation's development potential and on its position in the global economy.

[4] Authorities looked forward to the acceptance of the reform program by the IMF, because they considered such "a stamp of approval" as a precondition for obtaining access to loans of international economic organizations and to strengthening the country's hand in talks with other creditors.

Table 1: Selected macroeconomic indicators for the period 1990-2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Rate of change over previous period											
GDP	-8.0	-7.0	2.6	3.8	5.2	7.0	6.0	6.8	4.8	4.1	4.0
industrial production (sold)	-23.2	-8	2.8	6.4	12.1	9.7	8.3	11.5	3.5	3.6	6.7
Investment outlays	-10.1	-4.1	0.4	2.3	8.1	17.1	19.2	22.2	15.3	5.9	1.4
Average monthly real wages and salaries	-24.4	-0.3	-2.7	-0.3	1.7	2.8	5.5	5.9	3.3	4.7	1.0
Inflation (CPI) – December on December	249.3	60.4	44.3	37.6	29.5	21.6	18.5	13.2	8.6	9.8	8.5
Inflation (CPI) – monthly average	11.0	4.0	3.1	2.7	2.2	1.6	1.4	1.0	0.7	0.8	0.7
Retails sales (constant prices)	-17.4	3.7	7.9	7.0	3.0	2.3	4.5	6.8	2.6	4.0	1.0
Result in a given year											
GDP per capita (at PPP) USD		4466	4697	5114	5459	6350	6663	7320	8165	8763	9588
Unemployment rate	6.5	12.2	14.3	16.4	16.0	14.9	13.2	10.3	10.4	13.1	15.1
Foreign debt (end of year) USD billion	48.5	48.4	47.0	47.2	42.2	44.0	47.5	49.6	59.2	65.4	69.5
Foreign trade balance (million USD) – CSO statistics	4541	-853	-2726	-4691	-4329	-6144	-12697	-16556	-18825	-18504	-17289
Foreign Direct Investment (net) USD million		136	284	580	542	1134	2741	3041	4966	6348	8169
Foreign Investment – cumulative million USD	0.1	0.4	1.6	3.2	4.9	7.8	14.0	20.6	30.7	38.9	49.4
Current Account Balance (% of GDP)	-	-3,4	-1,8	-3,3	0,7	4,2	-1,0	-3,0	-4,3	-7,5	-6,3
Public finance sector's balance (% of GDP)		-2,3	-5,3	-2,8	-2,8	-2,9	-3,3	-3,2	-2,6	-3,2	-3,0
State Treasury's Debt in relation to GDP	95.1	81.8	86.7	88.7	67.6	54.3	47.8	46.9	42.9	42.8	38.8
Investment rate (% of GDP)	21.0	19.5	16.8	15.9	17.9	18.6	20.7	23.5	25.1	25.5	24.9
Domestic savings rate (% of GDP)	32.8	18.0	16.7	16.5	19.8	22.1	20.3	20.2	21.0	20.0	19.2
R&D expenditures % of GDP	1.9	1.0	0.9	0.8	0.76	0.69	0.71	0.71	0.72	0.75	0.70
Private sector's share of:	%										
Employment *	48.9	54.3	56.0	58.9	60.6	62.8	65.1	68.2	70.7	72.3	73.7
GDP	30.9	42.1	47.2	51.9	53.3	60.6	62.7	67.1	69.5	70.4	71.5
Gross value of fixed assets *	34.7	35.2	36.8	39.0	40.9	40.3	38.0	42.3	44.4	46.5	48.6
Retail sales	63.	82.	86.	89.	90.	92.	92.	94.	95.	95.	95.

	7	8	4	1	8	4	9	4	0	1	1
Exports	4.9	21.9	38.4	44.0	53.2	56.8	62.9	74.3	78.8	81.0	83.6
Share in the GDP											
Sector I (agriculture)	8.5	6.5	7.1	7.2	6.9	6.9	6.4	5.5	4.7	4.1	3.6
Sector II (industry and construction)	51	47.5	43.6	42.7	38.3	39.0	37.5	37.3	36.3	35.9	34.9
Sector III (services)	41	46.0	49.3	50.1	54.8	54.1	56.1	57.2	59.0	60.0	61.4
Share in employment											
Sector I (agriculture)	27	27	26.8	26.7	27.2	27.8	28.2	27.5	27.4	27.6	28.5
Sector II (industry and construction)	34	33	31.9	30.6	30.6	30.1	29.9	29.5	28.8	27.7	26.1
Sector III (services)	39	40	41.3	42.7	42.2	42.1	41.9	43.0	43.8	44.7	45.4

Source: The Social and Economic Transformation in Poland". Government Centre for Strategic Studies. January 2003.

The numbers presented in the table 1 attest to the severity of the 1990-1991 recession, indicating a profound drop in: the GDP, industrial production, investment outlays and retail sales (though the later category posted a decline in the first year of the period only). Simultaneously, there was pronounced growth in unemployment – with the **unemployment rate climbing from virtually 0 to 12.2% in 1991** and subsequently reaching the **peak-level of 20%** in 2003. The unemployment rate came back to single-digits **(9.5% in 2008)**, only to rise after the global crisis - with the rate of registered unemployment of 13.1% recorded in 2013 - though according to the Eurostat Harmonized Unemployment Rate in Poland (10.2% in the end of 2013) was lower than the EU average (10.9%). It should be also underlined that the "Polish way of transformation" proved decidedly the fastest in terms of making up for the GDP lost on initial stages of the transformation, with Poland being the first country in the Central and Eastern Europe, whose GDP volume returned to the level recorded prior to the transformation (as early as in 1995 Polish GDP was 3.1% higher –in real terms - than in 1989).

The Polish economy quite quickly overcame the adverse initial effects of the "shock therapy" and entered on a path of uninterrupted economic growth. According to M. Belka, despite changing governments, the Polish transformation has never lost its impetus, thanks to "nationwide support for the process of EU integration", and has further stabilized during second phase of transformation (1992–95). In that period the GDP grew on average by almost 5% per year, inflation declined to about 20%, the agreements signed with the Paris Club (April 1991) and subsequently with the London Club (October 1994) allowed to a substantial reduction of the foreign debt, and in April of 1994 Poland applied for accession to the EU (Belka 2013, p. 13).

Authors such as Belka also point out that on the third stage of the transformation process (1996–2004) "Poland became a middle-income country fully integrated into the global economy", with the intensifying inflow of FDI assuring access to modern technologies instrumental in modernizing the country and in improving the economy's exports-to-GDP ratio" (Belka 2013, p. 14).

We subscribe to the above-mentioned author's opinion that the attainment of the transformation objectives set in 1989 allowed Poland to obtain the benefits of EU membership. Poland's socio-economic transformation constitutes an example of a successful reform process, with the country's growth being one of the fastest in the region, though it should be also underlined that the said transformation brought about growth in income inequalities – as M. Belka points out Gini coefficient for income increased from 0.269 in 1989 to 0.359 in 2004 (Belka 2013, p. 15).[5]

Trying to encapsulate, in synthetic numerical terms, the progress achieved over the entire transformation period, we refer to the International Monetary Funds' database (prepared for the April 2013 edition of the World Economic Outlook) to calculate average rates of economic growth in

[5]Commenting on the degree of social inequalities in the country authors of the research Social Diagnosis indicated that said inequalities slightly declined in the period 2009-2013, with the value of Gini Coefficient falling from 0.313 to 0.299 (that is coming close to the pre-transformation level).

Poland in four decades that elapsed since 1980. Such calculations reveal that in the period 1980-1989 annual average rate of economic growth was negative (- 0.1%), mostly due to GDP losses incurred in the period 1980-1982 (when the annual average rate of growth amounted to -7% and therefore was roughly the same as in the period of the so-called "transformation recession" of the period 1990-1991). In the period 1990-1999, Poland's economy grew at the average annual rate of 2.6% (with the average figure being significantly reduced by the impact of the above-mentioned "transformation recession"), in the period 2000-2009 the average pace of growth accelerated to 3.9%, to subsequently slow down (to 3.0%) in the years 2010-2013.

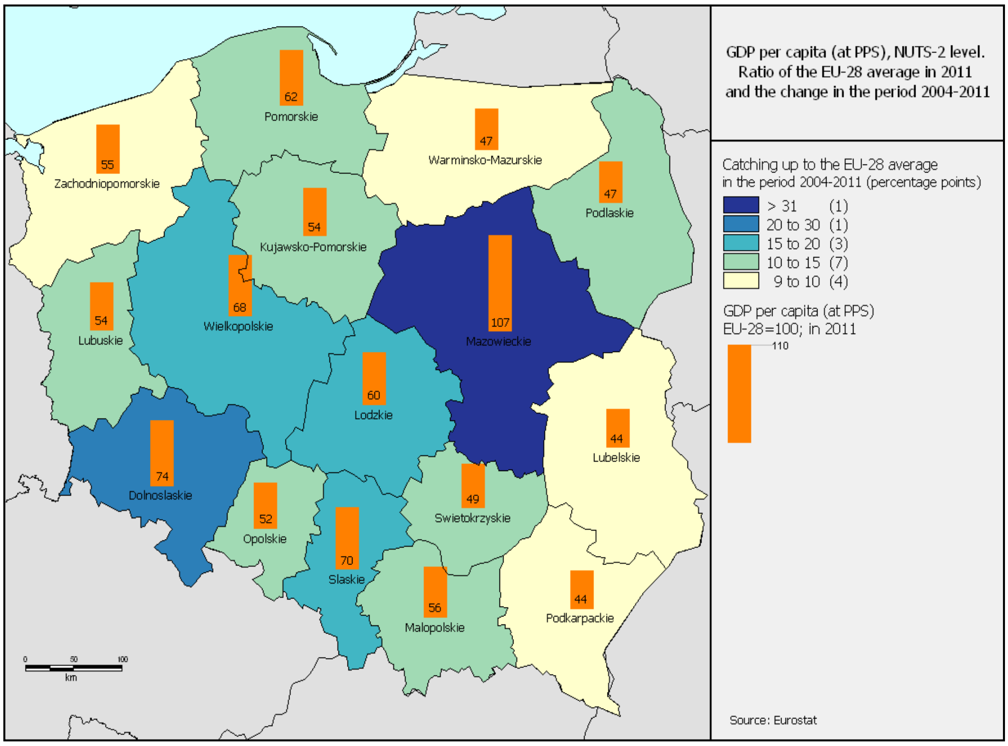
Table 2: Main macroeconomic indicators for the period 2003-2013

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Rate of change over previous year (%)											
GDP	3.9	5.3	3.6	6.2	6.8	5.1	1.6	3.9	4.5	2.0	1.6
Investment outlays (gross fixed capital formation)	-0.1	6.4	6.5	14.9	17.6	9.6	-1.2	-0.4	8.5	-1.6	-0.2
Inflation (CPI) – December on December	1.7	4.4	0.7	1.4	4.0	3.3	3.5	3.1	4.6	2.4	0.7
Retails sales (constant prices)	3.6	2.5	-2.4	7.2	7.6	5.0	1.7	-1.0	3.2	0.5	1.6
GDP per capita (at PPP) USD	11737	12698	13568	14863	16306	17481	17893	18796	19843	20577	21214
Unemployment rate (registered, end of year)	20.0	19.0	17.6	14.8	11.2	9.5	12.1	12.4	12.5	13.4	13.4
Foreign debt of public finance sector (end of year) USD billion	34.2	37.2	38.2	43.4	49.4	50.6	59.2	67.7	76.1	84.6	34.2
Foreign trade balance (million USD) – CSO statistics	-14.4	-14.4	-12.2	-16.1	-25.4	-38.6	-12.9	-18.3	-22.1	-13.8	2,0
Foreign Direct Investment (net) USD billion	4.1	10.2	8.3	15.7	17.2	10.1	9.3	10.5	14.9	4.8	X
Foreign Investment – cumulative USD billion	64.2	74.4	82.8	98.5	115.8	125.9	135.2	145.7	160.6	165.4	X
Current Account Balance (% of GDP)	-2.5	-5.3	-2.4	-3.8	-6.2	-6.6	-3.9	-5.1	-5.0	-3.7	-1,4
Balance of government and self-government sector (% of GDP)	-6.2	-5.4	-4.1	-3.6	-1.9	-3.7	-7.5	-7.8	-5.1	-3.9	-4.3
Debt of government and self-government sector (% of GDP)	47.1	45.7	47.1	47.7	45.0	47.1	50.9	54.9	56.2	55.6	57.0
Investment rate % of GDP	18.3	18.1	18.2	19.7	21.6	22.3	21.1	19.9	20.2	19.2	18.4
R&D expenditures % of GDP	0.54	0.56	0.57	0.56	0.57	0.60	0.67	0.74	0.76	0.90	X

Source: CSO. Annual economic indicators. www.stat.gov.pl

This strong economic growth led to a noticeable increase in the average level of wealth – as measured by the country's GDP per capita (at Purchasing Power Parity). IMF data presented in the World Economic Outlook, indicate that per capita GDP increased from approximately USD 4250 USD in 1980 to about USD 21200 in 2013. However, despite these gains, Poland's share in the world's GDP (at PPP) declined from 1.3% in 1980 to nearly 0.94% in 2013. GDP per capita (at Purchasing Power Parity) can also be used as a proxy for comparing living standards in the EU. In 2004 Poland's GDP per capita amounted to 49% of the EU-28 average, while by 2013 it increased to 68%. In other words, in just 10 years Poland has narrowed the distance to the EU average level of wealth by 19 pp (with the "annual average convergence rate" of slightly below 1.7 pp). Were Poland to maintain such a convergence rate in the future, the country would reach the EU average level of GDP per capita around 2032.

Map 1: GDP per capita in Polish regions in the period 2004-2011.



Source: Ministry of Infrastructure and Development. The Impact of Poland's EU Membership and of Cohesion Policy On National Development.

At the same time it is worthwhile to stress that the "regional data" released by Eurostat indicate that in 2011 the ratio of GDP in Polish voivodeships to the EU-28 average amounted from 44% in Podkarpackie and Lubelskie Voivodeships to 107% in Mazowieckie Voivodeship, with five voivodeships of Eastern Poland posting values two times lower than the European average.

It should be also underlined that between 2003 and 2011 all Polish voivodeships have noticeably narrowed the gap vis-à-vis the EU average, with the largest gains observed in Mazowieckie (31 pp), and Dolnośląskie (24 pp) and the lowest ones – of 9 pp - in Zachodniopomorskie, Warmińsko-Mazurskie, Podkarpackie and Lubelskie.

The above-mentioned figures point out simultaneously to the enormous gains observed in this area (particularly after the EU accession) and to the magnitude of development effort required in the next two decades in order to significantly increase both the average level of wealth in the country and its position in the European and global economy. The ratio of Poland's GDP per capita (at PPP) to the average level in Eurozone (17 countries) grew between 2001 and 2013 from 42.9% to 63%.

The impact of EU membership on the socio-economic development of the country is evidenced, inter alia, by an acceleration of economic growth thanks to the availability of the EU Cohesion Policy financing. According to analyses commissioned by the Ministry of Regional Development (precursor of the Ministry of Infrastructure and Development), the annual average rate of GDP growth in the period 2004-2015 will have been by about 0.75 pp. higher thanks to the impact of the said policy, than in the counterfactual scenario which assumes the lack of the policy's measures. It is also estimated that the implementation of the Cohesion Policy in Poland was responsible for approximately ¼ of the narrowing of the GDP per capita gap between Poland and the EU average attained in the period 2004-2013 (Ministry of Infrastructure and Development 2014).

Current place of Poland in the global economy

Recognition of the undeniable achievements of the transformation process should not constitute grounds for being complacent about the current and future position of the Polish economy in the global competitive race. In order not to rely excessively on domestic experts, we would like to advert to an article by M.A. Orenstein, published in the January-February 2014 edition of Foreign Affairs. The author paints a moderately flattering picture of the Polish economy, focusing particularly on the fact that Poland's strength as an investment location derives from the depth of its mutually beneficial linkages with Europe's leading economy (Germany) (Orenstein 2014). The author shows that Poland constitutes favourite location for German producers, for whom it serves as a low-cost, high-quality production platform (i.a. in case of automotive industry). He subsequently presents the opinion that Poland has, thanks to being an important part of Germany's supply chain, become "a great exporting economy" with the share of exports in the country's GDP standing at 46%, and Germany being Poland's largest trade partner ("buying or selling 25 percent of Poland's exports and imports").[6]

However, Orenstein is cognizant of the shortcomings of the above-mentioned growth model, admitting that Polish economy is heavily dependent on the inflow of foreign investments, that most of country's major banks and enterprises are foreign-owned and that many Poles work outside the country. Actually, it comes as a surprise that a foreign author, in an article attesting to the "Polish economic miracle" invokes the term "dependent market economy", attributing the said dependence to Poland's position as a reliable partner in supply chains controlled by foreigners. In

[6] Orenstein stresses, for example, that "cars and automotive components are now Poland's leading export, despite the fact that the country has no internationally known brand".

his opinion this forces Polish producers to control wages, which "stand currently at the level three times lower than in the more developed EU countries". This assertion is confirmed by statistical data - according to the Eurostat's data base, in 2012 hourly unit labour costs in Poland amounted to EUR 7.4 (as against EUR 23.4 on average in the EU). It should be further underlined that in the period 2009-2012 unit labour costs declined in Poland by 2.6% (compared with their 8.6% growth in the EU-27). In 2012 lower hourly unit labour costs were observed only in Bulgaria, Latvia, Lithuania and Romania, and Poland was one of the only 4 countries which posted a decline in hourly unit labour costs in the period 2009-2012. At the same time, significant improvements in the area of labour productivity per hour worked should be underlined. According to Eurostat, labour productivity in Poland doubled in the period 1995-2012 - growing from EUR 5.2 in 1995, to EUR 7.9 in 2003 and to EUR 10.4 per hour in 2012. However, this level was still low by EU standards - amounting to 20.6% of the EU-27 average in 1995 and to 32.4% of the said average in 2012. Therefore, in 2012 both labour productivity and labour costs were roughly 3 times lower than the EU-27 average. However, when we compare figures for labour productivity per hour worked adjusted for Purchasing Power Standards it turns out that the respective figure for Poland climbed from 38.2% of the EU-27 average in 1995 to 57.8% of the said average in 2012.

On the one hand a low level of wages allows Poland to be perceived as "a low cost, high-quality production platform", but on the other it reduces the potential for significantly boosting not only the workers' quality of life but also the domestic demand as such.

Since Polish workers are aware of higher wage levels in the developed countries, it will be difficult for producers to maintain their low-cost advantage. Such prospects should, therefore awaken policy-makers to the danger of the country's losing its allure as a low-wage location, and to the possibility of many call centres (which have become “mainstays of Polish employment”), moving out of the country in search of cheaper labour. Therefore, it is imperative that the national economy and its productive units secure a higher position in the value-added chain, by producing and exporting more high-tech and knowledge-intensive goods. However, this may prove easier said than done, since in 2012 R&D expenditures in Poland amounted to 0.9% of the country’s GDP and were not only over two times lower than the EU-28 average, but also lower –in terms of ratio to the GDP- than in the recessionary period of 1990-1991.[7]

Official governmental analyses identify certain weak spots in the country’s innovation system – for example experts from the Ministry of Regional Development commented in 2013 that low expenditures on R&D activity translated into unsatisfactory results in the sphere of science and technology, and therefore into low innovativeness of the Polish economy (Ministry of Regional Development 2013). It has to be underlined, however, that according to the Innovation Union Scoreboard 2014 (IUS 2014) Poland has returned to the category of “moderate innovators” - from the group of “modest innovators” (that is the least innovative EU countries) to which it has been assigned by the authors of the IUS 2013 (European Commission 2013). Nevertheless Poland’s cumulative score was two times lower than the EU average, with the main weaknesses identified in the fields of: non-EU doctorate students, PCT patent applications in societal challenges, as well as licence and patent revenues from abroad.

EU Cohesion Policy expenditure on innovativeness is expected to boost innovative outcomes in Poland, though the actual results have been mixed so far. In the period 2007–2013 entrepreneurs, research units and

[7] In 1990 the said expenditures constituted 1.9% of the GDP, 1.0% in 1991 and 0.9% in 1992. In the period 1992-2006 the ratio of R&D expenditures to GDP declined to 0.56%, from where it started to grow, cumulatively adding over 0.3 pp of the GDP in the last 6 years.

business environment institutions have received about Euro 10 billion under the Operational Program Innovative Economy. However, some authors argue not only that the above-mentioned inflows have yet to result in the expected improvement in innovative outcomes, but also that excessive reliance on the EU funds is myopic, since Poland should rely to a larger extent on the innovativeness of its own economic units. This argument is based on the premise that only technologically advanced companies can effectively compete in global markets, attract talented employees and pay higher wages (Marczuk 2014). If Poland continues to do "business as usual" it could fall into the so-called middle-income trap or, even worse, be reduced, to the "mundane" position in the international division of labour, colourfully described by professor Jerzy Hausner as that of a "master of screw turning" (Geodecki, Hausner 2013).

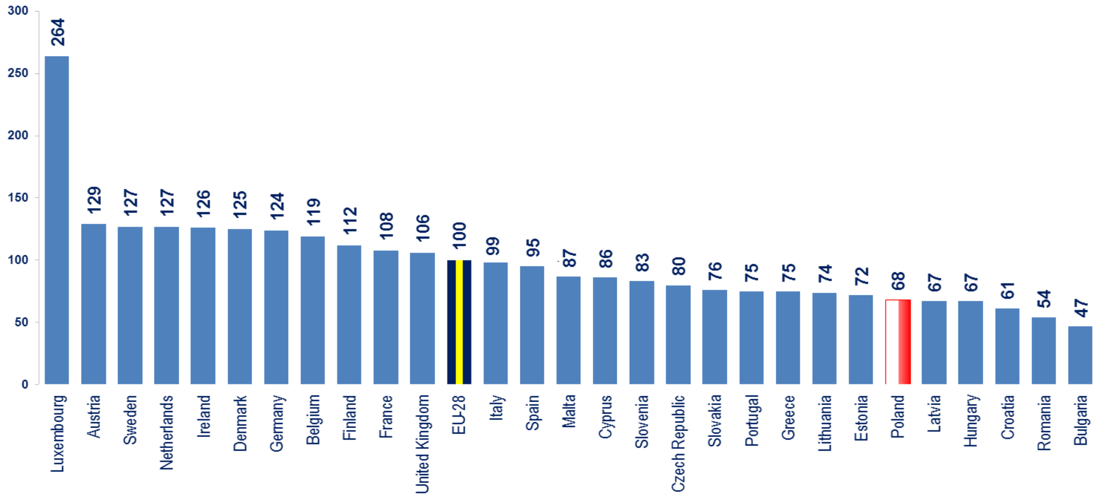
However, it should be underlined that authors such as Orenstein, rightly discern opportunities for changing the power engines of the Polish economy, when they point to the magnitude of the education effort on the part of Polish society. Poles learn foreign languages, take part in student exchanges and accumulate experience abroad. Orenstein stresses, for example, that Poland posts currently the second-highest rate of college enrolment among all OECD countries. At the same time, he proclaims that the development of small, innovative technology firms bodes well for Poland's efforts aimed at climbing up the value ladder.[8]

To make progress, as Poland closes the developmental gap between it and the major economies of the West, it will be critical to focus, inter alia, on increasing domestic savings, raising labour participation, keeping a competitive exchange rate and opening labour markets to immigration. It is also necessary to expand the scale of innovative solutions instead of

[8] Orenstain, ibidem. At the same time it is necessary to advert to the weakening of the system of vocational education observed in the course of transformation process, and to underline highly uneven quality of academic education offered by various educational institutions.

relying on the "imitation based model". Under such circumstances, the commitment of all political forces to another round of reforms is required in order to catch up with the developed countries of the Western Europe.

Graph 1: GDP per capita (at PPP) in the EU-28 countries in 2013



Source: Eurostat

The magnitude of the future development effort needed is underlined by the fact that, despite the progress observed on the way of transformation and internalization of the Polish economy, in 2013 the level of the country's GDP per capita (at PPP) was sixth from the bottom in the EU, being higher only than that of Bulgaria, Romania, Croatia, Latvia and Hungary.

When it comes to less measurable aspects of human existence, which have, however, a profound impact on the functioning of the economy and of social sphere, it is necessary to refer to the dichotomy "human capital" vs "social capital". Poles have become hard-workers, with the number of hours worked - amounting to 1929 per year in 2012 - being 5th largest in the OECD (where average figure stood at 1765 hours).[9] On one hand this situation allows Poles to raise their material standards, while on the other gives them less time to enjoy the fruits of their creativity, to take

[9] OECD Statextracts. https://stats.oecd.org/Index.aspx?DataSetCode=ANHRS.

care of psychological needs of their families or to participate in social initiatives.

At the same time growth in competitive attitudes leads to a declining level of cooperative behaviour and consequently to a weakening of the social fabric. Moreover, society's trust of the state and of the political class has been declining, which - when compared with almost universal support for the transformation process at its beginning - can be regarded as one of the most disappointing aspects of transformation and of the resultant model of development.

Conclusion

Summing up the results of the previous 25 years of the Polish economy's transformation and internationalization, one should point to the numerous undisputed achievements of the process discussed. Solid foundations for market-based economic structures and of robust competition in the internal market were established. A modern financial system was created and the ownership structure transformed. Control over prices was regained and market shortages eliminated leading to the expansion of consumer choice. The period of so-called transformation recession proved to be shorter than in other former communist countries, and since 1992 Poland recorded relatively high rates of GDP growth. The strength of the national currency was restored, while inflow of foreign capital constituted an important aspect of an internalization of the economy. The country was able to meet the requirements of the EU accession and subsequently witnessed acceleration of convergence with the EU in terms of the average wealth level, as evidenced by the GDP per capita growth. Poland started to be regarded as a trustworthy economic partner. It should be also noted that environmental aspects of development gained in importance, the role of self-government was expanded, the SME sector became increasingly important for the national economy and progress in the development of infrastructure accelerated.[10]

However, it should be also mentioned that the socio-economic changes which took place in the course of transformation did not always progress at the desired pace or on the expected scale. Therefore, in many areas the current socio-economic situation differs significantly from the one observed in the most developed countries of Western Europe. Among the negative aspects of the transformation, one could enumerate:

a) high unemployment and its resultant social and economic costs;[11]
b) insufficient recognition of the role of science and technology as an engine of development, despite sizeable EU financing allotted for that area within the framework of cohesion policy;
c) growth in the scale of social disparities, between various segments of the population, between regions and inside regions;
d) lingering high public finance sector deficits, which reduce the potential of financing future development efforts;[12]
e) weakness of civic society and of state agencies in mobilizing the collective efforts of society due to both declining trust towards the state and primacy of individual achievement over group collaboration;[13]

[10] M. Piątkowski underlines that between 2000 and 2013 the length of highways and express roads has increased fivefold while the number of personal cars increased twofold), these investments, together with further large outlays on the highway, railway and—most importantly—broadband network will spur economic growth for decades to come.
[11] According to the 2013 edition of Social Diagnosis, published by Council of Social Monitoring (Rada Monitoringu Społecznego) in 2013 5% of Poles lived below the threshold of extreme poverty, while 44.7% lived below the threshold of deprivation.
[12] In 2009 the European Commission introduced in Poland the excessive deficit procedure on the account of the public finance sector's deficit exceeding 3% of the GDP; the procedure was suspended –though not terminated – in June of 2014.
[13] In the period 2011-2013 a number of people dissatisfied with the state has increased, with the majority concerned about future prospects. According to the Social Diagnosis "Poles believe the state has mastered the art of "playing them" and therefore there is a weaker relationship between the government and their personal lives". Trust of others characterized only 11% of respondents (12.2% in 2011) while the share of socially active people declined to 15.2%.

f) brain drain associated with the mass emigration, which accelerated beyond expectations after the EU accession;[14]

g) expansion of the informal economy - resulting in "irregular" working conditions and in lower tax revenues - as well as high incidence of corruption (prevalent also before the transformation) and of organized crime (practically non-existent before 1990).

Any attempt at encapsulating the assessment of the multifarious dimensions of the transformation process in a concise statement carries with it the danger of excessive "mental shortcuts". However, relating the memory of both the "shortage economy" of the 1980s and of the political system of that time to the current socio-economic conditions after the last quarter century, we are disposed to assess the transformation as a "moderate success".

Looking into the future and taking into account the enormity of the challenges related to strengthening the country's competitive stance on the European and global scene, it is important that all the stakeholders of the process do not "rest on their laurels" and are effective in achieving the ambitious objectives of the strategic documents (such as National Development Strategy 2020 or the Long Term Development Strategy. Poland 2030) by building upon what has been achieved so far.

The transformation and internationalization of the Polish economy is an ongoing process, so any evaluation of its achievements to date should be aimed at optimizing its future course and not at passing definite, historical

[14] Poles are allowed to travel freely abroad to work, study and sightsee and are extensively using that opportunity to earn money and accumulate experience, though there are some problematic aspects of that mobility. Central Statistical Office estimates the number of „short-term" emigrants (those who went abroad but are still registered as residents of Poland) at about, 2.2 million people[14]. On one hand this mobility creates an opportunity to harness, upon their return to the country, the experience and knowledge accumulated abroad into accelerating the socio-economic development domestically, but on the other it can lead to irremediable brain drain if the state and the national economy don't create conditions conducive to such a return.

judgments. Moreover, looking at the political turbulence across Poland's eastern border, any cautious observer cannot overlook the fact that the transformation brought about not only a democratic form of governance and development of self-government at various territorial levels, but also freedom of speech and respect for human rights making Poland a fully-fledged member of the international community of democratic market economies.

References:

Belka M. "How Poland's EU Membership Helped Transform its Economy" Occasional Paper 88. Group of Thirty. Washington DC 2013.

European Commission. „Innovative Union Scoreboard 2014" and „Innovative Union Scoreboard 2013"

Geodecki T, Hausner J. „Konkurencyjna Polska. Jak awansować w światowej lidze gospodarczej" (*„Competitive Poland. How to Progress in the World Economic League Tables")* Fundacja Gospodarki i Administracji Polskiej. Kraków 2013.

Karpiński A. "Gospodarka w dwudziestoleciu 1989-2009. Próba oceny" *("Economy in the period 1989-2009. An Attempt at Evaluation")* in: A.Karpiński, T.Kowalik, P. Kozłowski, K. Łaski, S. Paradysz "Dwudziestolecie polskich przemian. Konserwatywna modernizacja" *("Two Decades of Polish Transformation. Conservative Modernization"*) Instytut Nauk Politycznych. Polska Akademia Nauk. Warsaw 2011.

Karpiński A., Paradysz S., Soroka P., Żółtowski W. „ Jak powstawały i upadały zakłady przemysłowe w Polsce" (*„How Industial Plants Were Created and Falling in Poland")* Muza S.A. Warsaw, 2013.

Kowalik T. „Współczesne systemy ekonomiczne. Powstawanie, ewolucja, kryzys" (*„Contemporary Economic Systems. Raise, Evolution, Crisis")* Wydawnictwo Wyższej Szkoły Przedsiębiorczości i Zarządzania im. Leona Koźmińskiego. Warszawa 2000.

Marczuk B. „Mistrzowie dokręcania śrubek" *(„Master of Turning the Screws")* Rzeczpospolita. 26.02.2014.

Ministry of Infrastructure and Development. The Impact of Poland's EU Membership and of Cohesion Policy on National Development". Warsaw 2014.

Ministry of Regional Development. „Wpływ polityki spójności na rozwój społeczno-gospodarczy Polski w latach 2004-2015 w świetle wyników badań ekonomicznych" *("Impact of the Cohesion Policy on the Socio-Economic Development of Poland in the Period 2004-2015 from the Marcoeconomic Research Perspective")*. Warsaw 2013.

Ministry of Regional Development. „Przegląd Terytorialny. Polska 2012" *("Territorial Review. Poland 2012")*.

Mitchell A. "Orenstein. Six Markets to Watch: Poland. From Tragedy to Triumph", Foreign Affairs. January-February 2014.

Sadowski A. „Plan Wilczka dla Ukrainy" (*Wilczek's Plan for Ukraine*) Rzeczpospolita, February 26, 2014.

2013 Social Diagnosis Study". In New Poland Express. 4.10.2013. http://www.newpolandexpress.pl/polish_news_story-5933-2013_social_diagnosis_study_.php