

Polish Economic Miracle: The Road West 38 Million Vital, Little Plans

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Polish Economic Miracle: The Road West

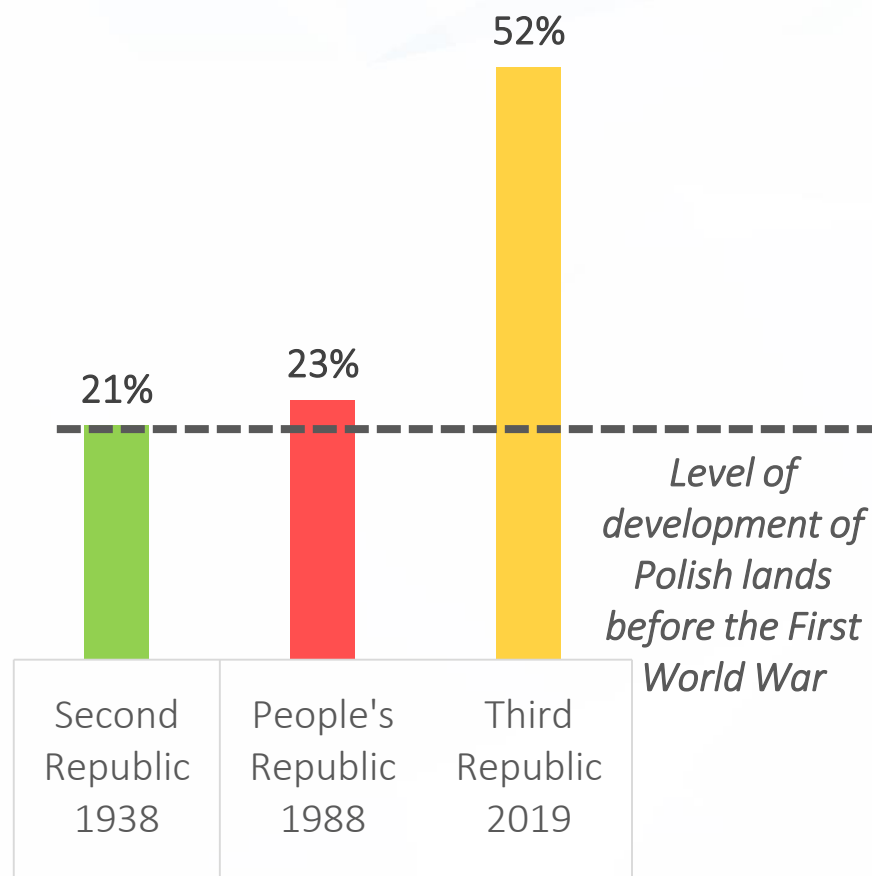
38 Million Vital, Little Plans

The standard of living of Poles in relation to the US, a global economic leader, today exceeds 50%. On the eve of World War I in 1913, at the end of the Second Republic of Poland in 1938 and at the end of the Polish People's Republic in 1988, our standard of living oscillated around only 20% of that of Americans at that time.

- After the collapse of socialist industrialisation in the mid-1970s, in 1989 we were one of the poorest nations in Europe. We were even poorer than Ukraine, Bulgaria and Belarus.
- However, after the collapse of socialism, we were the first to launch wide-ranging reforms that enabled development through the market mechanism. We were the first in the socialist bloc to chase the capitalist standard of living.
- Accession to the European Union opened the common market to Polish companies, eventually integrating them into the European economy.
- Further success depends on reforms limiting the harmful impact of politics on the economy, including the rule of law, which distinguishes the developed economies of the West from the rest of the world.

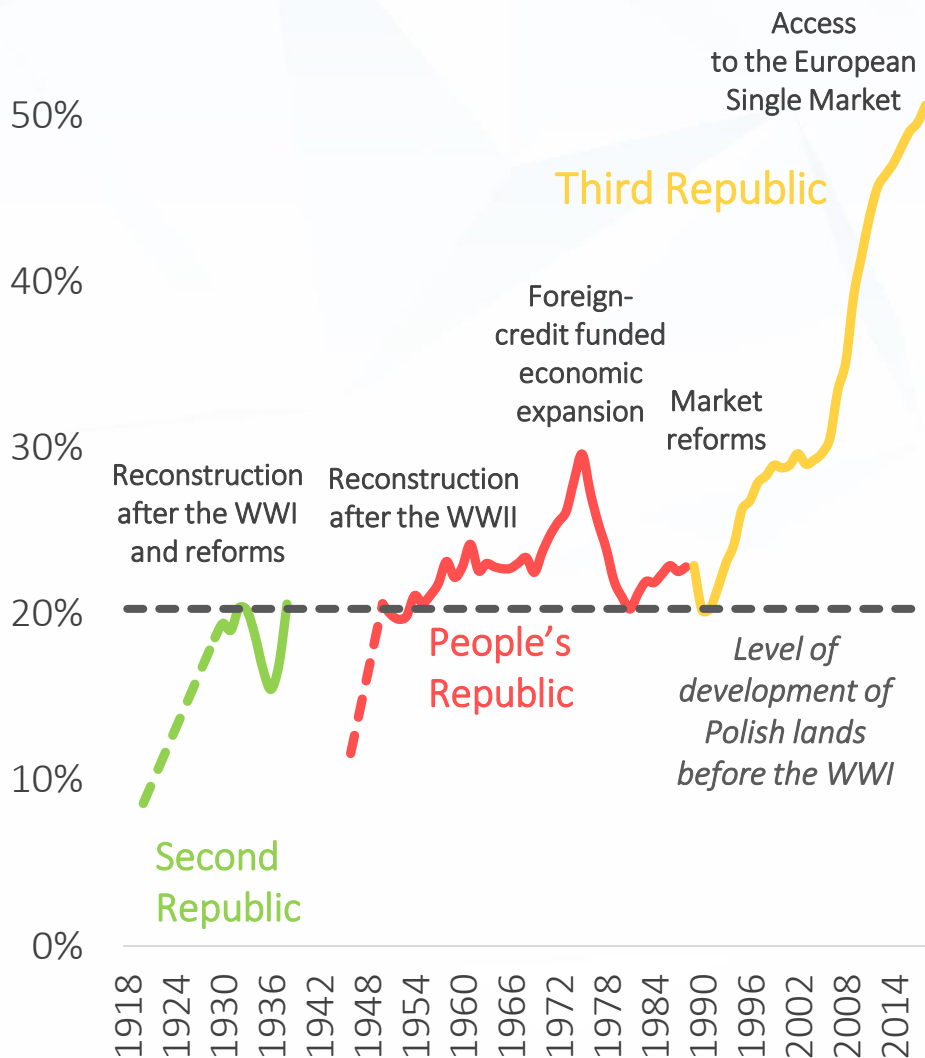
Standard of living in Poland in relation to the US

GDP per capita as % of the US, current PPPs



Standard of living in Poland relative to the USA

GDP per capita as % of the US, current PPPs



The Second Republic is shown within its then borders

Attempts to industrialize the Polish lands by state capital during the partitions of Poland, the Second Republic and the People's Republic were unsuccessful. Only the development of the market and the inflow of foreign capital in the Third Republic led to the modernization of the economy.

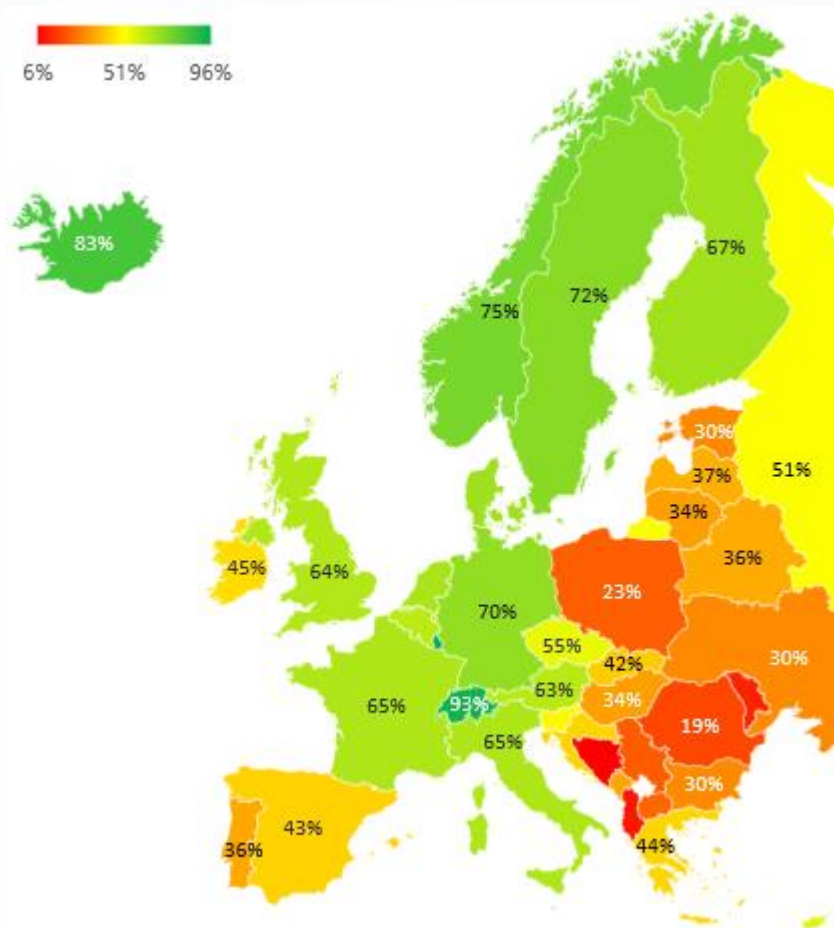
- During the partitions of Poland, the economic development of the Polish lands in relation to the then leader, the British Empire, remained unchanged. After the failure of the state industrialization of the Kingdom of Poland, the growth accelerated only in the Congress Poland along with a certain extent of market industrialization.
- In the Second Republic, isolation from traditional markets and internal problems blocked development. The relative success of the first decade of openness to capital and the limited role of the state was halted by the global economic crisis. State industrialization, which temporarily boosted the economy, was interrupted by the war.
- Also in the People's Republic, the dreams of socialist theoreticians of state-owned industries that would develop protected from external competition turned out to be flimsy. After 40 years of state industrialization, it was necessary to start the process of building a modern economy from scratch.

In 1989, Poland was one of the poorest countries in Europe. During the partitions of Poland, the Second Republic and the People's Republic, we tried to industrialize under the direction of and be funded by the state. However, this time we decided to follow the example of the West: we allowed the Poles to act, developing the market and reforming state institutions. As a result, for the first time in our history we created a strong and relatively rich middle class.

- The isolation from abroad, typical of a socialist economy, was replaced by an openness to foreign competition and capital. The entry of foreign enterprises was associated with the transfer of technology and work organization methods, enabling development based on productivity growth and not only capital expenditure.
- Accession to the EU opened the common market to Polish exporters, anchored us in European economic ties and forced the modernization of companies and the state.
- The World Bank (2012, 2018) defines the EU as a 'convergence machine' because its freedom of movement of goods, services, capital and people, together with a level playing field in the market, is what best allows to catch up with richer countries through poorer countries such as Poland.

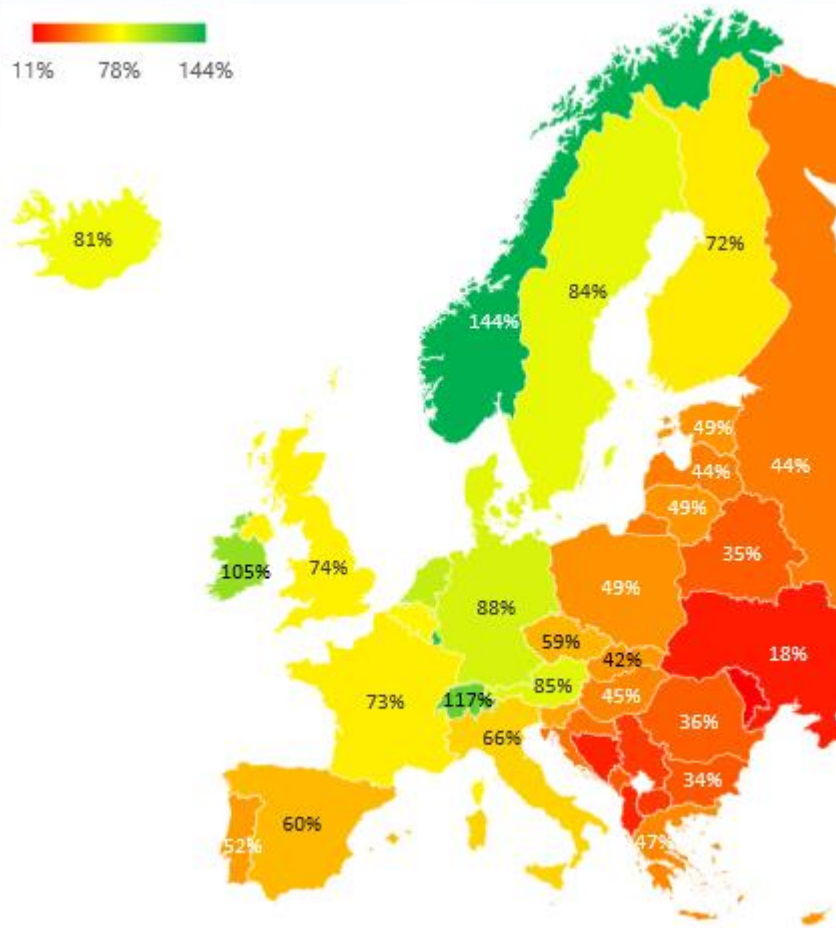
Standard of living in Poland in the relation to the US in 1989

GDP per capita as % of the US, current PPPs



Standard of living in Poland in the relation to the US in 2016

GDP per capita as % of the US, current PPPs



The question that Poland is facing today is whether we will continue to catch up with the most competitive economies in the world by implementing the model of capitalism associated with northern EU Member States, or whether we will be stuck at the level of poorer and less competitive southern Member States.

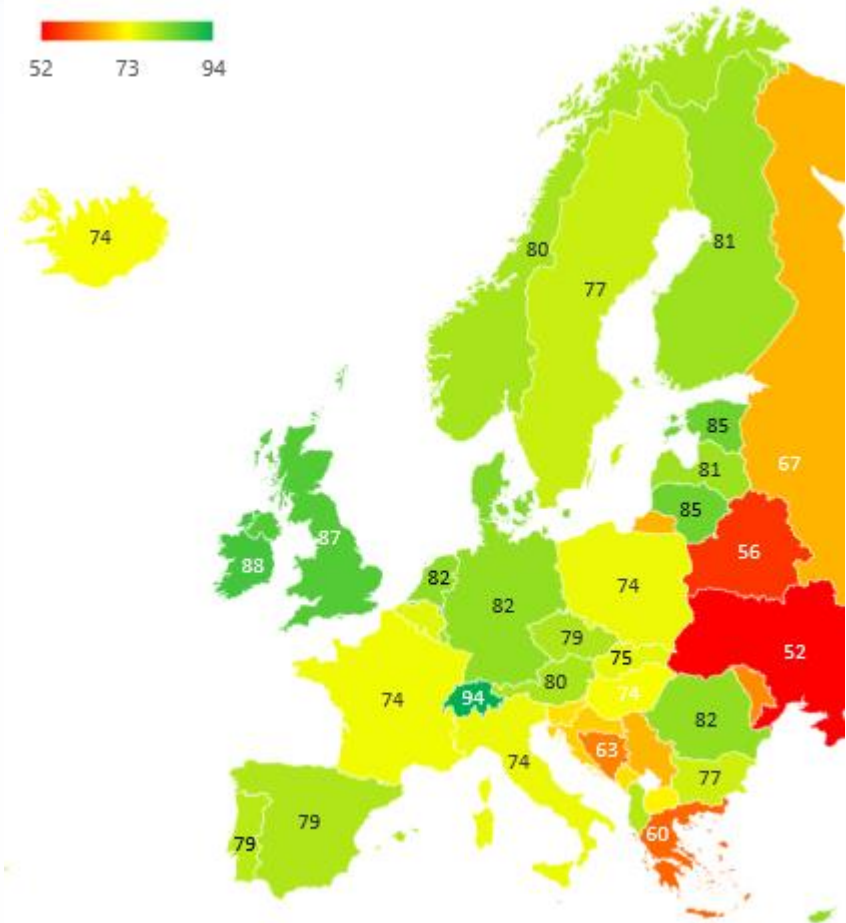
- Great Britain, Ireland, the Netherlands, Germany, Austria, as well as the Nordic countries, are characterized by a greater degree of economic freedom, the efficiency of state institutions, higher employment rates and larger, more efficient enterprises.
- At the opposite pole are the Member States associated with the so-called South – Greece, Italy and Portugal. All of them at some stage encountered barriers to further development - in the case of Italy, after a very dynamic growth in the post-war years. Overregulation, poor management of public finances and high unemployment rates.
- Polish companies in some sectors have already replaced companies from southern countries in European supply chains. It is important that they are gradually promoted to higher positions.

After the opening of European labour markets, Poles moved mainly to the northern EU Member States, which apart from high wages are characterized by a wide range of economic freedom, flexible labour markets and competitive product markets. Unfortunately, Poland, together with Italy, remains behind the rest of Europe (22nd place) and in a rather distant place in the world (54th place) in the index of economic freedom.

- Since the end of the 19th century, Poles have been emigrating to the West in consecutive waves in search of fuller opportunities for self-fulfilment, which is created not only by the prosperity of the local societies, but also, usually, a greater degree of freedom. International migration has so far replaced urban migration, as in many other peripheral regions. We will overcome this problem when we break our own peripherality and achieve a level of development similar to that of Western Europe. This was the case in Ireland in the 1990s, when it came close to the level of development of the United Kingdom, from a country of emigration to a country of immigration. One of the main factors of its success was the free market reforms.

Economic freedom in 2016

Fraser Institute Index, values scaled to 0-100

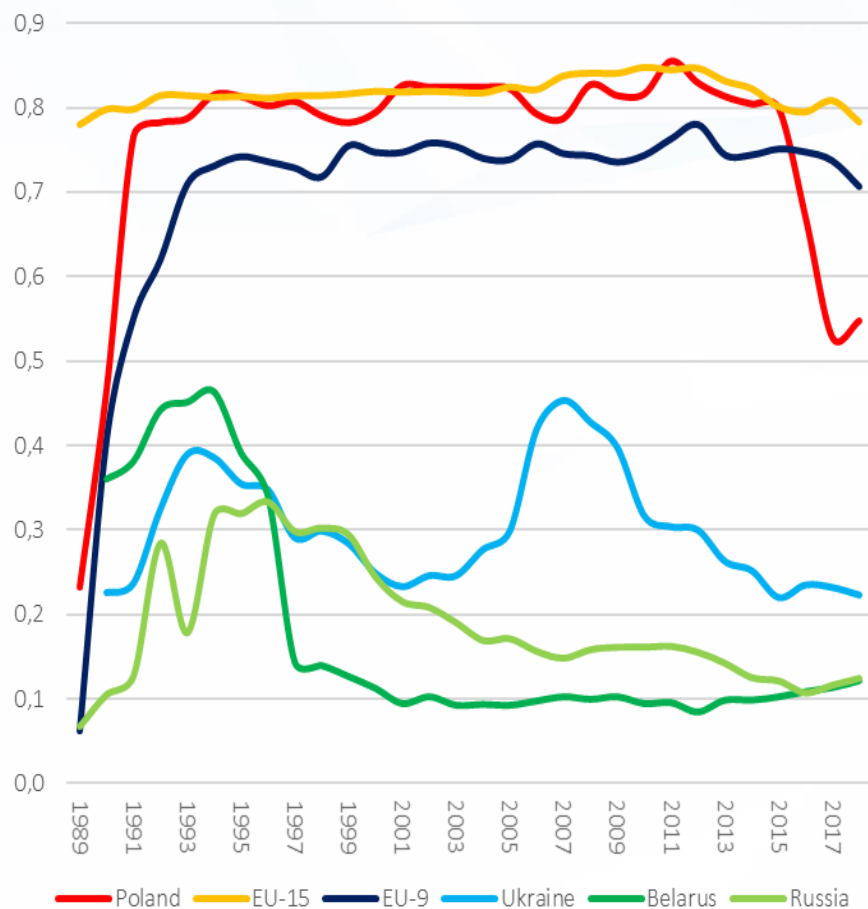


Systemic transition is not just about impressive economic growth. Poland's orientation towards the West also means an increase in the level of protection of human rights and other values that make up liberal democracy.

- Poland's accession to the Council of Europe, and then to NATO and the European Union also means an increase in indicators, which together we understand to be liberal democracy. In the most important rankings, we have radically improved our position in terms of freedom of speech and the freedom of the media, electoral standards, equality before the law (including gender equality) and the quality of justice. Among all the countries that have been members of the European Union since 2004, Poland was an unrivalled example to follow.
- However, nothing is given once and for all. The last 3 years have seen an unprecedented fall in standards, mainly due to the fact that the judiciary is dependent on politicians and the quality of legislation has been reduced.

Liberal democracy 1989–2018

Values of Liberal Democracy Index, 0–1



Source: FOR own elaboration based on V-Dem (2019); EU-15 means the median of the 15 old EU Member States, EU-9 means the median of values other than Poland of the former socialist states, which are today EU members.

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