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## **Strategiczne wyzwania Polski w pokryzysowych uwarunkowaniach rozwoju**

### **Streszczenie**

W artykule przedstawione zostały strategiczne wyzwania rozwojowe Polski ukształtowane w okresie transformacji systemowej i w okresie pokryzysowym, które blokują dalszy jej rozwój społeczno-ekonomiczny. Tylko sprostanie tym wyzwaniom stwarza Polsce szansę na przezwycięzenie pułapki średniego rozwoju (dochodu), która blokuje dalszy zrównoważony rozwój kraju. Szanse te wygenerować może wdrożenie nowych kierunków rozwoju tj.: reindustrializacji, proinnowacyjnych zmian strukturalnych w gospodarce, udomowienia banków, stworzenie narodowych innowacyjnych i konkurencyjnych specjalizacji gospodarczych, wykreowanie polskich prywatnych championów, konkurencyjnych w skali europejskiej i światowej oraz wzmocnienie aktywności polskiego sektora prywatnego w inwestycjach rozwojowych.

**Słowa kluczowe:** strategiczne wyzwania rozwojowe, pułapka średniego rozwoju, nowe kierunki rozwoju Polski

### **Poland's strategic development challenges in post-crisis conditions**

### **Abstract**

This article addresses Poland's strategic development challenges formed in the transition and post-crisis period. These challenges are obstructing further socio-economic development and only by meeting them will it be possible to overcome the middle income (development) trap, which hinders Poland's further sustainable development. These possibilities can be generated by the implementation of strategies and development programs: reindustrialization, pro-innovation structural changes in the economy, domestication of banks, creation of national innovative and competitive economic specializations, creation of Polish private champions who will be competitive on the European and the global scale as well as by the engagement of the Polish private sector in development investments.

**Keys words:** strategic development challenges, middle income (development) trap, new directions of development in Poland

**JEL CODE:** O38, O40

### **Introduction**

The purpose of this article is to highlight Poland's strategic development challenges, which should be properly addressed in order to break out of the middle income (and development) trap, and thus speed up the processes of real convergence with the countries of the euro zone.

Development challenges are objective (i.e. independent of human will) socio-cultural, technical and economic trends, or tendencies, generated on a global scale, by which states and their economic and social entities create opportunities for them to achieve a high international competitiveness and, consequently, a high standard of living for the citizens. The goal of the country's development strategy is adapted to these challenges since only then is their long-term economic and social development possible. The capability and ability of a country to adapt to global development challenges depends on many conditions. These include, above all, the model of socio-economic policy implemented, development programming, support for

demographic development and human capital, and pro-innovation structural changes in the economy.

The global crisis proved that the previously functioning model of neoliberal speculative capitalism is detrimental to both society and capitalism itself and therefore has to be rejected (Prusek 2010, Kolodko 2010, Kowalik 2010, Żyżyński 2010). The post-crisis experience clearly demonstrates that these challenges cannot be left to the very strength of market mechanisms and the unbridled geopolitical competition of world powers. The independent operation of market mechanisms does not solve the problems of the future and is unable to meet the developmental challenges of humanity, in particular the income polarization of world societies, as unequivocally pointed out by T. Piketty (2015). The intensifying tensions may lead to a conflict of civilizations, which may turn out to be our last and completely devastating clash (Sachs 2007).

Social teachings of the Church contained in the Encyclical of John Paul II, "*Sollicitudo rei socialis*", rightly denounces the economic, financial and social mechanisms that "strengthen the state of wealth of some and the poverty of others". These mechanisms created by developed countries "favor the interests of those who maneuver them, and lead to the stifling and dependence of the economies of less developed countries." (John Paul II, 1987). In the Encyclical "*Caritas in veritate*" - "Love in Truth" - Pope Benedict XVI aptly states that it is the political community that should first care for resolving social problems, i.e. achieving the common good. Therefore, the serious imbalance is caused by the separation of economic activity, including wealth production, from political activity aimed at achieving justice through the redistribution of wealth. This type of ideology, which has incurred enormous social costs in global terms, is neoliberalism, expressed as extreme apologetics for profit at any price, without taking into account ethical requirements and man himself. The truth of development lies in its integrity: if it does not embrace the whole person and every human being, development is not a real development" (Benedict XVI 2009, p. 16). The global economic crisis demonstrated the decisive role of the state in repairing objective and subjective dysfunctions of a neoliberal market economy, which necessitates the reconsideration of the position of the public sector in the market economy in order to effectively face the challenges of the modern world (Benedict XVI 2009, p. 27).

The coexistence of market mechanisms and the conscious influence of the state on the functioning of the economy and social life is the standard of a modern state and its development policy in the post-crisis period. I believe that in the search for higher rationality and effectiveness of state functioning models, we must rely on rational pragmatism and reject market dogmatism. The current financial and economic crisis is also a crisis of democracy that has given in to the greed of financial markets and global corporations that "broke out" from all public control and subordinated politicians to their interests, and in doing so created an oligarchic system.

In order to overcome the contemporary crisis, it is necessary to direct the new development policy towards thinking in terms of the order and social and economic rationality upon which the concept of an ordoliberal and social inclusive market economy is based. The implementation of this concept of development requires a new socio-economic order and a fundamental strengthening of the power of the state and its institutions, which should be the foundation of new institutional conditions of management and should have an advantage over financial markets (Mączyńska, Pysz 2014). Joseph Stiglitz points out that inequalities are one of the factors in the waste of development potential and are conducive to the gradual dependence of states on capital (Stiglitz 2013).

Economic and social sciences have indicated the directions of required political changes conditioning the achievement of this new socio-economic order on a global scale, but there is a lack of will and executive action regarding these solutions on the part of decision-making

and political spheres, resulting from the oligarchic system still prevailing in the world's leading countries.

### **Development megachallenges in Poland in post-crisis conditions**

The fundamental cause of the growth of barriers, and at the same time Poland's development challenges, has been the neoliberal model of socio-economic transformation imposed by the West, beneficial to the West, no doubt, but very painful and problematic for Poland. This model, based on the assumptions of the Washington Consensus, led to the formation of current development barriers in Poland, to be overcome in the post-crisis period in order to escape the trap of middle income and development.

The neoliberal transformation plan contradicted the Constitution of the Republic of Poland, which states that "[a] social market economy, based on the freedom of economic activity, private ownership, and solidarity, dialogue and cooperation between social partners, shall be the basis of the economic system of the Republic of Poland" (Constitution of the Republic of Poland 1997, Art.20). A similar contradiction concerns Art. 2 of the Constitution, which states that "[t]he Republic of Poland shall be a democratic state ruled by law and implementing the principles of social justice". This item stands in flagrant contradiction with the income and property polarization of Polish society and long-term high unemployment and high economic migration of young and educated generation of Poles. It is also difficult to recognize that this model is guided by the principle of sustainable development referred to in Article 5 of our Constitution.

In the neoliberal model of the functioning of the economy, the Polish state was treated instrumentally by the private sector, especially foreign capital and the financial and corporate oligarchy. Meanwhile, an ordoliberal state, efficient and independent of the financial and corporate oligarchy, is indispensable for the proper operation of an inclusive economy. On the other hand, a self-sufficient private economy, with a large share of innovative sectors, is needed to strengthen the democratic power of the state due to its high efficiency (Wilkin 2008). Thus, between the modern market economy and the state, there should be a sort of balance and feedback, both necessary conditions for their effectiveness. In this model, it is necessary to respect the self-financing principle of private business entities and to reject the possibility of subsidizing them with taxpayers' money. Neoliberal private sector practices involving the privatization of public revenues and the nationalization of their losses are unacceptable.

The main megadevelopment challenge for Poland is to overcome the set of mutually coupled developmental barriers related to demography, the labor market and income-property polarization of society, namely (Prusek 2012, pp. 51-63):

- demographic barrier related to the decline of the Polish population, negative population growth rate, aging population, low economic activity, high economic migration of young educated citizens abroad to the EU-15 countries. This barrier affects, in particular, the young generation of Poles who do not have a job that would satisfy their professional and wage needs and cannot afford to buy a flat and start a family, which in turn results in a negative rate of natural increase and a further chain of negative socio-economic consequences.
- income and wealth barrier resulting from the abnormally low wages compared to jobs parallel in terms of the nature and productivity in the EU-15 and large property polarization in the Polish society, which undermines the dynamics of economic development and stimulates the economic migration of the young generation and "brain drain",
- structural barrier resulting from the deindustrialization of the Polish economy and its negative social and economic consequences.

The demographic barrier may reduce the population of Poland down to 35 million by 2020, and down to 25-30 million by 2050. This would mean a decline in potential GDP, a

decline in demand and revenues of the public sector and the gradual collapse of the pension system. In the case of an increase in the dynamics of economic migration, which is more often permanent migration, the dynamics of demographic recession may increase as a result.

The barrier of the lack of highly productive and well-paid jobs and the increase in unemployment in Poland was a natural consequence of the poorly conducted processes of deindustrialization and privatization of the Polish economy (Prusek 2005). As a result, the industry's contribution to GDP fell from 53% in 1985 to around 20% today, despite the large inflow of foreign direct investment (FDI). Deindustrialization resulted in the loss of employment for more than 3 million Poles, which could not be compensated by the simple inflow of FDI and the development of the SME sector. The decrease in state budget revenues due to taxes and dividends from state-owned enterprises was also important. As a result, there has been a significant decrease in real income of the public sector in respect of CITs and PITs and a dividend that prevents that sector from performing certain social, economic and environmental functions.

I share the view of A. Karpiński that deindustrialization in Poland was premature, economically unjustified and detrimental to economic dynamics, especially regarding the labor market. Deindustrialization should be considered the greatest strategic mistake of Poland's political transition (Karpiński 2003; Karpiński, Paradysz, Soroka, Żółtkowski 2015). Another grave mistake was the failure to restructure state-owned enterprises that could possibly achieve international competitiveness and their hasty sale to foreign capital instead of empowering the Polish society.

The income-property barrier in Poland was caused by the administrative increase of prices for the means of production under the 1990 supply price reform and, at the same time, the asymmetrically low wage growth and its additional hindering, first by *popiwek* (super-normative wages tax) - incompatible with the market logic - and then through a restrictive anti-inflation policy (Prusek 2009).

For these reasons, the monetary policy conducted in the transition period was instrumentally correct, i.e. it applied theoretically appropriate instruments in an extremely irrational and non-market wage and income situation at the highest interest rates for loans in the world, which effectively inhibited economic development and entrepreneurship. Therefore, it failed to counteract normal inflation, but rather official one, by simultaneously increasing wages and adjusting them to the level of European prices and wages. This led to a global imbalance between demand and supply, constrained economic development and job creation, unemployment generation, which made it devoid of both economic and social rationality.

In the period of political transition in Poland, the chances of a gradual annual indexing of the minimum wage and wages adjusted to the level of wages in the EU were lost. Thus, despite the administrative adjustment of prices for the means of production in Poland to the world market prices, the level and structure of wages failed to be regulated in parallel, and therefore significantly diverged from the relative levels and structures in the EU-15 countries. As a result, the average wage level in Poland within 25 years of transition has not yet reached the EU average. This policy has also consolidated the irrational level and structure of wages, and thus distorted the real social labor productivity in Poland.

The first development barrier stemming from the huge stratification of income in the Polish society ranks Poland as the country with the largest wage redistribution in the EU according to OECD reports. It means that we dealt in Poland with the most restrictive neoliberal model in Europe, which at the same time entailed the most severe negative social consequences. Secondly, during the transition period in Poland, there was a significant increase in labor productivity, but it did not translate into wage growth in an equivalent way. This capitalist exploitation of workers, especially under *salarization* and *precarization*, exists to this day.

The second megadevelopment challenge for Poland is the need to increase the dynamics of economic and social development, ensuring the possibility of rapid economic cohesion not only with the EU average, but also with the countries of the euro zone and overcoming the middle income (development) trap we have found ourselves due to the lack of endogenous, pro-innovation restructuration of the economy in Poland and the lack of knowledge-based economy (KBE). On the other hand, the dynamic processes of the non-equivalized privatization of Polish enterprises and the inflow of FDI, widely benefiting from tax preferences in special economic zones (SEZs), caused the Polish economy to be dominated by foreign capital. In this way, Poland has become a dependent economy of the neocolonial type, from which more capital flows out than flows in, including EU funds (*Plan M. Morawieckiego 2016*).

The third megadevelopment challenge refers to the need to develop human and social capital, which is a decisive factor for sustainable development. It is mainly determined by the level of education of the society and its ability to cooperate. In this respect, we diverge *in minus* from European standards as far as quality is concerned. It is a development challenge that determines the civilization advancement of society and the implementation of technical, economic, organizational, legal and social progress.

The fourth megadevelopment challenge for Poland is the necessity to fundamentally strengthen public sector revenues so that the sector in question can properly implement constitutionally defined social, economic, defense and ecological functions. The only rational solution must consist in introducing higher and progressive taxation of companies (especially financial) and wealthier classes of society, increasing tax collection and *repolonizing* the financial sector as a whole.

The fifth megadevelopment challenge for Poland concerns the issue of resolving the debt of the public sector finances and reduce the high costs of its servicing, which are a consequence of the implementation of the neoliberal development model. The high level of this indebtedness poses a threat in the form of destabilization of public finance and drastic cuts in the event of exceeding statutory limits of indebtedness, and thus also social destabilization. Breaking these financial barriers can be achieved without social tensions and in a sustainable way only by adopting social democratic instruments for balancing public finances, and not neoliberal solutions that shift the costs of these adjustments to the poorer sections of society.

Under conditions shaped by the neoliberal transformation, the Polish state and its Polish economy, rather than the economy in Poland, require substantial economic strengthening so that they can overcome the abovementioned barriers and the state can carry out its constitutionally defined functions. Therefore, it is necessary to cure the Polish economy, subject it to pro-innovative restructuration and increase the share of the public sector in the revenues arising from that economy's operation. It is also necessary to improve the efficiency of the functioning of the state.

### **Poland's opportunities for development in post-crisis conditions**

I believe that the only chance for Poland's development in post-crisis conditions is to work out and implement a state-controlled development strategy. This strategy of controlled change should aim at creating innovative national economic specializations competing on global markets. This is possible only with the active participation of the private sector, which should prefer endogenous and pro-innovative structural transformations of its enterprises accompanied by EU and national support.

In light of the above, Poland's only hope for development includes state-controlled endogenous and pro-innovation structural transformations supported by domestic and foreign capital. The scenario of controlled change assumes the strengthening of the state's position so that it can fulfill its constitutionally defined social and economic functions, and therefore pursue a development-oriented policy, mainly based on its own endogenous financial resources, rather than those granted, either entirely or mainly, by the European Union.

The initiation of a new strategy for the development of Poland requires direct development of the state and local governments, aimed at creating new strategic economic entities for the Polish economy. These include innovative investments in conventional, nuclear and renewable energy, arms industry, automation etc., as well as in innovative sectors. In these high-efficiency sectors, new and better (i.e. more efficient and better paid, plus sustainable because of their resistance to economic prosperity) jobs for university graduates should be created.

In the optimal scenario of controlled change, apart from the operation of market mechanisms, it is necessary for the state to control the income and wage policy, based on the wage and income cohesion strategy adopted under the social contract. In this scenario, the state should determine the annual increase in the minimum wage in the entire economy and the wage growth strategy in the public service sectors in line with its growing financial capabilities. This will then create conditions for wage increase in the production and service sectors through increased demand and growing profits of private companies. In this scenario, the migration of young people will gradually decrease and at the same time social activity and its innovativeness will increase, which will boost GDP, increase budget revenues and social security contributions, and, as a consequence, bring about a positive population growth rate. It is therefore a normative scenario ensuring a significant gap reduction in terms of living standards in Poland and EU-15 within approximately 10-15 years, depending on global conditions. This should be the policy of socio-economic and territorial cohesion that creates opportunities for development in Poland. Perhaps it will be further propelled by the wage harmonization policy postulated in the European Union, which is also to stop the delocalization of companies.

In the event of the failure to address these complex and multilayered socio-economic problems in the above-mentioned areas, the implementation of cohesion policy objectives in Poland will be long-lasting, ineffective and socially unacceptable, hence it may result in serious social and economic tensions (Prusek 2008; Prusek 2009).

Also G.W. Kołodko (2013) argues that a new cohesive development program is necessary in Poland, which must skillfully use the modern convergent megatrends in Poland's national interest. This will support economic dynamism, rather than inhibit it. The author further recommends a pro-growth reduction of inequality and development of human capital based on expenditures on education and culture derived from additional revenues of the tax office, instead of the increase in public debt which is to be limited consistently. This implies the updating of the tax system with regard to the liquidation of concessions, the combination of individual capital income with income from work and transfers, and their joint taxation on general principles, as well as extending the scale of tax progression. The implementation of this type of program will be possible only in the case of working out and consistently implementing the proprietary development program, which would gain public support and whose proper pursuit would be ensured by political and economic mechanisms of implementation.

These assumptions are largely met by M. Morawiecki's plan for responsible development (Polish: „*Plan na rzecz odpowiedzialnego rozwoju*”). I am convinced that this direction of strategic action is a fundamental priority in this development strategy. It assumes implementation of the priorities resulting from the five pillars of economic development, namely: reindustrialization, development of innovative companies, creation of capital for development, foreign expansion, and social and regional development (*Plan Morawieckiego* 2016, Ziolo 2016).

One should also be supportive of the expansion of the few Polish economic champions entering the global and European markets. At the same time it is necessary to eliminate the practice of discriminating Polish companies by dominant players on EU markets, which goes against the EU competitiveness policy but is nonetheless tacitly accepted by the European

Commission. This is clearly evidenced by the discrimination of the Polish company Fakro against the Danish Velux in the roof window market (FPoP 2016), in breach of EU competition law. Only through the endogenous development of the international competitiveness of Polish companies can we achieve the objectives of economic and social cohesion with the European Union countries and halt the demographic regress and migration processes of the educated youth, and consequently ensure long-term sustainable socio-economic and ecological development in the future. This cannot be achieved by the EU assistance itself, which may soon become relatively small anyway.

Poland's development prospects in post-crisis conditions are determined, on the one hand, by the new global market environment, i.e. the political and economic structure on a global and EU scale, which are still very labile and generate uncertainty. The second group of Poland's development opportunities will be determined by the effectiveness and efficiency of the implementation of M. Morawiecki's *Plan na rzecz odpowiedzialnego rozwoju*, its acceptance and support by domestic and foreign business environments, and the effectiveness of generating Polish capital for development purposes, including the effects of sealing the Polish tax system.

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