

The Polish economy: achievements, failures and development opportunities

***Marian Gorynia (the moderator) and the panellists:
Tadeusz Kowalski, Andrzej Matysiak, Witold Orłowski,
Ryszard Rapacki, Andrzej Wojtyna, Anna Zielińska-Głębocka,
Maciej Żukowski¹***

Marian Gorynia: Distinguished participants, Ladies and Gentlemen. My name is Marian Gorynia, I am the Rector of the University of Economics and Business in Poznań.

We celebrate the 90th anniversary of our University and today's panel discussion is one of the academic events in honour of the celebration. I am pleased that so many people accepted an invitation to our discussion. I would like to welcome the audience. I am also very glad to see the seven professors invited to participate in the discussion. Let me first introduce the panellists and then take you briefly through the topics that we would like to cover and the time frame the discussion.

I will introduce the panellists alphabetically by last name.

Tadeusz Kowalski, Professor of Economics, Department of International Competitiveness at the Poznań University of Economics and Business, Editor-in-Chief of *Economics and Business Review*.

Andrzej Matysiak, Professor of Economics, currently working at the Wrocław University of Environmental and Life Sciences, a graduate of the Poznań University of Economics and Business. He used to work at our University so in a sense it is his comeback.

Witold Orłowski, Professor of Economics at the Warsaw University of Technology, Chief Economic Advisor to PricewaterhouseCoopers, Economic Advisor to President Aleksander Kwaśniewski and member of the National Development Council of President Lech Kaczyński.

Another outstanding guest is Professor Ryszard Rapacki, Head of the Department of Economics at the Warsaw School of Economics, an expert at the United Nations (UNIDO, UNDP) and the OECD in the field of public finance and privatisation.

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Andrzej Wojtyna, Professor of Economics, Head of the Macroeconomics Department at the Cracow University of Economics, member of the Monetary Policy Council in 2004–2010 and an excellent reviewer.

Anna Zielińska-Głębocka, Head of the Department of Economics of European Integration at the University of Gdańsk, member of the fifth and sixth term of Parliament, member of the Monetary Policy Council in 2010–2016.

Maciej Żukowski, Rector-Elect of our University, Vice-Rector for research and international relations since 2008, chairman of the Board of the Polish Association of Social Insurance.

The structure of today's event is very simple. We would like our panellists to answer several questions, the main ones of which focus on achievements that the Polish economy has achieved since 1989. We would also like to hear your responses to the issues of failures and moments of crises that our economy has experienced. Then we will discuss development opportunities.

Let us talk about the achievements first. I will not make a long introduction and assess these achievements but – without denying you the chance of delivering your own three-minute speech on the topic – I would like to bring up some supporting issues you might address in your statements. To what extent are these achievements the results of economic policy and spontaneous processes? How did economic plans, such as the Balcerowicz plan and the Strategy for Poland prepared by Grzegorz Kołodko (it is not named after him, but I guess we could call it so), affected these achievements? How did the eruptions of domestic disquiet aimed at sweeping away the old order contribute to the achievements we are talking about today? I also have a question of a psychological nature: is it not enough to simply compare our economic achievements to *benchmarks*, or should we take into account the level of aspirations which also may serve as a reference point?

Ryszard Rapacki: Firstly the macroeconomic results. As an economist interested in quality, I will take care of numbers and rankings later. So, when it comes to achievements, I would like to remind you that before the beginning of the transformation process, the Polish economy was ranked as the second last in terms of GDP per capita among the new EU states from Central and Eastern Europe (CEE), and in the whole group of 27 countries undergoing transformation we were more or less in the middle. Today we can boast the fastest economic growth in this group, which is probably the result of both economic plans, spontaneous privatisation and the explosion of private entrepreneurship. According to the latest reports from the International Monetary Fund we are ahead of Greece taking the sixth place from last in the European Union and fifth in the group of new EU member states of the CEE.

Poland was the fastest growing economy in the CEE region in the period of systemic transformation. Also after 2008, as the only country in the EU, it avoided recession caused by the effects of the global economic crisis. Our

country was also one of the leaders in the process of real convergence: in 26 years we reduced the distance between Poland and the „old” European Union (EU15) by 26 percentage points. It was a healthy growth, because it was based primarily on the fast increase in total factor productivity (TFP).

Secondly institutions and developmental conditions. Poland attained the greatest successes compared to the group of new EU member states in terms of progress or speed of institutional changes. In the ranking of the European Bank for Reconstruction and Development, together with Estonia we are the leaders of structural reform in nine areas singled out by the EBRD. We have only 15% left to reach the so-called benchmark, because we bridged the gap in institutional indicators by 85% going from a centrally planned to a market economy.

Andrzej Wojtyna: The time dedicated to achievements and failures was equally divided, which is encouraging in light of the government’s opinion on Poland “*in ruins*”. When it comes to achievements my number one would be the development of a solid and fairly well-functioning, even if, hybrid and eclectic, model of capitalism in Poland. It combines the elements from the model of capitalism based on entrepreneurship, sometimes referred to as the Anglo-Saxon model, with welfare functions of the so-called continental model, which gives, in my opinion, quite good results. This was possible largely thanks to Poland’s accession to the European Union and reforms carried out in the process of economic and political transformation. The second achievement was the exclusion of the economy from the so called Polish-Polish political war, which resulted in a stable economic growth. We managed to maintain macroeconomic and macro-financial stability, although the achievement, which is globally known as the “*green island syndrome*”, had some negative consequences, such as excessive aspirations likely to have an impact on the future.

Anna Zielińska-Głębocka: I would like to dedicate a few words to finances as there is no healthy market economy without trustworthy financial institutions. I think that the creation of a healthy banking system, which basically did not exist before the transformation, was our great success. The Polish banking sector, characterized by relative stability, managed to resist both European and global crises which is also a helpful factor in transitions in financial markets. The stability of the banking sector has largely helped to keep the economy in good shape. Financial systems used by all national economies worldwide are actually founded on debt; for that reason, funds for most investments in continental Europe come from external sources. Poland is no different. This involves the second very important change, namely the establishment of an independent central bank. I think that this is a substantial benefit of our transformation. We were able to follow the same path that all the European countries took, thereby establishing independent institutions in terms of functions, management and capital. This is how the central bank, a very important institution of public trust, was created. This is all the more important given that the mon-

etary policy formula based on direct inflation targeting was adopted, which is a part of European tradition and which was agreed in the Maastricht Treaty. Since our central bank was included in the European System of Central Banks it had to obey all the rules of law. What is more, during the time of crisis, we managed to maintain a conventional monetary policy that did not require unusual instruments used by the European Central Bank or the Federal Reserve System. Conservative policy was the result of successive decisions made by the Monetary Policy Council. They affected financial stability, thereby helping us avoid a banking crisis. Monetary policy successfully became an inherent part of the so-called *policy mix*.

Witold Orłowski: I would like to highlight four major achievements. Each of these achievements can be immediately coupled with complaints and concerns that will be discussed in the next part of the event. For the time being, I will only talk about the good aspects which are of key importance.

The first issue was creating the environment for entrepreneurial success. I will assign this achievement to the Balcerowicz plan even though I have all first generation reforms in mind. These business-friendly conditions include stabilisation, liberalisation of the economy, opening up to competition, the beginning of privatisation. I think that further reforms of the so-called second generation were less and less successful. In 1989, Poland was a country where conducting business activity on reasonable terms was impossible. A few months later, however, it was feasible. Does the state deserve any credit for it? The role of the state in the economy is a lot like health in Jan Kochanowski's epigram: we complain about it when it is declining, but we do not notice it when everything goes as planned. Let us take a look at Ukraine. If the state does not work, if it is not able to provide the foundations for stability, integrity and transparency nothing will succeed.

The second issue is the creation of market institutions starting from the financial sector. The whole company law had to be created almost from scratch. It is just inconceivable to think how many mistakes we might have made. We escaped them miraculously.

The third achievement is the opening of Polish economy to the world. In 1989 our economy was closed. In 1990 our exports amounted to 12 billion dollars. Today they are worth 250 billion dollars. This is an example of how the Polish economy changed when it joined the world.

Lastly and the result of the above, an increase in GDP per capita and in labour productivity per employee, especially in industry. This means a good use of labour resources that were available in Poland.

Andrzej Matysiak: I think the greatest achievement of the systemic transformation in Poland was an acceleration of development, which is obvious to all wasting time in endless queues. Every civilisation is based on material goods which determine the level and quality of life, individual and collective.

Civilisation in a broader sense also includes competence in the field of technology and organisation of public life (know-how).

Chronologically the first shock was the abundance of goods which was the result of the system of liberalisation and the external convertibility of the złoty. An access to new goods, inaccessible for years, manifested in the replacement of household equipment and convergence of lifestyle, especially clothing, on the West. Thanks to the transformation, today we enjoy vehicles, computers and the Internet. For a long time, the communist authorities effectively inhibited the development of individual transport. There was no progress in public transport, either. Therefore the undoubted success of the transformation is the improvement of infrastructure (motorways, ring roads, highways) and technical modernisation of public facilities, including this University.

The process of implementation of European standards in the economy and the public sphere (especially the standards of safety, hygiene and quality of goods and services) also went well.

Actions taken by businesses, local governments and users of parks, rivers and lakes for the protection of the environment deserve proper recognition, although there is still much to be done in this area.

Maciej Żukowski: I would like to focus on one area being both an element and a condition for civilisation's development. I would like to talk about education and an unbelievable change that occurred in human capital in this respect. There would be no market economy, no institutional changes, no achievements that preceding speakers have discussed if it were not a great shift in the field of education. This element is sometimes underestimated in Poland, yet admired outside (which is the case in many spheres). I think of both the quantitative and qualitative aspect thereof. The quantitative dimension is the enrolment rate which can be measured differently. I will pick just one example, adopting the same measures as those used in the Europe 2020 Strategy. Currently, the percentage of population aged 30–34 in Poland having a college or university degree is 43.4%. We have overtaken most European countries. In less than 20 years this indicator has tripled. Compared to other countries that underwent transformation, this change in Poland was much greater. This begs the question: what about the quality? The results from PISA's survey aroused very little interest in Poland. Paradoxically, just when the latest PISA survey results were announced, the educational system in our country was under a heated discussion. Some entities were very critical, demanding that everything needed a profound change. Meanwhile the following question is posed outside our country: how is it possible that Poland has made such remarkable progress? I will refer to only one indicator, namely the reduction of the lowest level of competence in reading and writing skills. It took us less than 12 years to decrease it from 23% down to 10%. It is one of the lowest value, and the lower it is, the better. In summary, we have undergone an enormous change in this

area and it is an unquestionable success. Is this a result of a process or does the credit go to the state? Both. Systemic, political and economic transformation created favourable conditions for the drive for knowledge to arise, followed by state solutions, including institutional ones, such as the great educational reform introduced in 1999.

Tadeusz Kowalski: As Professors Rapacki, Wojtyna and Orłowski already mentioned the first set of reforms introduced in 1990 anchored Poland in the market economy. In later years our economy rather autonomously reacted to the reform package introduced by the government of Tadeusz Mazowiecki and Leszek Balcerowicz. The transformation process was initiated by the state but most changes took place as a result of adjustment processes in the economy. The role of formal strategies was limited because they were a set of goals without instrumentation; furthermore, their implementation was usually fiercely criticized by a subsequent administration. After each election, we had the „new” starting point, so there was no continuity, which is an important value in an established democratic state.

Our position in foreign trade is a significant achievement. Not only did the share of exports of goods and services in GDP increase but also the commodity structure of exports changed. The role of raw materials and food diminished whilst the share of processed goods (SITC 5–8), which now accounts for over 80% of Polish exports, increased by 10 percentage points. It was achieved at the market rate of the zloty and without a coherent export support policy. This is probably the most impressive achievement of the private sector and entrepreneurship in Poland in the last 26 years.

I want to emphasize the importance of a well-organized banking sector with the central bank at the forefront and commercial banks. We should be proud of this sector also because the fiscal support that this sector received at the beginning of the transition period to cope with bad loans was the lowest in Central Europe.

Marian Gorynia: We are pleased with all of our achievements but now the time has come to thoroughly analyse failures and draw conclusions. That is why we need to discuss the things of which we cannot be too proud. There were times we simply failed. The criticism of what we praised began at the moment of transformation. For those who may not remember, I will mention that one of the critics of the so-called Balcerowicz plan was the author of the Strategy for Poland, Professor Grzegorz Kołodko, who spoke of „overshooting” some output transformation parameters, including the exchange rate. Assuming that there were some failures, I would like to pose some questions. Firstly, can the Morawiecki plan be of any diagnostic value to us (a reference point showing that not all succeeded)? The plan identified five development pitfalls, including low wages, high costs of servicing foreign capital, the *middle income trap*, demography and the inefficiency of the tax system. The second question is: can

the failures be attributable to economic policy, or are they rather an inherent part of the development process?

Witold Orłowski: I will refer to the previously mentioned successes to point out what did not work or could have gone better. I start with the issue of creating conditions for the development of private enterprise. Despite undoubted successes these conditions could have been better. Was the economic policy optimal? Definitely not. Was, for example, the dollar exchange rate adopted in 1990 overestimated? It is difficult to say. Back then we could only guess and the main concern was that this rate was not high enough. Was privatisation carried out perfectly? Definitely not. We should however look at privatisation in other countries and ask the question: did we go through the privatisation process better than other countries? In my opinion, yes, we did. But there is no doubt that the state could have been more efficient, more effective. The social security system was not reformed at once in 1990 and then each administration failed to do that. All institutions could have operated better, especially public ones.

Another issue is opening to the world. It is mentioned in the Morawiecki plan that we are facing the *middle income trap*. This applies to most Polish companies, especially in the processing industry, where such entities are mostly subcontractors, somewhere in the middle of the value chain. Our exports are worth 250 billion dollars annually, which theoretically makes us a big exporter. The problem is that we do not sell products under our own brands. Even though true it does not mean that 20 years ago much more could have been achieved in this respect. Let me remind you that across Eastern Europe only one big brand, Skoda, endured but this brand is over a hundred years old. Other domestic brands have disappeared.

The last issue: our income has increased, but consumer aspirations have risen even more. People are frustrated, they think they earn very little. Reminding them that they used to earn even less does not cut any ice. Besides the older generation also seems to have poor memory. People do not compare their current life with that from 30 years ago but with the current life of their neighbour. They travel through Europe, emigrate and compare themselves with the British and Germans. As a result they are more frustrated than they were 20 years ago.

Andrzej Matysiak: The first failure of Polish transformation is the belated and unsuccessful reform of higher education, the second – strengthening the division of the country into Poland A, B and C in economic, political and mental terms. The consequence of this situation is the shortage of social capital which determines trust and cooperation. In a liberal democracy, horizontal ties create social capital which results in social trust, solidarity and selfless help. I share the opinion of Edmund Mokrzycki that „the modern Pole has a tendency to view the social world in terms of a zero-sum game”. The exceptions are group games aimed at fraud. Polish democracy is poorly rooted in civil society, despite the existence of numerous non-governmental organisations. A social vacuum

and the division into „us” and „them” (that is, the state and the citizens) is established by phoney economic and professional local governments as well as marginalized trade unions and associations. The tendency to concentrate political power in the hands of politicians and civil servants is therefore alarming. We are the heirs of an egalitarian communist consciousness, and therefore we are „allergic” to income and wealth inequality. I am not saying, however, that this allergy is unfounded. Just the opposite, social inequalities are excessive, and their source is a too flexible labour market and inefficient tax enforcement system. Poverty and the incomplete use of the economy’s potential are also undesirable consequences of this situation thereby exposing the ineffectiveness of social policy.

Maciej Żukowski: I would like to mention demographics and lack of trust, that is human and social capital. Demography is our failure. I do not mean only the trend itself but primarily the fact that we have found no way to stop this decline and social policy failed to respond to this challenge. Many actions taken in the areas of social policy and social security have failed. Social support is focused on a completely different age group. Social expenditures tilt heavily towards the elderly. Retirement reform which was already belated, has been put on hold. Demographics is our biggest problem and the biggest challenge. However the awareness of this issue is growing, which is a good thing.

Another problem is the low level of trust. Low confidence in the state is based on the lack of trust in others. Of course it can be explained by the history, the heritage and so on but the fact that we have managed to change so little in this respect makes it a serious failure. A global study called *World Values Survey* shows that the progress in this field is minimal; 80% of respondents say they do not trust others. This is a very poor base for many actions and an explanation of many problems that we have. Unfortunately this is a limitation for the future. Although confidence in many institutions, such as the police or the army, is very high and not lower than in other countries, confidence in the government is very low. Regrettably this is a failure of the state and education system, and at the same time a challenge for the latter as well as for the mass media and politics.

Tadeusz Kowalski: I would like to start with two general observations. From my point of view, the greatest failure is political manipulation along the principles of *post-truth politics* leading a large part of Polish society to believe that after the best period in our history, after 26 years of fast development, Poland has failed (election slogan of the winning party: *Poland in ruins*).

The second failure in 2015, which might have long-term negative effect, is the interruption in forming the grounds of macroeconomic and microeconomic rationality, understood as a general acceptance of the relationship between quality of work and economic efficiency and economic effect. During the elections in 2015, Poles were led to believe that based on discretionary decisions of

some political group it is possible to sharply improve material conditions of a large part of the population without negative economic and financial consequences. The effects of these populist decisions will be severe in the sphere of public perception of economic processes as well as in the sphere of public finances and the competitive capacity of Polish economy. From the point of view of the business sector, the greatest source of failures is what is happening in the institutional sphere. The analysis of results of *Global Competitiveness Reports* from previous years shows that the same problems keep repeating, namely: complicated tax regulations, restrictive labour law, tax rates, and inefficient public administration. These are four objectified elements of the institutional environment which, from the point of view of economic agents significantly impede their operations and development. I obtain similar results, especially in the area of assessment of statutory law, implementation of the law and the functioning of institutional environment entities, in my own empirical research that I have been conducting since 1997.

Looking at sectoral failures it must be stressed that the public sector, namely its effective demand has not created favourable conditions for innovation. The low general confidence level that we are discussing today has translated into regulations where, as in public procurement, the lowest price is the decisive criterion. It negatively affects the innovation propensity of domestic enterprises. At the stage of execution this situation deteriorates further by the atmosphere of mistrust in the relationships between public investors and contractors.

Ryszard Rapacki: I will bring up only four issues which I will use to summarize the greatest failures of Polish transformation. Failures belong to deep factors as what is on the surface has been discussed in the section regarding achievements. I will also refer to the theme mentioned by Professor Wojtyna because these four areas deserve to be called the greatest failures.

Firstly, as a country we moved fast but heedlessly and in the dark. We failed, as demonstrated by research in the field of institutional economics, to define and make an organised effort to lay the foundations of a particular, pre-defined model of capitalism and related institutions. This brings about certain effects.

Secondly, we observe the growing incidence of government failure in terms of its development and regulatory functions and a large imbalance in creating positive and negative externalities for the private sector with a predominance of the latter.

Thirdly, in the macroeconomic sphere there are many examples of weaknesses, from the low level of innovativeness of the Polish economy (for decades), through the traditionally low propensity to save (which Deputy Prime Minister Mateusz Morawiecki wants to change), low investment rate and many other factors.

Fourthly, for 26 years our rapid progress relied on an unsustainable type of international competitiveness consisting of imitation. This, in turn, was based

on low labour costs, low prices, exports of goods at relatively low prices and low value added content (in not always modern branches), using a not too highly skilled labour force.

Andrzej Wojtyna: I will try to look at the problem more broadly. In my opinion the problem is not the transformation legacy or the balance of success and failure that we should work on. The problem is that we may shatter everything we have achieved thus far in terms of standard of living and institutional architecture. For me, this is a major failure. We were unable to create a system of anchorage and the irreversibility of institutional reforms, including political reforms. Failure and success are typical of all post-communist countries and it takes a broader international perspective to look at Poland's relative position amongst them. Branko Milanovic published a very interesting article in *Challenge*. He adopted three evaluation criteria: growth rate, income inequality and the progress of democratisation of political structures. Poland is classified first in this ranking compared to countries which often got off to a flying start but in the end achieved poorer results. Two questions arise. First, why didn't the process of economic transition of the ex-socialist countries of Central and Eastern Europe towards market economy bring more satisfactory results? Secondly, why do so many Poles remain dissatisfied in the light of the fact that Poland achieved the best results?

The answer would have to be very long. I just wish to point out that as far as the second question is concerned, social education, especially economic education, turned out to be a failure. There are four key aspects here: (1) what is good in the micro dimension, is not always good in the macro dimension, and vice versa; (2) what is good in the short term, is not always good in the long term, and vice versa; (3) what is beneficial as part of partial equilibrium, is not always beneficial as part of general equilibrium; (4) what may seem optimal from an economic perspective, is not optimal for politicians, and vice versa. These four aspects strongly overlap making the policy choices very complicated and it is our task to try to explain their costs and benefits to the public.

As for the diagnostic part of the Morawiecki plan, it is wrong and actually difficult to find in the document; goals and tools are treated too generally. Statistics show that during the transformation the economic growth in Poland averaged 3.8%. However, in one of interviews, the Deputy Prime Minister carelessly said that his intention is to make the growth rate 4%. Taking into account the risks arising from the dismantling of the entire institutional structure, an attempt to accelerate the growth rate by 0.2 percentage point is certainly not an expression of responsibility for the state and the economy.

Anna Zielińska-Głębocka: I agree with some conclusions and disagree with others but I would like to throw in new elements to our discussion that have not been brought up. Polish entrepreneurship, largely small entrepreneurship, emerged in the transformation period. In my view, the lack of medium-scale

entrepreneurship is a failure. In Poland the share of medium-sized enterprises is relatively small, smaller than in other countries. Compared to Germany, the difference between our two countries is huge. The success of German economy in this area is largely due to medium-sized enterprises which are famous for innovation are creativity. Unfortunately we failed to turn start-ups, small enterprises or one-person firms into companies able to drive innovation and growth.

We also failed to sufficiently increase the employment rate. This is the problem we will have to deal with because the employment rate in Poland continues to be much lower than in other European countries or the United States, especially in comparison with Scandinavian countries. Poland is approaching the level of 60%, while Scandinavians are already at the level of 72–75%.

The actions that have been taken by the current administration, for example the 500+ programme, are in my opinion miscalculated because child benefits are provided to families everywhere and this particular programme is not well thought out in terms of the consequences. Some women receiving this support, too high in my opinion, will withdraw from the labour market. This is an important factor, a developmental impulse, the lack of which we will soon feel.

In addition we were unable to overcome regional disparity. Poland A and B will press heavily on our development model and migration processes, because some young people from underdeveloped regions are leaving the country.

Marian Gorynia: We have discussed achievements and failures. Before we move to the next part regarding opportunities, I would like to ask the audience to participate in a brief survey. Who amongst you believes that the volume of successes outweighs the volume of failures, please raise your hand. Who disagrees and believes it is the other way around? I see some such people.

Let us leave the past behind us and discuss the future. What development opportunities are there for Poland? Speaking of opportunities we intuitively and immediately think about risks. We have already mentioned the so-called Morawiecki plan, so I will simply ask: does the Morawiecki plan thoroughly define our development opportunities? There is also a question of Poland's membership of the eurozone that Poland is obliged to join as part of its EU membership. This is another subject I would like to raise. And finally, Poland and the European Union, Poland and the world. It is commonly believed these days that we should continue our foreign expansion and diversify more. What is your opinion on this matter?

Tadeusz Kowalski: Opportunities depend on both the international environment and internal conditions. I am an optimist and I believe that in the near future we will return to fundamental economic rationality. From my point of view there are three important sources of optimism: (1) the diversified structure of the economy allowing for flexible response to external shocks, (2) the substantial potential for productivity growth in the manufacturing sector and

in a number of public and private services, and (3) the very high, but rarely noticed, potential for productivity growth in agriculture.

Polish agriculture productivity per head of employed is at slightly higher level than that, for instance, in Ukraine, but two-, three-, and even four times lower per worker than in Denmark, Germany or the Netherlands. The agricultural sector, which is already doing amazingly well in exports, has enormous capacity reserves. Naturally, if we seek to capitalise on these reserves, we will not avoid social changes in the country stemming from the need of concentration of ownership. Note however that recent changes in the law go in the opposite direction de facto blocking open trade in agricultural land.

Improvement in productivity will create opportunities to meet the criteria for joining the eurozone. Of course joining the eurozone is a political decision and must be based on a strong economic foundation. Currently we do not have this foundation. In subsequent years, it will be necessary to provide it even if politically we are not prepared to meet this institutional change. Our future is in the European Union, in stronger European integration in both economic and political spheres. Poland's future lies in a well-organized, efficient, and integrated Europe.

Maciej Żukowski: We have numerous reservoir of productivity. Professor Zielińska-Głębocka mentioned production capacity and employment rates. Indeed, not only the 500+ programme but also lowering the retirement age would be a step backwards compared to what should be done to make better use of this production capacity, especially in the context of demographic trends. We have major human resources not fully used. I am referring here to entrepreneurship. I will quote one of my favourite questions from the prestigious Austrian magazine, addressed to young people: what would you like to do in the future? What is your dream career? Answer number one in Austria is civil service career, high in the state structure. In Poland the number one answer is one's own company. Aspirations that have been mentioned and that explain many political situations are also an opportunity for development. I will use a case study on universities and foreign students to explain. International students may have a significant positive economic impact not only on universities but also on the country as in the future we will have serious problems with the lack of manpower. These problems can be solved but first we need to deal with a barrier of mistrust I have mentioned before. Recent studies have shown that most young people would like border controls to return. Thus if there is an institution that is able to change such an attitude change, it is university. There is no better way to successfully integrate foreigners than through international exchange programmes for students. If we attract students we might contribute to solving the manpower shortage that our economy will face eventually.

Andrzej Matysiak: Each forecast specifying opportunities depends on initial conditions, actions announced by the government and external environment to the economy. Initial conditions are the most important, because even a very

small change to them may cause dramatic, unplanned effects. Unfortunately at the moment these conditions are not finally defined and they cannot be equated with the implementation of all election promises made by PiS. Possible fulfilment thereof would mean, as is commonly believed, excessive growth of public debt in the long term. Although the Morawiecki plan is not operational yet, its assumptions and objectives might help avoid the middle income trap. The Polish economic system as well as the subjective and objective structure of the economy do not create sufficient conditions for breakthrough innovations to develop. The Polish economy will be innovative only if we create an innovative state. Without government funding of science and research there would be no Silicon Valley in the United States, as Mariana Mazzucato successfully argues in the book entitled *The Entrepreneurial State*. The state must be an investor when a compelling economic phenomenon known as market incompleteness is the barrier to the development of bold innovation projects. In our conditions, it might mean re-industrialisation. Its important purpose is to get the unused and dispersed private capital included in the implementation of investment programmes. I think that the Morawiecki plan covers such intentions and objectives. Contrary to the Balcerowicz plan, the Morawiecki project requires the cooperation and involvement of many stakeholders from different spheres of social life, not just the tacit acquiescence of the society.

Witold Orłowski: Not so long ago I published a book under the somewhat provocative title: *Will Poland catch up with Germany?* Theoretically, if all went well, we could catch up with Germany in terms of GDP per capita within 25–30 years. But to achieve this goal we would have to change great many things in Poland. Crucial areas requiring changes include: (1) human and social capital, (2) propensity to save, (3) innovativeness, (4) entrepreneurial activity, initiative and resourcefulness.

To strengthen the social capital, a great educational reform involving the youngest children would be necessary. We also need to reform public institutions and encourage Poles to save more money. Deputy Prime Minister Mateusz Morawiecki expresses his disappointment with our dependency on foreign capital. But it is quite natural that when the national capital is scarce, foreign capital flows in. We have one of the lowest saving rates in Europe so the capital cannot grow. The Morawiecki plan looks great on paper but all the reforms carried out by the current government are heading in the opposite direction to those indicated in the plan. Unfortunately it is impossible to carry out policies if political goals are contrary to government actions. Professor Wojtyna's comment that what is economically optimal, does not have to be optimal politically provides, from the point of view of political economy, an excellent explanation of this situation.

And as for Poland and the euro I am hoping that we will qualify for the Euro 2016 semi-finals.

Anna Zielińska-Głębocka: I would like to say a few words about development opportunity resulting from the service and industrial sector. I do not agree with the diagnosis that Poland needs a re-industrialisation because the share of value added in the manufacturing sector is 18.5%, which EU treats as a *benchmark* in the Europe 2020 Programme. The service sector is closely linked to the industrial sector. This is the driving force behind our strong exports, which we cannot destroy. Presently global markets compete against one another with goods and services, which is naturally associated with the industry sector. I was very surprised at the government initiative to re-industrialise the shipbuilding industry. I come from Pomerania, and I know that the shipbuilding sector is in good condition. Therefore, there is no need to renew the industry which managed to get back on its feet with no government assistance and now employs thirty five thousand people. The sector is in a good shape because it is no longer involved in large-scale production for the Soviet Union as it used to be in the past but it builds a wide spectrum of highly specialised ships for a global clientele (huge know-how and technology contribution). It is a modern area. Therefore, in my opinion, this diagnosis is incorrect.

Our chance lies in rebuilding the quality of institutions. By destroying institutions, we destroy our own development opportunities. We cannot ruin the quality of what has already been built. Institutional deficiencies should be corrected, there is no need to wipe everything out.

Andrzej Wojtyna: There are more threats than opportunities that we might be facing in the nearest future. I see a chance of success in not turning away from current institutional reforms and restructuring processes. The threats include (1) withdrawal from the European Union, (2) Poland's marginalisation in the EU and (3) moving away from current model of capitalism to capitalism based on macroeconomic populism, the excessive microeconomic role of the state, centralisation of economic decisions and the related growing politicisation of the economy.

This breeds other threats such as macroeconomic and financial destabilisation, which in turn may lead to an attempt to limit the autonomy of the Polish National Bank.

The main dilemma we are facing in the field of political economy is whether we should criticize or praise the government for their election promises. It is clear for an economist that the government should be praised for not keeping these promises. It looks different to politicians as to some extent they have become hostages of promises they made during the campaign. I was listening to an interview with Deputy Prime Minister Morawiecki today, who said that 80% of Poles are for lowering the retirement age, therefore it has to be lowered. This shows that short-term political benefits are definitely more important to Deputy Prime Minister than long-term economic effects.

What factor, other than membership in the eurozone, can initiate the necessary continuation of reforms and restructuring? I do not see such a factor. In my opinion, the decision to join the eurozone would be a step which would increase the probability of irreversibility of transformation achievements and strengthen our position in the European Union. The dilemma is similar to that in Pascal's Wager. If the eurozone, or even the entire the EU, falls apart, thanks to the implemented reforms we will be stronger and better prepared to act as an independent economy. If, however, the Union survives and the eurozone integration process speeds up, thanks to the already initiated reforms we will not need a long-term adjustment period in the future to become its member.

The middle income trap is, in my opinion, a simplified mental shortcut. As we know, economic growth is far more complicated process and requires much deeper analysis than was done in the Morawiecki plan.

Another growing concern is that the Greek scenario is quite likely to be repeated in Poland. We managed to overtake Greece in terms of GDP per capita, but we do not know for how long. If we do not maintain budgetary discipline and wages continue to grow faster than labour productivity, we may go through a similar crisis. The exchange rate reaction is equally important. If it remains stable there is a risk of the economy falling into a deflationary spiral. If the exchange rate depreciates the stagnation scenario combined with inflation will be likely to occur (the recent cases of Brazil and Turkey).

Ryszard Rapacki: Yesterday my academic colleagues and I finished working on an article resulting from the research on the course of real convergence. On this basis, we developed three quantitative scenarios of the possible further course of the convergence path. Professor Orłowski mentioned catching up with Germany, and I will talk about catching up with the average for the EU-15. From amongst the scenarios two are optimistic, whilst the third is warning and quite pessimistic. The first scenario is a pure extrapolation of current paths of growth in Poland, in countries that underwent transformation and in the EU-15. I would love the first one to come true as it shows that we will reach the average level of per capita income of the EU-15 measured in purchasing power parity or PPP in 16 years. The second variant, half extrapolating, is based on short-term forecasts of numerous international organisations, including the World Bank, the European Commission and the IMF. This scenario assumes a slightly lower growth rate, at 3.6% by 2060. If such a rate is maintained in the future, we will catch up with the average for the EU-15 in 20 years. Finally, the third, very pessimistic and alarming scenario. It covers analytical assumptions concerning demography, the decelerating rate of total factor productivity growth and the so-called institutional hybrid that Poland has become with numerous institutional ambiguities and lack of institutional complementarities. According to this scenario, in the next 30 years we will continue to catch up with Western Europe and starting from 2044, the convergence trend will

reverse and the gap will start increasing again. We will not reach more than 84% of the EU-15 average.

Marian Gorynia: I suggest we dedicate several minutes to discussion, comments and questions from the audience.

Janusz Tomidajewicz, Poznań University of Economics and Business: I would like to refer to Professor Tadeusz Kowalski's statement. In the part concerning failures he pointed out that social feelings are not as optimistic as could be based on the summary of achievements made by the panellists. We should ask why these feelings are not so optimistic. The reason may be that despite so many very favourable macroeconomic indicators based on average values, there are large social groups that are either not participating in the process of development or are involved infinitesimally. We use average values whilst we should be using modal ones. The arithmetic average tends to raise many values compared to modal value. Besides, as for social feelings, low income groups labelled 1, 2 or 3 are the ones that really matter as they reflect real progress as well as social and economic development. This is probably the most serious failure of our transformation processes, that such a large group of people did not benefit from these processes. For this reason, the future of our development is up in the air in many areas.

I would also like to refer to the issue of entering the eurozone. The eurozone belongs to the monetary policy adopted at the level of the European Union. Economic policy in general covers monetary policy and fiscal policy. The creation of the eurozone makes the system of economic policy in the EU rickety as monetary policy at the level of the integrated EU is strong whilst economic policy at the same level is just the opposite. If no reform is carried out to restore this balance the system will be still malfunctioning.

Tadeusz Kowalski: Thank you for your comments. Indeed income and property diversification is high in Poland, but it is at a similar level to other countries that underwent transformation. The explanation that comes to my mind is the initial structural environment. We inherited specific adverse conditions and had to face them. There is another problem: can this objective diversification, which Estonians, Lithuanians or Hungarians also deal with, be reduced in Poland? Will the solutions that have been implemented by the new administration since the end of October 2015 change anything apart from fiscal redistribution of income?

I agree that the eurozone without fiscal federalism is an unfinished project which is why I said that the future of Poland lies in a deeply integrated European Union, by which I mean combining stronger, coordinated fiscal policy with a single monetary policy as part of the Economic and Monetary Union. I believe that regional integration, as exemplified by the European Union, is a rational response to the challenges of the current phase of globalisation.

Jacek Silski, the Wielkopolska Employer's Association Lewiatan: I would like to refer to the statement made by Professor Zielińska-Głębocka. I agree with her on the matter of the manpower shortage in recent years. We know that because of the lack of instruments in the field of family policy in Western Europe, this policy has failed. Population is shrinking across Europe and with total a fertility rate below 1.3 live births per woman the EU will not be able to maintain its current economic growth. It seems to me that the European project of the last 50 years has failed. It is a good thing that both the previous and current government is thinking in the long term, not just five, six years ahead. It does not take much imagination to realize we must find ways of increasing the birth rate in Poland. What can be done to improve this situation? Each of us can answer the question of how many children we have, how many children our children have, and how this affects the economy.

The second issue that I would like to raise is re-industrialisation. It seems to me that Europe has already understood that giving up on industry will do no good because traditional industry brings certain revenues. If you produce a Volkswagen from the beginning (from research project to final product) in one country, employee productivity is very high. But if production processes are scattered across the globe, productivity per employee is limited.

Another issue is innovativeness. In the last twenty six years the state has not supported innovativeness. And how should it be supported? We need to look at economic programmes in Germany from the 50s, 60s and 70s. Germans supported expenditure on exports and innovativeness through their tax system. Polish small and medium-sized enterprises which will invest in innovation will be provided with no assistance at all. Therefore certain behaviours of people involved in small and medium-sized businesses in the last 26 years are the result of a specific reality.

A few words on services. Do you know what is happening with the Services Directive? The UE imposes restrictions on the area in which Poland excels whilst other areas, such as finances or insurance, traditionally dominated by old EU countries, are not subject to such restrictions. Thus, Polish exports may face these restrictions in the upcoming years.

Robert Sobków, EU Business University: I would like to refer to the statement made by Professor Tomidajewicz. We talk a lot about the European Union, monetary union, euro and that Poland overtook Greece in terms of GDP per capita. Greece overtook Poland decades ago. It certainly did not happen by accident. What is the reason behind it? For some time, Greece had been developing very dynamically, 15 years ago its economic indicators were higher than the EU average. Greece ceased to develop when it joined the monetary union. When analysing growth rates of countries that have joined the monetary union compared to those that have not entered the eurozone, it is noted that the former have lower economic growth rates. I will not even mention comparing

growth rates between the eurozone countries and countries from other parts of the business world, such as United States, India, China, because if I did, the eurozone would look miserable. If we consider joining the eurozone, we should observe how countries that now use euro as their currency enjoy the benefits that we are being told about. I think these benefits are not exactly what we are persuaded to believe.

Paweł Śliwiński, Department of International Finance of Poznań University of Economics and Business: I am assuming that the question I am about to ask is a bit perverse. After 25 years of transformation, 35% of banking system assets is in the hands of Polish companies; 50% of manufacturing production is attributed to Polish companies, and 33% of export earnings is generated by Polish firms. Should these statistical data be considered success or failure? Does it involve opportunities or threats? And as more and more is said about convergence, shouldn't we use GNP per capita instead of GDP per capita? Is the glass half full or half empty?

Piotr Nowakowski, Novol: Today's discussion is rather theoretical and does not have much to do with current practice, and current practice is based on micro enterprises which contribute significantly to economic growth. I would like to tell you that Poland succeeded in developing the micro and small enterprise sector during the 25 years of transformation despite all the barriers and obstacles. I have been watching this success through example of my own company. In 1990 it was a regional company employing a dozen people. The conditions that then existed in Poland (and beyond), gave us a chance to develop. Today, we sell our products in 50 markets worldwide and employ 1,000 people, 800 of them in Poland. If the conditions had not been favourable, if the disadvantages had outweighed the advantages, micro-enterprises would not have been able to develop. I am convinced that the overall outcome is positive.

Graduate of Poznań University of Economics and Business: I have a question to Professor Andrzej Wojtyna. Do you think the European Union will survive as a multinational structure? Can the structure of many nations survive? I also have a question to Professor Orłowski. Is it worth promoting economic patriotism in schools and universities? How could it manifest itself? And additional question to Professor Wojtyna regarding corporate social responsibility. You are a supervisory board member; how does the said corporate social responsibility manifest itself?

Włodzimierz Dymarski, Department of Economic and Local Government Policy of Poznań University of Economics and Business: I would like to refer to the economic crisis, hence my two questions. The first is addressed to Professor Rapacki. Had Poland been in the eurozone in 2007 would our economy have come through the recession unscathed? The second question concerns fiscal policy. Between 2008 and 2010 the public deficit in Poland doubled

and reached 7.9% of GDP. The fundamental EU rule was broken. After two years we achieved the fiscal deficit target of 3.9 per cent of GDP. Do you agree that this short-term, intentional increase in the deficit saved Poland from the recession and a much larger deficit in later years?

Tomasz Cemel, a graduate of Poznań University of Economics and Business:

During the years of transformation the strength of the Polish economy lay primarily in the skills of entrepreneurs. I have been watching the development of family businesses and I am confident these companies will manage in the future. There is a group of Polish middle-class entrepreneurs whom we need to promote abroad. Finally let us not forget the lack of trust in public institutions and the state already mentioned, with which we will have to cope. Another thing is to ask how to educate young people on a sound basis, safe for all of us? I would also emphasize what Professor Zielińska-Głębocka has already said: Poland's sustainable economic growth would not be possible without a healthy banking system.

Marian Gorynia: We are now nearing the end of our discussion. I give the floor to the panellists to summarize and refer to the issues that have been raised.

Witold Orłowski: The issue of the eurozone, out of which I jokingly managed to wriggle has aroused an increased interest. Would we have avoided recession in 2009 had we adopted the euro? Probably not, we would have had a short-term recession, but in turn there would have been no problem with mortgage loans in Swiss francs. This is what the adoption of common currency involves: something is gained, something is lost. Without the euro economic policy is more flexible in the short-term but if we adopted the common European currency we would be less worried about what might happen in Poland in coming years.

There is no statistical sample that would be big enough to prove that the countries which joined the eurozone are doing worse than those that have not. Evidently the countries of southern Europe, starting from Greece, made a huge mistake. The capital available in the euro area was used for consumption, and there was no careful fiscal and regulatory policy able to stop it.

I will answer the question about economic patriotism. Should we teach it? Yes, but in my opinion it should be practised by encouraging young people to establish their own companies, develop them, be proud to promote Polish products and brands in the world. Economic patriotism does not mean encouraging consumers to buy worse vehicles just because they are Polish or running the mining industry at a loss because coal is our black treasure to be mined at all cost.

Andrzej Matysiak: I am concerned that today's panel is more about economic growth, not sustainable development. It seems to me that the political and academic elite do not take climate changes seriously. We still have an old-fash-

ioned way of thinking of economic growth: it is desirable no matter how it affects the environment.

Maciej Żukowski: I would like to address the issue raised by Professor Tomidajewicz. I am inclined to believe that an improvement in the situation of the least well off is a measure of progress. We could say that the objective indicators do show improvement. Fortunately, income inequality in Poland has decreased in the last decade. It is on the average EU level (similar to the level in Germany) and there is a distinct improvement in this regard. But the perception of the least well off differs significantly from objective indicators. It partially explains recent political choices that Poles made. The tax system is also important in this case.

Fertility is the second important issue that has been raised. It was said twice that an increase in fertility in Poland, not immigration, is the solution to this problem. In my opinion this is not how we should put it. Fertility, institutional care, providing support to parents combining work and childcare and promoting equality between women and men is fundamental but it cannot replace immigration. It worries me that some people seem pleased that immigration is not our problem as such an approach is short-sighted and it has nothing to do with Christian values. It is our attitude that plays a crucial role here.

The last issue is the construction industry which has to be supported in the context of fertility but also as a flywheel of the economy. There is a great potential to fulfil here.

Tadeusz Kowalski: I would like to refer to the questions asked by Professor Śliwiński. The statistical data cited here shows where we came from. It is hard to imagine the pace of change without the participation of foreign capital. If we look at other countries that were late with changes and initiated them in the 90s this structure is quite similar. I understand the objective mechanism of this process and it does not worry me as long as we competently collect taxes.

As for the question of patriotism I understand it as a necessity, if not a pleasure, to pay taxes, including local ones. If you have in mind the satisfaction derived from sharing your surplus then patriotism thus understood is an important component of our behaviour.

Włodzimierz Dymarski asked about the euro and flexibility of fiscal policy. When we take a look at Slovakia, we will see it faced a short period of recession but then the growth rate was very high. A given economy meets the requirements of the eurozone if its enterprise sector is able to react to external negative supply and demand shocks. Adaptability of enterprises combined with a prudent fiscal policy form the basis for further action to strengthen the competitiveness of the economy.

Ryszard Rapacki: As a wrap up, I would like to present several brief reflections. Economic growth is only the tip of the iceberg. I agree with Professor Matysiak that what really matters lies under the surface.

I also would like to comment on the statement made by Professor Tomidajewicz with which I agree. Branko Milanovic conducted a study on income distribution for socialist countries in the 80's. As for the scale of income inequality, Poland was significantly ahead compared to other socialist countries. In 1988, the Gini coefficient in Poland was 28 whilst in the Czech Republic and Slovakia it was 19. Today it is 30 in Poland and approximately 25 in the Czech Republic and Slovakia. The distance from other countries that underwent transformation decreased in Poland although inequalities in income and wealth distribution increased in all post-socialist countries.

I will now refer to two most important issues: Greece versus Poland and prospects of the euro adoption in Poland. Latin maxim *post hoc, ergo propter hoc* applies here. It indicates a commonly committed logical fallacy: the temporal sequence of events does not necessarily mean causation, especially in the case of Greece or the GPS countries (Greece, Portugal, Spain), which joined the monetary union, even though *ex ante* they did not meet the criteria for the optimum currency area. This is one of the reasons why they failed later. I believe that had Poland joined the eurozone as early as 2007, we would have been unable to cushion asymmetric shocks through a depreciation of the national currency but perhaps we would have restored competitiveness through internal devaluation. Besides, luckily for us, just before the crisis taxes were lowered and our banking sector was less developed. Apart from the fact that the eurozone itself does not meet our expectations as a candidate for the adoption of common currency, we do not meet all the conditions for membership either. We do meet explicit criteria of nominal convergence, formally imposed by the Maastricht Treaty. I have recently conducted research on Poland's readiness to adopt the euro in the light of the criteria for the optimum currency area and it turns out that whilst we are making considerable progress we do not meet the implicit criteria for similarity of the economic structures and the synchronisation of the business cycle and that we are not institutionally prepared to cope with asymmetric shocks.

In this context I will briefly mention the relationship that I call *intertemporal trade-off*. The Polish labour market is becoming more and more flexible, we have the EU's highest rate of flexible forms of work, the so-called *junk contracts*. This is bad news from the point of view of the sustainability of our comparative advantage in the eurozone. Admittedly, in the short term flexible labour market facilitates absorption of asymmetric shock through the internal devaluation, but in the long run, it poses the risk of losing our current competitive advantage based on low costs and low prices, as companies that use flexible forms of employment neither provide training nor invest in research and development, i.e. in innovativeness.

Andrzej Wojtyna: Does it bother me that only 35% of banking system assets is in the hands of Polish companies? No, if per capita income is growing and the range and quality of banking services are improving.

As for my membership of supervisory boards I was an independent member of the board of BNP Paribas for several years, and then for about a year I was a member of Sygma Bank supervisory board. I was most surprised at high quality of work of middle- and senior-level managers of banks and the compliance with all Polish Financial Supervision Authority regulations. In my opinion, the conviction that Poland is exploited by foreign capital is not true.

Will the European Union survive as a multinational structure? I hope it will. But if it does not I would not want Poland to be one of its gravediggers. It is quite an unfavourable coincidence that the discussion on Brexit may serve our government as a pretext to positively evaluate the British pragmatic approach to the costs of participation in the EU and at the same time belittle the related benefits.

As for the euro I will use the example of Slovakia. When discussing the case of Greece we should keep in mind that the fate of the country depends not only on membership of the eurozone, but also on many other factors. Linking the crisis in Greece only with its entrance to the currency area is nothing more than making up myths and half-truths that cause a lot of damage to public life. Let us look at Slovakia, which is in the eurozone, and its balance of costs and benefits is quite different than in Greece, even though Slovakia joined the monetary union in a difficult period of crisis. Let us look at Latvia, too. The Latvian currency was linked with the euro. It could have been depreciated but Latvians wisely decided to go through a difficult period of internal devaluation and not give up on euro adoption. We are therefore surrounded by members of the eurozone, except for the Czech Republic, where bond yields have always been 1–2 point lower. The new eurozone members are doing quite well. We should also wonder if we are able to build everything on our own. During the crisis, the economic growth rate in Poland, sometimes referred to as a “green island”, went down from 7% to 1.3–1.4%, which is a significant drop. At a conference in Warsaw I presented 13 literature-based arguments against the thesis that remaining outside the eurozone under the current economic conditions allows the use of our own instrument such as exchange rate. We still believe in the myth that our own currency is able to protect us against all threats.

Was it advisable to exceed the permissible budget deficit during the crisis? I think it was, although I do not agree with other decisions made by Minister Rostowski, such as those regarding open pension funds.

Anna Zielińska-Głębocka: We have already said a lot about the euro. I would only add that the eurozone is not an optimal currency area. It was also a political initiative; therefore, more criteria must be taken into account. When Poland’s entrance to the eurozone was first discussed, we did not fulfil the Maastricht criteria and there was no political will to do so. It must be said however that the eurozone has learned its lesson and changed significantly. Many institutional initiatives were introduced and flexibility in fiscal policy was limited. The crisis

was largely triggered by the independent policy of the member states which became unruly in their fiscal policy and were unable to take measures that could impose some discipline on their finances. In my opinion Poland should at least work on joining the eurozone. There is no need to set deadlines, but we should not abandon this project.

We have discussed social capital and values. This is a very specific problem which concerns Poland. Social capital, principles of operation, ability to cooperate, overcoming distrust: these are the problems we have to cope with as a society. The more we talk about these issues and the more they are covered by school programmes, the more fruitful this educational process will be in a few years.

As far as foreign ownership is concerned it is quite simple: if we had significant domestic savings, we would not need foreign capital. The savings rate in Poland has never been high (legacy of the communist regime), so we had no choice but to use foreign funds. Presently, the capital is already international, and globalisation has led to marginalisation of strictly national assets. In my opinion foreign capital has helped us not hurt.

A final word about the industrial and service sectors. Their development is based on global value chains. The problem lies in improving the quality of the country participating in such global value chains. That means more human capital, more technology, higher labour productivity. Poland is a part of German, French, Dutch supply chains which is beneficial to us. However the added value must be upgraded and I hope it will go well.

Marian Gorynia: Ladies and Gentlemen. I believe the meeting can be considered fruitful. Do you, the audience, think it was effective and successful? (Applause) I would like to thank the panellists (Applause) and the audience for their participation.

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