

Europe's Growth Champion:

Insights from the Economic Rise of Poland

Dr. Marcin Piatkowski
Senior Economist, The World Bank

CEPS, May 17, 2018

Motivation

- Discuss why Poland (and CEE) has always been underdeveloped)=>Propose a new theory of what makes countries rich and what keeps them poor
- Explain why Poland suddenly became the European and global growth champion and share lessons learned with other countries
- Propose a new growth model—the Warsaw Consensus—to keep the convergence going

I. Drivers of Underdevelopment



Poor education

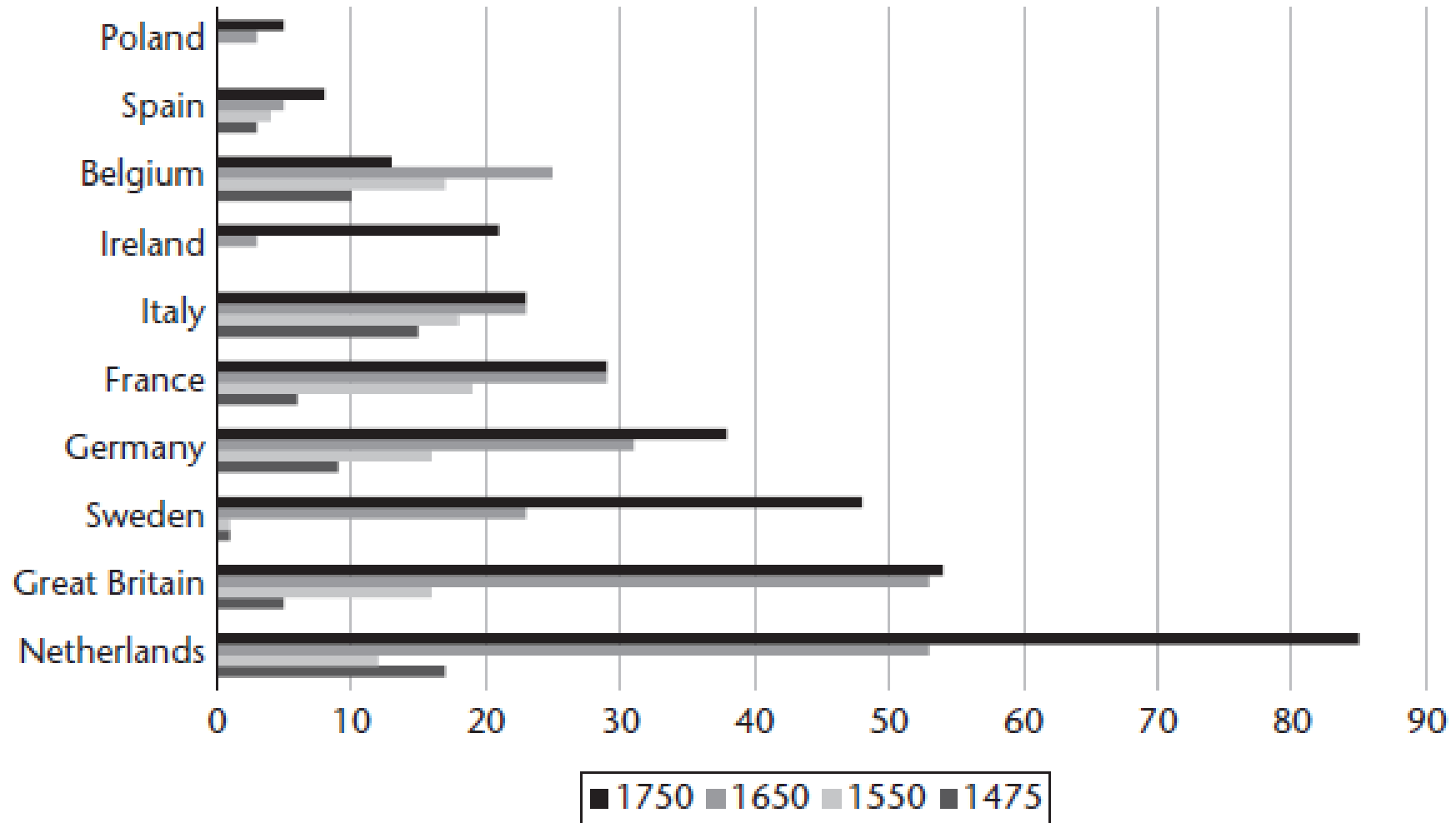
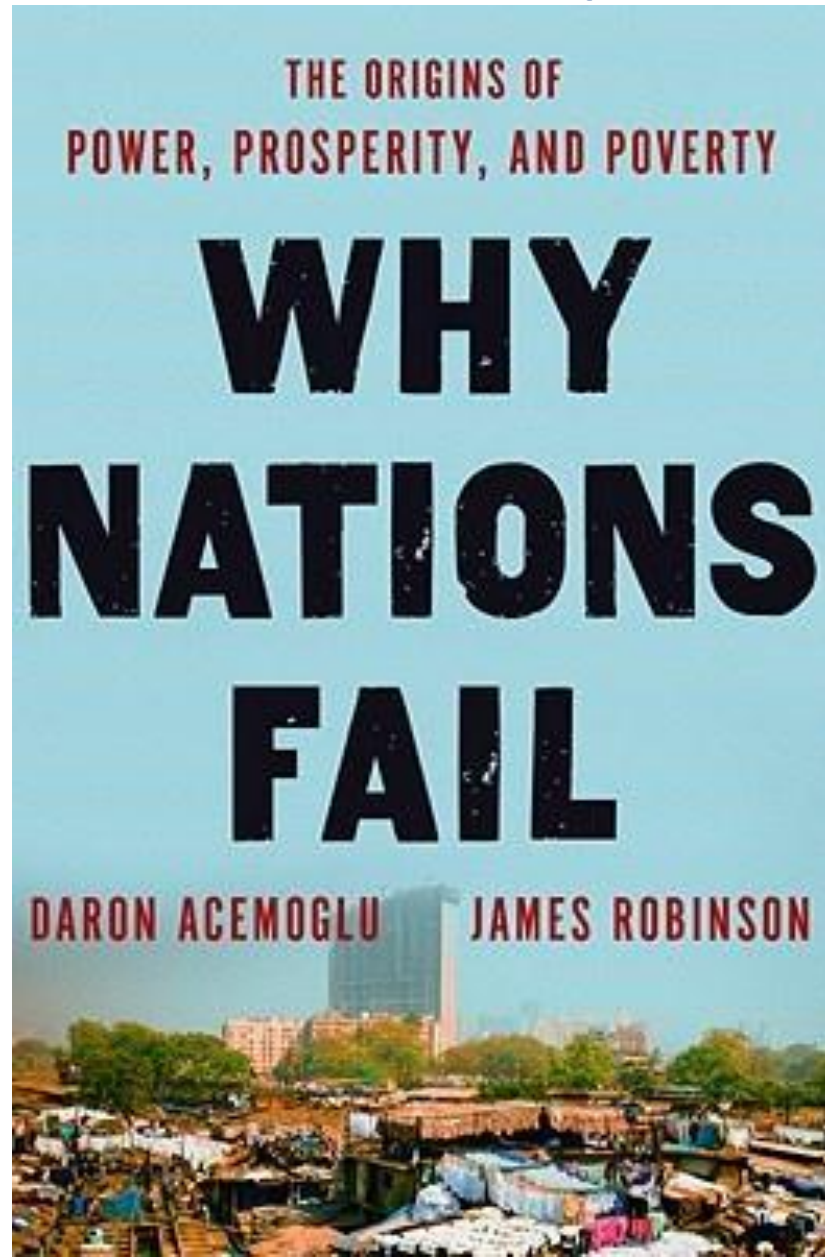


Figure 2.8. Literacy rates in Europe, 1475–1750.

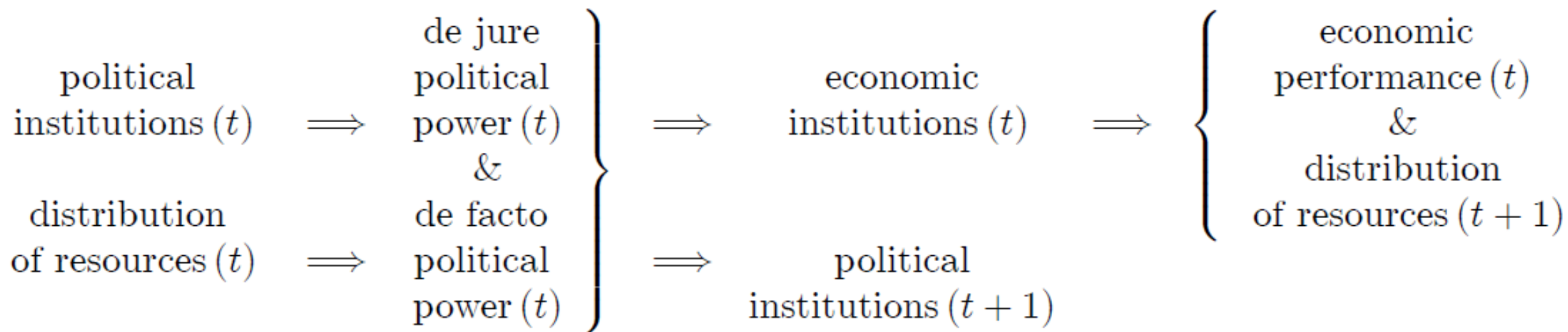
Source: Author's own based on van Zanden *et al.* (2014).



II. Towards a New Theory of Development



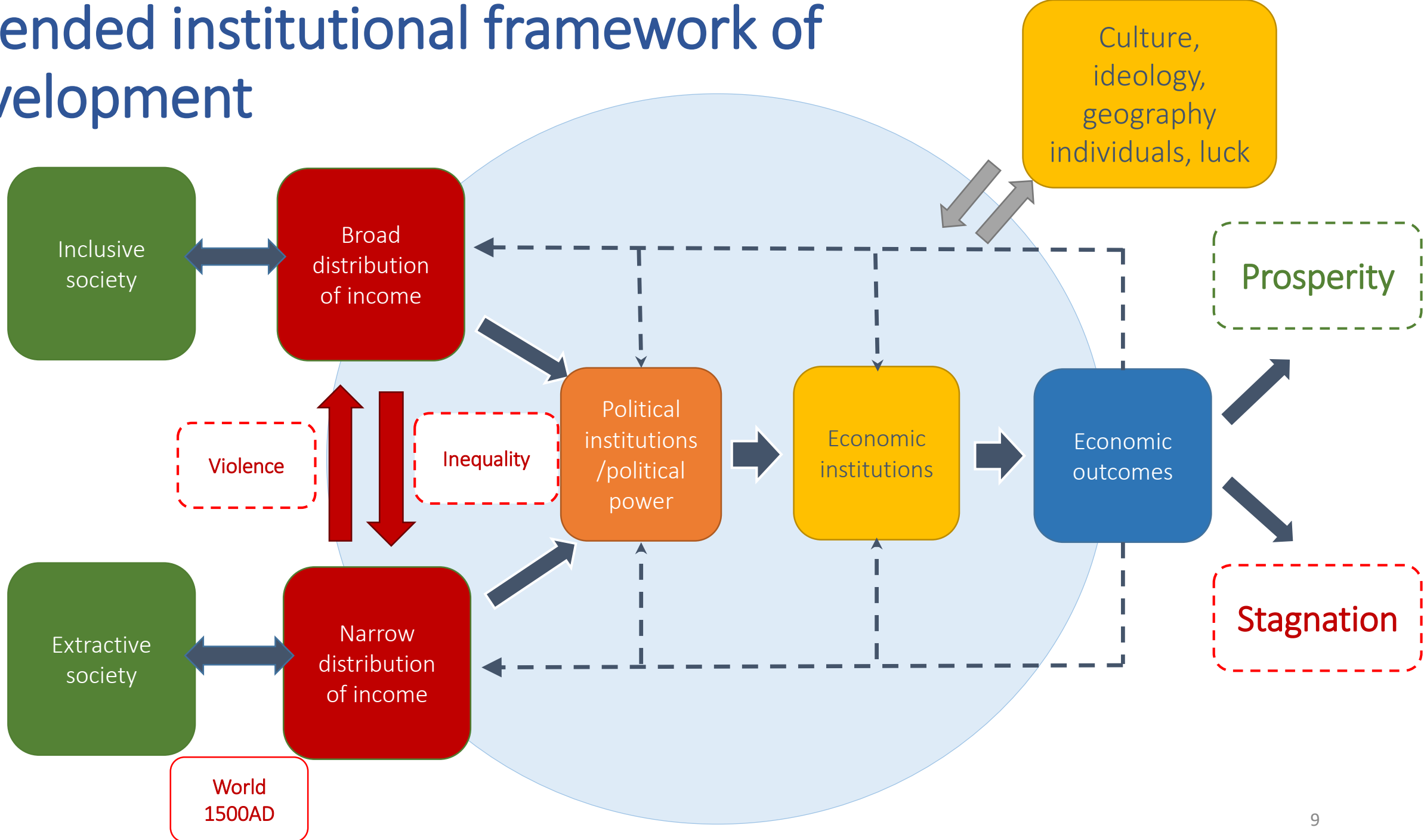
Money controls the political and economic systems



It is difficult to get out of the extractive trap

- Extractive/inclusive societies are persistent and path dependent
- Shifting from extractive to inclusive societies is rare
- The shift mostly happens because of external shocks; inclusive internal revolutions don't happen often
- Both tend to be accompanied by violence

Extended institutional framework of development



Different institutions for growing and becoming rich

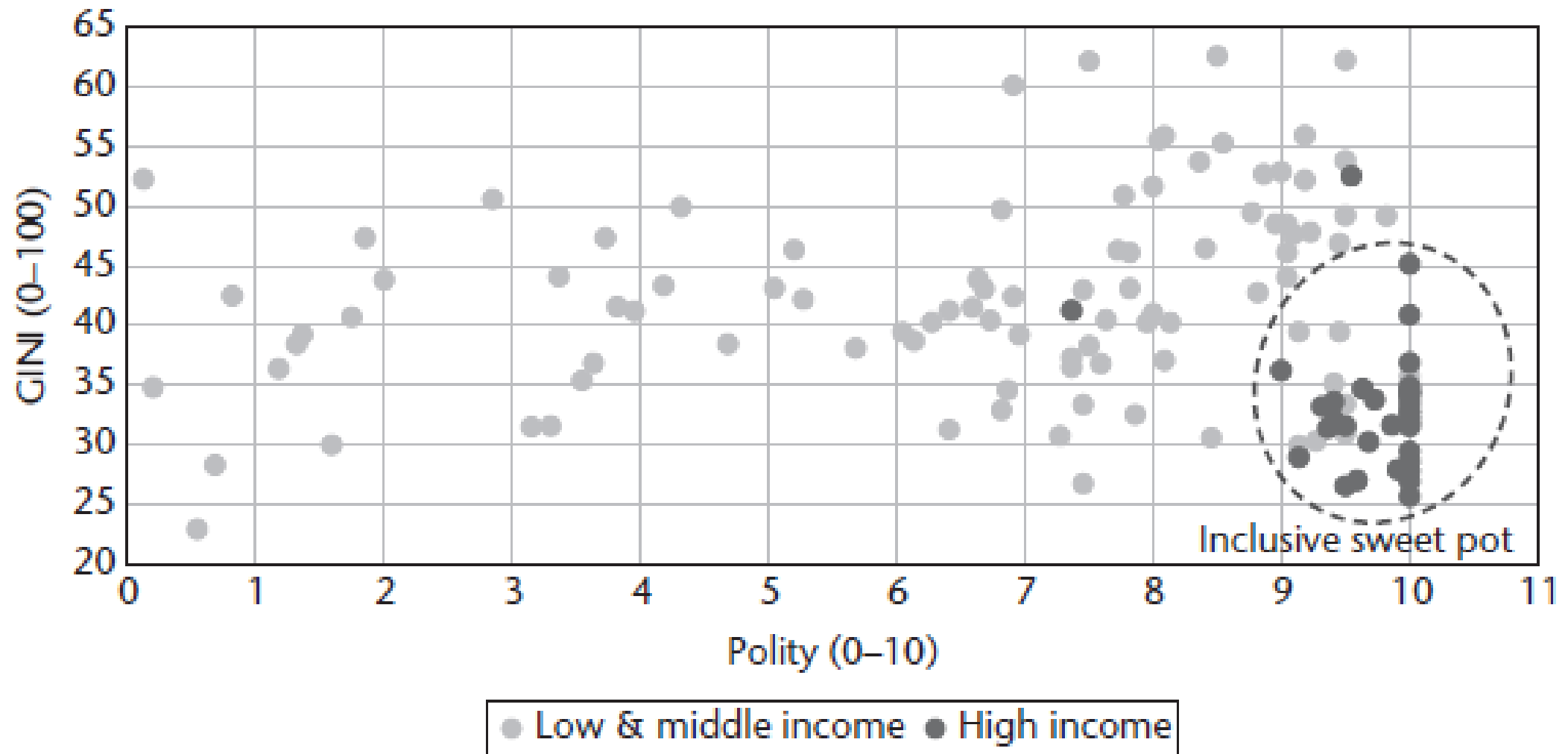


Figure 1.5. Low income inequality and democracy as key characteristics of inclusive societies, 2015.

III. External Shocks as Great Levelers





马克思列宁主义毛泽东思想万岁

Human/economic disaster but a crucial legacy

- Bulldozed old, extractive social and institutional structures
- Industrialized the country for the first time ever
- Opened up the society; ensured unprecedented social mobility, gender balance, access to education, culture

Unprecedented expansion in education

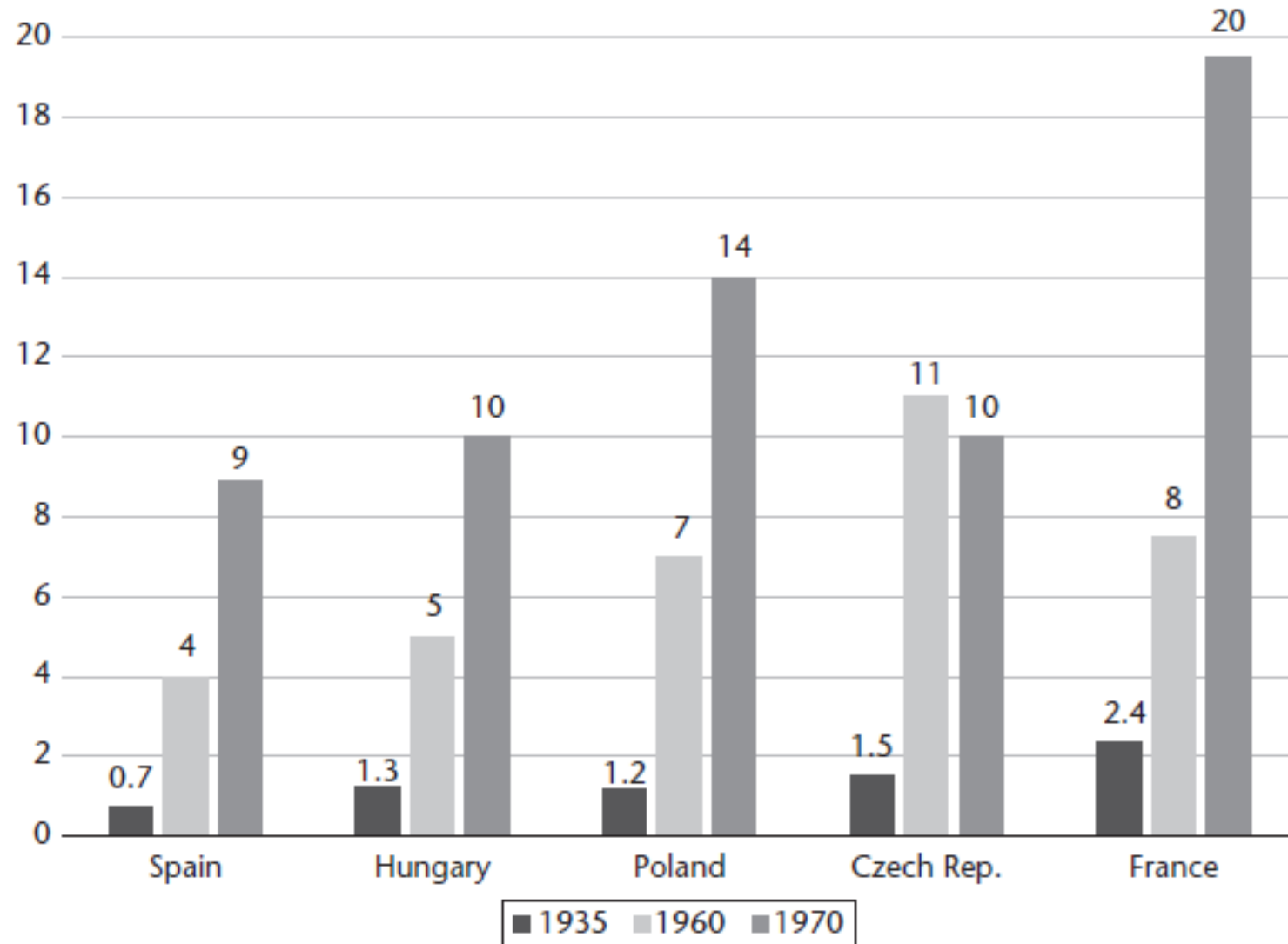
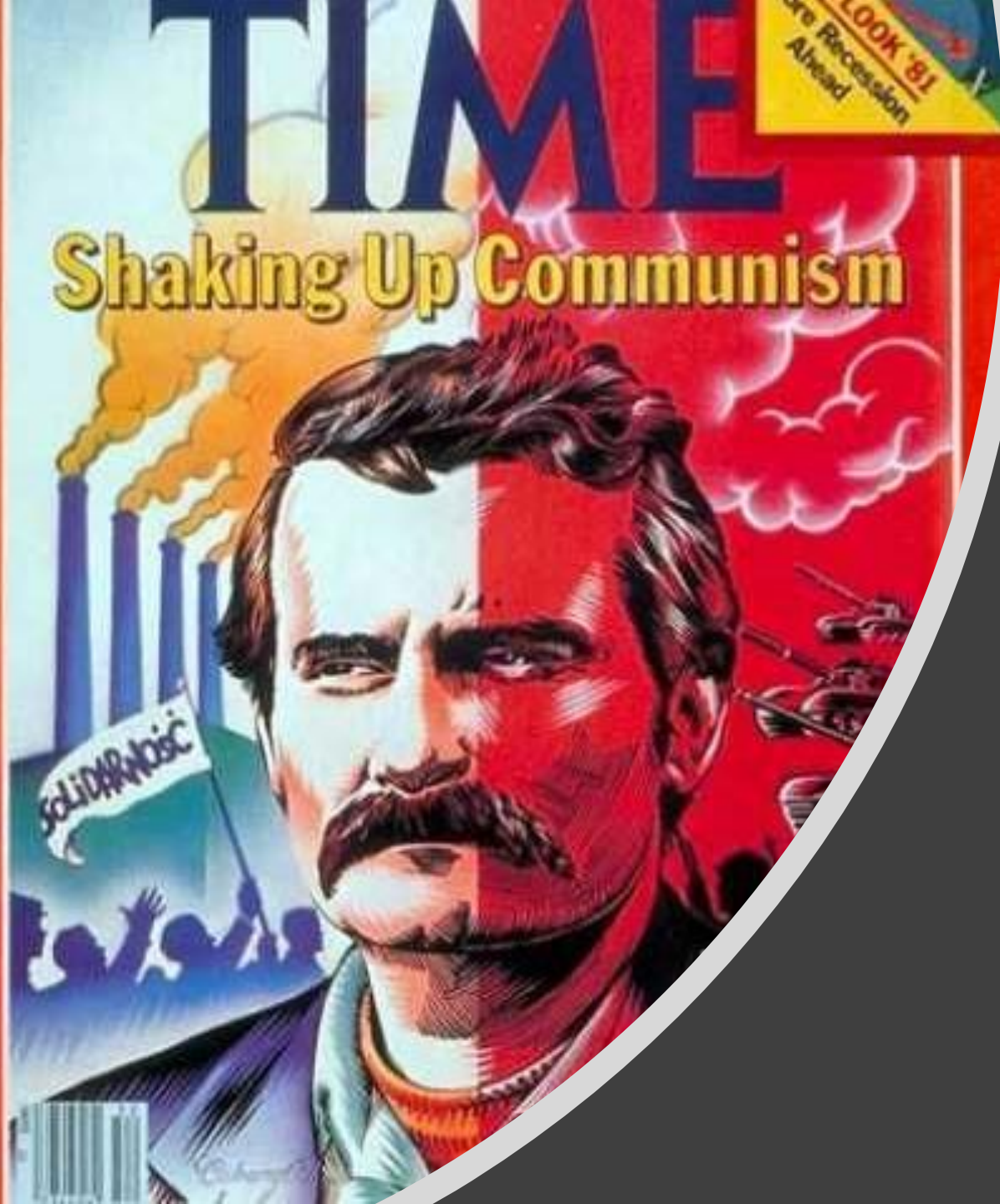


Figure 3.9. University enrolment, as per cent of the total population of university age, 1935–1970.



IV. The Unexpected Champion







Fastest growing economy in Europe since 1989

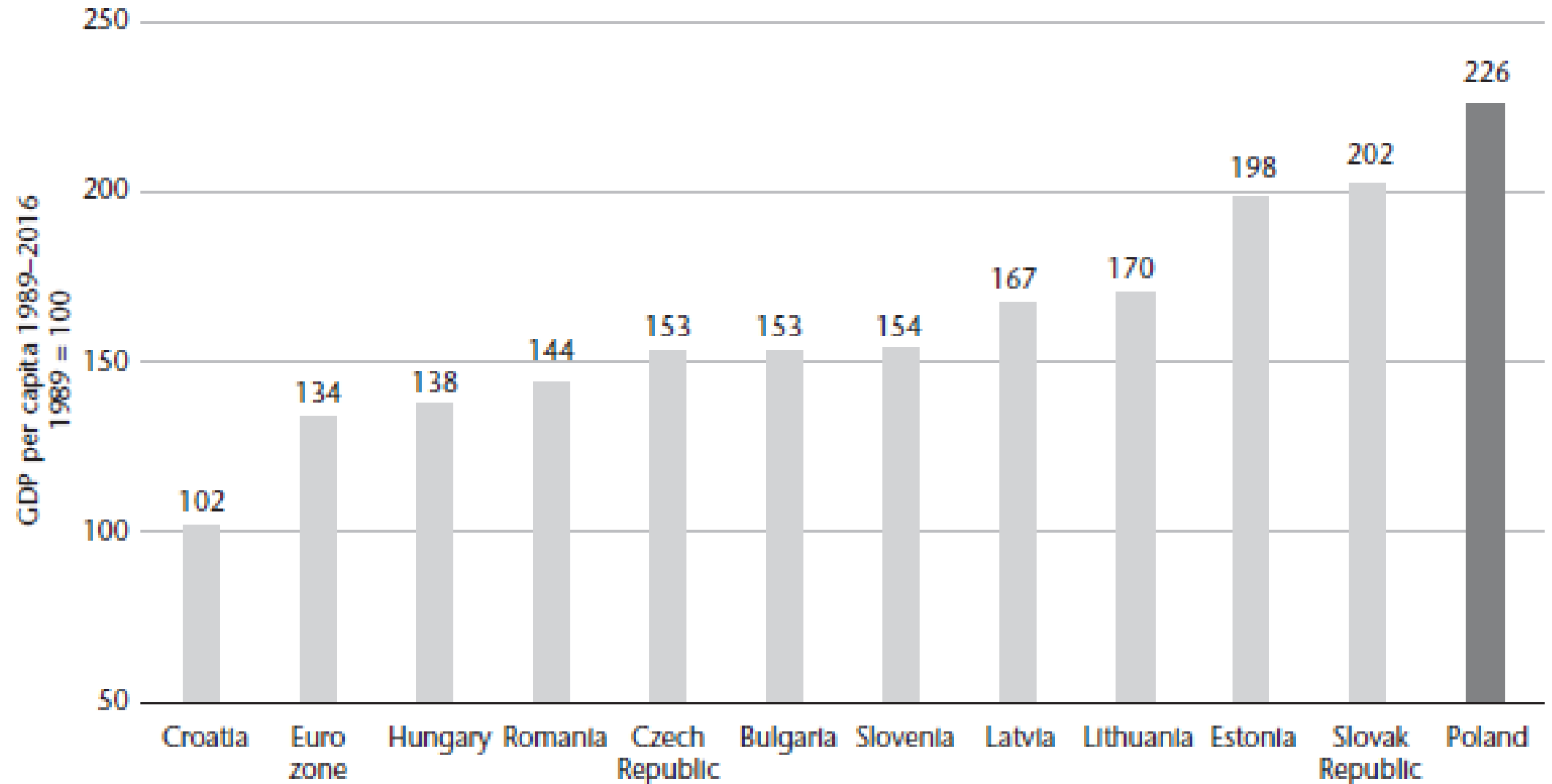
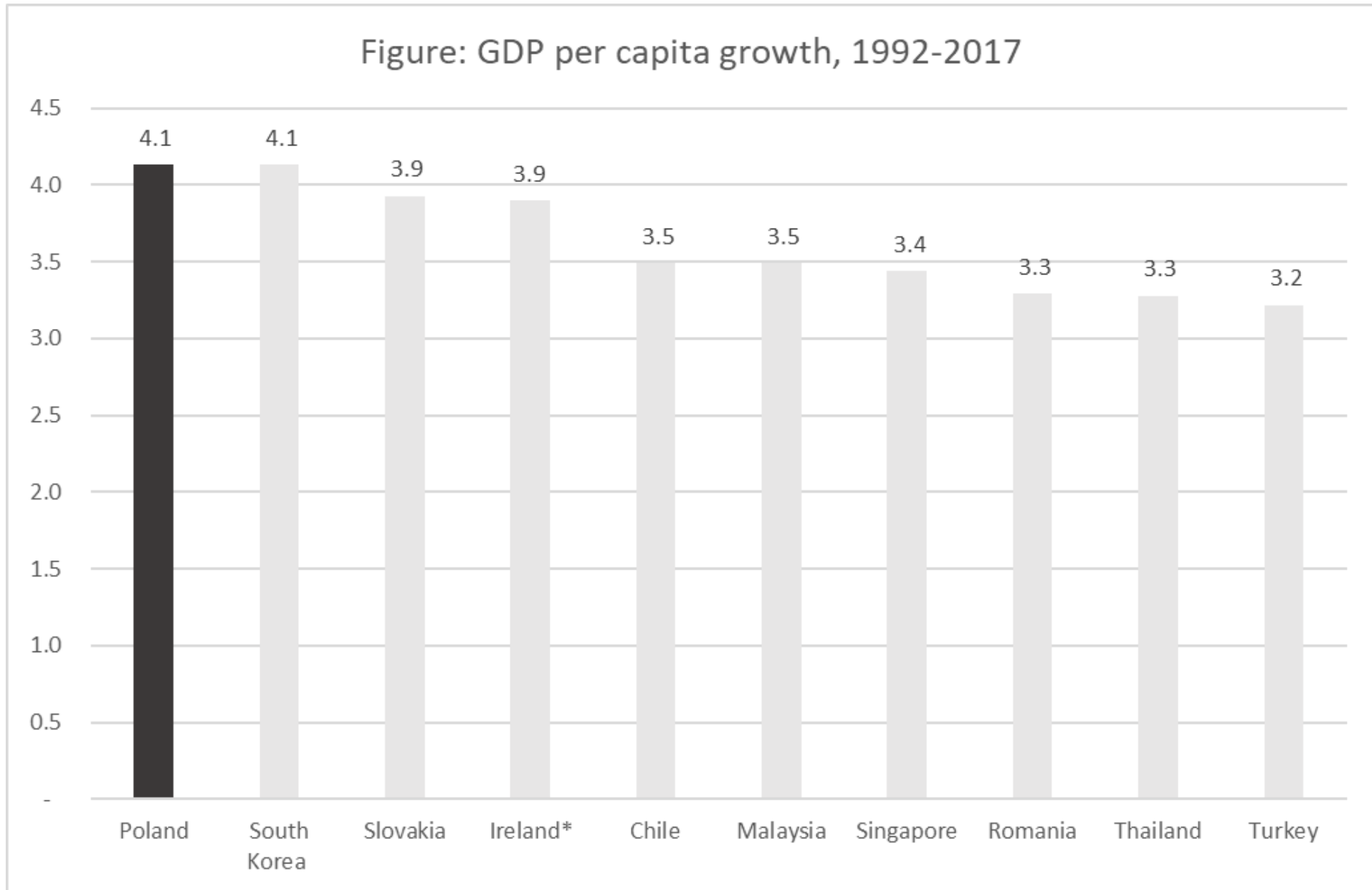


Figure 4.9. Changes in real GDP per capita, 1989=100.

And in the world



Catching up on Western Europe

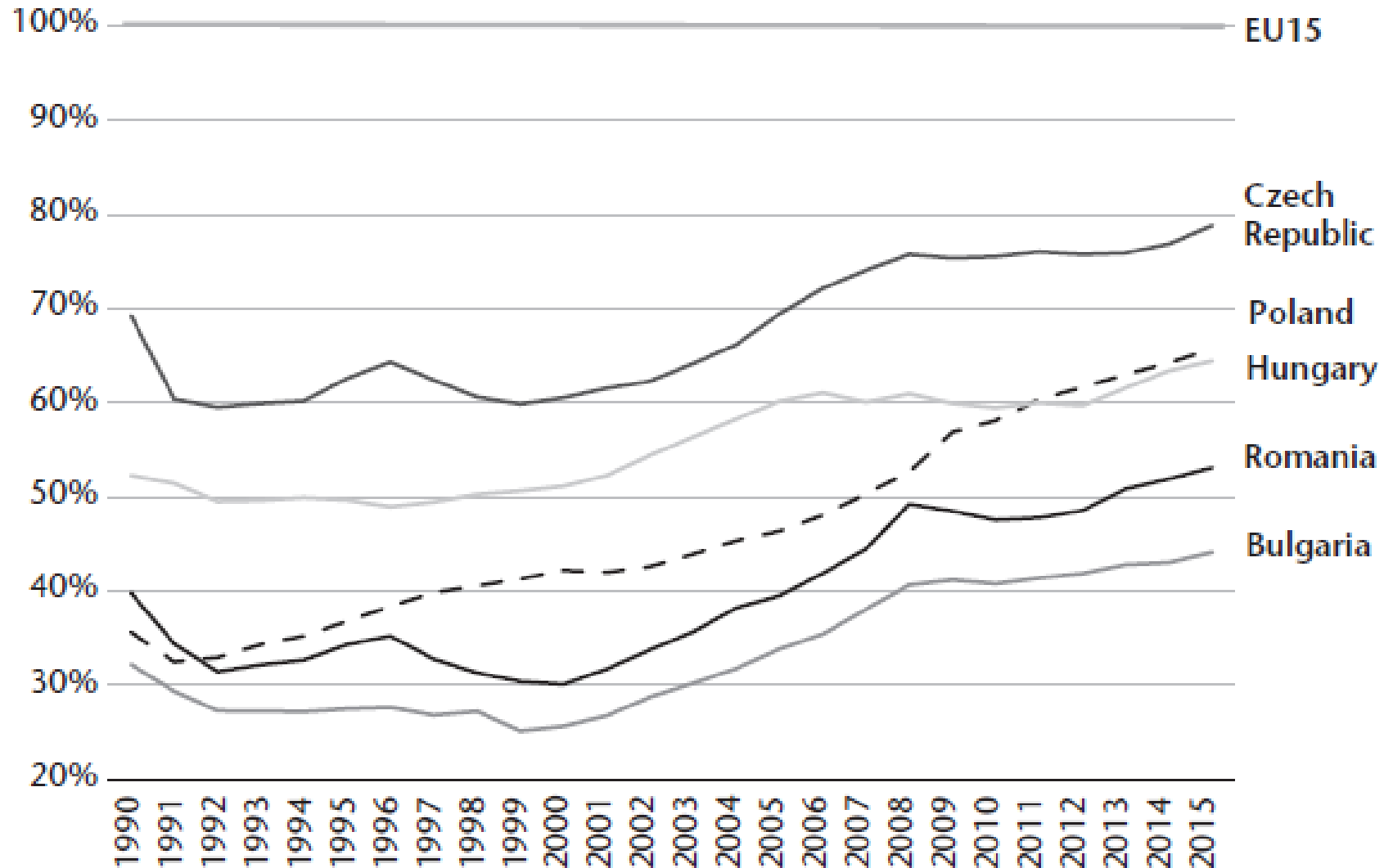


Figure 4.10. Changes in GDP per capita, PPP, 1990–2015, EU-15=100.

Record-breaking length of growth since 1992

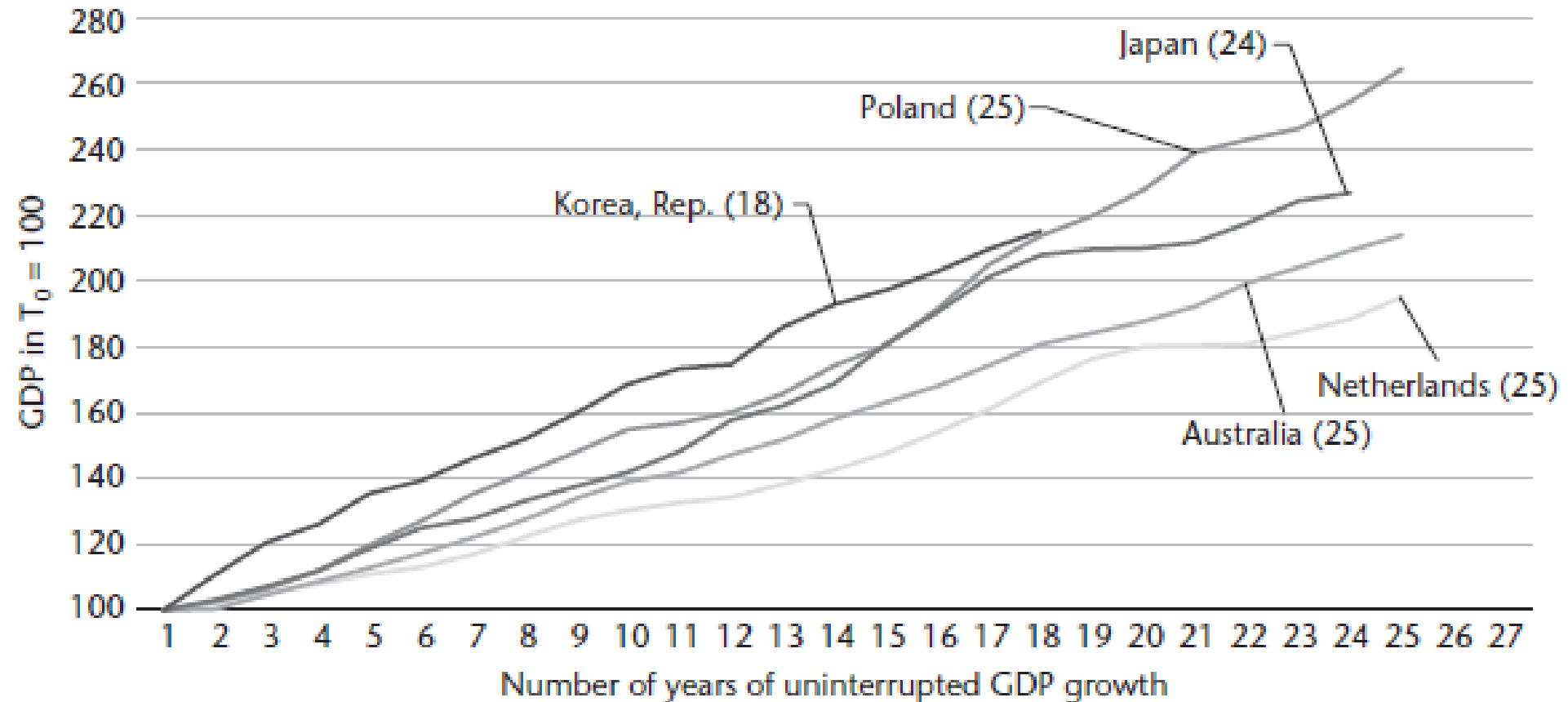


Figure 4.15. Duration of growth spurts and change in GDP for middle-income and high-income countries.

Note: Change in GDP since a country started growing until a first recession.

While keeping inequality in check

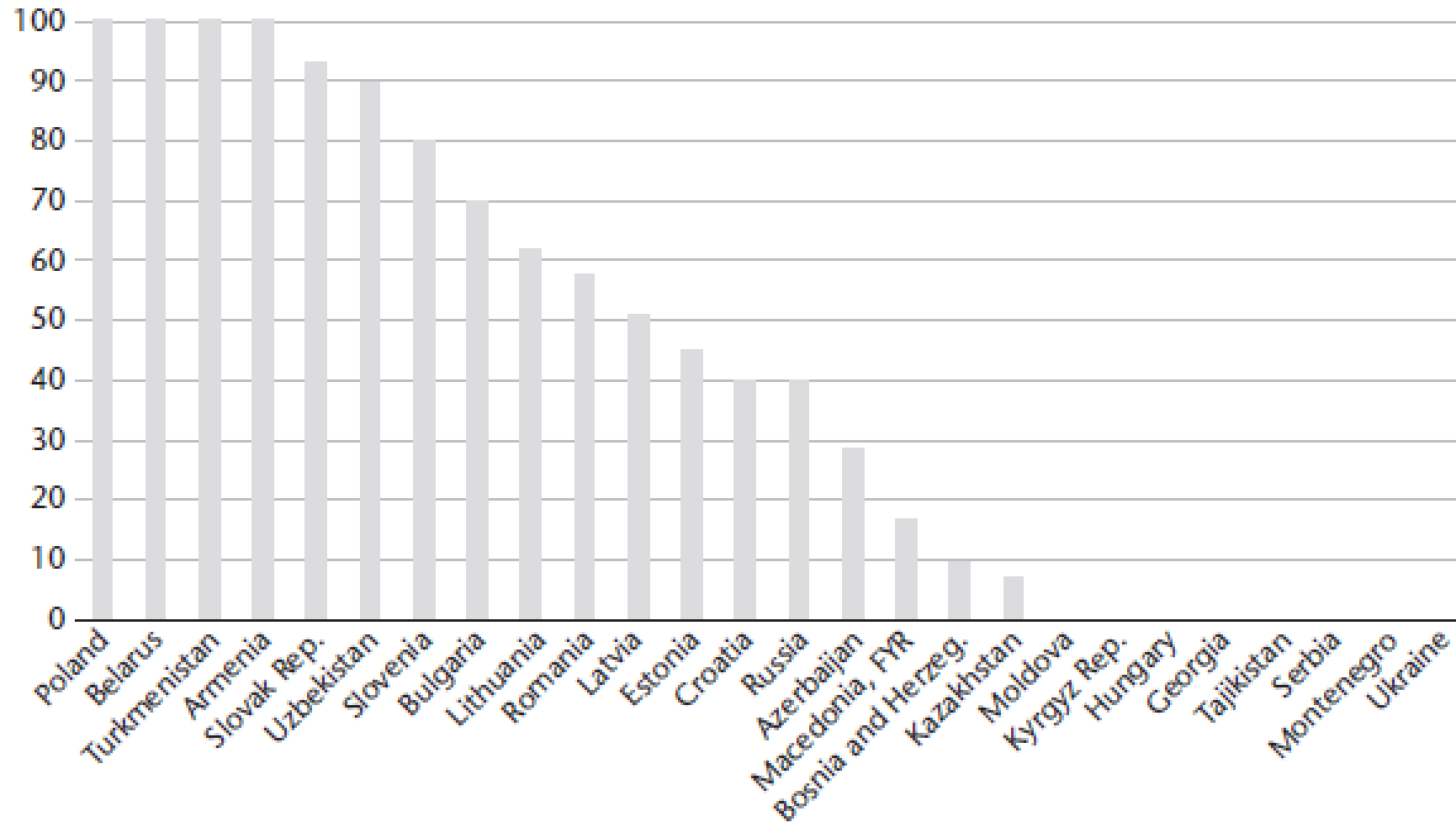



Figure 4.23. Percentage of population with a higher growth in income than the G-7 average, by deciles, 1989–2016.

Source: Author's own based on EBRD (2016a).

A large iceberg floating in the ocean. The visible tip is small and jagged, while the submerged portion is much larger and more complex in shape, illustrating the concept of hidden potential or drivers of success.

V. Drivers of Success

Proximate causes of growth

- Early reforms under communism
- Deep market reforms in 1989-91
- Fast institution building
- Expansion of education
- Healthy banking sector
- Delayed privatization, no oligarchs
- Debt restructuring (1991-1994)
- EU funds

Key lessons from the transition

- Speed matters: reform quickly when you can
- Focus on building institutions
- Do not rush privatization: haste makes waste
- Invest in education
- Closely supervise the banking sector
- Restructure debts
- Don't overemphasize the importance of SOEs
- Keep the society involved

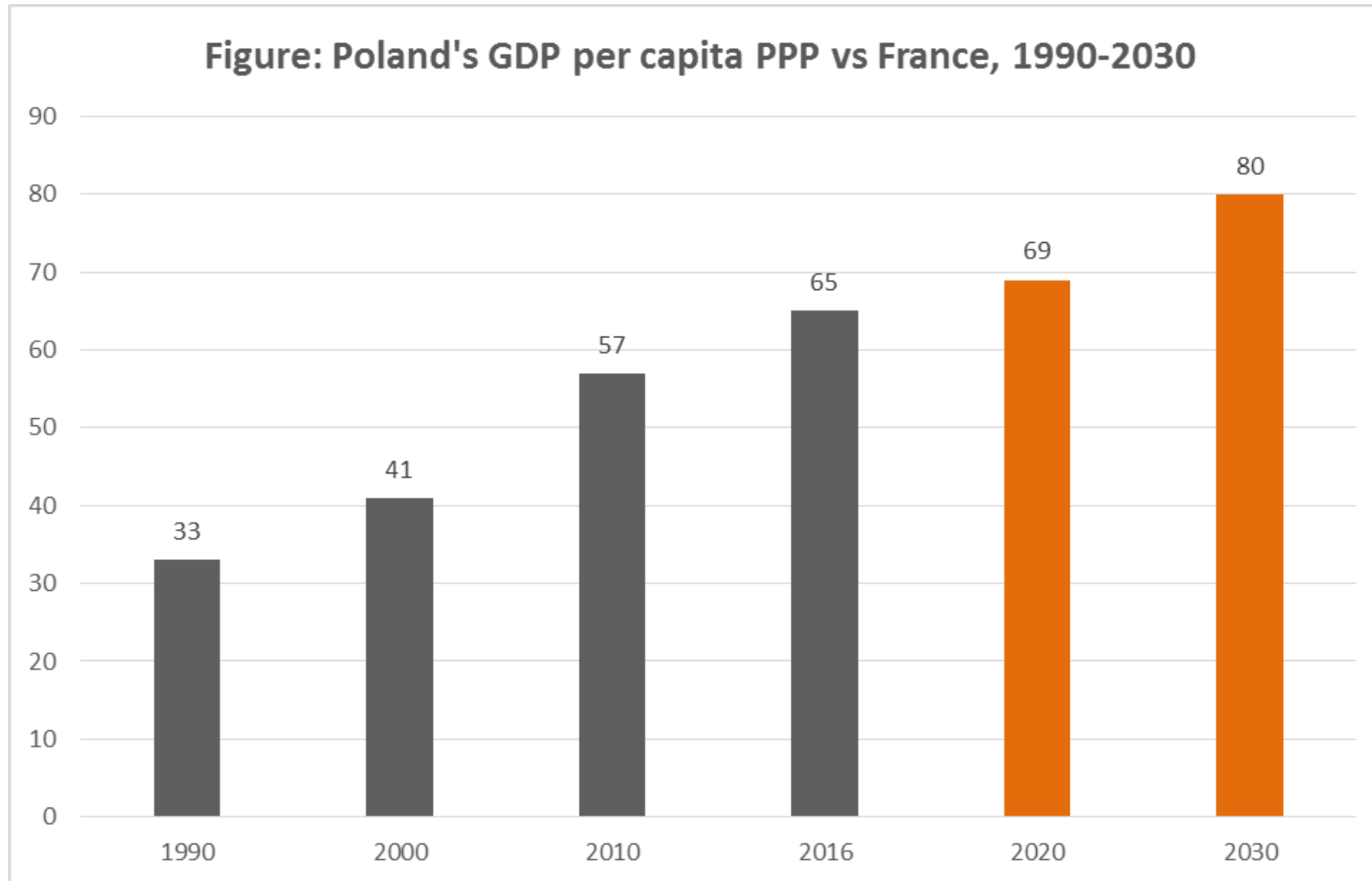
Ultimate drivers of growth

- Open, broad-based, inclusive society
- Strong social consensus to “return” to Europe
- Growth-oriented, Westernized elites
- Emergence of middle class
- Western openness (EU membership)



Welcome To
The Future

Convergence is likely to continue



Poland's strengths

- High quality of education
- Low labor costs/high productivity
- Improving infrastructure
- Macroeconomic stability
- Good business environment
- Low debt
- Low corruption
- Materialistic outlook, strong work ethos

The most competitive young generation ever!



In sports too!

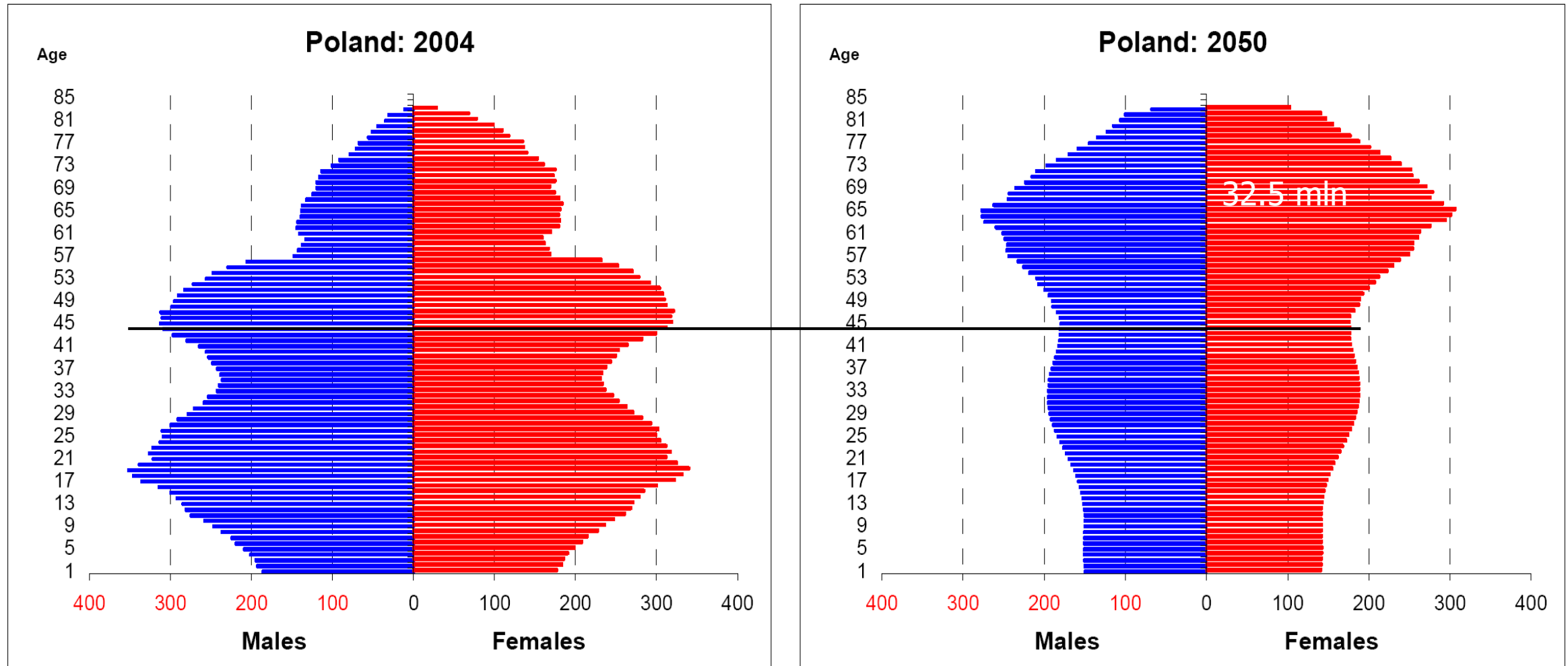


Risks

- Population decline and aging
- Weakening of institutions
- Not fully compatible values and culture
- Disintegration of the EU

Fast population ageing


Poland: age structure in 2004 and 2050.



VI. The Way Forward: “The Warsaw Consensus”





A person is seen from behind, skiing down a steep, snow-covered mountain slope. They are wearing a blue jacket, dark pants, and a large backpack. They are using ski poles and have yellow ski boots. The skier is positioned in the center of the frame, moving towards the bottom. The background consists of rugged, snow-covered mountain peaks and a hazy, overcast sky. The overall scene conveys a sense of adventure and challenge.

LIFE BEGINS
AT THE
END OF YOUR
COMFORT ZONE

“The Warsaw Consensus”

1. Strengthen institutions
2. Increase savings
3. Promote education&innovation
4. Boost employment rate
5. Open up to immigration
6. Keep exchange rate competitive
7. Sustain strong financial supervision
8. Urbanize
9. Keep growth inclusive
10. Focus on well-being

“The Washington Consensus”

1. Maintain fiscal discipline
2. Eliminate subsidies, fund education, health, infrastructure
3. Broaden tax base, moderate marginal tax rates
4. Keep real interest rates positive
5. Maintain competitive exchange rate
6. Liberalize trade
7. Liberalize FDI
8. Privatize SOEs
9. Deregulate the economy
10. Safeguard property rights

VI. Conclusions and Lessons Learned

- Poland became Europe's and the world's growth champion since 1989 against many odds, after centuries of underdevelopment
- Poland/CEE will not catch up with the West until it becomes a creator of ideas
- Sustaining inclusive society will be key to success

Thank you!

Email: mpiatkowski@worldbank.org

Twitter: [@mmpiatkowski](https://twitter.com/mmpiatkowski)

