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).
Source: Rembrandt van Rijn, “Man with a sheet of music”, 1633; “Polish Nobleman”, 1637
II. Towards a New Theory of Development
Money controls the political and economic systems

\[
\begin{align*}
\text{political institutions } (t) & \implies \text{ de jure political power } (t) \\
\text{distribution of resources } (t) & \implies \text{ de facto political power } (t)
\end{align*}
\]

\[
\implies \text{ economic institutions } (t) \implies \text{ economic performance } (t) \quad \text{&} \quad \text{distribution of resources } (t + 1)
\]

Source: Acemoglu, Johnson and Robinson, 2005
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

- Inclusive society
- Broad distribution of income
- Violence
- Inequality
- Political institutions/political power
- Economic institutions
- Economic outcomes
- Prosperity
- Stagnation
- Extractive society
- Narrow distribution of income
- World 1500AD

Culture, ideology, geography, individuals, luck
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

Figure: GDP per capita growth, 1992-2017

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP per Capita Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>4.1</td>
</tr>
<tr>
<td>South Korea</td>
<td>4.1</td>
</tr>
<tr>
<td>Slovakia</td>
<td>3.9</td>
</tr>
<tr>
<td>Ireland*</td>
<td>3.9</td>
</tr>
<tr>
<td>Chile</td>
<td>3.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>3.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.4</td>
</tr>
<tr>
<td>Romania</td>
<td>3.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.3</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.2</td>
</tr>
</tbody>
</table>
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).
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
- 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

Figure: Poland's GDP per capita PPP vs France, 1990-2030

Source: own calculations based on Malinowski and van Zanden (2015), Eurostat; IMF, own projections 2020-2030
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.

Source Carone et al (2009)
VI. The Way Forward: “The Warsaw Consensus”
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