Capitalism – the Polish Way

The Socio-Economic Model of the European Union's 6th Biggest Economy

INSTYTUT BADAŃ RYNKU,
KONSUMPCJI I KONIUNKTUR
PAŃSTWOWY INSTYTUT BADAWCZY

European Union economies ranked from largest to smallest by PPP GDP in 2018 (USD bln)

1	Germany	4 373.95
2	United Kingdom	3 028.57
3	France	2 960.25
4	Italy	2 399.83
5	Spain	1 864.11
6	Poland	1 193.11
7	The Netherlands	966.74
8	Belgium	550.66
9	Sweden	546.53
10	Romania	517.51
11	Austria	461.43
12	Czech Republic	397.73
13	Ireland	381.72
14	Portugal	328.25
15	Greece	311.65
16	Hungary	306.79
17	Denmark	299.17
18	Finland	255.98
19	Slovakia	190.78
20	Bulgaria	162.57
21	Croatia	106.55
22	Lithuania	96.26
23	Slovenia	75.60
24	Luxembourg	66.91
25	Latvia	57.34
26	Estonia	44.18
27	Cyprus	33.46
28	Malta	20.86

Source: Own elaboration based on the IMF data.

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Executive Summary

The Polish socio-economic model has been, up to this point, described as, relatively liberal. However, it began to shift towards solidarism thanks to a greater role in policymaking played by social policy and inclusive economic growth. The change taking place in Poland begs, therefore, the question: what are its directions and consequences and what model of development is taking shape. Poland's socio-economic fabric, understood here, in broader terms, as the political system, culture and convergence to international requirements, needs to be analysed. Each of these areas can, simplistically, be assessed using the axis: liberalism – solidarism/elitism – egalitarianism. The outcome is the description of capitalism *à la polonaise*.

Towards a competitive social economy

At present, Poland ranks 6th among the economies of the European Union, combining the deepening solidarity within the social policy of the state with greater competitiveness of the economy. Poland's new development model is based on the Strategy for Responsible Development, presented in 2016 by the then deputy prime minister and minister of development, Mateusz Morawiecki. Its key elements are the strengthening of the role of Polish capital in the economic structure of the country, in order to build a pro-export and pro-innovative economy, reduction of the impact of external shocks to the economy, as well as an increase in the social security of the society.

How this study came about?

We have created an Index of Capitalism based on eight dimensions. Each of them contains a few sub-indices, thus enabling to grasp the socio-economic changes which took place in the years 1995–2017 in the countries in question. The Index of Capitalism findings are established on the basis of data made available by the World Bank, the International Monetary Fund, Varieties of Democracy, OECD, ILO, World Values Survey, European Values Survey, Eurostat, and the UNESCO Institute for Statistics. The eight dimensions, which make up the Index, are: social policy, economic competetiveness, science and education, financial sector, labour market, public finance, social attitutes towards economic policy and country's cultural fabric.

Poland: country of rapid development and major challenges

In 1989–2017, GDP per capita grew in Poland by 135 per cent, putting the country among world's fastest developing countries. In the same period, the real national income per adult in Poland grew by 73 per cent, that is, approx. 2.1 per cent annually. However, the income of the top 10 per cent of the richest citizens displayed very high growth rates – this confirms that it is them who have become the main beneficiaries of the economic growth in Poland. Despite this fact, Poland has, vis-à-vis the Eurozone countries, low wealth inequalities, what is evidenced by a lower Gini coefficient for net assets (57.8 per cent, compared to 68.5 per cent, average for the Eurozone). The share of the state, that is, state-owned enterprises, in Poland's GDP, is declining. In 1995, during the still then ongoing privatisation, the share in revenues of the whole sector of state-owned companies accounted for 46.3 per cent of the GDP. At present, according to the recent data, it stands at merely 10.1 per cent. The situation is comparable in employment – in 1995, it accounted for 48.7 per cent among public companies (in the entire enterprise employment sector), whereas today it reaches 21 per cent. The challenge to social mobility and, at the same time, an obstacle to the change of social policy is a low intergenerational educational mobility, (only 7 per cent of individuals aged 25–59, whose parents have primary education, received a higher education diploma, with the EU average standing at 28 per cent), but also the deformed ownership structure in key sectors of the economy.

In terms of solidarism, Poland is in the upper half of developed countries

In 2017, the capitalism general index for Poland stood at 52.2 points, ranking the country 16th among 34 developed countries surveyed, ranking from those with a highest degree of solidary (two years earlier Poland ranked 20th, which means its economy was evaluated as more liberal). The only two CEE countries ranked higher are Slovenia, in the 9th place, and the Czech Republic – in the 15th position. Back in 2007, Poland had a lower capitalism index than it has today, but it performed slightly better (15th position) in the classification of OECD member states. Poland is, apart from Slovenia, the only country from the region which seems to remain within the framework of solidarism, whereas the rest of the Central and East European states aim to liberalise many principles of social life.

Poland is closer and closer to solidarism

Public finance-wise, Poland takes a more solidarianist than liberal stance (the bigger are those figures, the closer the country is to a solidarianist economic system). The analysis of this dimension shows that over the years 2015–2017, this parameter grew from 58.0 points to 63.1, allowing Poland to advance from the 13th to the 7th place. It mostly stems from an increase of the index related to tax progression in Poland, brought about through changes in degressive tax relief. Latvia ranks only one position up. Still, more solidarianist rules of labour taxation and greater public expenditure are specific to Germany, Austria, France, and Belgium. In the liberal pole, the foremost position is assumed by Chile, Korea, Mexico, and Israel. The most social democratic finance system within this region are to be found in Hungary and the Czech Republic. Estonia, Slovenia, and Slovakia display moderately liberal public finance models.

We spend more and more, but, contrary to others, we focus on young people

With regard to its social policy, Poland scored 49.1 points out of possible 100. This result ranked it in the 17th position among the countries examined. The ranking is led by Europe's nordic countries, such as Finland and Denmark, as well as Austria and France. In these countries, the social policy institutions are the most extensive ones in terms of expenditures. Nevertheless, as to the level of outlays, Poland has one of the most extensive family-focused policies in Europe. In 2016, the country was spending 2.5 per cent of its GDP on that purpose, which was the eighth highest figure among the developed countries. The only CEE country ranked higher than Poland is Slovenia (12th). Other countries locate in the distribution pattern suggesting moderate liberalism. These are, respectively, Estonia (20), the Czech Republic (22), Slovakia (23), Hungary (26) and Latvia (27).

From the 9th to the 12th place

The competitiveness ratio for Poland dropped in the years 2015–2017 – from 68.2 points to 67.7, ranking the country 12th in the competitiveness index (the dimension concerning competitiveness attributes the highest values to the least competitive countries). The key elements of the ever-increasing competitiveness of Poland's economy are: one of the most competitive tax systems for businesses, growing labour productivity, and a greater share of exports of technologically advanced goods. Poland currently ranks 22nd in the world in exports of technologically advanced products, below, among others, Denmark, Norway and Slovakia. It still ranks far behind Hungary, which is 14th in the world. However, it outperforms both Spain (28th) and Russia (34th), as well as Greece (48th). The first place in the world is occupied by Switzerland, followed by Japan and Singapore. The challenge for Poland remains to exit the 'average growth trap", given that in terms of export complexity Poland is doing worse than other developed countries. Only approximately 5 per cent of exports of Polish products are high-tech ones. On average, in the developed countries, this percentage reaches 7 per cent, while in case CEE countries,these figures are as following: in Slovakia – 8 per cent, in Hungary – 11 per cent, and in the Czech Republic – 13 per cent. The leader, Korea, recorded a score of 20 per cent.

Poland's labour market becomes more solidarianist, though it still locates nearer to the liberal pole

Poland ranks 30th in this study (an increase from 31.2 points in 2015 to 34.6 points in 2017, meaning that Poland is characterised by a liberal labour market. A more liberal market than the Polish one is to be found only in Turkey, Slovakia, Ireland, and Mexico. From among the remaining CEE countries, the most social democratic labour market, in institutional terms, is in Slovenia (13th place), followed by the Czech Republic (21st), Estonia (23rd), Hungary (24th), and Latvia (28th). Minimum wage in Poland has been growing, over the period of the last two years, at the rate of almost 9 per cent per annum, whereas in the EU countries this is around 6 per cent on average; what is very important, however, is that the growth of minimum wage in Poland is accompanied by a constant decline of the unemployment rate. By the end of 2018, it will account for less than one quarter of the rate from 2004, when Poland entered the EU. In turn, the minimum wage will be almost three times bigger than in the accession period. Employees in Poland can be more and more fairly remunerated as the economic condition and quick economic growth allow it. At present, Poland is implementing a model of competitive capitalism of the social economy, combining the expanding solidarity of social policy with greater competitiveness of the economy, which this report will discuss.

Introduction

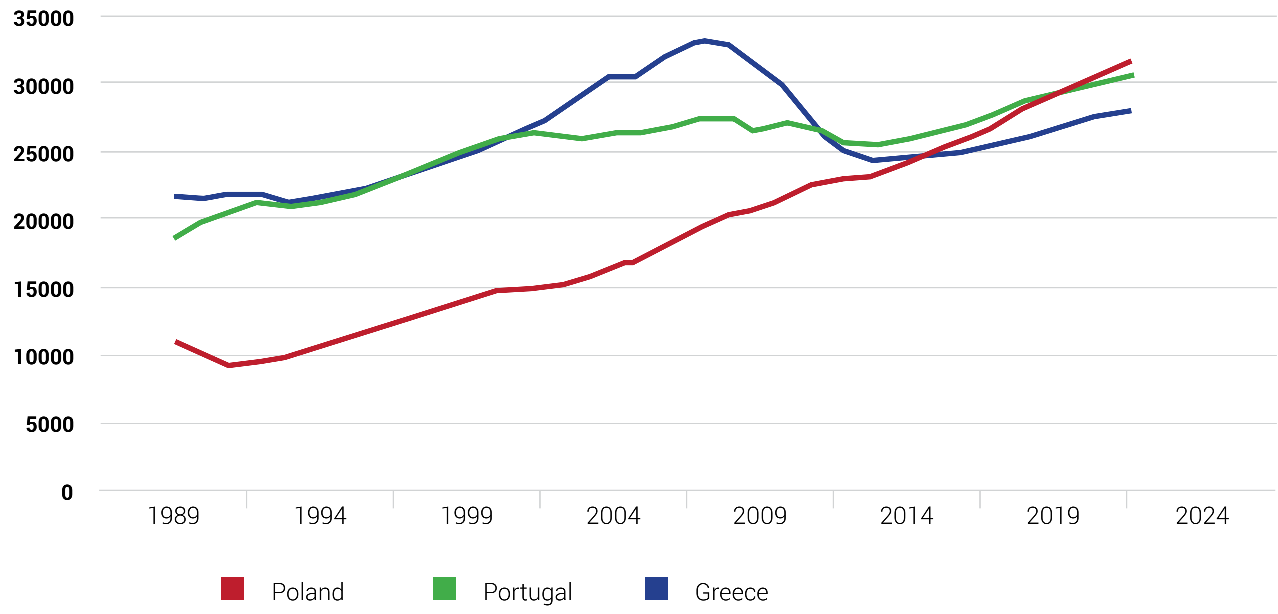
Poland's development after 1989

Rapid economic growth

In October 2017, the FTSE Russel index company made a breakthrough decision, advancing Poland from the group of emerging markets to developed ones. This means that since September 2018 Poland has been, as the first CEE country, finding itself among the economic powers such as Germany, the US or Japan. According to the World Bank, Poland has actually been in the group of states with the world's highest income since 2009. It is indeed an impressive result for a country, taking only 15 years to advance from the group of states with average income to those richest ones.

In the key moment for Poland's recent history – the collapse of the communist system in 1990 – the average Pole was earning one tenth of the then average German salary and was able to afford one third of the consumption basket of that of the average German. Incomes of Poles were lower than earnings of citizens from other CEE countries, except for Romania. The country was going bankrupt, its industry was obsolete and ineffective, while savings were consumed by hyperinflation (Piątkowski: 2018). When in 1989 the systemic transformation was launched, the politicians who entered the Sejm through partially free electionsf aced the decision: what should be the model that the Polish free market economy should adopt?

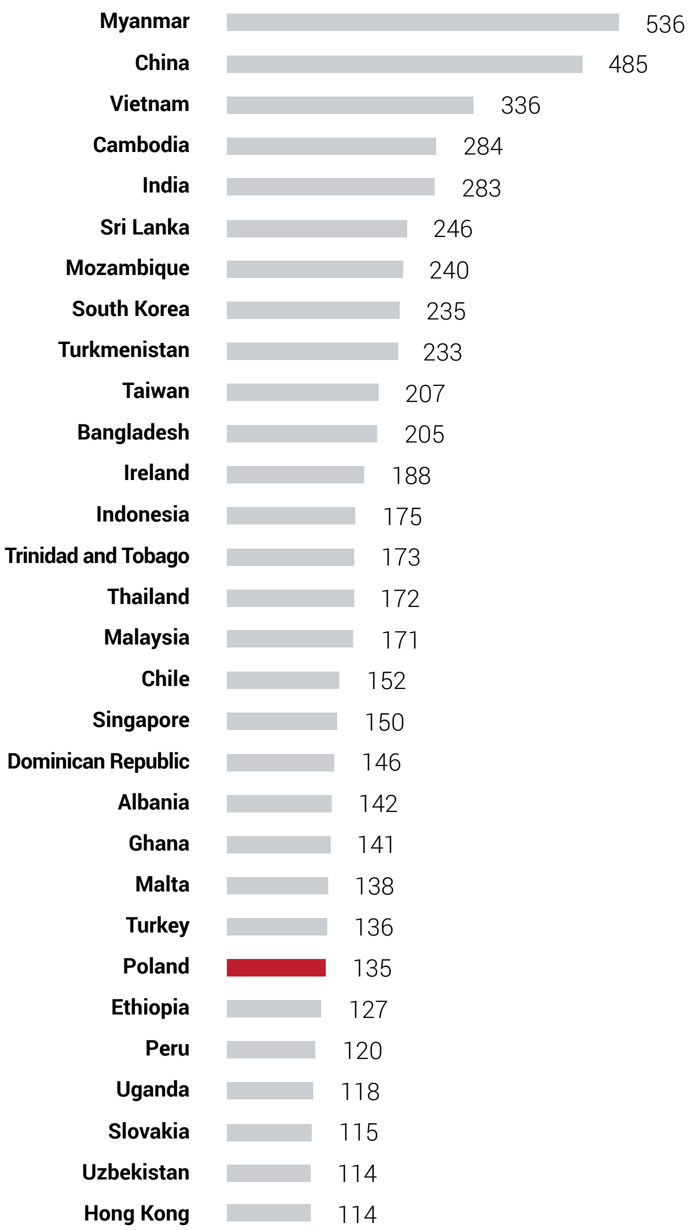
Up to 2024, Poland will have outpaced, in terms of per capita GDP, Portugal. GDP per capita (by PPP of the year 2011)



Source: Own calculations based on the IMF data and forecast.

Eventually, in the 1990s, liberal reforms were ushered in, aimed to trigger a quick economic growth and meet the NATO and EU accession to NATO criteria. This orientation resulted in a rapid economic development. In the years 1989–2017, Poland's GDP per capita grew by 135 per cent, what put it among the fastest growing countries in the world. For reference, Poland was outperformed by the so-called Asian Tigers or countries starting from a very low level of income, such as Myanmar (536 per cent) or Cambodia (284 per cent).

30 countries with the biggest growth of per capita GDP in the years 1989–2017 (by PPP of the year 2011)



Source: Own calculations based on the Conference Board Total Economy Database.

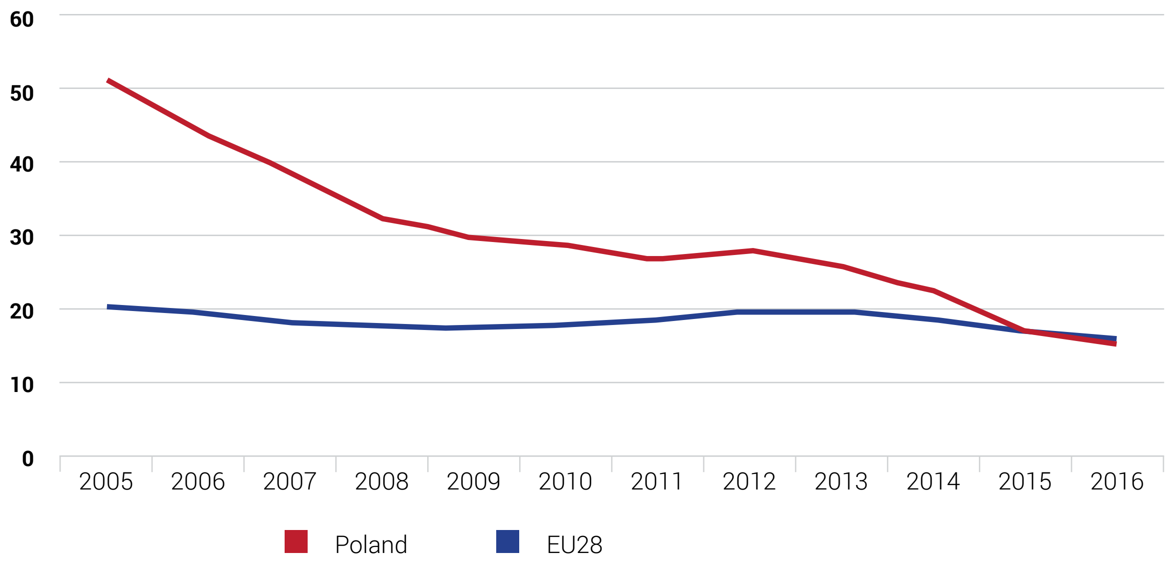
The only European countries outpacing Poland in this ranking are Ireland (188 per cent), Albania (142 per cent), and Malta (138 per cent). Poland has significantly outpaced other post-transitional countries, including Russia (18 per cent), Hungary (46 per cent), Slovenia (56 per cent), the Czech Republic (65 per cent), and even Estonia (96 per cent), a country famous for its liberal economic policy approach (Arak & Wójcik, 2016).

The economist Marcin Piątkowski emphasises that the source of economic success of Poland was its strong social decision to "return to Europe" by way of entering the European Union – which required alteration of public institutions. The EU has also provided Poland with institutional and financial support. Piątkowski anticipates that before the year 2030 Poland will have caught up with Western Europe and will have reached the level of income equalling 80 per cent of that in the West European countries (today it is 67 per cent – Piątkowski: 2018). Other experts, including those from the World Bank, also perceive Poland's EU accession as one of the key factors bringing about its economic success. They emphasise both the importance of EU institutional backup and the funds received therefrom, which have become an additional growth factor. They also note that Poland had unique features which might have been the key ones in ensuring such a quick development. World Bank experts point to the exceptional stability of the business environment in Poland in comparison to the neighbouring countries. This allowed companies to shape long-term investment strategies. (World Bank, 2017). Prior to the year 2024, Poland will have outpaced, in terms of per capita GDP, Portugal; in recent years, it did so with Greece and Hungary.

Challenges to Poland's growth: inequalities, deprivation, and colonisation

Over the years, the economic growth in Poland was not inclusive – in many indicators showing the scale of poverty or material deprivation, Poland registered much lower results that the rest of Europe. Yet in 2011, material deprivation concerned 26 per cent of the society, whereas in the EU as a whole this figure stood at only 18 per cent. In 2015, Poland caught up with the European average, while at present it exceeds it by 1 percentage point. Today, only 15 per cent of Polish families cannot afford unexpected expenses, whereas in Europe it is a little bit less than 16 per cent. In the years to come, it is possible to expect a further drop of the percentage of Poles affected by this problem.

Percentage of the society affected by material deprivation in Poland and the EU in 2005–2016



Source: Own calculations based on Eurostat data.

The quick and intensive economic growth is undoubtedly a great success of Poland, though its rate is merely a single economic index, not revealing anything about the structure of this growth or its consequences for particular parts of the society. However, the research explained below indicates that income inequalities in Poland have increased since 1989 much more than it is commonly believed – the richest citizens have gained most from the systemic transition. Where does this clash of opinions come from? In the 1990s, the inequality measures were counted only based on the data originating from surveys carried out by Poland's Central Statistical Office (GUS) and those did not allow for projection of incomes of the richest part of the society (Bukowski & Novokmet, 2017a). Currently they are also measured by means of the Gini coefficient. The latter indicator has dropped to the level of 30.4 per cent in 2016 from 34.4 per cent in 2004 (Bukowski & Novokmet, 2017b). Pursuant to the current surveys carried out by the National Bank of Poland, NBP (2018), Poland, compared to the Eurozone countries, has small wealth inequalities, evidenced by lower Gini index for net assets (57.8 per cent, compared to 68.5 per cent on average in the Eurozone). The countries with relatively low wealth inequalities are, apart from Poland, Spain (59.9 per cent), Belgium (58.9 per cent), and Slovakia (49.2 per cent). On the other hand, the greatest concentration of wealth, measured with the Gini coefficient, is to be found in Latvia (78.5 per cent), Germany (76.2 per cent), and Ireland (75.2 per cent).

The richest were growing rich faster than the rest of the society after the year 1989

Income group (distribution of gross national income per adult)	Annual average real growth rate 1989–2015	Total cumulated real growth 1989–2015	Share in the total growth 1989–2015
Whole population	2 per cent	73 per cent	100 per cent
Lower 50 per cent	1 per cent	31 per cent	13 per cent
Middle 40 per cent	2 per cent	47 per cent	30 per cent
Upper 10 per cent	4 per cent	190 per cent	57 per cent
Incl. upper 1 per cent	7 per cent	458 per cent	24 per cent
Incl. upper 0.1 per cent	10 per cent	1019 per cent	9 per cent
Incl. upper 0.01 per cent	13 per cent	2273 per cent	3 per cent
Incl. upper 0.001 per cent	16 per cent	5066 per cent	1 per cent

Source: Bukowski & Novokmet (2017a).

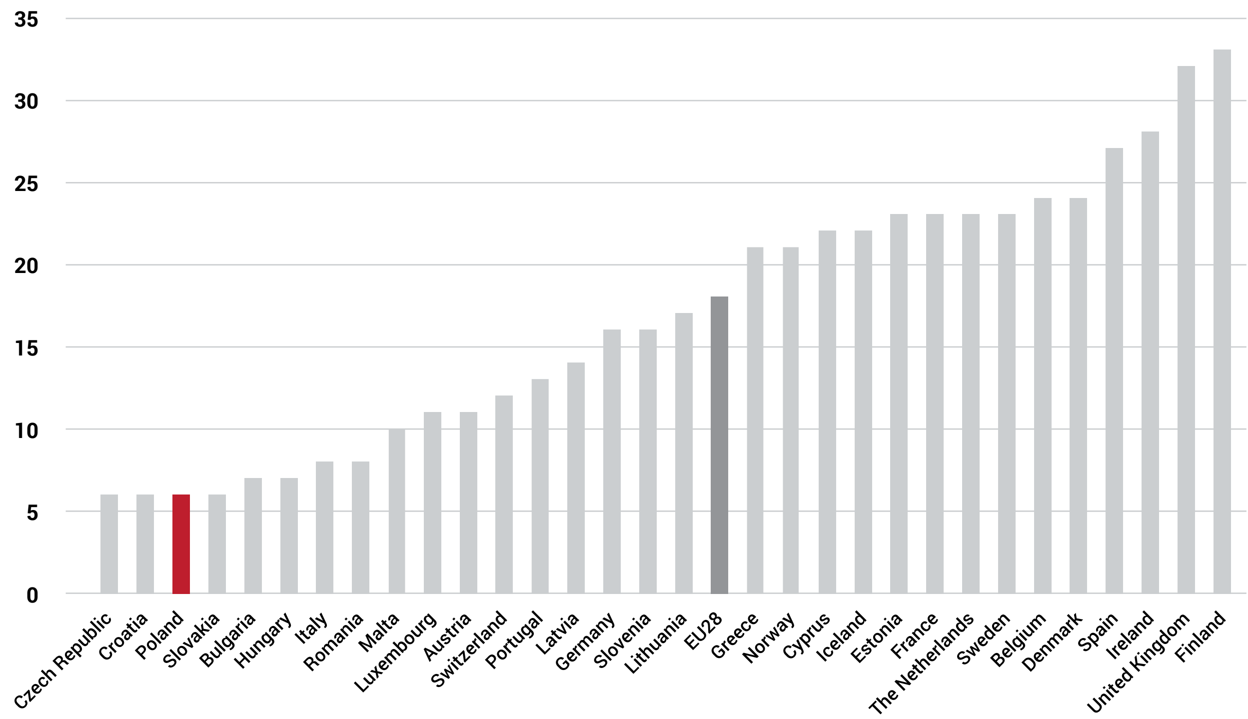
What do the data say? In the years 1989–2015, in Poland, the richest 1 per cent of the population captured almost twice as big a part of the income growth than the poorest half of the society (24 per cent and 13 per cent, respectively). The richest 10 per cent's share in national income increased from 23 per cent to 40 per cent; in turn, for 1 per cent of the richest citizens these values account, respectively, for 4 per cent and 14 per cent (Bukowski & Novokmet, 2017a).

In the period 1989–2015, the average real national income per adult in Poland grew by 73 per cent, that is to say it was growing by approximately 2.1 per cent per annum. Although this is a modest growth rate vis-à-vis the growth rates in China or among the Asian Tigers, it is significantly greater than in other CEE countries. Incomes of the 10 per cent of the richest citizens presented very high growth indices, thus confirming that they have become the main beneficiaries of the economic growth in Poland. Income of the upper 10 per cent increased by 190 per cent (or 4.2 per cent per annum), while the highest per centile earned 458 per cent (or 6.8 per cent per annum).

The growth of incomes of the poorest 90 per cent of the society was significantly more modest: the bottom 50 per cent experienced a 31 per cent growth (1 per cent per annum), while the middle 40 per cent – by 47 per cent (1.5 per cent annually).

To sum up, the quick growth of Poland turned it into a relatively rich country. It seems that the challenges it faces at present consist of working out solutions that will further reduce income deprivation and inequalities, so as to provide the society with benefits of the generated economic growth. A significant impediment may be the low intergenerational education mobility, specific to Poland – only 7 per cent of individuals aged 25–59 whose parents have primary education received a higher education diploma (with EU average standing at 28 per cent). It could mean that it is difficult in Poland to change one's social position (and, hence, one's financial situation), even if one half of every year group decides to pursue tertiary education.

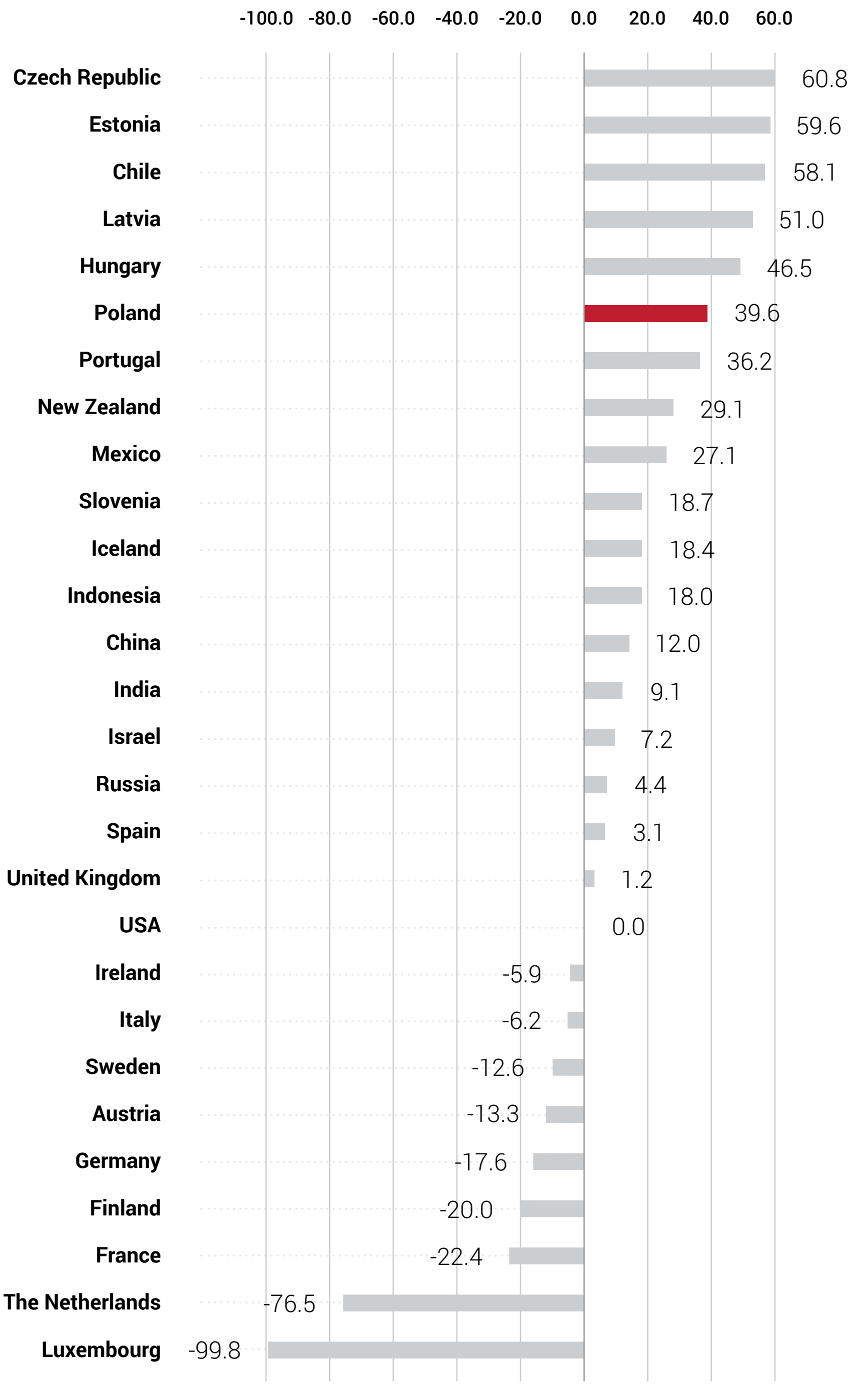
Percentage of individuals with higher education from among those whose parents had primary education (aged 25–59) in 2016



Source: Own calculations based on the Eurostat data.

After 1989, Poland experienced a major change. Prior to that it was a periphery of the Soviet empire and peripheries usually receive ideas, money, and technologies from economic centres, what causes some economic dependence. After 1989, Poland became a semi-peripheral country (Staniszkis, 2013), opening itself to foreign investment. At the same time, however, nobody, neither then nor in subsequent years asked the question of what model should Poland seek. For instance, whether it wanted to be merely a sub-supplier economy (Gromada, Janyst & Golik, 2015). Over the years, the share of the state (understood as state-owned enterprises and local governments) in Poland's GDP has been declining. In 1995, during the then still ongoing privatisation, the share in revenues of the whole sector of enterprises of state-owned enterprises accounted for 46.3 per cent (Bałtowski & Kozarzewski, 2016). Nowadays, according to the recent data, it is merely 10.1 per cent. The proportions in employment look similarly – in 1995, it accounted for 48.7 per cent among public companies (in the sector of enterprises), while today – for 21 per cent. At the same time, employment in foreign-controlled entities (registered outside Poland), grew from 4 per cent in 2000 to 12 per cent in 2015. Some pundits and researchers began to refer to this process as colonisation by western capital (Bershidsky, 2017). A view that grew in popularity stated that the CEE countries are under "foreign ownership" (Novokmet, Piketty & Zucman, 2018). Such a state is a result of an effective attraction of foreign capital. However, it is necessary to look at this through the prism of net investment balance, i.e. the difference between the level of inward and outward investment. This will allow to compare the region's achievements with the outcomes of developed countries.

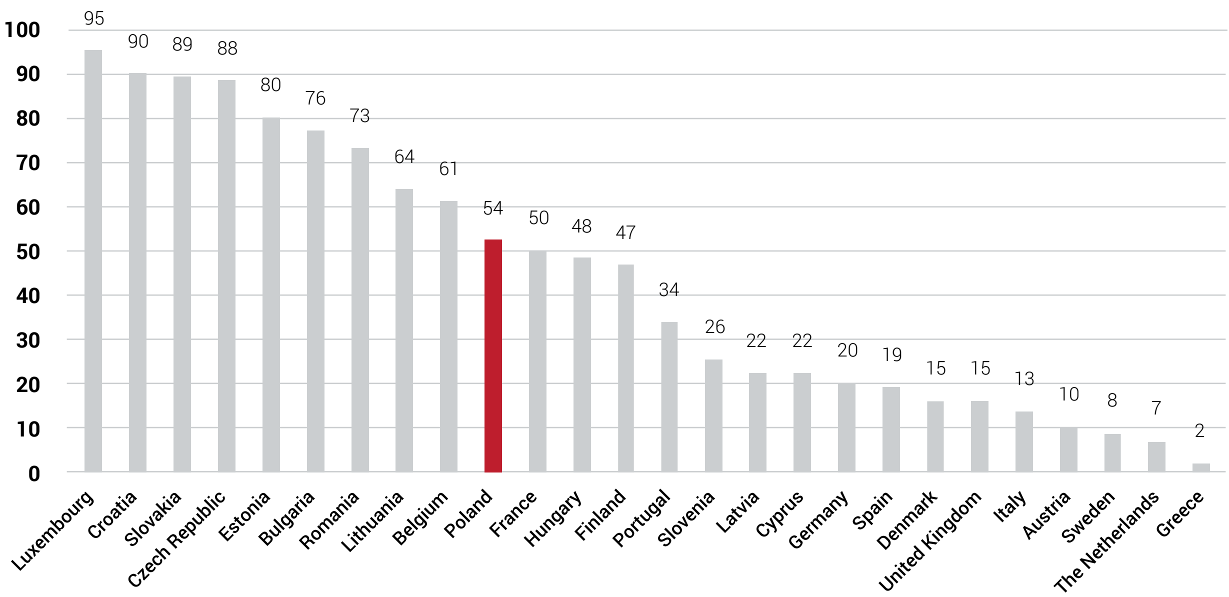
Balance of inflow and outflow of net foreign direct investment in 2017 (percentage points of GDP)



Source: Own calculations based on OECD data.

Related to the economy's volume, the CEE countries have the highest positive balance of foreign direct investment, what means that they attract more capital than they invest in other countries. Not a single developed country but Portugal and New Zealand has such a positive share of foreign capital. Israel's balance is 7.2 pp., while that of China – 12 pp. Poland has the difference amounting to almost 44 pp., while the Czech Republic – to as much as 61 pp. National capital in these countries plays a significantly lower role than international one. Among the countries in which banks' assets mostly belong to foreign banks, there are no former colonial metropoles. That group includes only the countries that were colonised or politically dependent in the past (Cull, Maria Soledad Peria & Verrier, 2018). As the recent available data show, in Poland less than 50 per cent of assets are serviced by foreign banks, while in the past this percentage reached almost 75 per cent. In Germany, France or Italy, it reaches only a few per cent. Last year, the share of domestic investors in the banking sector's assets exceeded 50% for the first time since 1999 – a percentage that grew in the last year owing to conscious buying and merging public financial institutions (Reiffeisen Research, 2017).

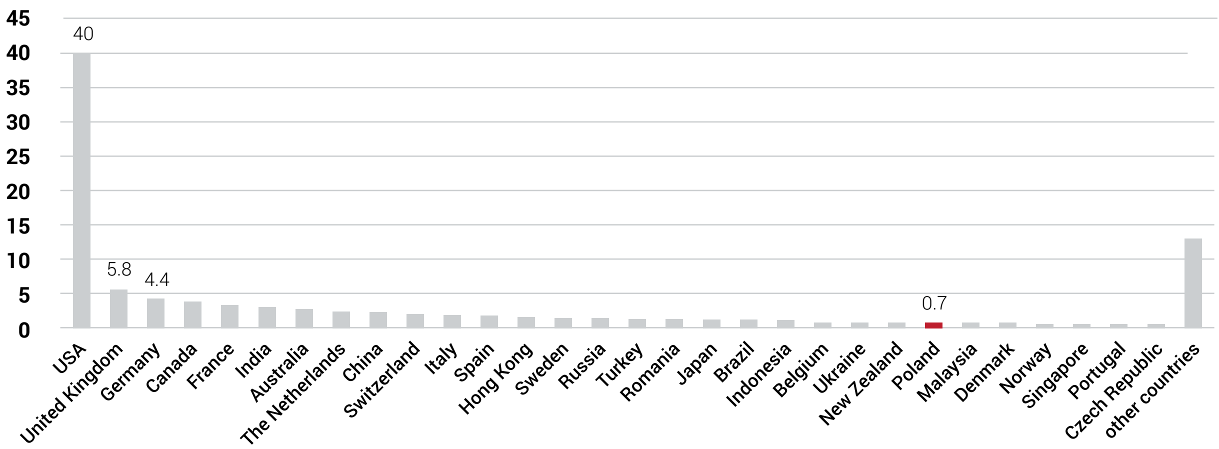
Percentage of assets deposited in banks whose owners are foreign entities among the European Union Member States, in 2016



Source: Own calculations based on the data of national financial regulation authorities.

Currently Poland is still an attractive place to invest, to buy companies; however, not for the purpose of relocation of R&D centres to this country. Digital and technological sovereignty induces innovation creators to develop it at home. Suffices to look at the map of the world – servers and computing centres are primarily located in the USA, the United Kingdom, Germany, and Canada.

Percentage of all data centres across the world by 30 countries with the biggest number thereof in 2018



Source: Own research based on the Data Center Map as of 15 June 2018.

Central Europe is a hybrid

Experiences common for CEE countries include a system of centrally planned economy and socialist law, or incurrence of the costs of transition (recession, inflation, and unemployment). Common for the Visegrad Group countries are also the accession path to NATO and the EU as well as harmonisation of their respective national and European legal frameworks. It is also necessary to remember about the impact of the model of capitalism propagated by the EU, based on the single market, monetary and financial union, and the strategy named Europe 2020 (Arak & Wójcik, 2016).

Bruno Amable has singled out five models of capitalism: that of market economy (Anglo-Saxon world), social democratic (Scandinavia), Asian (Japan, South Korea), Mediterranean (Southern Europe), and European continental capitalism (Western Europe). It can be easily noticed that the above taxonomy misses a model which would have comprised the CEE countries (Amable, 2003). This stems from the fact that the capitalism models in countries of this region are not homogeneous. As early as at the stage of transition – in the 1990s – significant differences arose in the region concerning the approach to free market economy and solutions in establishing new institutions of economic order. For instance, different countries adopted different models of privatisation: sales to foreign investors prevailed in Hungary and Estonia, coupon privatisation in the Czech Republic and Lithuania, while buyout of assets by employees in Poland, Slovakia, and Romania (Kleer, 2016). Hence, individual countries can hardly be enlisted to whichever of the groups typed by Amable. Nevertheless, based on simple research methods it has been ascertained that countries of the region display the biggest similarity to the Mediterranean model of capitalism represented by Spain and Italy (Próchniak et al., 2018). The highest degree of similarity is displayed by Poland, Croatia, and Slovenia. This shows how hybrid-like is this model of capitalism and how apparent are its institutional inconsistencies. In many countries and areas surveyed, the existing institutional matrices display simultaneous similarities to two or even three different models of Mediterranean capitalism with a simultaneous deficit of institutional complementarity (Próchniak et al., 2018).

Classification of the CEE countries by the similarity to the capitalism models

Country	Reference country			
	Germany	Spain/Italy	Sweden	United Kingdom
Bulgaria	48.2	61.5	36.4	44.8
Croatia	57.1	70.9	36.2	42.2
Czech Rep.	67.4	66.8	43.9	53.3
Estonia	62.7	59.8	47.0	55.4
Lithuania	61.3	64.2	43.3	51.8
Latvia	56.2	64.4	42.9	53.6
Poland	**58.1**	**71.1**	**43.4**	**50.5**
Romania	46.7	59.4	29.7	37.6
Slovakia	61.0	69.3	41.4	45.0
Slovenia	65.4	70.6	57.4	49.9
Hungary	64.8	68.3	44.6	51.2
Average	**59.8**	**66.0**	**42.4**	**48.7**

Source: Próchniak et al. (2018).

With the still deepening European integration, Amable's taxonomy shall cease to be applicable even among countries of the so-called old EU. An in-depth analysis reveals that countries implement different models of capitalism in various institutional areas and form more and more loosely defined groups within which individual models are being implemented (Rapacki & Czerniak, 2018). In defining at least the loosely outlined models of capitalism inside of the Central European countries, it could be useful to apply the classification which differentiates the three versions of supranational capitalism: Baltic, Visegrad, and Slovenian. In the Baltic States (Lithuania, Latvia, and Estonia), a radical neoliberal model is being put in place, with a lack of social security for citizens. Among the Visegrad Group countries (Poland, the Czech Republic, Slovakia, and Hungary), rooted neoliberalism appears – its consists of looking for a compromise between marketization and conservation of the elements of the welfare state and protectionism. And in Slovenia, a model prevails based on the institutional search for balance between the market, on the one hand, and protectionism and the welfare state, on the other (Bohle & Greskovits, 2007).

Two poles of capitalism

The classification of models of economies implemented by individual countries, done by means of the imposed scheme is a certain simplification, but we are intuitively inclined towards an assumption that certain economies are more liberal while other ones are interventionist. For the first time in Poland such a dichotomous analytical approach was applied by Polityka INSIGHT, together with the Social Dialogue Committee of the National Chamber of Commerce (KIG, in their joint report on Polish capitalism (Arak & Wójcik, 2016). In this paper we make use of that experience as it allows for observing the complexity and hybridity of such economies as Polish or Hungarian.

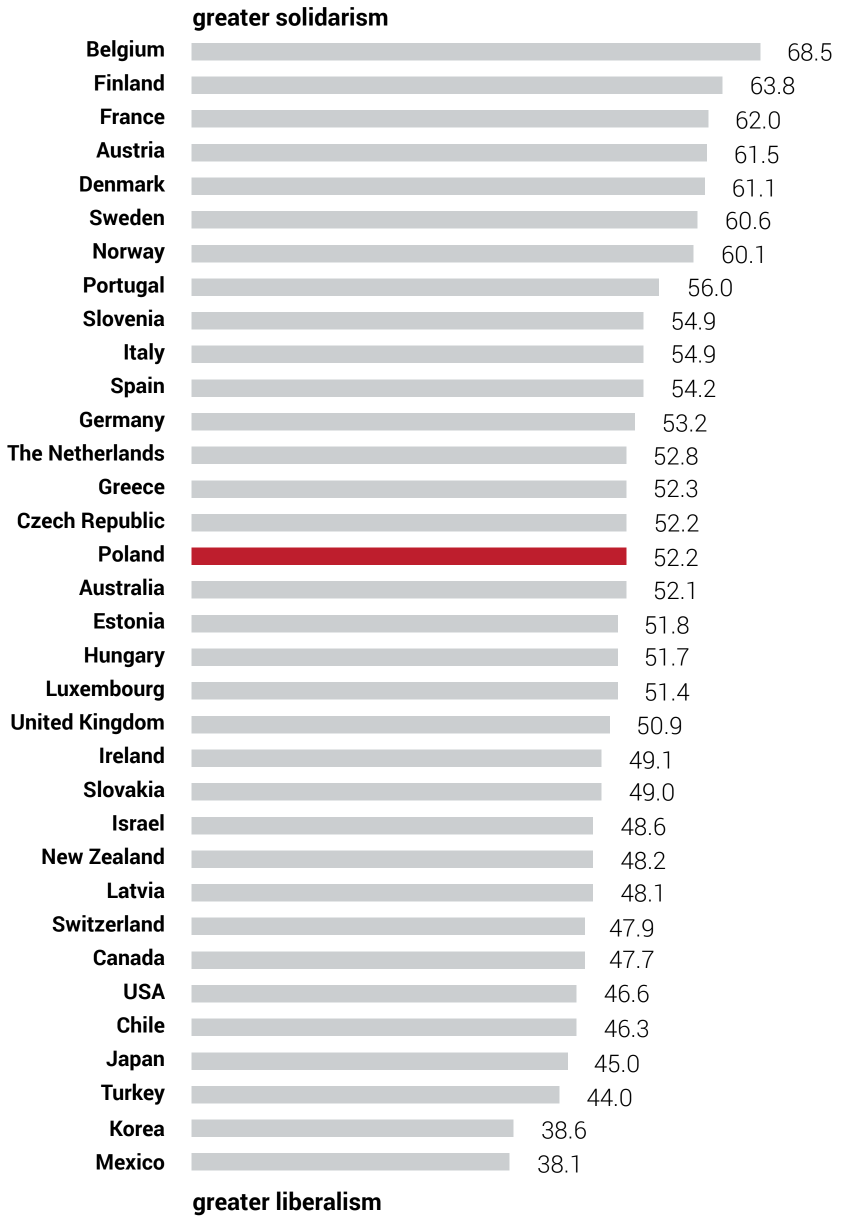
Such an approach to the taxonomy of capitalism models across the world is presented by David Hall and Peter Soskice, They have singled out the model of liberal market economy (LME), and the model of coordinated market economy (CME). In liberal economy, companies coordinate their activity through markets and contractual relations operating, in accordance with the logic of neoclassical economics. In coordinated economy, an important role is played by non-market control methods, e.g. governmental economic planning, public investment, and collective agreements. LME is characterised by neoliberal public policies, focusing on radical innovation and new industrial sectors. In case of CME, a greater role is played by social and political institutions. In turn, the economists Andreas Nölke and Arjan Vliegenthart single out also an additional third category – the dependent market economy (Nölke & Vliegenhart, 2009). This is the type existing in post-socialist Central and Eastern Europe. Poland, the Czech Republic, Slovakia, and Hungary, against the background of the more widely considered region, are characterised by production of complex consumer durables, skilled and cheap manpower and transfer of technological innovation within supranational companies. This, in turn, causes their dependence on other countries. An important factor is also the inflow of capital from foreign direct investment. In the key industries (automotive industry, manufacturing, and electronics) and in the sectors of financial and bank services, foreign ownership is dominant. In the years 2010–2016, annual outflow of capital gains from the country (less adequate inflows) accounted for 4.7 per cent of GDP in Poland, 7.2 per cent in Hungary, 7.6 per cent in the Czech Republic, and 4.2 per cent in Slovakia (Piketty, 2018).

Poland: competitive social market economy

So far, Poland has been thought of as a relatively liberal country in the world (Arak & Wójcik, 2016), moving towards solidarism through the development of social policy and care for inclusive economic growth. We have taken this into account and in this report capitalism and its dimensions are analyzed based on synthetic indexes which are arranged on the axes of liberalism - solidarism/elitism – egalitarianism. The results of the overall index, as well as its components, are rather surprising: Poland seems to be following the so-called third way – it combines the growing solidarity of the social policy of the state with greater competitiveness of the economy.

Poland ranks 16th in terms of solidarism among 34 analyzed OECD developed countries. In 2017, the general index of capitalism for Poland amounted to 52.2 points. The only two CEE countries that took higher positions are: Slovenia (9th place) and the Czech Republic (15th). Other countries in the region achieved a poorer result, with Latvia being the most liberal (26th), followed by Slovakia (23rd), Hungary (19th) and Estonia (18th). The most liberal in the world are the economies of Mexico, Korea, Turkey, Japan and Chile. The most liberal model of capitalism among European countries exists in Switzerland. On the other extreme, that of solidarity, are to be found Belgium, Finland, Austria and Denmark. It is worth noting that the CEE countries are relatively close to each other, in the middle of the distribution, which places them among moderate countries in terms of liberalism.

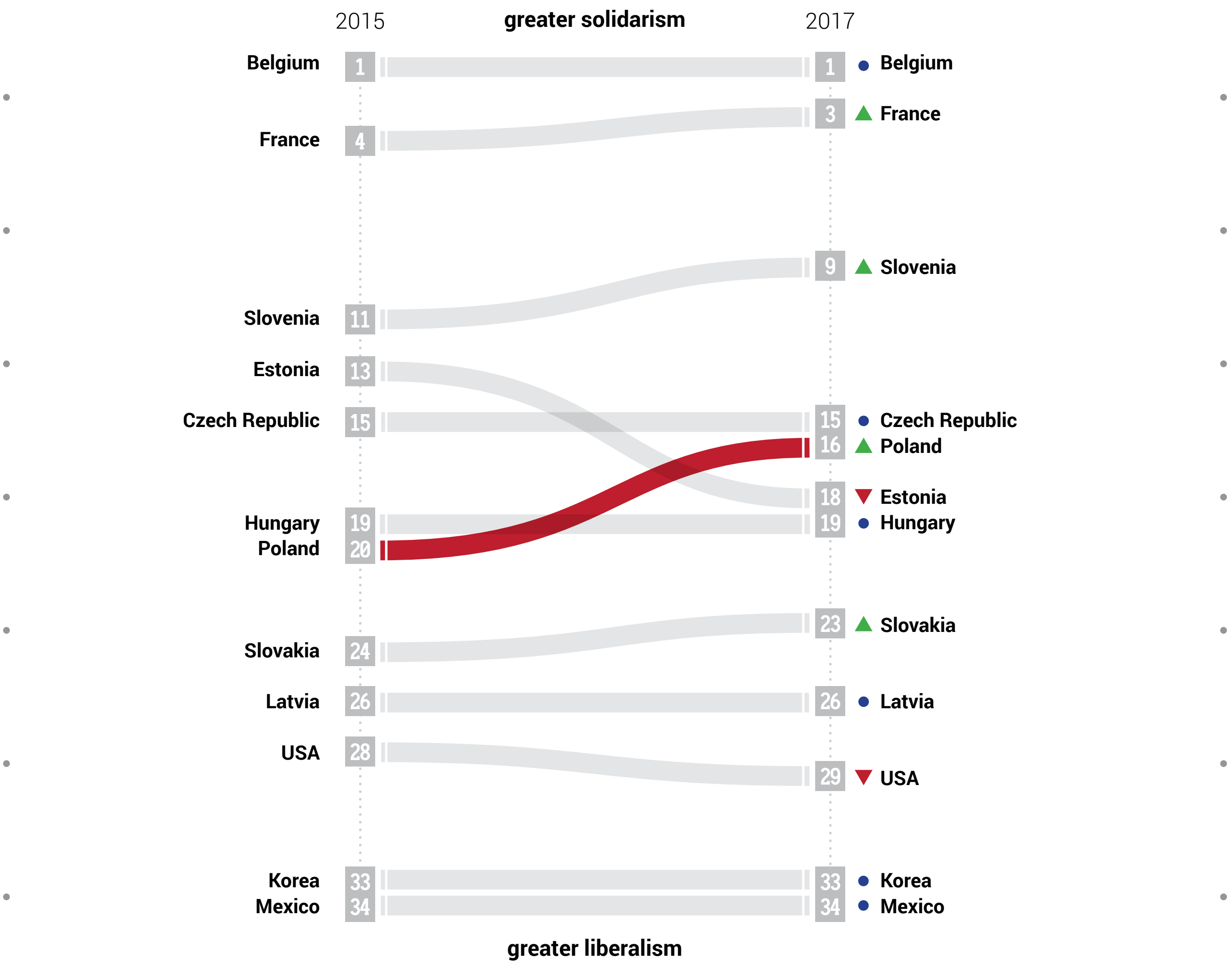
Distribution of the capitalism index in 2017 (points)



Source: Own study.

The Polish model of the economy becomes more and more competitive and socially responsible. In 2015, the Index of Capitalism for Poland was lower than at present, the country also occupied lower position in the OECD countries classification than in 2017 (it was then 20th). The explanation for this phenomenon are the criteria for dividing countries according to six dimensions assigned to different aspects of the economic model. In the case of Poland, aspects concerning social policy, political system or public finance became more solidarist (which brought Poland closer to the economy model with more extensive social security). Poland is, except for Slovenia, the only country in the region, moving towards solidarism in many aspects of social life, while the rest of the central eastern european countries aim to liberalize them or stay closer to the liberal end of the spectrum. It is possible that in the upcoming years Poland will become more solidarity than the Czech Republic.

Change in the position of countries in the solidarism – liberalism layout in 2015–2017 (places in the ranking)



Source: Own study.

The Global Competitiveness Index (GCI), created with the idea of arranging countries based on the development stages on the road to greater competitiveness, has included Polish capitalism within the group of transforming countries for about a decade. This measure considers several mutually complementary concepts, and there are three areas under examination: quality of the macroeconomic environment, standards of public institutions and the level of technological development. In the last edition, Poland ranked 39th, behind Russia (which was promoted to 38th place from 45th), Indonesia or Azerbaijan (WEF, 2017).

European and post-Soviet countries by development phase in 2017

01	**DRIVEN BY SIMPLE FACTORS**	**35 countries** including:	- Kyrgyzstan - Tajikistan	
01–02	**THE TRANSITION BETWEEN PHASE 1 AND 2**	**15 countries** including:	- Azerbaijan - Kazakhstan - Mongolia - Ukraine	
02	**DRIVEN BY EFFICIENCY**	**31 countries** including:	- Albania - Bosnia and Herzegovina - Bulgaria	- Georgia - Montenegro - Serbia
02–03	**THE TRANSITION BETWEEN PHASE 2 AND 3**	**20 countries** including:	- Croatia - Hungary - Latvia - Lithuania	- Poland - Romania - Slovakia - Russia
03	**DRIVEN BY INNOVATION**	**36 countries** including:	- Austria - Belgium - Cyprus - Czech Republic - Denmark - Estonia - Finland - France - Germany - Greece - Iceland - Ireland	- Italy - Luxembourg - Malta - Netherlands - Norway - Portugal - Slovenia - Spain - Sweden - Switzerland - Great Britain

Source: Own study based on WEF (2017).

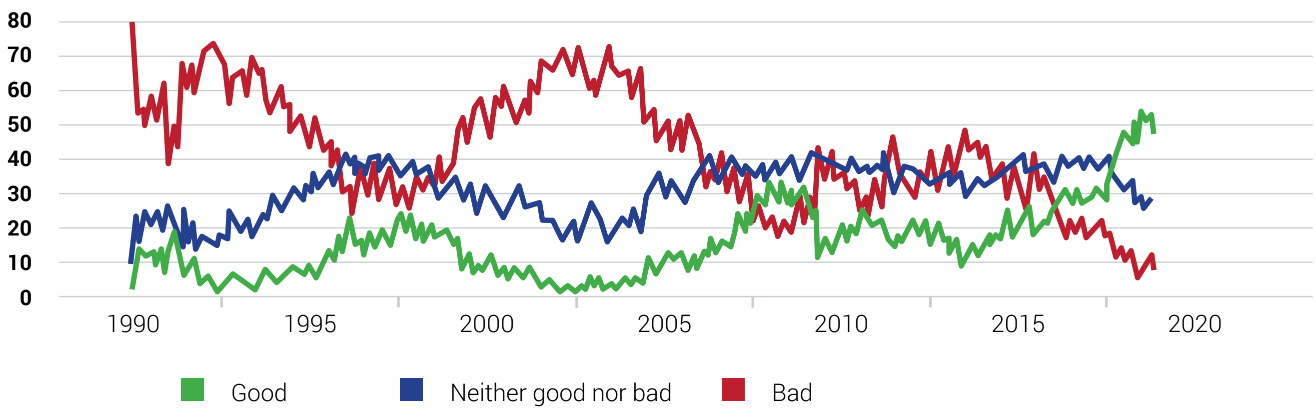
Expenditures of the public sector in Poland in relation to GDP are relatively high compared to other countries. In 2017, they constituted 41.5 per cent of the Polish GDP, which places Poland just behind countries such as Luxembourg (41.8), the Netherlands (43.3) or Germany (44.1). The highest public expenditures in relation to GDP are to be found in France (56.5), Finland (54) and Belgium (52.2). Over the last two years, Poland has recorded a slight increase in public spending, mainly due to the greater generosity of social benefits, but they are not large enough for Poland to become as social-democratic as Belgium or France.

Polish administration and public services do not play such a significant role in the economy as it is the case in other developed countries. Their share in creating value added in relation to GDP in 2017 was 14.2 per cent only, which is a worse performance than that of Turkey (13.1 per cent), Ireland (11.6 per cent) and Mexico (10.8 per cent) only. This shows, on the one hand, low effectiveness in creating monetary value, but on the other hand, it means that in Poland there are mainly low-efficiency sectors in the public sphere. The State generates 23.4 per cent of GDP in Norway, 22.6 in France, 22.2 in Belgium, and 21.8 per cent in the United States. On average, in developed countries, it stands at 17.8 per cent. However, the public sector in Poland is a more important employer – it is responsible for about 20 per cent of jobs, although in this category Poland is better only from the Czech Republic, Korea, Turkey and Mexico (in the latter the administration employs only 12 per cent of the overall workforce). Category leaders – countries where one third and even more employees are employed in the public sector – are Norway, Sweden, Israel, Belgium, Denmark and France. Also, Great Britain and Finland are high in the classification, with interest proportion up to 30 per cent. In the case of Poland, both measures (concerning employment and participation in creating added value) have not changed for more than a decade. This is because the Polish public sector has not undergone any significant change beyond the privatization of some companies and commercialization, for example in the field of health services. The expectations of Poles towards the state are high (CBOS, 2013). Almost every citizen of the country thinks that it should provide safety for everyone (99 per cent) and respect private property (98 per cent). A common opinion prevails as well that the role of the state is to provide each citizen with a basic income (95 per cent) and free healthcare (95 per cent). Fewer people (88 per cent) think that citizens should have the right to higher education free of charge. The vast majority of those polled (84 per cent) expect that the state will guarantee every citizen a flat, shelter, roof, as well as work in line with their qualifications (81 per cent) or any work at all (80 per cent). Even fewer people express the view that the state should provide every citizen with welfare (53 per cent).

The Poles think of the state as an active player. 58 per cent of them believe that it should play an active role in the economy – 32 per cent of respondents disagree with this statement and 10 per cent have no opinion on the matter (CBOS, 2017). Pointing more specific tasks, Poles mention: facilitating business operations (62 per cent), fighting unemployment (60 per cent), supporting innovation and developing new technologies (48 per cent), implementing large state-driven investments (30 per cent) and attracting and supporting foreign investments to Poland (29 per cent).

After 1989, there was no better period for Poles than the one that began in the middle of last year. In April 2018, the stabilised economic situation, low unemployment and declining poverty and deprivation rates led to a record 57 per cent of Poles declaring that the country's economic situation was good, and only 29 per cent being of the opposite opinion. According to many experts, this positive assessment of citizens stems from a greater redistribution of social benefits and an increase in wages, translated into a higher purchasing power of Polish households.

The assessment of the economic situation in Poland from January 1989 to May 2018 (per cent age of indications)



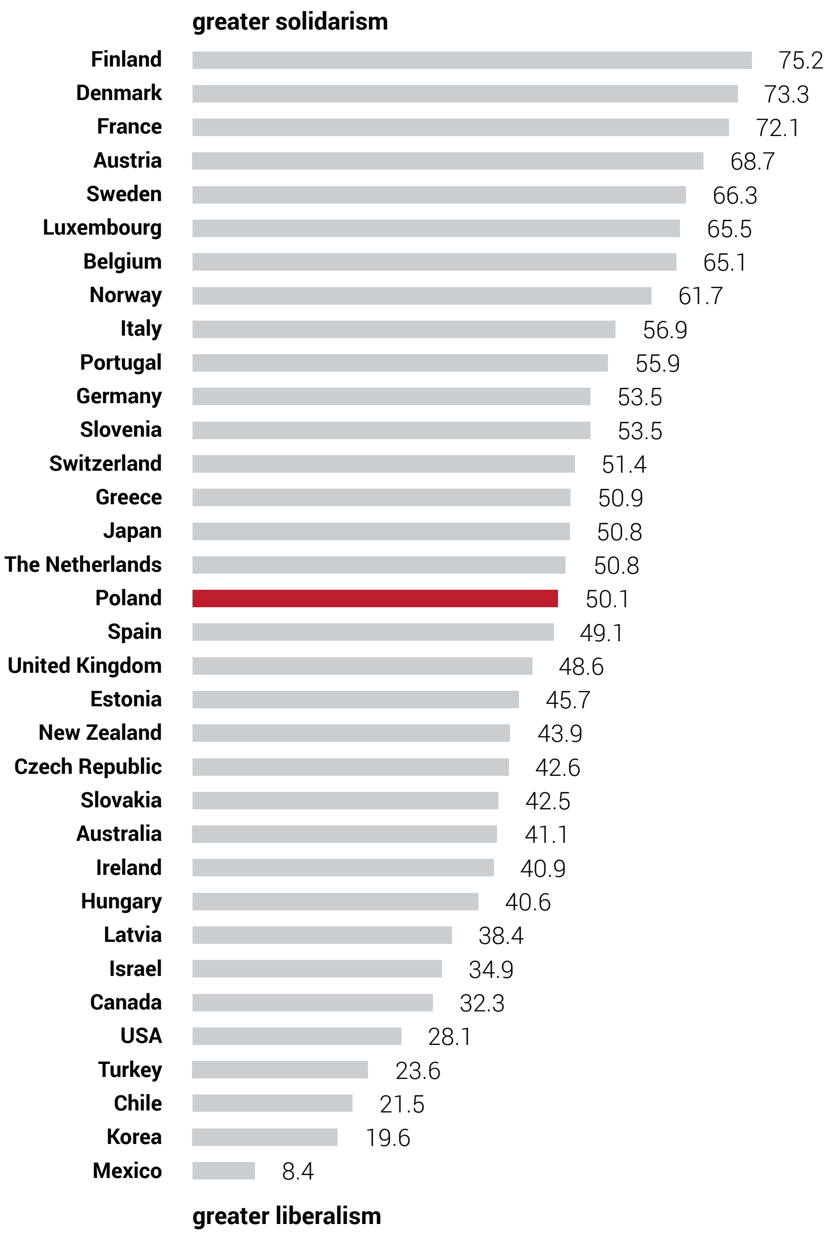
Source: Own study based on CBOS data.

Social policy

In the social policy index Poland achieved 49.1 points out of 100 possible, which ranks it 17th among the analysed OECD countries (in 2015 Poland ranked 18th). Nordic countries, such as Finland and Denmark, are on the top of the list, followed by Austria and France. The social policy institutions are the most economically developed there. Mexico (8.43 points) closes the ranking as a country with the most liberal social policy, which should be attributed to the low level of affluence, and not a conscious policy focused on liberal values. Behind it, in the penultimate place, is Korea (19.6 points), followed by Chile (21.5 points). Once again, the only CEE country ranked higher than Poland is Slovenia (12th place). Other countries were located in the part of the distribution suggesting moderate liberalism. These include Estonia (20th), Czech Republic (22nd), Slovakia (23rd), Hungary (26th) and Latvia (27th), respectively.

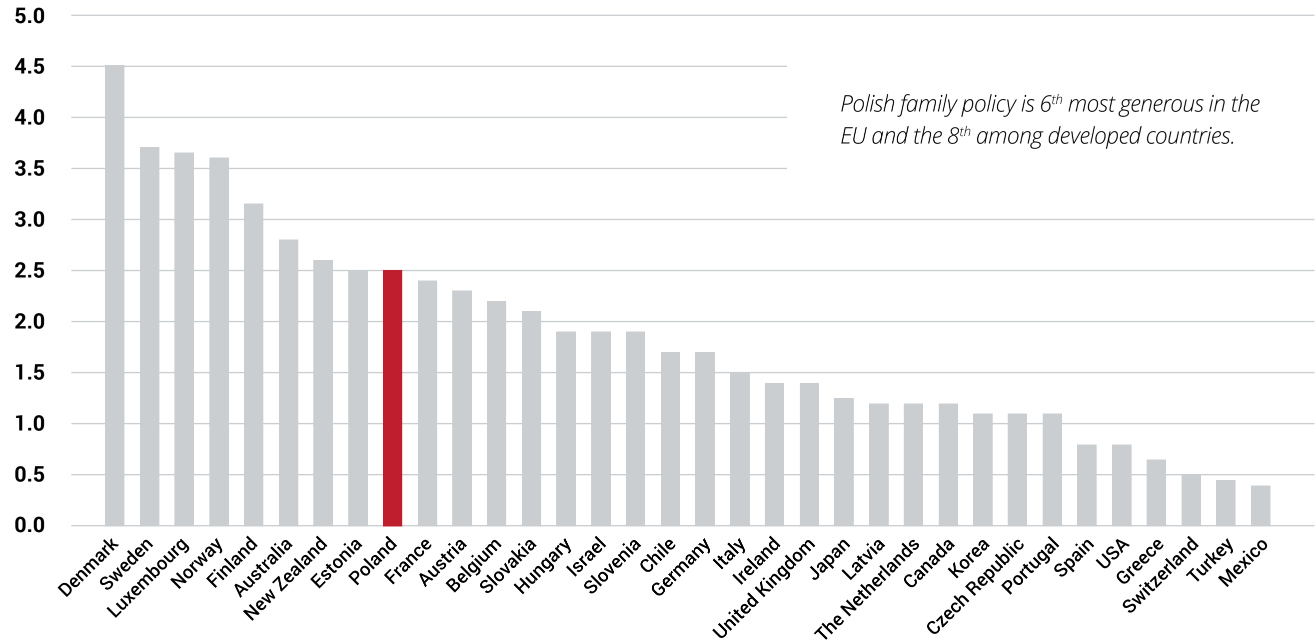
Poland is spending more and more on social benefits, especially during the last two years, i.e. since the introduction of the 500+ family policy program (as a result of its implementation, spending on family policies increased from 1.4 per cent of GDP in 2015 to 2.5 per cent in 2017). In 2007, Poland had a lower value of the indicator for the social policy dimension than in 2017, but in the index of OECD countries it held the same position (17th). This means that in all the analysed countries social spending, and in particular – pensions, were raised, which results from the fact that societies are ageing.

Distribution of the social policy index in 2017 (points)



Source: Own study.

Expenses for family policy in relation to the country's GDP in 2016 (per cent)



Source: Own study based on OECD and Eurostat data.

For years, the society in Poland has been rapidly ageing, and yet none of the governments until 2015 decided to invest in family policy and encourage Poles to have children. The situation changed through the introduction of the 500+ children upbringing subsidy, but also the annual parental leave or cards with discounts for large families in various service points. Currently, Poland has one of the most extensive family policies in Europe (measured by level of expenditure) – in 2016 it spent 2.5 per cent of GDP on it, which was the eighth largest ratio among developed countries. Some countries help families even more. In Denmark, expenditures for this purpose reach 4.5 per cent of GDP, while in Sweden, Norway or Luxembourg – 3.6 per cent. Poland's lever of spending is still smaller than in the liberal Australia or New Zealand. At the same time, countries that have been conducting family policy for years, had expenditures at the level of at least 2 per cent of GDP from the mid-1990s, when Poland spent only 1 per cent of GDP. The consequence of the abrupt change in the state's policy is the partial professional deactivation of women who choose to look after children instead of being active on the labour market, also due to insufficiently popular part-time job opportunities (Deloitte: 2018; Magda, Kiełczewska, & Brandt: 2018). However, the fertility rate in Poland started to increase from 1.3 to 1.45.

One of the socially expected changes in recent years has been the lowering of the retirement age of Poles and Poles. The 2012 reform raising and levelling the retirement age, though right from the fiscal perspective, was not well communicated, and was not accompanied by adequate public debate and measures to facilitate taking up work by people aged 60+. According to that reform, the retirement age was gradually increased to 67, regardless of gender. First, men of this age were to retire in 2020, and women in 2040. In 2017, however, the possibility of retiring for women aged 60 years and men aged 65 was restored, starting from January 1, 2017. The vast majority of Poles (84 per cent) are in favor of setting the retirement age at 60 years for women and 65 years for men. An opposite sentiment is expressed by 12 per cent of respondents (CBOS, 2016). Employment among people aged 55–64 is 50.1 per cent in Poland, with an OECD average of 63 per cent, which results from earlier professional deactivation of women and the current lack of career prospects for this group.

Another challenge for Poland is the continuation of the fight against poverty and material deprivation. Benefits for the poorest and tax reliefs reduced poverty in Poland by 61 per cent (from 28 per cent with income below 50 per cent of average income to 11 per cent). On average, the social benefits system globally reduces poverty by 54 per cent in each country. The least effective in this respect are Chile, Turkey, Mexico, Korea, Israel or the United States, and the best are Finland, Denmark, France and the Czech Republic, where it has been possible to reduce the scale of poverty by more than three quarters. Summing up, with relatively small expenditures on social policy, a significant problem for Poland remains the appropriate addressing of benefits, so that they are received by those who need them most, and the introduction of social innovations and elements of behavioral economics, so that recipients of benefits will be encouraged to take up employment.

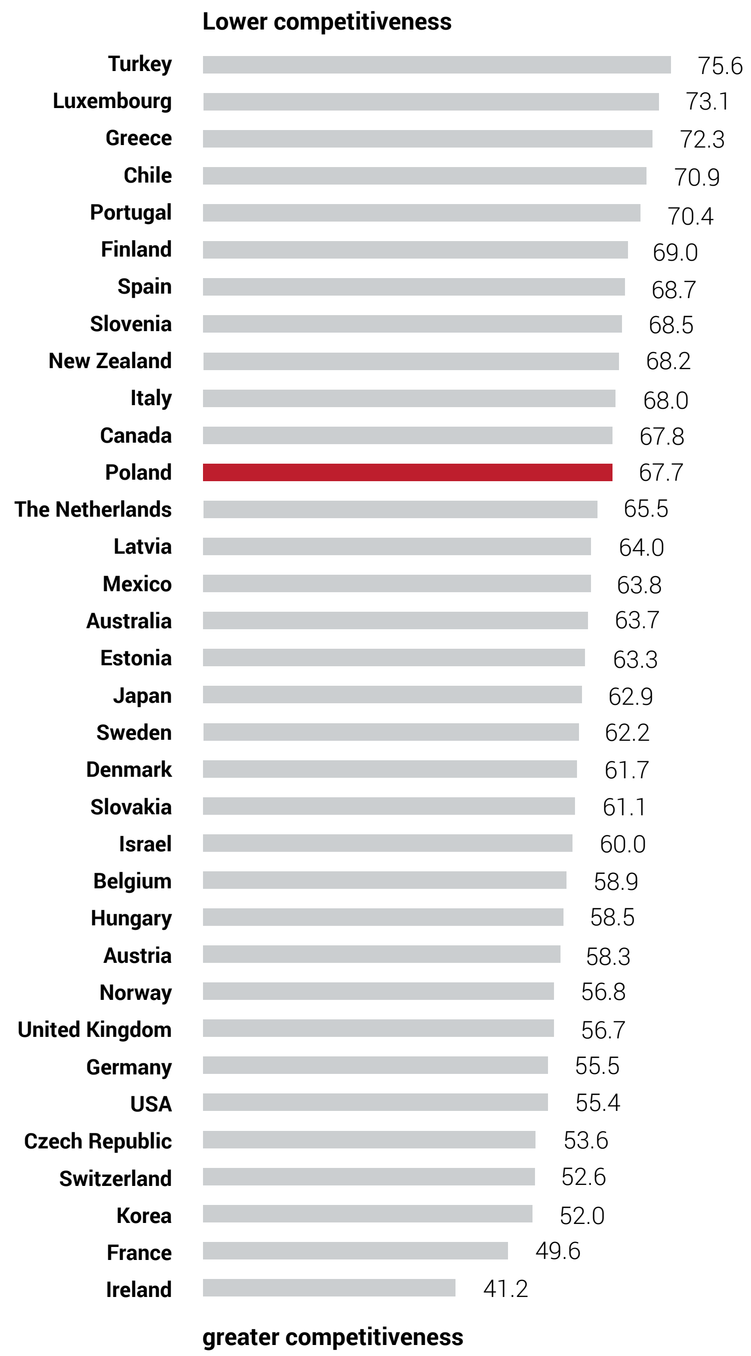
Competitiveness

The competitiveness dimension attributes the highest values to the least competitive countries. Thus, the worst performers are Turkey, Luxembourg and Greece and Chile (Luxembourg due to exceptionally high differences in outgoing and incoming investments in 2017). The best ones are Ireland, France, Korea, Switzerland and the Czech Republic. Slovenia is the least competitive CEE country (8th place). The remaining countries of the region are spread over the entire length of the distribution, with the Czech Republic being the best (30th place).

Poland moves up in the global world supply – it assumed the 12th place in this ranking. The value of its competitiveness index decreased significantly between 2015 and 2017 – from 68.2 points to 67.7. Today, the Polish economy is becoming more and more competitive in comparison to other OECD countries. This is due to the increasing productivity of work and the greater role of exports of technologically advanced goods. In this area, the reform of the Polish Investment and Trade Agency is expected to build a new quality in economic diplomacy by creating a network of trade offices around the world to support Polish exporters.

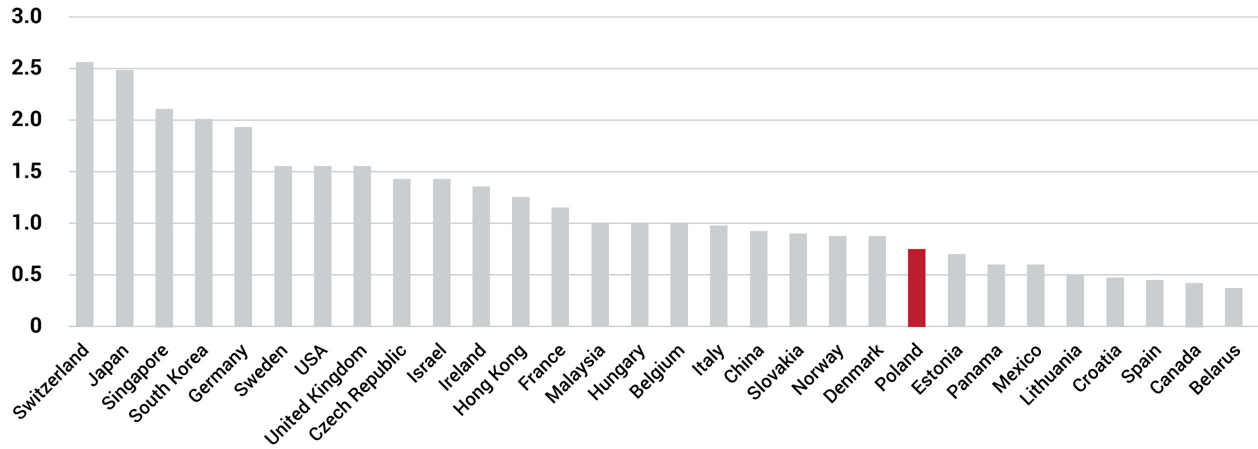
Poland is a relatively competitive country, which receives many foreign investments. Currently, it remains crucial that these investments bring sustainable economic growth in the so-called new economy, for instance, using industry 4.0 or in software innovations. Poland currently ranks 22nd in the world in terms of exports of technologically advanced products. It is outperformed by Denmark, Norway and Slovakia. It is still far from Hungary, which is 14th in the world. However, Spain (28th) and Russia (34th) are behind Poland, as well as Greece (48th position). The first in the world is Switzerland, followed by Japan and Singapore.

Distribution of the competitiveness index in 2017 (points)



Source: Own study.

The Economic Complexity Index for the first 30 countries in the ranking, in 2016 (points)



Source: Own study, based on the Economic Complexity Index, https://atlas.media.mit.edu/en/profile/country/pol/.

In September 2017, the Polish Ministry of Science developed the so-called White Book of Innovation, the result of consultations with entrepreneurs, scientists and officials. Implementation of the book's proposals is expected to contribute, among others, to increase expenditures on Research and Development to 1.7 per cent of GDP in 2020 and to create 1500 start-ups in the next 7 years. What should be emphasised, in terms of creating conditions for growth, is that in 2016 Poland has already established PFR Ventures, a fund of funds, which is the largest public support vehicle for the venture capital sector in the entire CEE region. PFR Ventures implements the strategy of the Polish Development Fund, offering repayable financing to innovative companies from the SME sector. It is worth adding that the White Paper also served to extend legislative changes and introduce a new bill on innovation. The tax relief system included in the document, dedicated to entrepreneurs who want to cooperate with the science sector, as well as support instruments for the researchers themselves, creates favourable conditions for increasing Polish innovativeness.

In 2018 Poland became a special economic zone. So far, from 1994, investors coming to Poland had the opportunity to locate their interests in selected areas and receive public aid. The latter consists of an income tax exemption (CIT or PIT) in the amount of 15 to 50 per cent, depending on the region in the area where the zone is located, eligible investment expenditures or coverage of two-year labour costs ofor newly employed employees. Until now, the total area of Poland covered by special economic zones amounted to about 25,000 ha, which is just 0.08 per cent of the country. Currently there are no territorial restrictions to use the aid, but the investment must be in line with the government's Sustainable Development Strategy.

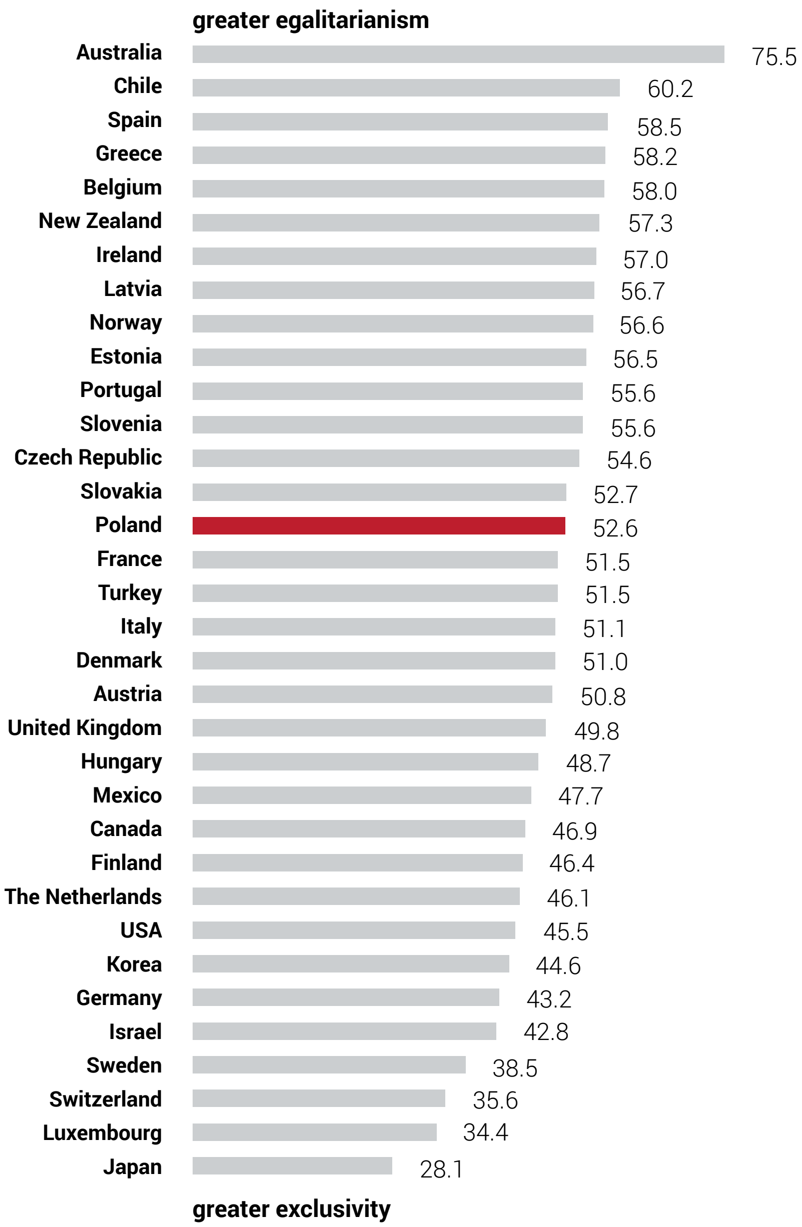
Among the OECD countries, the lowest CIT was introduced by Hungary. All companies there have a 9 per cent rate, which is unmatched. Even the special lower tax rates for small corporations in Korea – 11 per cent – are not that low. Almost as competitive in terms of taxation is Ireland, where CIT for all companies is 13 per cent. Poland, together with the Czech Republic, Slovenia and the United Kingdom, decided to introduce a corporate tax of 19 per cent. Most of the developed countries have introduced a tax for companies of 25 per cent or more. Placed as a role model for companies, the United States has this rate set at the level of 26 per cent. Poland has also established a special lower rate (15 per cent) for smaller entities, just like in the case of Latvia, France and Canada, with the latter country having it at an effective level of 13.62 per cent. This means that Poland has one of the most competitive tax systems for companies. According to the new technical and economic model, rapidly increasing labour costs should stimulate enterprises to invest in mechanisation and robotisation. The concept of the main robotisation bill, presented by Prime Minister Mateusz Morawiecki in 2018, assumes the possibility of accelerated depreciation for investments in advanced technologies and robotisation. This is one of the most important factors, apart from good results of macroeconomic indicators, aimed to encourage enterprises to invest capital in Poland and stimulate investment growth. All the countries in the world are competing for this capital, because foreign direct investments (greenfields) are the most beneficial from the point of view of acquiring stable capital, at the same time having a significant contribution to Polish exports.

The challenge for Poland is to get out of the 'medium development trap' (Ministry of Development, 2016) or 'trap of average productivity', as some economists refer to it. It concerns moving away from the model of low-cost development and gaining market advantages by competing with price and scale, in order to create a more favourable position through the production of more advanced goods and a rise in the global supply chain. What does this mean in practice? Creating "Made in Poland" brands and products, as well as greater production complexity. For now, in terms of complexity of exports, Poland is doing worse than other developed countries – only about 5 per cent of Polish export consists of high-tech products. On average, in developed countries, this percentage reaches 7 per cent; in Slovakia it is 8 per cent, in Hungary 11 per cent, and in the Czech Republic – 13 per cent. The ranking's leader, Korea, has this value at 20 per cent.

Science and education

When examining egalitarianism in the area of science and education, we have determined that it manifests itself in high public spending on education, but also in measuring average research results (Arak & Wójcik, 2016). In the classification of the countries studied, Australia performed best in this respect – it obtained 75.5 points out of 100 possible. It was followed by Chile, Spain, and Greece. Poland ranked 15th – closer to egalitarian countries without spectacular results in science. At the opposite end there are countries characterised by lower school enrolment rates, lower public spending on education and, at the same time, better effects. These are Japan, Luxembourg, Switzerland and Sweden. Closer to elitism in science and education are also Israel, Germany and Korea. In this juxtaposition, the CEE countries are relatively close together in the distribution and they are closer to the egalitarian end. However, this does not apply to Hungary, which, in this area, seems to be moving towards liberalism. Since 2015, Poland has fallen from the 14th to the 15th position in terms of egalitarianism, which means that it is slowly approaching the liberal model.

Distribution of the science and education index in 2017 (points)



Source: Own study.

Poland has one of the most egalitarian education systems. About 41 per cent of the people aged 20–24 are enrolled in an academic institution. However, there are countries in the OECD that have higher education ratios. It is primarily Korea (51 per cent), Slovenia (48 per cent), Turkey (43 per cent) and Ireland (with a similar percentage to Poland). Chile, Australia, Lithuania and the Netherlands also have high rates (they oscillate around 40 per cent). In the liberal United States, 33 per cent of people undertake tertiary education. 30 per cent does so in Germany – famous for vocational schools, and 20 per cent in fast-growing Israel. China remains one of the world's poorer performers, with a rate of around 16 per cent, but this indicator is growing every year.

While relatively many people in Poland are educated, universities in other countries are of better quality. Poland has only two universities on the so-called Shanghai List (i.e. in the ranking of the best universities in the world): Jagiellonian and Warsaw Universities. Among the top 500 schools in the list, the United States (135) China (52), the United Kingdom (38), Germany (37), Australia (23) and France (20) have the most universities. Korea has 12 universities, Israel 6, and Russia 3. Poland has as many good schools as Chile, Malaysia, Iran and Singapore, and less than Greece or Norway.

For this reason, Polish universities are facing a change. The main objective of the new bill, which is to enter into force in 2018, is to allow for Polish universities to reach the European top. The 2.0 Act, as it is popularly referred to, is a legislative giant that affects all aspects of academic life. It increases the autonomy of the university, regulates the status of the university council, which is to consist of representatives of business and local government, and introduces new rules for the selection of rectors. A new classification of disciplines and sciences based on the OECD's Anglo-Saxon classification will be applied. It will reduce the number of disciplines from 102 (the highest number in Europe) to 41. The aim of the changes is also to merge smaller universities to create more competitive academic centres, which, thanks to more prominent scientists, may enter the international rankings.

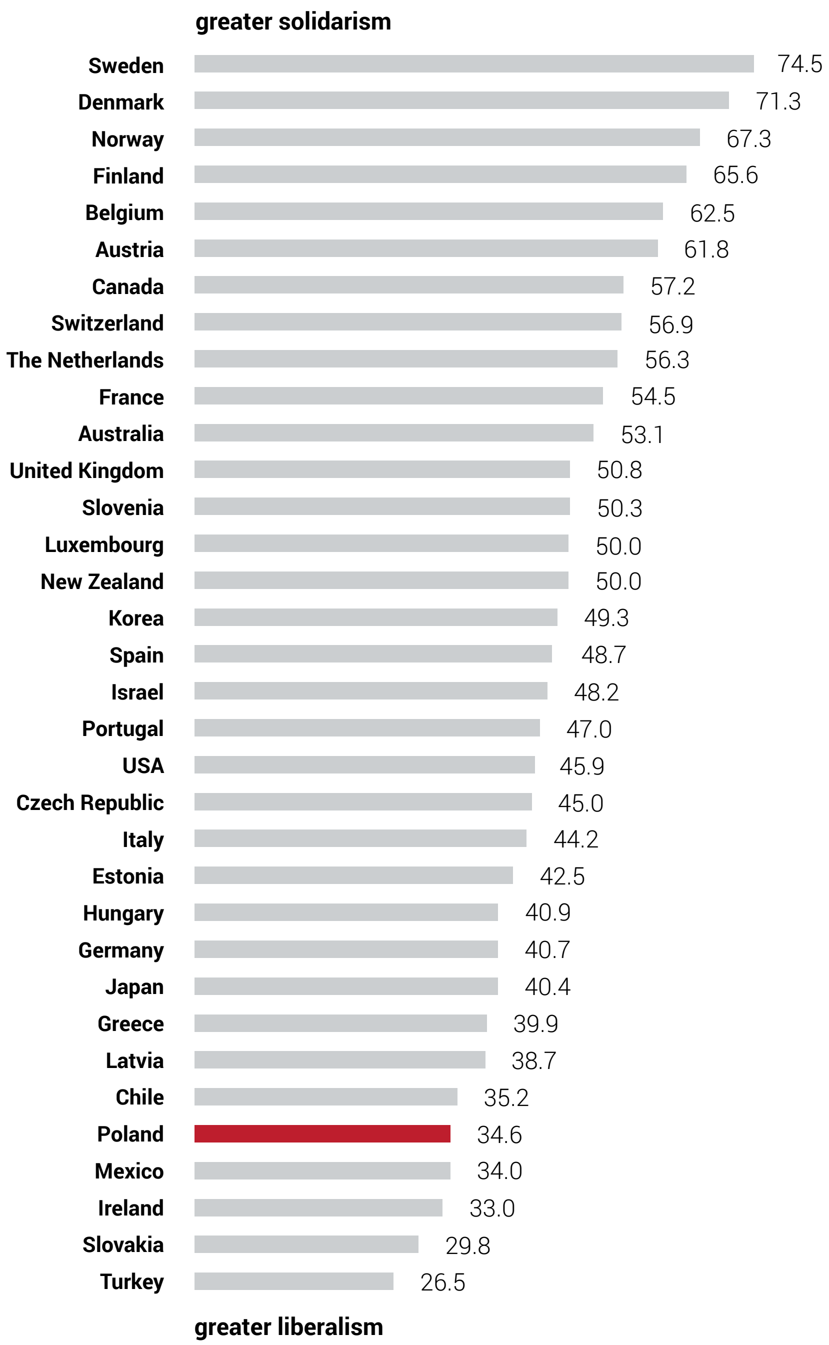
For years, the financing of science has been an issue in the Polish public debate, even with the scale of current changes. It concerns not only the funds available to universities, but above all those earmarked for research, which both the public and private sectors finance insufficiently, in turn affecting the smaller role of innovation in creating added value in the Polish economy. Among the 41 countries surveyed by OECD Poland ranks 33rd in terms of R&D expenditures. The public and private sectors spend a total of 1 per cent of GDP for R&D. Smaller expenditures are registered in Greece, Turkey, Argentina or Mexico. Countries with which Poland competes locally, e.g. Hungary or Slovakia, spend 1.4 and 1.2 per cent of GDP, respectively. The average for the OECD is 2.4 per cent, and global innovation leaders, such as the United States or Germany, devote less than 3 per cent of GDP to this goal. An open question remains whether Polish companies really do not spend their money on innovations or they do not report it to the tax office (Białek-Jaworska, Ziembiński, & Zięba: 2016).

Labour market

The Polish labour market is becoming more solidarist, but it is still close to the liberal end. The largest scope of coordination of social dialogue, unionisation, the highest professional activity of women and the lowest long-term unemployment is in Sweden, Denmark, Norway and Finland. The Nordic countries have the most social-democratic job markets. Belgium and Austria are also high on the list. Poland ranks 30th, which means that it is characterised by a liberal labour market. In fact, the unionisation and coordination of social dialogue are at a very low level. Only Turkey, Slovakia, Ireland and Mexico have more liberal markets. Among the remaining CEE countries,, the most social-democratic labour market, in the institutional sense, is to be found in Slovenia (13th place), the Czech Republic (21st), Estonia (23rd), Hungary (24th) and Latvia (28th).

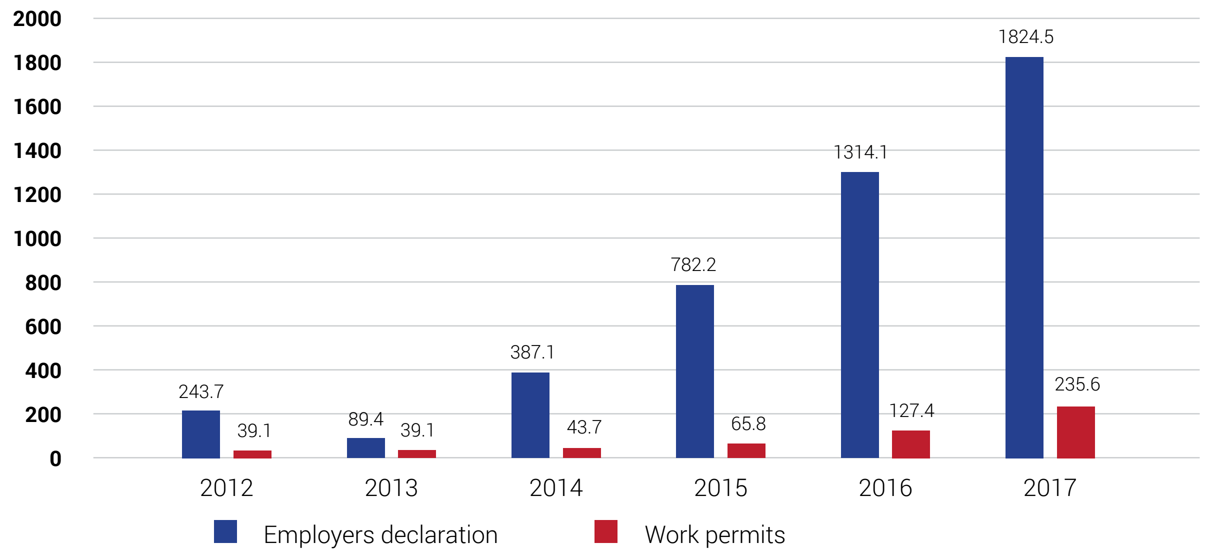
In the years 2015–2017 there was a slight change in the labour market dimension indicator in Poland. It has increased from 31.2 to 34.6 points, which implies that the labour market became more social-democratic in the institutional sense. Since 2015, the share of long-term unemployment in total unemployment has significantly decreased. In addition, the professional activity rate among women has increased. These changes, however, have been neutralised by transformations in a more liberal spirit, such as the decreasing level of centralisation of social dialogue and the ever-lower index of unionisation. It must be remembered that Poland in its liberalism of the labour market is not so far from the countries considered to be social democratic – i.e. Germany or Greece.

Distribution of the index of the labour market index in 2017



Source: Own study.

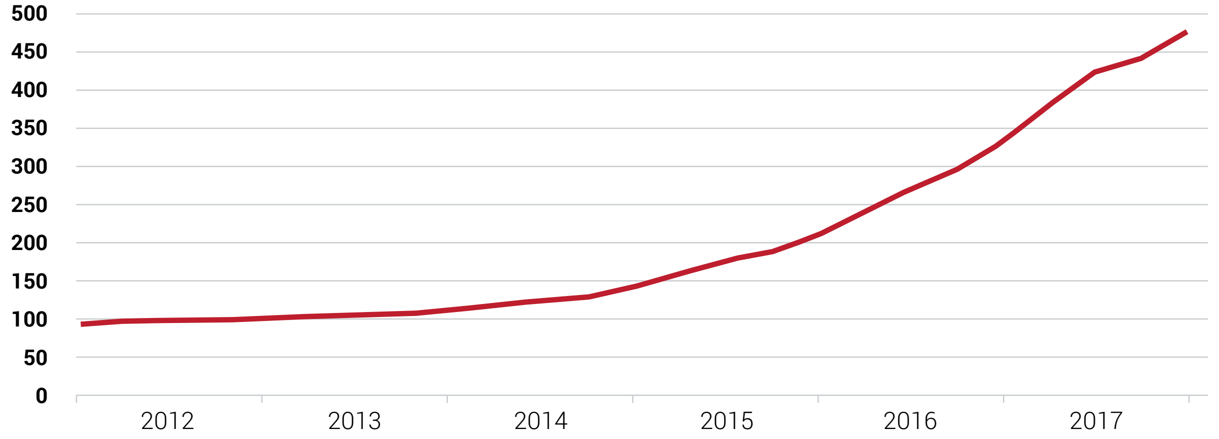
Number of declarations of employers to employ a foreign employee and issued work permits in the years 2012–2017 (thousands)



Źródło: Opracowanie własne na podstawie danych ZUS.

Last years have brought about a wave of immigration to Poland from Ukraine. Ukrainians are already working in every tenth Polish company. They are currently employed in as many as 39 per cent of the large enterprises, 21 per cent of the medium ones and 6 per cent of the small ones (Personnel Service, 2018). In Poland in 2017, more than 1.8 million statements were registered regarding the intention to register a foreign worker. This is 39 per cent more than a year earlier. This simplified form of employment is not the only one based on which employees from the Eastern countries come to Poland. At the same time 236,000 people came here to work permanently (and not for seasonal work, as in the case of a simplified form). According to the National Bank of Ukraine, from 1.3 to even 2.3 million Ukrainians can be currently working outside Ukraine (Bankier.pl, 2018), which means that about 1 million of them found employment in Poland. In the first quarter of 2018, there were 345,000 Ukrainians registered in the Social Insurance Institution, paying contributions. It is about 118,000 more than a year earlier (increase by 52 per cent). In total, 476,000 foreigners were subject to insurance (by 146 thousand more than previous year, an increase of 44 per cent).

Foreigners insured in the Social Insurance Institution (thousands)

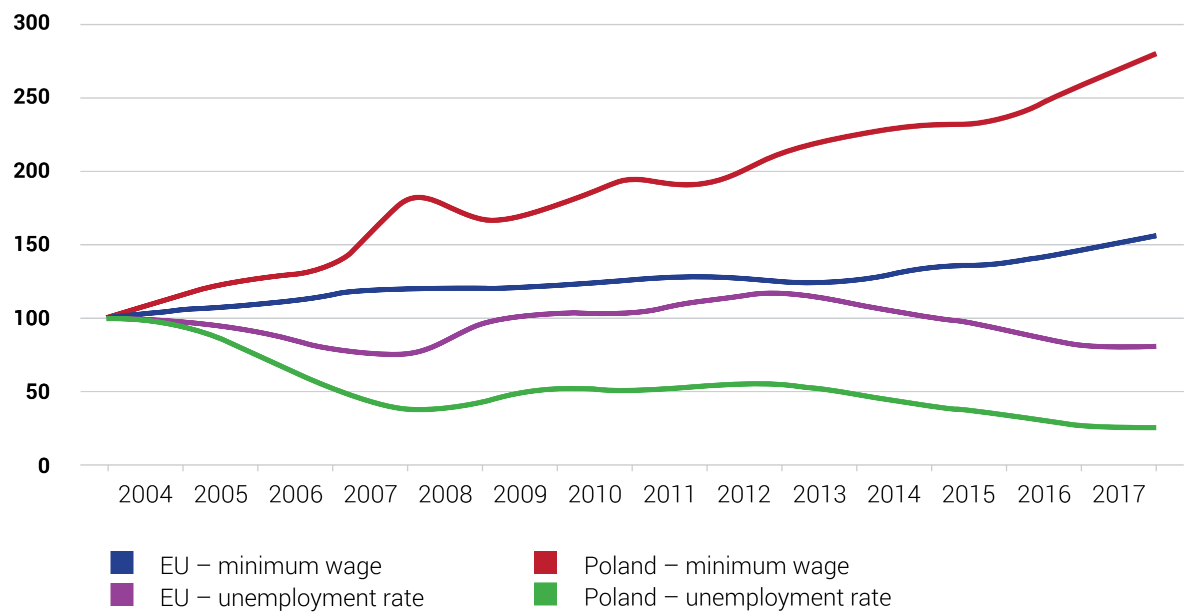


Source: Own calculations based on data from the Social Insurance Institution.

For the first time since 1989, the Polish government is creating an immigration policy. The Cabinet of Prime Minister Mateusz Morawiecki plans to extend, among other things, the opportunity to work based on employer's declaration (which is the easiest path to employ foreigners). Currently, citizens of six former USSR countries (Armenia, Belarus, Georgia, Moldova, Russia and Ukraine) can work in Poland for up to half a year, and after the changes this period will be extended to a year. It also is planned to facilitate obtaining work permits and to extend their duration for all visitors from outside the EU. Currently, they last three years at most, but soon they could be extended to last up to five years. The government also intends to extend the list of countries whose citizens are subject to a more lenient migration policy, and include the countries of Southeast Asia, such as Vietnam and the Philippines, from which immigration has recently risen.

The minimum wage has been growing in Poland over the last two years at the rate of almost 9 per cent annually, while in EU countries it has stood at about 6 per cent on average. What is crucial, the increase in the minimum wage in Poland is accompanied by a continuous decline in the unemployment rate. At the end of 2018 it will account for less than a quarter of what it was in 2004, when Poland joined the EU (and the minimum wage will be almost three times higher than at that time). Employees in Poland can be more and more fairly paid because the economic situation and rapid economic growth allow for this. In 2018, the minimum wage offered to Polish employees is second only to that adopted in Western Europe and Slovenia. A worker in Poland must receive at least 502 euros, while an employee in the Czech Republic – 478. and in Hungary – 445. The minimum wage in Poland remains at 43 per cent of an average OECD wage (according to data for 2016), which is also at a higher level than in the other countries of the region.

Minimum wage and unemployment rate in Poland and average in the European Union 2004–2018 (2004=100)



Źródło: Opracowanie własne na podstawie danych Eurostatu.

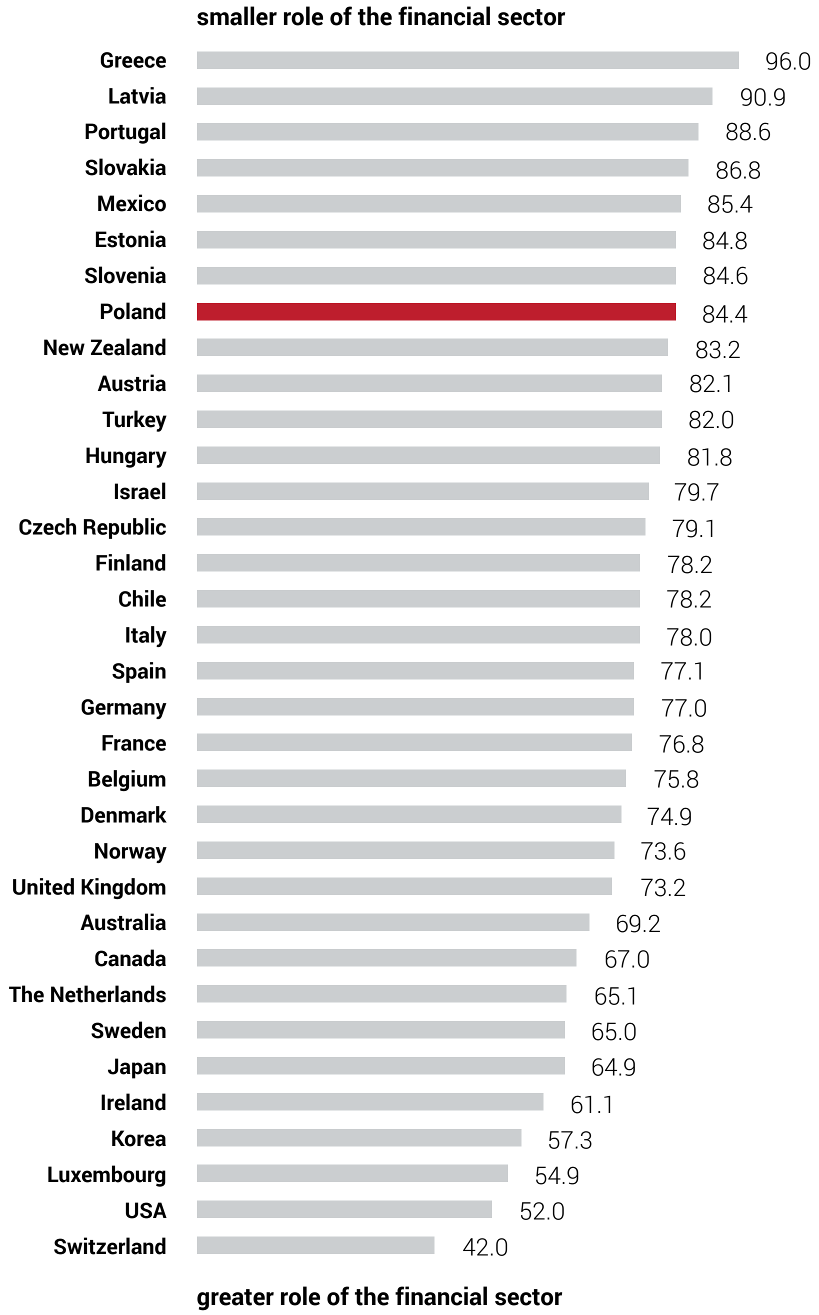
A major challenge which Poland is facing is the reduction of the number of people working on temporary contracts that do not provide them with sufficient social security. According to Eurostat data, about 20 per cent of employees work under temporary contracts in Poland, while the EU average is twice as small. Out of this group, 6–8 per cent. works on civil law contracts (that is, contract of mandate or contract of specific work). According to the Central Statistical Office data, the number of workers employed on temporary civil contracts fell in 2016 to 1.25 million from 1.3 million in 2015, and Poland's record was recorded in 2012, when 1.35 million people worked in this way (GUS, 2018). The number of contracts of this type in the economy should continue to decline thanks to improving economic situation, the lack of employees to fill posts advertised by employers and the inspections of the National Labour Inspectorate. Another challenge for Poland is to ensure a better level of coordination of social dialogue, which is a difficult task with the falling number of members of employers' organisations and trade unions. Another one is to increase the professional activity of, among others, women and people with disabilities in the open labour market.

The financial sector

In terms of the size of the financial sector, Switzerland performs best (41.96 points). The United States, Luxembourg, Korea and Ireland are right behind it. The financial sector is also developed in Japan, Sweden and the Netherlands. Relatively large ones also occur in Canada, Australia and the United Kingdom, while the smallest – in Greece, Latvia and Portugal. As for the CEE countries, all of them are closer to the side of the summary showing the smaller role of the financial sector. Let us recall that in 2007 there was an exceptional contraction of this sector in all countries due to the beginning of the financial crisis. Currently, the Czech Republic has the most developed financial sector in this region (14th position). In Poland, the financial sector was solidified in 2015–2017 – and today it is closer to the model represented, for example, by the US. In the period from 2015 to 2017 Poland also moved in the classification (from the 6th to the 8th place), that is, closer to the liberal end of the spectrum.

The nationalisation of the banking sector has started. Polish capital controls over half of the assets of the commercial banking sector in the country. Even 2.5 years ago, this share was by a dozen or so percentage points lower. Nationalisation, understood as taking over control of banking sector entities by companies with Polish capital, becomes a fact. Polish companies, most of which are state-owned enterprises, are controlled by institutions with assets worth approximately PLN 800 billion. Increasing the share of domestic capital in the banking sector through bank mergers gives an opportunity to use synergy effects, for example in the distribution of financial products and services. In addition, dividends will be paid to Polish shareholders, including the State Treasury, which will improve the balance of payments,

Distribution of the financial sector indicator in 2017 (points)



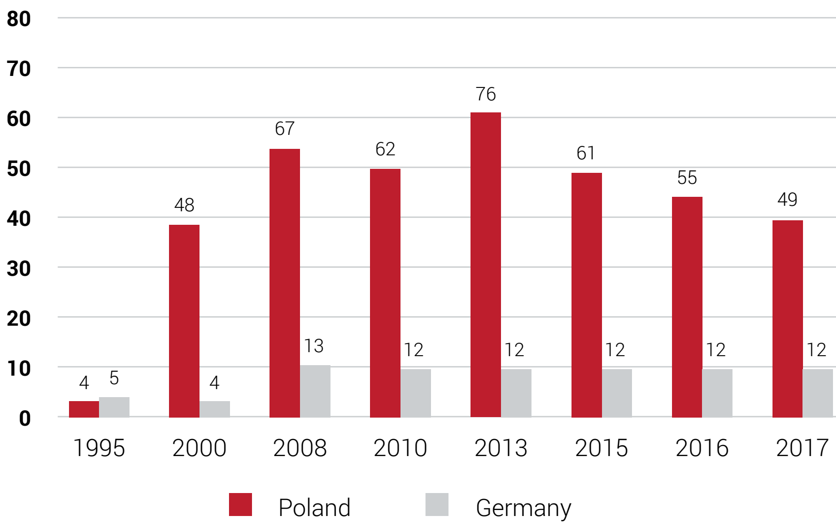
Source: Own study.

and may also be easier for Polish financial entities to obtain financing in times of poor economic situation. No western country allows foreign capital to control the assets of its citizens and companies. One can count on the fact that the largest banks with dominant Polish capital will support – while maintaining high standards in the field of credit risk management – activities promoting exports and innovations, that is, one of the pillars on which Poland's growth is to be based.

Following the example of other countries, but also the interventions with a counter-cyclical goal, the Polish Development Fund (PFR) was created in 2016. It is a state-controlled strategic company, offering instruments for the development of enterprises, local governments and private individuals investing in sustainable social development and economic growth. It acts just like the pre-war Bank Gospodarstwa Krajowego in Poland and the German KfW Group (Kreditanstalt für Wiederaufbau) which was formed on the basis of the Marshall Plan funds, or the French CDC Group (Caisse des Dépôts et Consignation), the Italian CDP Group (Cassa Depositi e Prestiti) or the Hungarian MFB Group (Magyar Fejlesztési Bank). In recent years, development banks have been experiencing a renaissance, because this type of support tool is needed in the era of minimising losses for some industries due to economic cycles. In 2002, the SME Development Bank of Thailand was established, in 2005 Paraguay established its Agencia Financiera de Desarrollo (AFD), while a similar entity was created in 2007 in Bolivia – the Banco de Desarrollo Productivo (BDP), and in 2012 Bpifrance in France, which, just like the PFR, integrated many pre-existing institutions under one roof (Eurodad, 2017).

By means of the PFR operations, the government wants to increase domestic savings. In 2017, the household savings rate in Poland amounted to 4.36 per cent. The average in the EU is close to 10 per cent. Therefore, Poles in the European context are not overly thrifty, but their result is still the best

The percentage of bank assets that belong to foreign capital in Poland and Germany



Source: Own study

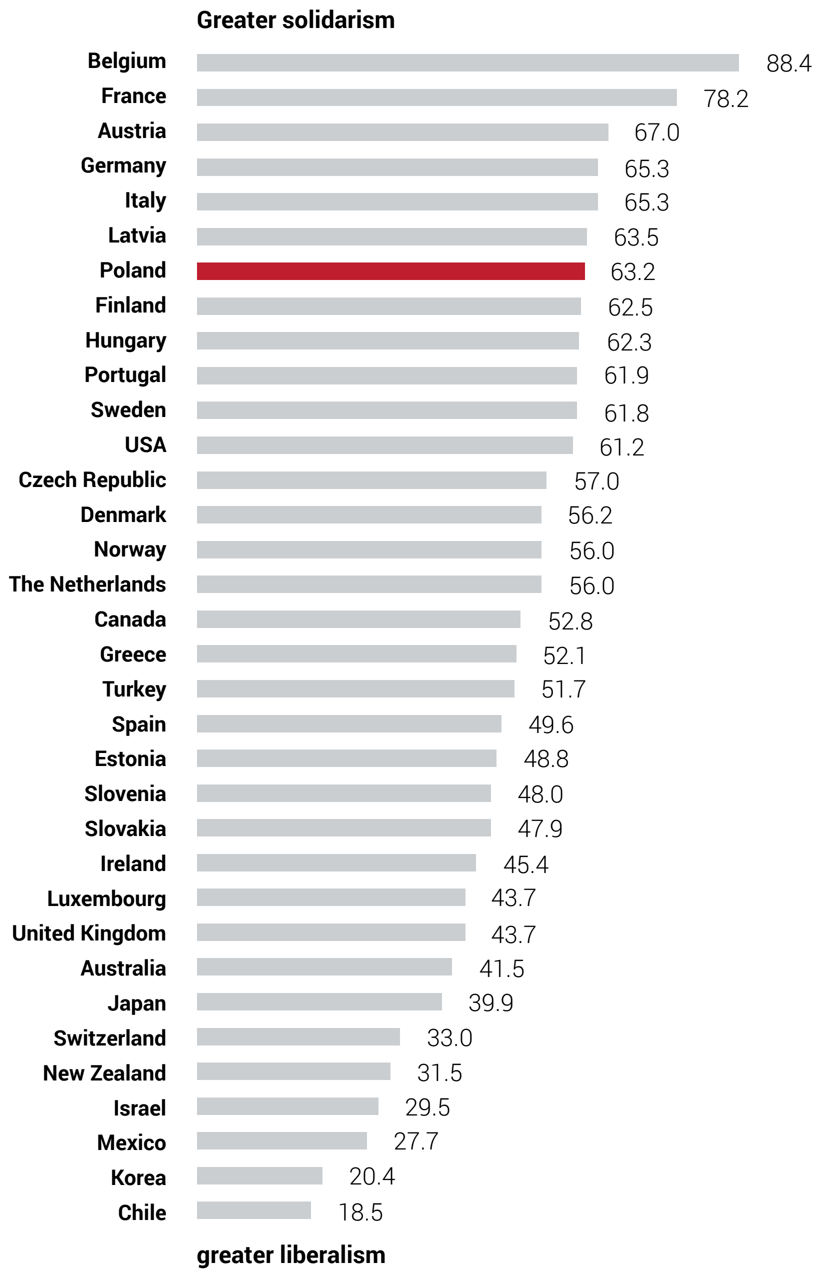
since 2010. Household savings are the means that remain disposable from the income earned after satisfying consumption needs. Data on the level of savings are important for assessing the ability of individual countries to accumulate surplus capital not only to meet individual needs, but also for domestic investments. The lack of internal sources of capital becomes either a barrier to development or leads to an increase in its imports and foreign debt, which may also become an impediment for future economic growth. The inhabitants of Slovenia (12.83 per cent), Estonia (11.28 per cent) and the Czech Republic (11.16 per cent) have an above-average saving rate from among the countries culturally close Poland and with similar historical experiences; in recent years, the savings rate in Slovakia has also improved (from 5.91 per cent in 2013 to 9.46 per cent in 2017), as well as in Bulgaria (4.86 per cent). Only Latvians, Lithuanians and Cypriots have a smaller desire to save than Poles.

The government wants to increase the savings rate through the program of voluntary saving for retirement in the form of an additional premium, which will be subsidised by the state budget. Polish employees will automatically become members of funds investing on the stock market, after signing a contract of employment, unless they decide to unsubscribe. Such elements of libertarian paternalism have already been used by the governments of the United States or New Zealand. They encouraged citizens to save by the mechanism of pointing in one of the directions (Thaler & Sunstein, 2009). According to the preliminary estimates, the program is to be aimed at over 11 million employees, including about 9 million people employed in the enterprise sector and over 2 million people working in the public sector. The government estimates that ultimately 8.5 million people will join the program (approximately 75 per cent of all the workforce). From the beginning of 2019, the program should apply to enterprises employing over 250 people, and small companies and public finance sector entities – from mid-2020 only. The aim of the program is to increase the disposable capital in Poland, as well as to increase the more liquid component of Poles' assets, because Poles – unlike other Europeans – primarily invest capital in real estate (Czerniak & Arak, 2016).

Public finances

The dimension of public finance management is measured by the size of public expenditure in relation to GDP, tax progression and the size of the tax wedge paid from the average remuneration. The larger these volumes, the closer the country is to the social democratic economic system (i.e. the end of solidarism). In the summary presented here, Poland occupies a more social democratic than liberal position – it is ranked 7th, with 63.15 points out of 100 possible. Latvia ranks only one place higher. Even more solidarist labour taxation rules and higher public spending exist in Germany, Austria, France and Belgium. At the liberal pole, Chile, Korea, Mexico and Israel are furthest away. The most social-democratic finances in the CEE region, apart from Poland and Latvia, exist in Hungary and the Czech Republic. Estonia, Slovenia and Slovakia are characterised by moderately liberal public finances. The analysis of the Polish public finance dimension shows that over the years 2015–2010 it has grown from 58.0 points to 63.1 points, which allowed Poland to move up from the 12th to 7th position. This increase is mainly brought about by the increase in the rate of tax progression in Poland through changes in the degressive tax free amount.

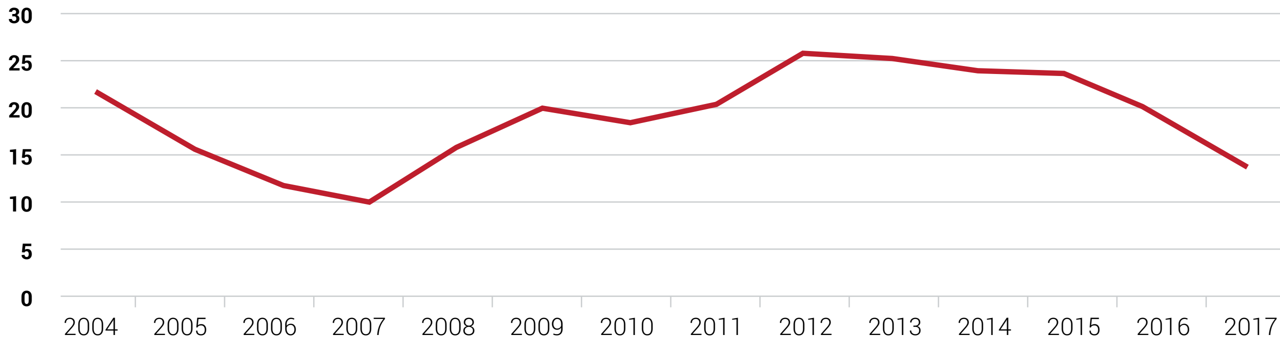
The distribution of the public finance index in 2017 (points)



Source: Own study.

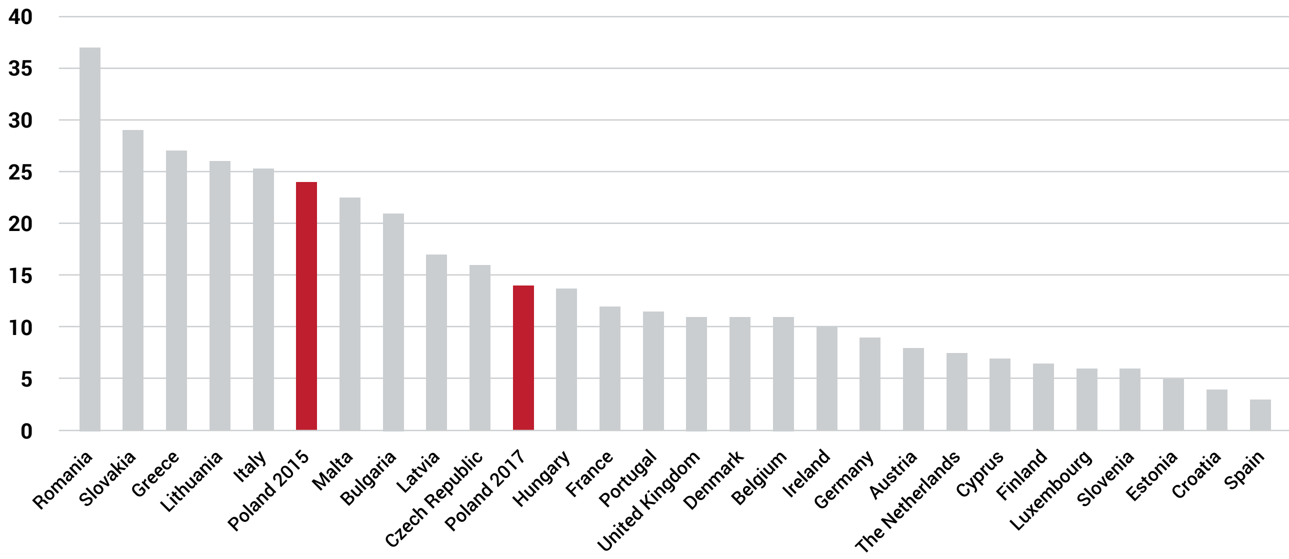
Poland is fighting with VAT frauds most effectively in the whole EU. In the last two years, the VAT gap, that is, the difference between what the tax office collects from taxes and what should flow into the state coffers, if all of taxpayers reliably complied with paying taxes, was reduced by as much as 10 percentage points. It amounted to 14 per cent in 2017, i.e. it was lower by 1 percentage point than the goal the government set for itself two years earlier. In the years 2015–2016, tax evasions amounted to approximately PLN 40 and 34 billion (23.9 per cent and 20 per cent, respectively). Since the outbreak of the crisis in 2008, Poland found itself in an infamous group of countries that had the biggest problem with collecting due taxes in the whole EU. Data from the European Commission show that the VAT gap in Poland increased from less than 9 per cent in 2007 to almost 27 per cent at its peak in 2012 (CASE, 2017). Since then, it has started to decline slightly, but the real success came about only last year after the government's intervention. According to data for 2017 and forecasts for 2018 (Poniatowski, 2017) the gap in Poland is currently at the level noted in such countries as France, Germany and the United Kingdom. The reduction of the VAT gap is also related to the smaller scale of corruption (Szczypińska, 2018).

VAT gap in Poland in 2004–2017 (percentage of GDP)



Source: Own study, based on CASE and Ministry of Finance data.

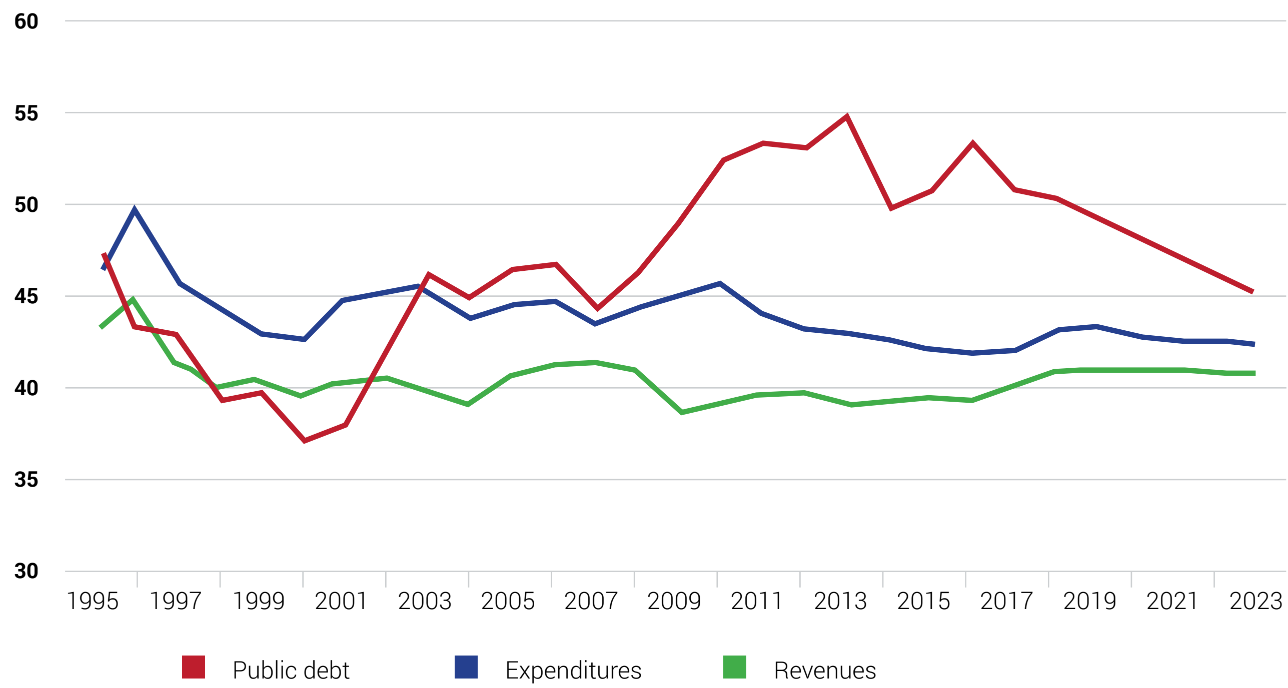
VAT gap in EU countries in 2015 (percentage of GDP)



Source: Own study, based on CASE and Ministry of Finance data.

The drastic increase in social expenditures does not cause an increase in public debt. The social expenses of the government are covered by the growing tax collection, with no change in the taxation of labour. From 2015, revenues of the public finance sector increased by 1.9 percentage point of GDP. At the same time, expenditures grew only by 1.1 percentage points, and public debt fell from 51.1 to 50.8. per cent. According to IMF forecasts, revenues of the public finance sector will amount to 40.6 per cent in 2023. GDP spending will amount to 41.8 per cent, and public debt will fall to 45 per cent.

Expenditure, revenues and public debt of the public finance sector in Poland in the years 1995–2023 (percentage of GDP)



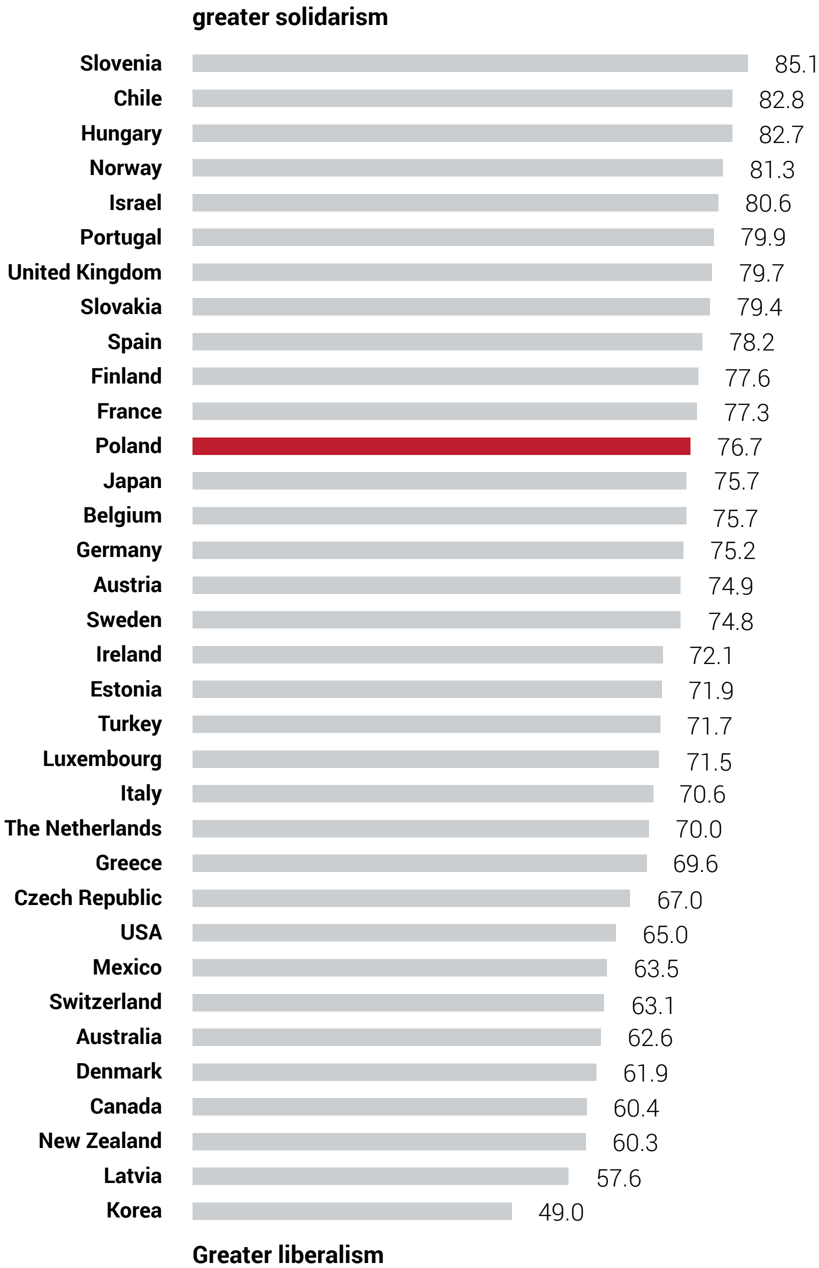
Source: Own study, based on IMF data.

In the coming year, we can expect further tax changes that are aimed at relieving entrepreneurs and simplifying the VAT system. The rates of the latter will be reduced downwards for similar products, e.g. all fruits are to be subject to a 5 per cent VAT rate. In addition, CIT for small companies is expected to be set at 9 per cent. The changes are to come into force in 2019. On the other hand, the challenge for the tax system of Poland is to reduce taxation for employees who are less effective and therefore less paid (Arak, 2016; Arak, Lewandowski, and Żakowiecki,:2014), although this has partly been neutralised by changes in the tax-free amount in 2016.

Institutions and economic culture

Liberalism in culture and institutions manifests itself in the tendency to set up companies and in the belief that inequalities in society are inevitable, and that the state's obligations do not have to be liquidated. On the opposite side there is a low motivation to start companies and a belief in the duty of the state to fight against inequalities. On this list, Slovenia was ranked first (85.1 points), followed by Chile (82.8 points), Hungary, Norway and Israel. Portugal and the United Kingdom were also high. On the other side of the spectrum are Korea, Latvia, New Zealand, Canada and, interestingly, Denmark – known for its extensive redistribution policy. Poland is currently in the 12th place, rather on the side of solidarity. The indicator for Poland declined over the last decade, which was related to the tendency of Poles to establish companies (also by employers' coercion). That's why it moved from the 8th position to 12th.

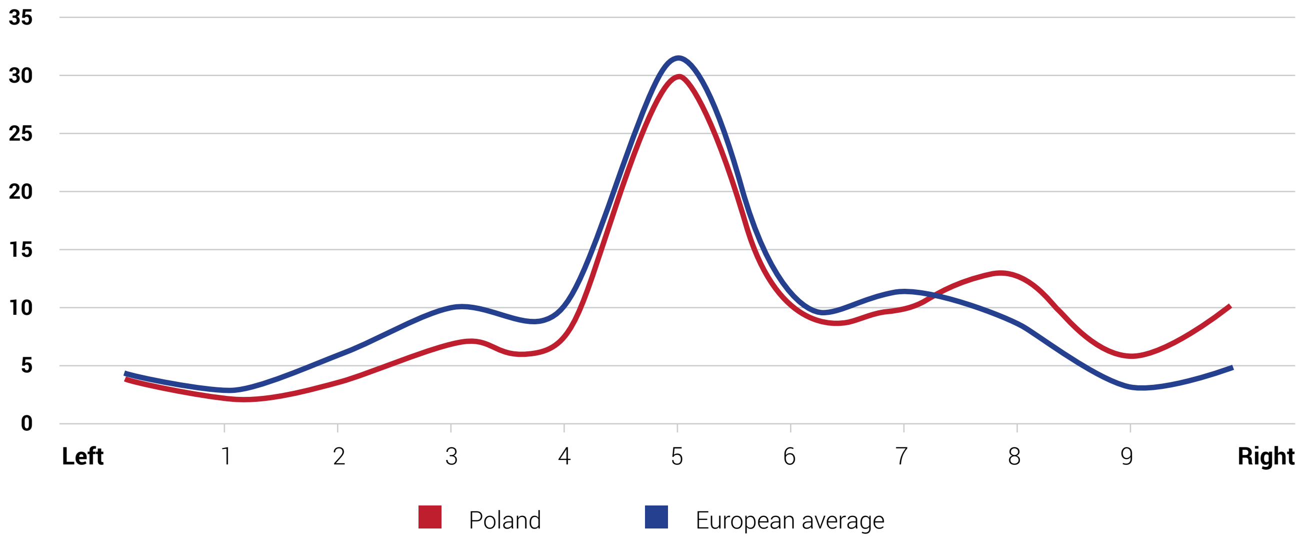
Distribution of the institution and economic culture index in 2017 (points)



Source: Own study.

The citizens of a given country decide about how public institutions, political parties and the public sphere work in general. In the case of Poland, it should be remembered that the society has a stronger right-wing orientation than the rest of Europe. According to the European Social Survey from 2016, about 31 per cent of Europeans, but only 22 per cent of Poles define their views as leftist. Centrist views are declared by 30 per cent of Poles and 32 per cent of Europeans. What distinguishes Poles is that 48 per cent of them situates themselves to the right of the center, while on average in Europe only 37 per cent residents see themselves this way. The distribution of views on the left-right axis in the case of Poland is the closest to the Hungarian result (similarity at the level of 98 per cent), Estonia (similarity at the level of 96 per cent), Ireland and Lithuania (95 per cent each). The Norwegians, Swedes, Germans and Spaniards have the most distant political views to those declared by Poles.

Distribution on the left–right axis among respondents from Poland and on average in Europe in 2016 (per cent)



Source: Own study, based on the ESS.

The stability of the legal framework is one of the conditions for stable economic growth, which must still take place in Poland after a period of intense reforms. According to data for the first half of 2018, Poland recorded a decrease in the number of pages of files produced legal provisions by half – 8.7 thousand manuscript pages set and regulations, and 808 acts were published in the Journal of Laws. This means that in the first half of 2018 to read all new laws and ordinances one had to sacrifice about 2 hours and 15 minutes each weekday (Fryc, 2018). Although in 2017 Poland recorded a 15- per cent decrease in the adoption of legal acts in comparison to 2016, the production of a new legal acts in Poland was enormous. In 2011–2016, the number of adopted legal acts increased annually until in 2016 the record was broken: 31,906 pages of published legal acts of the highest rank (the most since 1918). Although in 2017 there was a decrease in this dimension, production of law was still 25 per cent greater than in 2004, when Poland was adapting its law to the requirements of EU legislation. Currently, it has not only the most variable law in its history, but also the most volatile in the EU. As it results from the calculations of Grant Thornton auditing and consulting company, in 2012–2014 Poland was in the first place in terms of the number of legal regulations produced. On average, it produces almost 56 times more regulations annually than Sweden, which is the country with the lowest legal volatility. Apart from Poland, the CEE countries with the highest volatility of law are Slovenia and Hungary, where, however, over twice as fewer new legal acts are being created than in Poland. In addition, not only more acts are adopted, but the pace of their adoption has also clearly accelerated. In 2017, work in the parliament lasted an average of 106 days – it was slightly more than last year, when it lasted an average of 77, but still much shorter than in previous years (Grant Thornton, 2018).

The second important issue is to increase the level of state efficiency, adaptability and coordination of policies, as well as to increase the interoperability of previously hermetic ministries (Ministry of Administration and Digitization, 2012). One of the steps to improve it is the so-called brain of a state that often fails in Poland (Rokita & Starnawski, 2015) – the establishment of the Strategic Analysis Center at the Chancellery of the Prime Minister in 2018. It is to help develop new solutions to the problems of the near and distant future, to allow incumbents to familiarise themselves with geometrically increasing knowledge in the areas of economics or public policy.

Conclusions: what model of capitalism would be the best for Poland and the EU?

The debate on whether capitalism or socialism is a better system was finally settled more than a quarter of a century ago. To this day, there is a discussion regarding the question: what the type of capitalism is the best. Over the years, it seemed that Poland should follow the path of liberalism, reduce the state's participation in the economy, commercialise it, and rely on the belief that capital does not have a nationality (Kozarzewski & Bałtowski, 2016). Meanwhile, it is not true that every country can choose an economic model for itself. It is always a result of the political system of the state, international requirements and broadly understood culture. Poles are different from other societies, they are also different from the other inhabitants of Central and Eastern Europe (Arak & Wójcik, 2016). If the economic system is not suited to these conditions, it simply fails. Over the years, the idea of limiting expenditures and remaining reluctant to radical tax reforms and increasing VAT collection was the priority. At present, the key criteria are inclusive economic development and solutions that are beneficial for families. For this reason, confidence in the economic system is highest in 25 years. The expectations of citizens coincide with the policy pursued by the government. This report shows that the reconstruction of the Polish economic model as part of the Strategy for Responsible Development takes place by strengthening the role of Polish capital, reducing dependence on external shocks and increasing social security. World's 22nd largest economy modifies its social system, increasing the competitiveness of the economy.

A more social model of capitalism in Poland is necessary due to the negligence of previous years, in which a large part of society was left on its own. In addition, there are forecasts according to which technological progress will reduce the demand for labour. In this situation, work can become a luxurious good, and large numbers of people will have to be supported by the state. The young generation of Poles also does not seem to want such wild capitalism as the one in which they grew up and which their parents created. They advocate a balance between work and private life, and above all, they value family life above work. Half of the young Poles (48 per cent) think that work should not force them to give up other things in their lives. 32 per cent would like the work to leave them more free time for other activities and leisure. Poland is reaching the moment of economic development, to which Western countries have come in the early 1990s, when part-time work and teleworking became more popular. This will also mean a reduction in the average number of hours worked by Poles (Deloitte, 2018).

Poland, through establishing its own model of competitive capitalism of a social market economy, can help reform the EU. We have examples from a multitude of countries that thrived on the first five, ten or fifteen years after entering the integration experiment. All Southern Europe states for many years after the accession seemed in perfect condition. It appeared to be the case that Greece and Portugal would soon catch up with the developmental distance between them and the rich West. But then – a crisis came from which, despite great efforts, these countries cannot get out until now (Podkamer, 2014).

Poland and other CEE countries did not have the possibility to pursue a different model than the one imposed externally in order to join the Western structures, because their bargaining power was very weak in the 1990s. Not for a moment Poland did consider the integration model adapted to the local specificity. The governing authorities focused on absorbing short-term benefits, without a vision of how to exist in the future.

The EU has to adapt its economic model to the requirements of present time. The Polish example shows that tax collection tightening leads to higher tax revenues and the ability to pursue a more ambitious policy of inclusive development. In the case of the EU, limiting the European VAT gap and tax havens would allow for a more ambitious EU budget that could make the European economy more competitive and socially cohesive.

Poland is on the way to modify its development course. In the CEE region there are also attempts (including in Hungary) to break out of peripherality by implementing its own economic model, not necessarily identical with what other countries consider to be right. The task of the region, but first of all of Poland, is to try to find new solutions for the EU, so that various development models have the chance to coexist and create conditions for sustainable development of societies in the reality of the global economy and the fourth industrial revolution.

Methodological annex

The calculation method

We have created eight dimensions of institutions in total. An index was created for each of the dimensions, which shows the diversity of labour market institutions, etc in the countries studied. The capitalist index was based on the data of the World Bank, the International Monetary Fund, Varieties of Democracy, OECD, ILO, World Values Survey, European Values Survey, Eurostat and UNESCO Institute for Statistics. The index has a value from 0 to 100, and for some measures it is counted in a reverse manner, because the assumption says that the higher the value of the index, the more the country is closer to social democratic approach. We have calculated the results for years of each year in the period 1995–2017. We have distinguished the following dimensions and the indicators that comprise them:

Social policy

Social expenses as a GDP percentage

Expenditure on pensions as a GDP percentage

Expenditure on family policy as a GDP percentage

Generality of benefits (income replacement rate in the event of job loss for a person with an average salary)

Science and education

Number of new patents per million inhabitants

Percentage of children using pre-school education

School enrollment rate at the higher-level gross

Expenditure on education as a percentage GDP

Politics

Fragmentation of parliaments

The size of the ruling coalition

Electoral system (majority, mixed or minority)

Institutions and economic culture

Inclination of the inhabitants of the country to entrepreneurship

Opinions of residents about equalisation of income by the state

Public finances

Tax wedge

Tax progression

Share of public expenditure in relation to GDP

Labour market

Remuneration share in GDP

Long-term unemployment (exceeding one year)

Level of unionisation

The level of centralisation of social dialogue

The rate of professional activity among women 15+

Competitiveness*

The share of export of technologically advanced goods in relation to total exports

The share of exports of advanced technological goods in relation to exports of the processing sector

Productivity of work

FDI (difference between incoming and outgoing investments)

The financial sector*

Capitalisation of listed companies

The value of turnover on the stock exchange in relation to GDP

The level of domestic savings in relation to GDP

Formulas for partial, group and Capital Index indicators

The formula for calculating the partial index takes the following form:

$$z_{ijk} = \frac{x_{ijk} - min\{x_{ijk}\}_i}{max\{x_{ijk}\}_i - min\{x_{ijk}\}_i} \times 100$$

In case the partial indicator has a positive effect on the level of social democratic approach, and:

$$z_{ijk} = \frac{max\{x_{ijk}\}_i - x_{ijk}}{max\{x_{ijk}\}_i - min\{x_{ijk}\}_i} \times 100$$

in the case when it affects the index of capitalism negatively – it testifies on the liberalism of the country.

$z_{ijk} \in [0, 100]$

where:
x_{ijk} – wartość *j*-tej zmiennej w *i*-tym kraju i *k*-tym roku

z_{ijk} – znormalizowana wartość *j*-tej zmiennej w *i*-tym kraju i *k*-tym roku

In this form, the measures are relative and show the country's location in relation to the minimum and maximum. After normalising the value of diagnostic features, the further stage of work consisted in constructing synthetic group indicators for each country. We used the taxonomic non-standard method of variable aggregation, which consists in averaging the normalised values of diagnostic variables.

$$g_{ikl} = \frac{\sum_{i}^{n} z_{ijk}}{n}$$

$g_{ikl} \in [0, 100]$

where:
z_{ijk} – znormalizowana wartość *j*-tej zmiennej w *i*-tym kraju i *k*-tym roku

n – number of partial indicators

g_{ikl} – value of the *i*-th group indicator in *i*-th country and *k*-th year

Finally, the Index of Capitalism was calculated. The indicator is the arithmetic mean of group indicators. This means that each dimension has the same weight.

$$IK_{ik} = \frac{IPS_{ik} + INE_{ik} + IRP_{ik} + IP_{ik} + IFP_{ik} + IIKG_{ik}}{6}$$

$IK_{ik} \in [0, 100]$

where:
IPS_{ik} – Social Policy Index

INE_{ik} – Science and Education Index

IRP_{ik} – Labour Market Index

IP_{ik} – Politics Index

IFP_{ik} – Public Finance Index

$IIKG_{ik}$ – Index of Institutions and Economic Culture

* weight 0

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