China-CEE Institute
中国—中东欧研究院

ISSN: 2560-1601

Vol. 10, No. 2 (PL)

September 2018

Weekly Briefing

Poland Economy briefing:

Poland Domestic Economic Development

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Before the local elections, the central government started to promise new programme for social development. From one point of view, it might be understood as the political campaign. One of many new programmes of the government includes the extra money of PLN 300 for each school-aged child up to the age of 18, as a layette before each school year. The steps taken by the government are part of the bigger project of the Strategy for the Responsible Development. The newly implemented projects, however, have more deepen meaning in the future of the economic development. The briefing discusses the role of the structural economy concept delivered by the Chinese economist Justin Lin Yifu.

First of all, we need to recognize that for the Prime Minister Mateusz Morawiecki the concept of the new structural economy is placed at the very important concept for the future economic development of the country. The government places the social cohesion as the priority of the economic development. From this perspective, the role of the state in redistribution of wealth should be placed in the first place. Apart from the social cohesion the two main pillars of economic policy: predictability and flexibility have been debating. In the Prime Minister view, cohesion is the most important. Since it is impossible to build an economic policy independently of the society the Prime Minister and the whole government consider the social issues as the core for the future development. The next argument here is that the recent defeat of parties eg. the Civic Platform was mainly driven by the fact that the policymakers from the former government forget that citizens have to share in GDP growth. He also said that all the pillars of economic policy are closely interdependent: the lower the inequalities in the country, the lower level of the uncertainty. The third point in the governmental discussions is the acknowledgment that the weakness of the Polish economy is very dependent on the model of capitalism. Paradoxically, many countries which advocate the free-market economic model, use state interventionism on a very large scale to support domestic companies and central management of monopolies. This is perceived as the prescription for the future growth and stop to be a peripheral economy. Following this arguments, we need to recognize that Prime Minister Morawiecki supports Justin Lin's view that privatization of monopolies does not stimulate the economy. The state can only sell to private investors those companies which are fully competitive and do not need public support. The privatization of monopolies will at best not increase prosperity, and in many cases as in the Mexican telecommunications sector harms the economy and society. Lin's opinion was supported by Morawiecki who said that excessive privatization of Polish companies with a strong market position was a mistake and the government will now back their re-Polonization (re-nationalization), as was the case with buying back Pekao SA and other previously sold national champions.

During the "Congress 590" in Rzeszów, the Prime Minister Morawiecki said that there is no better organism than the state to organize economic life: *We also assume that (...) the principles of capitalism are not the holy thing, unrelenting, unique and uniform. That this is a definite untruth. If you look around us, then capitalism is very different in different countries and the countries that have the lowest taxes, for example, have the most successes*.

According to the governmental analysis, the fiscal burdens for companies have been reduced many times since the economic transformation in 1989 and contrary to predictions, business owners have not increased their investments. Therefore as the Prime Minister announced the government does not intend to lower taxes but will impose new ones and tighten the fiscal system to finance social spending and ambitious infrastructure projects.

By 2020, the "Morawiecki Plan" will allocate the state budget from taxes paid. According to the latest analysis, it counts PLN 530 billion (EUR 122 billion, excluding EU funds) and this money will stimulate the level of investment to over 25 percent of GDP, and increase the share of spending on research and development to two percent of GDP. Finally, the major goal of the "Morawiecki Plan" is to increase the number of medium and large enterprises to over 22,000. According to the plan, the money should go to the entities and regions elected by the government. For example, production of military drones and other aeronautical devices in south-eastern Poland or the construction of trams, buses, and trains in the north-western part of the country. As part of the plan, the government has already established a special institution, called the Polish Development Fund.

Moreover, the government issued the "Green bonds". In December 2016, the government obtained 750 million euro in this way. The buyers of the first "green bonds" were mainly investment funds (49%), banks (22%) and insurance institutions and pension funds (16%). They were bought by Germans, Austrians, Benelux, Great Britain, and Ireland. The Polish green bonds were issued for five years with a profitability of 0.634 percent. What is also should be noted In March this year, the government received an award from the Climate Bond Initiative (CBI) for the first governmental green bond issue in the world.

On the one hand, this state intervention and the growing role of the state in the economy might provide to the further debt and further to pay for its service. Only last year, the current authority additionally made us pay for a record PLN 94.1 billion. We have not borrowed so quickly in history after 1989 - economists are alarming, who admits that it was not so bad even in post-crisis times. The State Treasury debt at the end of 2016 amounted to PLN 928.7 billion, which means that according to the EU methodology it did not exceed 60%. GDP, but increased from 51.1 to 54.4 percent of the GDP.

Conclusions

According to the opposition parties that still praise the liberal model the Polish citizens will participate in a socio-economic-political experiment. This experiment can't end well. The famous "Morawiecki Plan", on the one hand criticizing the dependence of the Polish economy on foreign funds, also assumes further indebtedness of the entire society and privileging financial institutions that are assumed to be a source of innovation. The promoting a new economic transformation leads to even greater indebtedness and enslavement of entire societies, also confirms that today Poland is at such a crossroads where the Anglo-Saxon model does not deal with inequalities in the very clear way and the French model fails to build competitiveness.

These funds owned by the state, interestingly, under the so-called public-private partnerships will really stimulate investments, but mainly from foreign companies. Companies such as General Electric, with whom the Polish government recently signed an agreement to strengthen cooperation, are to help adjust the Polish economy to Revolution 4.0. (i.e the development of IT technology, computerization and robotization of plants, as we are lagging behind in this respect in the landscape of all of Europe). Morawiecki called for - similarly to other countries that support the free market economy model - to use "state intervention" on a large scale to support domestic companies and central monopoly management. To sum, the Polish model of capitalism should combine the best elements of both approaches of laizee fair and the role of the state in the economy.

In addition, the "Morawiecki Plan" does not offer solutions that all companies and consumers would benefit from. There will be no tax reduction, but the taxes will increase. The "state" with one hand gives direct money to the society in the form of "500 plus", but the other one will take much more money. Such a plan is demonstrated, for example, by a record-breaking bill that abolishes the upper limit for contributions to pension and disability insurance.

According to the Morawiecki plan, however, the key for the Polish economy, two-thirds dependent on foreign capital, is to move towards building a circular economy (resigning from leasing, renting practically everything, limiting consumption in the long term, higher electricity, water charges) and attracting foreign capital to Poland, especially large speculative banks, developing new trading technologies, such as virtual currencies and other "modern" virtual financial instruments.

From the above point of view, the new governmental economic projects tend to fail. This, however, needs to tested. The Prime Minister recalled Lin Yifu's ideas as a guide allowing the government to search for industries in which the highest productivity gains could occur. Morawiecki and Lin met at the economic forum in Davos, and after talking with the Polish deputy prime minister, Lin stated that he saw a clear idea for him on the economic development of Poland. The core issue is that Poland is not a developed economy and the government in the near future will implement postulates of active and selective support for economic growth, focus on the selected industries and economic sectors. At the same time, however, it should be conducive to maintaining maximum competitiveness, the ease of new entrances to branches covered by public aid and the use of market mechanisms to stimulate innovation.