

# Opinion Corner\*: Three decades of successful post-socialist transformation, and what next? A programme for Poland<sup>1</sup>

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*This note argues that economic and social policy in Poland should go beyond a mere maximising of GDP growth and target a wide range of areas, such as consumer protection, investments in human capital, the quality of environment, demographic decline, sustainability of the pension system, and a more socially-oriented taxation system.*

A good policy is to make *pro publico bono* use of opportunities for development. At present, the main global trend is irreversible globalisation, the modern phase of the scientific and technological revolution. Good policy should also be comprehensive and be able to face a number of challenges, the most important of which are ecological threats, an ageing population, a relatively low level of economic innovation, and migration flows. Finally, perhaps the most difficult thing is to give people what they need, and not what they want. There must therefore continue to be a responsible social dialogue that is devoid of demagoguery, convincing people that they should want what they really need: the development of the moral space, social cohesion, high-quality human capital, a clean environment, a sustainable and competitive economy, well-paid work, a high level of public services and noticeably improved welfare.

## *1. Reformulation of development objectives*

It depends on what and how you measure, where you're going and how you're going there. If we really want to create a full-fledged social market economy, it is high time to move away from maximising the level and growth rate of GDP as not only a goal, but also a measure of economic development. The economy has been in the post-GDP phase for many years, so it requires a post-GDP economic theory on which post-GDP economic policy and post-GDP development strategy should be based. A comprehensive approach to social and economic goals – as embodied in the new pragmatism, emphasising the integrity of the dynamic triple economic, social and ecological sustainability – is an imperative for the 21st century. The draft budget should be accompanied by an analysis and forecasts for the chosen sustainable development indicator. In fact, we have such indicators at our disposal, such as the Responsible Development Index developed by the Polish Economic Institute or the Social and Economic Sustainability Index prepared by Kozminski University. Many alternative measures are also proposed by international organisations, including the UN, the OECD and the EU.

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## *II. Regulated market*

The key to economic success is a competitive, well-regulated market. The fight on two fronts must consist of opposing the neoliberal utopia of the free market, in which the state does not intervene at all, and at the same time eliminating inefficient bureaucratic interference in market mechanisms. This requires strengthening institutions that counteract monopolistic practices in production and distribution. To this end, a fully apolitical centre must operate, with far-reaching prerogatives in the sphere of judgement. From a legal point of view, its location in the state structures should be similar to the position of a central bank fully independent of the government.

## *III. Consumer protection*

Nowadays, it is not so much the bourgeoisie that exploits the working class, nor even that 'employers' oppress the 'precarial', but that, *sensu largo*, producers and sellers exploit buyers and consumers. Therefore, the role of a good state should be twofold: to foster, institutionally and economically, the flourishing of honest entrepreneurship based on legally protected property rights, while counteracting consumerism and the exploitation of customers, shielding them from advertising manipulation and forced bundled transactions. Because of a lack of reasonable restraint in consumption – which is further stimulated using psychology and behavioural economics – it is not the army or the police, nor the central bank or the tax authorities, but the competition and consumer protection office that should be the most powerful arm of the modern state. It is necessary to multiply its budget, increase its staff and establish local branches. Every municipality needs offices with well-educated and well-paid analysts and lawyers who will help people not to be manipulated and exploited as consumers. To this end, the state must step up funding for well-targeted studies by providing high-quality, ethical staff to protect consumers' interests. So far, we have educated a far greater number of those who act on the opposite side, in market analysis, marketing, advertising, and media.

## *IV. Instead of armaments, investment in human capital*

It is necessary to withdraw from the destructive arms race, which entails a huge waste of public funds. So-called defence spending should not be raised to 2.5% of GDP by 2025 (which is on the agenda of the current PiS government), but frozen at the current very high level of almost PLN 50 billion; this is enough. Assuming an average annual GDP growth rate of 3.5% by 2030, this would save the state budget about PLN 180 billion. These funds should be directed to investments in human capital, first of all in education and healthcare, as well as in culture and science. A significant portion should be directed to investments in environmental protection, which give multiplier effects on economic growth similar to spending on the arms industry.

## *V. A clean environment*

There is no escape from the generational environmental challenge. Poland is to join the European Union's climate pact and contribute to the systematic reduction of greenhouse gas emissions in order to achieve climate neutrality on a continental scale in 2050. Although difficult and costly, this is desirable and possible. To this end, given the relatively large share of coal in the energy sector, a special financial allocation should be negotiated with the European Commission in forthcoming EU budgets to support investments in the decarbonisation of the economy and the transition to the use of renewable energy sources on an increasing scale. Moreover, a huge educational and organisational effort should be directed towards taking care of the country's environment. If we cannot be one of the richest in Europe, because we will not be able

to afford it for a long time to come, let us be at least one of the cleanest, because we should be able to afford it!

#### VI. *The next generations*

World experience shows that, although difficult, it is possible to moderate the fertility rate, which varies from an appallingly high 6.35 children per mother in Niger to a catastrophically low 0.84 in Singapore. In many countries it has fallen excessively. In Poland, it currently stands at 1.36, but a simple maintenance of the population size (without migration) requires about 2.1. The only sensible way to increase the number of children is to develop a comprehensive, high-quality pre-school care system. This will make it easier for mothers to stay in the labour market (or to enter it), as it can be too difficult for many of them to take care of a small child and work. Public finances should generously finance the construction, organisation and operation of crèches and kindergartens and other forms of childcare, using the formula of private and public partnership. The teachers should be educated, well-paid professionals. This costs money, but it is worth it. There may be no chance to return to a fertility rate of 2.1, but it would be wise to raise it at least by two decimal places annually.

#### VII. *Retirement age*

With an ageing population and longer life expectancy, the retirement age should be gradually raised. It was a fatal policy error to block this process. At the same time, it must be possible for those who wish to retire earlier to do so, but with a correspondingly lower level of benefits, because the system must be financially viable. The retirement age of privileged employee groups, including uniformed services and the judiciary, must also be reviewed upwards – of course, with the principle that the law cannot have retroactive effect. The pension reform requires the prior appointment of a cross-party panel of professionals to prepare a professional, financially responsible but also socially acceptable project. The Sejm, Senate and the president should declare *ex ante* that they will implement the proposed solutions.

#### VIII. *Migration policy*

By various means, as many as possible of those who have left the country should be encouraged to return. A flourishing economy – if such an economy can be shaped by a wise policy and competitive entrepreneurship – will encourage this. However, for non-economic reasons, many people do not want to return to a country where the rules of democracy are sometimes violated, where not everyone is always treated equally by the law, where a false historical policy weighs on various aspects of the political environment, and where there are not enough independent media. It is necessary to join the old members of the EU, especially the largest countries – Germany, France, Italy and Spain – in a new agreement on the rules for the reception of refugees, and to include immigrants from Ukraine and other post-Soviet republics in the general accounts of population flows. Bearing in mind the purely humanitarian aspect of the matter, a greater degree of tolerance and multiculturalism will, in the long run, foster the development process. Opening up to immigration must be coupled with a national strategy for shaping supply in the labour market. Without this, capital, even when increasingly abundant, will not be able to make effective domestic investments. Without labour immigration, capital may emigrate.

### *IX. Poland in the euro, the euro in Poland*

Having a treaty right and obligation to join the euro area, Poland should do so. This would politically strengthen the process of European integration and – assuming that other EU countries still using their own currencies do the same – would end the discussion about a ‘two-speed Europe’. After all, economic considerations are more important. Entering the euro area – with an appropriate convergence rate to ensure the competitiveness of the export sector, as the growth strategy should be export-led – will eliminate exchange-rate risk in the important areas of trade, finance and tourism. It will reduce the cost of money (credit and debt) and increase the willingness of domestic companies to invest and encourage the inflow of capital from abroad. Moreover, abandoning the zloty will result in the dissolution of the country's huge foreign-currency reserves, which exceed PLN 500 billion. Perhaps two-thirds of this, as much as PLN 360-380 billion, can be used partly to repay foreign debt and partly for investments financing triple sustainable development.

### *X. Rebuilding the tax system*

The tax system needs to serve two purposes simultaneously: on the one hand, to promote social cohesion, and in particular justice, and on the other hand, the formation of capital. To this end, in particular, all individual income – including capital income and profits, with special treatment for inheritance income – should be integrated and taxed on a genuinely progressive scale, preferably at four tax rates and with a corresponding tax-free amount. Care should be taken to ensure that net household income is distributed in such a way that the Gini coefficient does not exceed 0.30. This can be achieved by setting the minimum wage at about half the average wage. Possible additional income growth on this account should be allocated to infrastructure investment and human capital. In addition, the limits of fiscalism should be set, so that the ratio of public expenditure to GDP does not exceed 42-43%.

It could be much better in Poland. It will be better in Poland. How much better? It depends...