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# Ten Years of Polish Membership in the European Union: An Update and an Appraisal

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**Abstract**

This paper will concentrate on an appraisal of ten years of Polish membership in the European Union. The paper is based on twenty-five years of research on topics relating to economic transformation in Poland found in more than thirty research articles and two academic books tracked towards their application to Polish membership in the European Union. The paper will briefly reprise the former "command-and-control" economy of Poland and the "grand failures" of the former system that were prevalent until the fall of 1989 when the period of transformation began. The paper will then turn to a review of both the economic advantages and some persistent negatives or disadvantages that have highlighted Poland's membership in the EU. Finally, the paper will contain an update on the current status of Poland's economy and an appraisal of Poland's economic prospects for the future.

**Keywords:** European Union; economic transformation; convergence criteria; structural and cohesion funding

## 1. Introduction

From the perspective of more than twenty years, it is now possible to state with certainty that despite a "propaganda of success" trumpeted by adherents to the former system, the system of central planning, also called the *command-rationing method* or *CRM*, literally had imploded because of a combination of four interrelated factors, which may be termed as the "Grand Failures" of the socialist system as it existed in Poland:

1. Failure to create economic value or to improve the standard of living for the average Pole;

2. Failure to provide adequate individual and organizational incentives;

3. Failure to "measure up" to comparative economies, not only those capitalist economies in the West, but also several "fraternal" socialist economies in Central and Eastern Europe (most notably, Hungary, Czechoslovakia, and Slovenia—then a part of Yugoslavia); and

4. Failure to satisfy basic consumer needs, essentially, creating an unofficial dollarization of the Polish economy through the existence of a large, open, semi-official, and surprisingly efficient black market, and the existence of official "dollar" stores and foreign currency shops.

## 2. The Attempt at Reform of the CRM

In attempting to implement the macro and micro economic strategies required to affect the enormous policy shift from the CRM to one based upon a free market philosophy, certain core *assumptions* were adopted by the Mazowiecki government in the initial period after it came to power in the summer of 1989:

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1. The authoritarian nature of society must change into a society based on administrative and bureaucratic competence, so as to weaken the decisive role of central authorities and to strengthen the role of the *market* in critical resource and financial allocations and in the management of the economy;
2. The top-down "command-and-control" economy and bureaucratic-administrative system (Generally, Balcerowicz, 1995; Hunter & Ryan, 2000) had to change into one based upon information sharing, transparency, and consultation in Polish society; and
3. The state-dominated and state-centered society must change into a full *civil society* (Hunter and Ryan, 1998, p. 162), marked by community self-governance, economic discipline, honest career building, and one in which "independent individuals characterized by self-esteem, self-reliance, and self-empowerment" (Fulin, 2002) were in charge of economic decision- making.

In this context, we have raised three key "policy questions" which are at the core of economic transformation:

- How would it be possible to create capitalism in a nation where there was neither capital nor capitalists?
- What should be the role of the nomenklatura and other former-Communist Party members in the political and economic life of Polish society? And,
- What would the system do about workers and others most negatively affected by the transition?

As might be imagined, because of the dual economic and political aspects of the CRM and the enormity of its negative legacy that had led to an almost total collapse of the economy in the period immediately before the Round Table in 1989, reform of the central planning system posed a considerable challenge. From the outset, "real" reform involved a delicate blending of both political and economic considerations in the following *macro strategies*:

1. Attaining political stability and pluralism, which would be accomplished through holding free and multiparty elections as soon as possible.The initial elections agreed upon at the Round Table took place on June 4, 1989, in which Solidarity was victorious, winning all contested seats in the lower house or Sejm and "winning ninety-nine of a hundred seats in the Senate. The first non-Communist government in East Europe (since Yalta) was formed with Tadeusz Mazowiecki named Premier. Lech Walesa was elected President of the Polish Republic in 1990." (Kubow, 2013, p. 14).
2. Implementing a program of "real" economic reform with the evolution to a private market economy, involving an emphasis on the development of a substantial private sectorthrough a multi-track program of privatization; and
3. Creating the basic institutions of capitalism, including a private banking system, credit institutions, customs and clearing houses, currency exchanges, a private insurance system, the reintroduction of the Polish stock market, the creation of investment funds and investment vehicles, and the introduction of a new system of taxation into Polish society (which eventually included a drop in Poland's top personal rate of taxation from 40 percent to 32 percent and the introduction of a corporate rate of 19 percent).

In the process of economic transformation, following the elevation of Tadeusz Mazowiecki to the position of Prime Minister in the summer of 1989, Finance Minister and Deputy Prime Minister Balcerowicz was aided by a well-prepared transition team consisting of both Polish nationals and so-called *Polonia* (émigré) specialists. The leading foreign experts were certainly then Harvard Economist Jeffrey Sachs (now the Director of the Earth Institute at Columbia University) and David Lipton. (Generally, Sachs, 1993, pp. 45-46; Lipton & Sachs, 1990, pp. 293-339).

The "Balcerowicz Team" consisted, among others, of Marek Dabrowski, later deputy in the Ministry of Finance; Stefan Kawalec, first chief adviser, responsible for financial institutions; JanuszSawicki, responsible for foreign debt negotiations; Andrzej Podsiadlo, who oversaw state enterprises; and GrzegorzWojtowicz, first deputy chairman of the Polish National Bank, and its chairman in 1991. All were graduates of the

Faculty of Foreign Trade of the Central School of Planning and Statistics in Warsaw, Poland's premier school for state planning and for producing "policy experts." WojciechMisiag and RyszardPazura were also deputies in the Ministry of Finance. In addition, the team included numerous *foreign advisers*—Jeffrey Sachs, David Lipton, WladyslawBrzeski, Stanislaw Gomulka, Jacek Rostowski, and Stanislaw Welisz—and *Polish ones*—Karol Lutkowski, Andrzej Bratkowski, AntoniKantecki, Adam Lipowski, Andrzej Parkola, and Andrzej Ochocki. Many of the foreign advisers were of Polish origin—so called *Polonia academics*. Minister Balcerowicz was a Professor of Economics at the Warsaw Institute of Economics. Balcerowicz had graduated from the Faculty of Foreign Trade of the Central School of Planning and Statistics—now the Warsaw School of Economics. Between September 1972 and January 1974, Balcerowicz had studied business administration at St. John's University in New York City. In 1978, Balcerowicz presciently had established a "think tank" composed of ten young economists who would meet regularly to discuss and debate potential programs for economic reform. These informal meetings shaped the program of transformation adopted by the Mazowiecki government and subsequent Solidarity governments, and greatly influenced all post-1989 Polish governments—both positively and negatively—in their policy assessments. Former Prime Minister Mazowiecki died in November of 2013 and has been acclaimed as one of the most important persons of the transition period.

## 3. Components of Economic Reform

Mirroring what has come to be known as the *Balcerowicz-Sachs model*, Poland undertook the following concrete actions as the main components of its process of economic reform and transformation:

- Liberalizing prices from state control, opening up the economy to foreign trade, and formalizing and simplifying the requirements for new market entry;
- Stabilizing the Polish zloty, eliminating hyperinflation, regularizing public finance, and managing foreign debt;
- Effecting changes in the economy leading to privatization of state property and to an increase in the nature and volume of international trade;
- Remodeling and upgrading the important social-safety net, most especially, the pension, education, social insurance, and unemployment systems (largely still not accomplished);
- Assuring eventual full convertibility of the Polish zloty;
- Gaining extensive external assistance of the International Monetary Fund, and the "London" (private commercial creditors) and "Paris" Clubs (public creditors);
- Gaining full membership in NATO, the OECD, and the European Union;
- Creating new market institutions, a viable commercial code, a revised tax code, recognizing private property rights, and the creation of a financial and capital market—perhaps most importantly, the creation of a viable stock market and a properly functioning central bank.

Thus, from the very beginning of the process of economic transformation, membership in the European Union was considered as a key policy objective.

## 4. Poland and the European Union

The European Union is made up of twenty-seven Member States, with an additional five "candidate countries" in various stages of the accession process. Since Poland joined the European Union on May 1, 2004, (Hunter, Ryan & Shapiro, 2003, pp. 125-145) even the "Euro-skeptics" have to admit that Poland has benefitted from membership. What have been the major advantages of Poland's membership in the European Union.

- **Economic Advantages to Poland**

Among the advantages that have accrued to Poland include:

- The ability to participate fully in the wide array of decisions at the EU level—a situation which signaled Poland's return to Europe as a *full and participating member*. (Europe.eu, 2012). The EU's standard decision-making procedure is known as 'Ordinary Legislative Procedure.' Under this rubric, the directly elected European Parliament has to approve EU legislation together with the Council (the governments of the 27 EU countries). The Commission drafts and implements EU legislation. The European Union, as are other democratic institutions, is based on the rule of law. This means that every action taken by the EU is founded on treaties that have been approved voluntarily and democratically by all EU member countries.

This change in perspective was best stated by Polish Foreign Minister RadoslawSikorski who noted: "We have reaffirmed our status as a heavyweight Member state. We changed Poland's image from a country which only benefits from the EU to a country which—true—benefits, but also inspires others to act. Today when others think of Poland, they think of economic growth, a modern country, and effective governance—we have become a partner worth courting."

- The transfer of large amounts from *"Brussels to Poland."* From May 2004 through February of 2012, Poland received a net total of 39 billion Euros from the EU. [At the writing of this paper, 1 Euro equals approximately $1.276 dollars.] Thus, transfer payments to Poland during this period have amounted to nearly $50. Andrzej Ratajczyk, writing for the *Warsaw Voice* (Ratajczyk, May 2012, p. 11), estimates that Poland will be the beneficiary of over 80 billion Euros (slightly over $102) from these various funding sources. Bartyzel and McQuaid (2014) report that "The EU has pledged to send a total of 229 Euros in aid to Poland through 2022." *What is clear is that Poland is clearly the largest beneficiary of EU funding in net terms!*

- Poland has also gained access to both EU structural and cohesion funds. **Structural Funds and the Cohesion Fund** are financial tools set up to implement the Cohesion policy also referred to as the *Regional policy of the European Union*. (European Union Funding Programs, 2012). These funds were designed to reduce regional disparities in terms of income, wealth, and opportunities for individual nations' citizens. Although the funds were created to benefit "Europe's poorer regions," all European regions are eligible for funding under the policy's various funds and programs. This may be especially relevant in light of the *sovereign debt crisis* that has befallen the EU's so-called "PIIG nations—Portugal, Ireland, Italy, and Greece. (BBC News, 2010).

The Structural Funds are made up of the European Regional Development Fund (ERDF) and the European Social Fund (ESF). Together with the Common Agricultural Policy (CAP)—actually created in 1962—the Structural Funds and the Cohesion Fund make up the great bulk of EU funding, and the majority of total EU spending. In addition to the Structural and Cohesion Funds, there are other funds that have the potential to contribute to the regional development. These include funds under the CAP, namely the European agricultural guarantee fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) and the European fisheries fund (EFF) established for the programming period 2007-2013 with the Council Regulation (EC) No 1198/2006 of 27 July 2006.

- The Polish economy has grown faster than any other economy within the European Union over the past seven years. Poland's economy recorded a growth rate of over 30 percent while the EU-27 economy grew at a mere 6 percent over this same period, reflecting a severe economic downturn. For 2012, GDP should rise by at least 2.7 percent—still the fastest growth recorded in the European Union.

- In the period between accession and 2012, Poland has continued to be an attractive location for attracting foreign direct investment [FDI], the combined value of which now exceeds 160 billion Euros (Hunter and Ryan, 2011)—approximately $191 billion]. Dr. NourielRoubini, advisor to the International Monetary Fund, commented: "The causality between enhanced trade and FDI has long been recognized.

Emerging economies trade has increased substantially and so have their economic achievements." (AimCongress, 2012).

- Polish exports have nearly *tripled* from 47.5 billion Euros in 2003 [approximately $60.61] to 136 billion Euros in 2011 [approximately $173.53 billion].

- The EU is now Poland's main trading partner—accounting for 78.6 percent of Poland's exports and 58.8 percent of Poland's imports. The following are the major components of Polish exports: machinery and equipment; textiles and footwear; metals and metal products; minerals and fuels; chemicals; and agricultural products. The major Polish imports are: machinery; fuels and minerals; textiles; metals; and agricultural products. [Imports and exports seem to track in terms of categories; yet the level of use and sophistication differ greatly.] In terms of Poland's individual trading partners, Germany stands at 27 percent; Italy 6.6 percent; France 6.2 percent, the United Kingdom at 5.7 percent; and the Czech Republic 4.3 percent.

- Poles and Germans continue to get along in a symbiotic economic relationship. Germany clearly benefits from low production costs and Poland has gained from German demand and investment.

- Wages for Polish workers grew by a third since 2004 but are still only one-third of the EU average. (Kaitz, 1970; Dolado et al., 1996). The first group, where the index varies between 29% and 38%, includes the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Spain. The second group, with Kaitz indices of between 40% and 44%, includes Bulgaria, Cyprus, Malta, Slovakia, Slovenia, and the UK. The third group, with Kaitz indices in excess of 45%, includes Greece and Ireland. In addition, today, we can add Belgium and France to this group.

- In 2011, the average gross wage in Poland was equivalent to 800 Euros per month [$1020.80] which was 33 percent higher than wages recorded in 2005. (Eurostat, 2012; GUS, 2012). The average gross wages in the EU was 2,177 Euros per month [approximately $2,758 a month], which grew by 11.5 percent since 2004.

- As important, Polish agriculture—perhaps the most skeptical of all economic sectors regarding EU membership—has undergone a rapid modernization, mainly due to the infusion of EU funds, the introduction of technology, and organizational changes introduced by Marek Sawicki, Minister of Agriculture and Rural Development.

- The balance of trade in Polish foodstuffs has created a surplus of 3 billion Euros [$3.28 billion]. As Minister Sawicki noted: "Today, Poland's dairy and meat processing sectors are among the most advanced not only in Europe but also in the world."

- Although not strictly connected Poland accession to the EU, the emergence of Poland's stock exchange [WSE], which reemerged on April 16, 1991 with five companies listed, seven brokerage houses participating in trading, and a total turnover of around $2,200, has contributed to the favorability of Poland's desirability as a host for FDI. Today, the WSE ranks first in the world in terms of the growth in the number of companies listed and seventh in terms of growth in equity turnover. According to the latest *IPO Watch Europe* report, Poland ranks first in Europe in terms of IPO numbers. It is also important to note that the WSE has been a listed company on the Warsaw Floor since November 9, 2010 having itself been privatized.

## ➢ Some Negatives

On the negative side, Poland has continued to delay the adoption of the Euro—which many now see as a decidedly positive occurrence. When Poland joined the European Union in 2004, it committed itself to adopt the *Euro*, the currency of the European Union (EU), (Slater & Perry, 2008) as its national currency at some "appropriate time" in the future. (Hunter & Ryan, 2005). With the fear that a continued depreciation of the Polish zloty against the Euromight result in "higher loan repayments" than investors had foreseen, many Poles have found it increasingly difficult to repay euro-denominated loans with rapidly depreciating Polish currency. A move to adopt the Euro was seen as a remedy for this potential difficulty.

In November of 2008, Poland's government, under the leadership of Prime Minister Donald Tusk, announced a plan, or what it described as a "roadmap," to adopt the *euro* by 2012, although the Prime Minister stated that should adverse circumstances arise, the plan was open to "discussion." (Polish News Bulletin, 2008, quoting *Gateta*). This move, although not altogether unanticipated, was nonetheless controversial since it would require an amendment to Poland's Constitution and would also require the unusual cooperation of Poland's two major political parties—now bitter rivals on the Polish political scene. The initial deadline came and went!

Ratajczyk asserts that this failure to adopt the Euro "slows the inflow of foreign direct investment, makes business planning more difficult for the investors, and makes the Polish market less transparent and predictable." (Ratajczyk, 2012, p. 11). Because Poland is not a member of the single currency or Eurozone, businesses which are operating within Poland are exposed to what are termed "currency fluctuation risks." The single currency was formally adopted January 1, 1999. The Eurozone currently consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. The criteria for adopting the Euro were originally termed the "*convergence criteria.*" They included:

- **Inflation rates:** No more than 1.5 percentage points higher than the average of the three best performing member states of the EU.

- **Government finance:**

**Annual government deficit:**

The ratio of the annual government deficit to gross domestic product (GDP) must not exceed 3% at the end of the preceding fiscal year. If not it is at least required to reach a level close to 3%. Only exceptional and temporary excesses would be granted for exceptional cases.

**Government Debt**

The ratio of gross government debt to GDP must not exceed 60% at the end of the preceding fiscal year. Even if the target cannot be achieved due to the specific conditions, the ratio must have sufficiently diminished and must be approaching the reference value at a satisfactory pace.

- **Exchange rate:** Applicant countries should have joined the exchange-rate mechanism (ERM II) under the European Monetary System (EMS) for two consecutive years and should not have devalued its currency during the period.

- **Long-term interest rates:** The nominal long-term interest rate must not be more than 2 percentage points higher than in the three lowest inflation member states.

Because of the wage rate discrepancy between Poland and other EU members, the migration of many young Poles—variously estimated at up to 2 million—to Western European countries after Poland's entry into the EU. More than 600,000 have emigrated to Britain alone. (Bartyzel&McQuaid, 2014). This trend may be seen as a further disadvantage since the loss of these individuals' wages has placed a strain on Poland's pension system that is in itself in need of reform. In addition, membership in the EU has done little to improve Poland's health care system, described as "one of the worst in Europe." (Polish Radio, 2012). In fact, according to the *Euro Health Consumer Index* (EHI), Poland's health care ranks 27th out of 34 in medical services provided to its citizens and is continuing to deteriorate. The Report finds that Polish citizens have one of the worst accesses to up-to-date drugs; have one of the highest mortality rates from cancer; and the longest waiting time for an appointment with a doctor or treatment at a hospital.

Finally, Poland's unemployment rate hovers around 13 percent—a five year high—again showing that benefits of the economic transformation have not flown evenly throughout the Polish population. (The Economist, 2012).

## 5. Some Tentative Observations or Conclusions

When Poland signed the EU accession treaty in 2004, few observers could have imagined that the benefits would be as large for both for Poland and the Union itself. Membership came about because of substantial efforts to meet the established *Maastricht* membership criteria—sometimes carried out in the atmosphere of deep skepticism among large segments of the Polish population. Poland became a part of the EU because it carried out what can only be termed as comprehensive economic and political reforms, building both a democracy and a free market economic– two pillars of an integrated and *united Europe*. 2014 is truly a year for remembrance. June 4 would also mark the twenty-fifth anniversary of the multi-party, partially free elections in Poland-- the first conducted in the post-World War II period.

Minister Sikorski noted: "Back then, reeling from 40 years of communist rule, Poland was economically and politically bankrupt – and a headache for the world's leaders. Today, we are helping to fix problems, in Europe and beyond. We have proven that by staying the course, it is possible to turn the tide of history." (Sikorski, 2014).

As evidence of the tremendous progress Poland has achieved during this ten year period, Poland's GDP increased by 48.7%. Even in 2008–2013, during the depths of the global financial crisis, Poland's economy grew by 20% – by far the best results achieved by all of the members in the EU. It may be stated that Poland has made effective use of what has been termed as a truly "historic opportunity." By 2012, cumulative foreign direct investment or FDI in Poland was worth an estimated 178 billion Euros, almost quadrupling since 2003. During the ten years of EU membership, Poland created has two million jobs.

On the other side of the equation, Poland's integration has also brought benefits to Poland's EU partners. Data strongly indicates that enlargement had a positive impact on most of the then EU-15 economies. The biggest winners were those who increased trade with the new members from the "east" or who opened up their labor markets to the new members-- most especially Ireland, Great Britain and Holland.

All member states have gain by the tremendous expansion of the EU's vast "internal market," evidenced by the free movement of goods and people.

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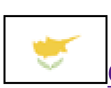
**Appendix I:**

## Member states of the EU (year of entry)

- Austria (1995)
- Belgium (1952)
- Bulgaria (2007)
- Cyprus (2004)

- Czech Republic (2004)
- Denmark (1973)
- Estonia (2004)
- Finland (1995)
- France (1952)
- Germany (1952)
- Greece (1981)
- Hungary (2004)
- Ireland (1973)
- Italy (1952)
- Latvia (2004)
- Lithuania (2004)
- Luxembourg (1952)
- Malta (2004)
- Netherlands (1952)
- Poland (2004)
- Portugal (1986)
- Romania (2007)
- Slovakia (2004)
- Slovenia (2004)

- Spain (1986)
- Sweden (1995)
- United Kingdom (1973)

**Appendix II: Investing Partners**

A listing of major investors by percentage of investments in the Polish economy includes:

| Country | Value in EUR mn | Share |
|---|---|---|
| Germany | 2,137 | 21.73% |
| France | 1,375 | 13.98% |
| Luxembourg | 1,250 | 12.71% |
| Sweden | 940 | 9.56% |
| USA | 895 | 9.10% |
| Austria | 586 | 5.96% |
| Netherlands | 478 | 4.86% |
| Italy | 459 | 4.67% |
| Spain | 393 | 4.00% |
| Other | 429 | 13.73% |