



## Europe's Surprising Economic Success Story

William Echikson

**S**urprise, surprise: Which European country has chalked up the fastest economic growth for the past 25 years? Even surpassing Asian superstars? The answer is Poland.

Since throwing off the shackles of communism, Poland has averaged a robust 4.1% expansion per year, equal to South Korea and higher than Singapore. It sailed through the 2007-08 financial crisis when its neighbours faltered. Poland has succeeded despite poisonous politics, a lack of natural resources and emerging skilled labour shortages. Its success is the subject of a fascinating new book by World Bank economist Marcin Piatkowski, entitled *Europe's Growth Champion: Insights from the Economic Rise of Poland*, recently presented at a [meeting](#) at CEPS.

In Piatkowski's view, the Polish phoenix represents a recipe for transforming a stagnant state-dominated economy into a capitalist gazelle. The needed ingredients include radical, quick market reforms, in combination with slow (not fast) action on privatisation to avoid the emergence of oligarchs. As incomes soar, more than [80% of Poles are satisfied with their lives](#), up from only half at the beginning of the transition.

Unanswered questions remain: Why has this prosperous Poland turned to populism and will the Polish success story survive its present embrace of a narrow nationalist government? Piatkowski struggles to find answers, although he approves of the present government's economic policies, and predicts, perhaps too optimistically, that the Polish populism will end up as a passing phenomenon.

All of the Central European region is enjoying a boom, despite a similar flirtation with populism. In 1995, incomes in the Czech Republic, Hungary, Slovenia, Slovakia and Poland were 55% lower than in its rich Western European neighbours. By 2013, the difference had shrunk to 39%, and average incomes are now equal to that Portugal and moving close to that of Spain. The IMF expects regional growth to run at 4% this year.

Compared to its neighbours, Poland has the most diversified economy and relies less on big-ticket foreign investment, particularly in car factories. Slovakia is now the world's largest car producer per capita, home to VW, Kia, Peugeot and Jaguar Land Rover factories. Mercedes Benz just announced a €1 billion investment in Hungary.

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When I covered communist Poland as a journalist in the 1980s, its stores were empty. Czech and Hungarian living standards were higher. Once the Soviet restraints were removed, however, Poland undertook deep market shock reforms, far harsher than its neighbours. This generated a private sector boom and moved the country out of the post-transition recession before the others. Poland was also quick to follow the early market reforms with robust institutional building, managing privatisation in a transparent fashion. Today, there are no Polish oligarchs.

Importantly, too, Poland avoided cheap foreign loans taken in strong Western currencies, which boosted consumption before leading to the 2007 financial crisis. Its banks emerged unscathed and are financially solid and stable.

Poland expanded the quantity and quality of education. Today every second young person [studies at the university level](#), above the EU average, up from only one out of ten in 1989. This allows the country to expand its manufacturing base and move fast into back-office services. Blue chip companies such as Google, McKinsey and JP Morgan Chase have all located big administrative centres in Poland.

So far, foreign investors have continued to pour in, despite political instability fuelled by the nationalist government's efforts to take control of the press and courts. Despite his fears about these anti-democratic tendencies, Piatkowski says Poland's economic policies have proved successful. The government upped social spending, igniting fears of creating a yawning financial deficit, but strong growth has kept the deficit in check.

Giant challenges remain to be scaled and Piatkowski perhaps underestimates them. One is a fast-aging population – already less than half of Poland's 55- to 64-year olds have jobs, while labour shortages are appearing and salaries are soaring. Conflicts are mounting with the European Commission, which is threatening to cut crucial EU funding. During its transition, Poland benefited from large inflows of EU funds that helped connect it with Western Europe by highways for the first time ever.

For centuries, Poland stood on the edge of the West. Success over the past two and a half decades has put it within striking distance of joining the exclusive club. He even touts the country's sports as evidence: Poland's national team became a world champion in volleyball, won a bronze medal in handball and beat Germany for the first time ever in football. Why? Piatkowski believes that it is because Poland's athletes, led by striker Robert Lewandowski, have trained and competed in the West, unlike their communist predecessors.

Unfortunately, the Polish World Cup team crashed out in the first round of the tournament. Perhaps this is a good cautionary concluding note. In his book, Piatkowski makes a strong case for a Polish Golden Age. But a new Polish Golden Age remains far from assured.