

## Opinion Corner\* : Poland at the crossroads – again

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*Sometimes, instead of solving a problem, democracy complicates it even further. This is precisely what we are seeing in Poland, which – after the presidential election – is doomed to continue the cohabitation of a government and a president with opposing ideological and political orientations. In such conditions, it will be difficult for the Polish economy to follow a path of dynamic and sustainable development.*

How often are the words of Winston Churchill quoted that 'democracy is the worst form of government except for all those other forms that have been tried from time to time'! Democracy is much more than just free elections, but voter turnout speaks volumes. Almost 65% of those eligible to vote took part in the recent presidential elections in Romania. In Poland, almost 72% of voters cast their ballot. Whereas in the first case Mr Nicușor Dan, the pro-business and pro-Europe candidate, won by a significant nine-point margin, in Poland Mr Karol Nawrocki, a Eurosceptic nationalist, won by a narrow margin – just 1.7% of votes cast.

In the Polish political system, the president of the state is not as strong as in the US or France, but nor is he as (relatively) insignificant on the political scene as in Germany or Austria – especially in relation to economic issues. The president may submit legislative initiatives to parliament, and he enjoys negative power: he has the right to veto legislation. And the current liberal coalition government led by Prime Minister Donald Tusk lacks a big enough parliamentary majority to overturn a veto.

Interestingly, Polish economic situation, although by no means an ideal, was not decisive during the election campaign and nor has it been in its immediate aftermath. Electoral emotions were mostly shaped by cultural and political considerations. Two groups of issues proved particularly divisive: on the one hand, the rule of law, the justice system and moral issues such as abortion, LGBT+ minority rights and state–church relations; on the other hand, international relations, and especially the depth of integration within the European Union and relations with the US and Poland's neighbours – Germany in the west and Ukraine in the east. The issue of immigration was less controversial, as all parties involved had a similarly negative attitude towards it. There was also unity surrounding the pursuit of a vehemently anti-Russian course and the need to maintain an elevated level of military spending – at 4.7% of GDP (and growing), this is already the highest among NATO's members.

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\* Disclaimer: The views expressed in the Opinion Corner section of the Monthly Report are exclusively those of the authors and do not necessarily represent the official view of wiiw.

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## THE SHADOW SIDES TO THE POLISH ECONOMIC MIRACLE

Meanwhile, the economic problems that Poland faces should not be overlooked. Since the remarkable success of my 'Strategy for Poland', when real GDP per capita soared by a record 28% in the years 1994-1997, in terms of economic growth Poland has been a star among those countries undergoing post-socialist transformation. But we must avoid adopting a narrow approach and reducing our assessment of economic results to the quantitative increase in income. Unfortunately, in more than one respect the Polish economy is not faring too well.

This year, the fiscal deficit is approaching 7% of GDP (the second biggest deficit in the EU, after Romania), and the cost of servicing the public debt is in excess of 2.2%. That is unsustainable in the long term, especially since interest rates are quite high: e.g. the yield on ten-year government bonds is 5.6% – twice the average for the euro area. The same is true of inflation (Poland: 4.0%; euro area: 2.1% in May compared to the same month last year). As a result of the low level of expenditure on research and development (just 1.5% of GDP, among the lowest figures in the EU), Poland has fallen dramatically in the International Institute for Management Development's (IMD) ranking of economic competitiveness – down eleven places to 52nd position. This is the worst result for five years. The ranking is based on an analysis of over 260 indicators, including debt, employment conditions, trade, and the subjective opinions of managers. At the same time, the investment rate is just 17.5% of GDP.

This is compounded by the low fertility rate (an average of 1.34 births per woman in 2024 and declining). Together with the ageing of society, this further worsens the dependency rate, which is already 51.6%. Given the negative public attitude towards immigration, which intensified in the heat of the pre-election political clashes, the situation on the labour market is deteriorating dramatically. None of this bodes well for future development. A democracy in which emotions prevail over common sense is by no means conducive to the imperative of balancing the economy and strengthening social cohesion.

## NATIONALISM AND ECONOMIC POPULISM, RATHER THAN PRAGMATIC PROGRAMMES

Nationalism and economic populism that promises pie in the sky are all too often a feature of politics. Instead of competing on pragmatic packages of sustainable socio-economic development, rivals vie over populist illusions: who will spend more public money from the budget on various noble causes and at the same time lower taxes; who will raise wages more and simultaneously cut prices; who will build more cheap housing and will further increase social transfers. And of course, who will better restrict competition from foreign producers by supporting domestic business – even though it is sometimes less efficient and more costly. All this to win the election, and then we will see... It is an economic absurdity, but the day after the presidential election, the political campaigning began for the next parliamentary elections, due to be held in two and a half years' time – or earlier, if the coalition government that has been in power for a year and a half does not survive until then. That cannot be ruled out, although the government did win a parliamentary vote of confidence shortly after the presidential election, in which the candidate supported by the coalition parties lost.

One does not need to make unrealistic promises to win over the majority of public opinion. Although it is certainly more difficult than playing the populist/nationalist card, one must preach the truth and count on the fact that, by proposing rational economic programmes that are consistent with the principles of economics, it is possible to gain the consent of the majority in society.

My conclusions are based not only on years of studies in comparative political economy and development policy. They also result from rich experience gleaned through my active involvement in real economic policy in periods that were no less challenging than they are today. It is incredible that a generation and a half ago – in 1989, during the historic Round Table negotiations, in which I participated – we reached agreement on the direction that profound economic reform should take and gained broad public support, whereas today even a semblance of such dialogue is impossible, because the post-Solidarity parties are so deeply at odds.

It is interesting that, as deputy prime minister and minister of finance in 1994-1997, I was able to continue with comprehensive systemic reforms that resulted in Poland's entry into the OECD, and consistently built up institutions to support the social market economy, without being sidetracked by populist or nationalist aberrations, even during the presidential election of 1995. It is important that we were also able to effectively oppose populist tendencies in 2002-2003, when I again – as deputy prime minister and minister of finance – coordinated the complex economic policy in the key period of negotiating the terms of accession to the European Union.

Let us hope that in the longer run pragmatism will again prevail and Poland will not waste its chance to catch up with the most economically developed countries.