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Dark clouds over the golden age

Marian Gorynia, Łukasz Hardt, and Marek Kośny are correct when they argue in their introductory essay that our economy is at a crossroads. I would add that it has been there for a couple of years now—and not for the first time (Kolodko, 2025a). They write: "The Polish economy stands at a crossroads: on the one hand, it has achieved spectacular success and drawn closer to the economic core of the West than ever before. On the other, its current sources of growth are wearing thin. A transition is necessary—from export-oriented industrialization based on low labor costs to a more innovative, capital-intensive economy underpinned by a substantially higher rate of investment. (...) At the same time, the debate on Poland's future development model cannot be reduced solely to macroeconomic stabilization, investment rates, or technological modernization. What is ultimately at stake is the long-term international competitiveness and resilience of the Polish economy in a rapidly changing global environment. Sustainable development requires balancing efficiency with social cohesion, market dynamism with institutional stability, and individual aspirations with responsibility toward future generations. This broader perspective underlies the idea of an 'economy of moderation.'" Certainly, we need an economy of moderation, which I have been writing about—unfortunately, with little success—for years. (Kolodko, 2011; see also: Kowalska et al., 2016).

> Good policy means taking advantage of emerging development opportunities *pro bono publico*. Good policy also means comprehensively addressing mounting challenges, the most important of which include ecological disruption, an aging population, a relatively low level of economic innovation, and migration flows.

Finally, perhaps most difficult of all, good policy involves giving people what they need, not what they want. Therefore, there must be constant, responsible social dialogue, devoid of demagoguery, convincing people that they should want what they truly need: security and safety, the restoration of moral space, social cohesion, high-quality human capital, a clean environment, a sustainable and competitive economy, well-paid jobs, a high level of public services, and a noticeable improvement in well-being (Kołodko, 2025a).

> Hence, today a reformulation of development goals is imperative. What you measure and how you do it determine where and how you go. If we truly want to create a full-fledged social market economy, it is high time to move away from treating the maximization of GDP levels and growth rates as a goal of economic development.

The economy has been in a post-GDP phase for many years now, and this requires a post-GDP economic theory, which should underpin post-GDP economic policy and a post-GDP development strategy. A comprehensive approach to socio-economic goals—as embraced by new pragmatism, with its emphasis on integrated, dynamic development that is triply sustainable (economically, socially, and ecologically)—is a twenty-first-century imperative (Kolodko, 2014).

Each year, the state budget should be accompanied by an analysis and forecast based on an appropriate sustainable development indicator. We have such measures at our disposal, for example, the eight-part Responsible Development Index developed by the Polish Economic Institute (Polish Economic Institute, 2019) or the synthetic Sustainable Socio-Economic Development Index developed at Kozminski University (Koźmiński et al., 2016). Several international organizations, including the UN, OECD, and the EU, propose numerous alternative measures.

In the essay written by Gorynia, Hardt, and Kośny, there is a subheading: "An economic miracle but dark clouds on the horizon." Well, there was no miracle,

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not only because such things do not happen in the economy, but also because the remarkable results in socio-economic development were the product of enormous social effort. The undoubted success of the Polish economic transformation would have been even greater (i.e., the "miracle" would have been even more "miraculous"...) were it not for the obvious mistakes of economic policy, especially those made in the early and late 1990s. The authors write: "Our economic success stemmed from a political transformation from socialist state towards market economy was successful, yet socially costly." They should say clearly and firmly that it was too costly. Shocking to many, yet profoundly telling, is a comparison of cumulative GDP growth over two sets of eight years: 1990–1993 and 1998–2001, when a right-wing coalition ruled with a mix of neoliberal and populist policies, and 1994–1997 and 2002–2005, when my "Strategy for Poland" (Kołodko, Nuti, 1997; Kolodko, 2000) based on the concept of new pragmatism was implemented under a left-of-center government (Kołodko, 2025b). While cumulative GDP growth in the first set of eight years was a mere 6 percent, over the second it reached an impressive 46 percent.

So, there was no miracle in the past, and dark clouds are not gathering on the distant horizon of the future; they are already hanging over us today. Deep reflection, both economic and political, is desirable (Kolodko, 2025b), as it is probably high time to end the propaganda of the "golden age" of the Polish economy, now that dark clouds are hanging over it. I will no longer repeat truisms about the imperative of a long-term development strategy for triple-sustainability, the need for better coordination of macroeconomic policies, increasing the rate of investment and improving their effectiveness, the importance of institutions and innovation, increasing investment in infrastructure and human capital, deepening European integration, and joining the eurozone. All of this must be addressed, but none of it will be sufficient unless policy successfully tackles two processes that could prevent the continuation of our generational economic success.

Two issues are crucial here; unless they are addressed, the historic success of the Polish economy could degenerate into a financial, economic, social, and political crisis. These are the excessive militarization of the economy, society, and state, and the growing imbalance in public finances, which translates into a record-high budget deficit and dangerously rising public debt, including foreign liabilities sensitive to exchange rate fluctuations (Kołodko, 2026).

- First, the government should do everything possible to improve fiscal discipline and consistently collect all legally required payments owed to the public finance system.

- Second, regulatory changes should be introduced that encourage unregistered economic activity—the so-called shadow economy, estimated at approximately 10 percent of GDP—to move into the officially recorded and taxed income-generating activity.

- Third, a strict austerity regime should be imposed on central and local government spending. Administrative structures at all levels—from municipalities through counties and voivodeships, to the national government—require deregulation. Furthermore, the size of central and local government administrations must be reduced.

- Fourth, the process of gradually raising the retirement age should be resumed, starting with the overly privileged uniformed services.

- Fifth, the structure and scale of social transfers, many of which are misdirected and do not fulfill their intended functions, must be revised. A systemic review of tax relief and exemptions, as well as various free public services and benefits in kind, is needed. In particular, the 800+ system should be modified by reinstating the principle of granting benefits only for the second and subsequent children and introducing an income threshold for eligibility. Furthermore, the payment of so-called thirteenth pensions should be discontinued. Overall, it would be desirable to reduce aggregate social transfers by approximately 2 percent of GDP.

- Sixth, defense spending should be reduced to a statutory 3 percent of GDP. It would also be advisable to index the military budget automatically to the previous year's actual GDP.

> Seventh, within the defense budget, it would be worthwhile to adopt the practice of allocating the equivalent of 1 percent of GDP to so-called dual-use projects, which can serve both the military and civilian sectors. One-quarter of this 1 percent allocation, or 0.25 percent of GDP, should go to public investment in research and development, which is very low in the defense sector.

> Eighth, if the authorities insist on spending as much as 5 percent of GDP on defense, they will have to resort to the country's economically excessive foreign exchange reserves managed by the National Bank of Poland. It would be beneficial for one-quarter of this resource, approximately 250 billion zlotys, to be transferred to the public finance system. This allocation, made in three tranches of approximately 80 billion zlotys each, would slow the growth of public debt over the next three years.

> Ninth, if the president, both houses of parliament, the government, and the central bank are unable to reach a pragmatic compromise on this matter, taxes should be raised in a way that does the least harm to economic growth while promoting social cohesion. It is desirable to consolidate all individual income, including capital income, and subject it to a universally applicable progressive tax scale with three brackets.

Furthermore, as is now obvious, constant attention must be paid to the non-military aspects of national security, including demographic, health, food, environmental, energy, and infrastructure security. Cybersecurity, meaning the protection of IT systems, networks, and datasets against increasingly frequent digital attacks, is also gaining importance.

All of this, after all, will be decided by politics, which unfortunately lacks the capacity to make sufficiently creative use of economic knowledge. This is a shame.

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