The Vulnerability of Polish Regions to the Challenges of the Modern Economy

Abstract: The paper deals with the conditions affecting the economic growth of Poland’s regions. Research questions are initially formulated about regularities and factors contributing to the economic success of Polish regions after their market-oriented transition. Changes in the theoretical foundations of regional policy are then discussed as well as the contribution of the World Bank, the Organization for Economic Cooperation and Development (OECD), and the European Union (EU) to the new doctrine. The global and European megatrends of recent decades – unfavorable to regions in EU member states, in part due to the 2008+ crisis – are described. The European cohesion policy, a unique solution globally to support regional development, plays a major role in the socioeconomic development of Poland’s regions. Poland is the EU’s biggest beneficiary of this policy, which is now oriented toward boosting regional competitiveness. Polish regions are steadily becoming stronger within the EU, as this paper demonstrates, with the best growth trajectories enjoyed by the strongest regions. The impact of the 2008+ recession on Polish regions was limited, largely thanks to quality public policies. This good trajectory may be hard to achieve in the future due to what is known as the middle-income trap. Therefore, adjustments have to be made in Polish regional policy and other policies to make regions less vulnerable to the volatility of socioeconomic development.

Keywords: European cohesion policy, regional development, globalization

JEL classification codes: F15, F63, R19

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Introduction

In 1989, in the aftermath of global political changes, Poland embarked on a transition from a centrally-planned to a market economy. An important element of the systemic reform package was the creation of local government entities in 1990. The next stage of the local government reform took place in January 1999 when large regions (voivodeships) were established. Their authorities are elected in general elections. They have their own budgets and are NUTS-2 territorial units, i.e. the basic entities in EU cohesion policy.

After 25 years, the market transition of a large group of countries including Poland, regardless of the degree of success, calls for an evaluation from a regional perspective. The research questions we ask in this paper are as follows:

• Since the beginning of the transition, and especially after its EU entry in 2004, Poland and its regions have had an excellent development trajectory. Despite a significant downturn in the EU after 2008, Poland was able to maintain development processes on a favorable course, also regionally. What were the underlying causes?

• During the global economic recession after 2008, Polish regions on the whole proved to be much more resilient to development process disruptions than regions in other OECD countries. What were the roots of this relatively high resilience?

• Among the regions in postcommunist countries, all Polish regions were successful, significantly improving their standing among European regions. What were the sources of this success? How significant was European integration and participation in EU cohesion policy?

• Despite the overall success of all Polish regions, only some of them have made a major leap forward in terms of development and economic progress over the past quarter century. The time after Poland’s EU accession in 2004 was particularly good. Which Polish regions have been able to sustain the most favorable development trajectories since the country’s EU entry and after 2008? What are the reasons for the superior position of some of them?

• To an extent, the success of the Polish regions may have resulted from the involvement of the public authorities at both the national and regional levels. The post-crisis conditions of regional development, however, are entirely different than those in previous years. With the lessons learned from the global economic crisis, what are the recommendations for regional policies at the national level? What conditions must be met if this uniquely good trajectory is to be maintained?
Changes in the Theoretical Foundations of the Approach to the Role of Physical Space and Territorial Conditions in Regional Development

The latest crisis has triggered a number of adverse processes and revealed numerous weaknesses in the world’s most powerful economies, including those of EU member states. The exposure of problems that had been aggravating for years (including the debt burden, public deficit, and institutional weakness) provoked debate, criticism and revision of the current economic paradigm. As a result, the economic policies of the EU and its member states had to be revised [Gawlikowska-Hueckel, 2014]. The changes also affected the EU’s cohesion policy, one of the bloc’s most important policies designed to reduce economic and social development disparities between European regions. The changes are of major importance to Poland, which is the biggest beneficiary of the policy. Efforts to make regions less vulnerable to crises have also gained importance.

For years, economic research concentrated on what goods should be produced and which factors of production should be expanded and in what proportions [Blaug, 1985]. The result was that little or no regard was made to regional factors when looking at the economy and important aggregates such as production, consumption, employment and investment [Domański, 2002].

A change in the perception of the role regional factors play in the location and profitability of production is owed to the studies of German theoreticians Weber [1922], von Thünen [1921], and Lösch [1956], who observed that what matters is not only what is produced and at what expense, but also where it is produced. Their theories inspired further research (Christaller, Launhardt), in which the issue of the division of markets was undertaken [Beckmann, 2000]. A major contribution to regional economics was made by F. Perroux [1950] in his study of growth poles, or special areas in which production and business activities tend to concentrate and which are capable of producing effects with a positive impact on the surrounding space. In the 1950s, research conducted by Myrdal [1957] and by Hirschman [1958] gained popularity. When we discuss traditional theories, we must not overlook the contribution to regional studies made by Isard [1960], who is considered to be the founder of regional science.

Another generation of theories with a bearing on the discussion of regional development focuses on macroeconomic relations; it examines the causes of changes in output and employment levels vis-à-vis the level appropriate for a long-term balance-growth equilibrium. This generation of theories also identifies factors causing possible deviations [Nazarczuk, 2013]. According

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1 In selecting the location, producers consider factors such as the supply of resources, labor costs, quality of infrastructure, markets and how distant they are. Transport costs are also accounted for. With time, the analysis also began to include external effects and economies of agglomeration and scale [Capello, 2008].
to these theories, the best regulator of economic processes is the free market, which optimally allocates factors of production. In this neoclassical trend, it is R. M. Solow’s [1956, 1957] contribution which deserves special mention. In Solow’s model, technological progress is exogenous in nature, so its contribution to growth cannot be precisely determined (the so-called Sollow-residual is introduced, comprising factors unaccounted for by the model, such as technological progress and improvement in human capital). The law of diminishing returns fosters convergence processes.

A wave of criticism of Solow’s theory gave rise to new growth theories, including those focusing on macroeconomic relations. They were based on the assumption that output volume is a function of capital and technological advancement. The studies started by R. E. Lucas [1988] and P. Romer [1990] captured enormous interest and released a “snowball” of research founded on similar assumptions. Theories of this stream usher technological progress into the model (thus considering it endogenous). A new assumption also becomes of vital importance, namely that the proportion of GDP growth not created by labor and capital results from R&D expenditure and better quality of human capital. Knowledge is a public good and, thanks to spillover effects, everybody – not just leaders – can benefit.

The subsequent generation of regional growth theories was named New Economic Geography. This new approach to growth was initiated by the studies of Krugman [1991a, 1991b, 1995] and developed by Fujita, Krugman and Venables [2001]. Krugman and his partners note the causes of differences in the growth of regions, which result from economies of scale, transport costs, and the spatial distribution of production affected by trade costs.

The range of territorial growth factors taken into consideration was gradually expanded by researchers including Ottaviano and Puga [1998]. The shape of European cohesion policy was greatly influenced by changes in the doctrine of regional development policy, which brought the territorial dimension into mainstream economics and enabled the problem of macroeconomic vulnerability of regions to be addressed [Gawlikowska-Hueckel, Szlachta, 2014]. This contribution is connected with ideas including a place-based policy [Barca, 2009] and the “space of flows” concept [Castells, 1996]. Apart from spatial differences in business activity, the causes of disparities in the growth of regions, convergence processes, polarization and catching up were analyzed. The importance of spatial clusters of tangible and non-tangible factors of production was highlighted, as was the special role of knowledge and innovation in development, including the role of knowledge spillovers.

It is not possible to mention all the research which forms the impressive theoretical contribution of regional economics. There can be no doubt,
however, that it had a major impact on the debate on the new approach to regional policy.

The focal point for all the theories mentioned above is the region – an area “stuck” in space. One of its characteristics is its duration; if a business does not generate profit over a long period of time, it is out of the market, but the region is “doomed” to continue to exist. For this reason, it is vitally important that the causes of underdevelopment be recognized and that factors be identified that may stimulate the growth of the region and prevent its further impoverishment and marginalization. This knowledge is of special significance in the modern economy, where globalization processes cause regions to compete with one another for investment, financial and human capital. In economic studies, the region is now treated as “a small, open economy” [Llop, Manresa, 2007].

The theoretical debate laid the foundations for reflection on the need to account for the new growth factors. It was also translated into a new paradigm of regional policy, proposed by the OECD and the World Bank [OECD, 2009; The World Bank, 2009; Gill, 2010]. It is under the influence of the two organizations that the model and the priorities of European cohesion policy were revised. They became less oriented toward traditional measures of disparity reduction and increasingly focused on the competitiveness of the territorial system, endogenous potential utilization, and the removal of barriers to growth.

<table>
<thead>
<tr>
<th>Aim(s)/Objectives</th>
<th>Old/classic paradigm</th>
<th>New/modern paradigm</th>
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<tbody>
<tr>
<td>Temporary compensation for lagging regions</td>
<td>Tapping underutilized potential, enhancing regional competitiveness</td>
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<td>Intervening entity</td>
<td>Administrative entities</td>
<td>Functional economic regions</td>
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<td>Sphere of action</td>
<td>Sectoral approach</td>
<td>Integrated and comprehensive development projects</td>
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<td>Instruments</td>
<td>Subsidies and state aid</td>
<td>Mixed investments for soft and hard capital</td>
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<td>Actors Organization</td>
<td>Top-down policy development by central government</td>
<td>Collective policy development by different levels of government and stakeholders</td>
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Table 1. The Old and New Paradigms of Regional Policy by the OECD

The World Bank has paid special attention to the significance of large cities in generating rapid social and economic growth. The change in the OECD approach is best illustrated by the new paradigm of territorial development, presented at a ministerial conference of the organization’s member countries in 2009. In its territorial review of Poland, the OECD identified the opportunities and limitations of the application of the regional policy doctrine in Poland [OECD, 2008].

This was also manifested through changes in the regional policy vocabulary, increasingly accounting for new aspects, which can be illustrated by notions
such as regional competitiveness, learning regions, endogenous development potential, knowledge-based economy, information society, information and communication technology (ICT), smart specialization, macroeconomic sensibility, and the vulnerability of regions.

**Adverse Megatrends – Global and European**

Economic liberalization, more international trade and capital ties following Poland’s accession to the European Union have obviously led to its greater exposure to global business cycles and to a significant dependence on demand in international markets [Zielińska-Głębocka, 2012]. Major megatrends shaping the situation globally, with a bearing on Polish regions, include:

- global business cycles, first and foremost the 2008+ crisis and its implications (slower GDP growth, higher unemployment, problems with the budget deficit, and little room for maneuver due to fiscal constraints);
- the new growth paradigm of the global economy, with a shift from hard assets, such as commodities or infrastructure, to soft assets, such as information, technology, patents and governance. The change of priorities is connected with the need for more spending on R&D, ICT and innovation. The new paradigm also requires a modification of the social and political context of public policy and more attention paid to territorial assets;
- the daunting return to protectionist practices, in breach of free trade rules. According to the Global Trade Alert (GTA) [Evenett, 2014], the number of instruments affecting trade grew by 1,383 between September 2013 and November 2014, and by 1,023 once we exclude unfair trade and safeguard measures. As a result, there were 79 two-digit sectors affected by “certainly” discriminatory measures and 1,154 four-digit tariff lines affected by “almost certainly” discriminatory measures. The nature of the instruments applied varies from aid packages and state aid to market protecting measures, tariff and non-tariff barriers. The WTO warns that international organizations are helpless against this wave of protectionism. Not all countries resort to market protecting measures to the same extent; some even abandon those already in force, but the overall trend gives reasons for concern;
- climate change, which generates extra costs resulting from the need to mitigate the effects of extraordinary weather conditions (devastating winds, floods and droughts). For Poland, extra costs will result from its carbon reduction commitments and the related shift from coal-based to environment-friendly energy;
- democracy in crisis, the rise of populistic movements in developed nations and of totalitarian regimes elsewhere. The terrorist threat generates new costs connected with peacekeeping efforts.

The adverse global trends are coupled with the adverse megatrends observed within the EU:
– the crisis of the economic union, dwindling support or even retreat from integration. After many years of deepening integration, regression may be observed in relations between member states; the common market is endangered by the approval of budget cuts, and the benefits from participating in it are eroded. Autarchic concepts are gaining popularity in member states and regional separatist movements are on the rise (e.g., in Catalonia and in Scotland). The United Kingdom has voted to exit the EU;
– the crisis of the monetary union. Due to mistakes in laying the foundations of the eurozone, there was a rise in costs incurred not only by Euroland countries, but also by non-Euroland member states. This is connected with a weakening of the euro against other global currencies;
– the decline in the economic relevance of the EU. The global recession of 2008 resulted in a higher budget deficit, greater public debt, high unemployment, slower GDP growth, and falling exports and imports in EU member states. The slow rate of GDP growth reduced the ability of EU member states to compete with new industrialized nations, notably China, India and Brazil. Poland can be among those hardest hit as this affects the conditions that determine Poland’s international competitiveness (the countries mentioned above specialize in areas in which Poland has been the most competitive);
– the demographic setback: many member states are experiencing a very low birth rate while life expectancy is growing. This causes a serious deterioration in the demographic structure and jeopardizes the functioning of pension systems. In cohesion countries (including Poland), the situation is deteriorating even further because of high migration and the drain of particularly valuable human capital (it is usually young, well-educated and enterprising people who emigrate);
– the migrant crisis. According to the European Agency for the Management of the EU External Borders (Frontex), more than 500,000 people made their way through EU borders between January and October 2015. Ten thousand new refugees reached Germany every day [EU, 2015]. The Office of the United Nations High Commissioner for Refugees [UNHCR, 2015] estimates the total figure of refugees getting into Europe in 2015 and 2016 at 1.4 million. This is a source of tensions between member states, as not all governments agree to accept migrants because of the costs involved and the potential terrorist hazard.

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3 When the candidates for the eurozone were assessed, political considerations took precedence in making decisions that should have been based on an objective, “hard” evaluation of their respective financial and economic situations. The participation criteria were relaxed so that as many countries as possible could join the eurozone. The Growth and Stability Pact designed to prevent a lack of public finance discipline very soon proved to be ineffectual.

4 The role of the so-called emerging economies is growing significantly. The joint share of China and India in the global economy, now at 11 percent, is estimated to double in the next 20 years. The share of exports from the developed economies in global trade is expected to continue to decline; it was 75 percent in 1990 and 55 percent in 2010 [Lamy, 2012].
It should be added that the trends and problems presented above had an impact on the benefits derived by Poland from its EU membership. In the first period after accession in 2004, EU entry generated many positive developments; after 2008 there were new, crisis-related stimuli. They resulted in a vigorous debate on the functioning of the EU and caused the European Parliament and the Commission to revise EU policies (a new approach to trade and industrial policies); adjustments were also made to cohesion policy.

**Significance of European Cohesion Policy for the Social and Economic Development of Polish Regions**

European regions have certain special features resulting from the following:

- first, they are integral parts of countries between which barriers to the free movement of factors of production have been removed;
- second, they function within the Community with partially uniform regulations and with certain common policies (common trade policy, common agricultural policy). This means that their implementation is the sole competence of the European Community (they are the EU’s so-called 1st pillar);
- third, despite the different political structure of member states (federal, unitary), regions have the right to perform certain tasks under the fundamental principle of subsidiarity, one of the main principles in the EU.\(^5\)

For the reasons stated above, European regions function in an environment that is different from that of regions in countries which are less integrated economically. Within the single market, they are totally exposed to competition because, as has already been said, barriers to the movement of factors of production between member states have been removed.

There are considerable differences between European regions in terms of their social and economic development as well as quality of life. The differences are caused by many historical factors – with reference to Rodrik’s [2002] concept of deep determinants of regional development – as well as geographical and institutional ones and those related to the degree of economic liberalization. The extent of the differences is best illustrated by the ranking of the richest and the poorest NUTS-2 regions\(^6\), periodically published by the Eurostat. The most affluent region (GDP per capita in PPS, with the EU28 average as 100%)\(^7\) is Inner London, with an index of 321%, while the poorest

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\(^5\) Under the principle of subsidiarity acknowledged in the Treaty on European Union, the EU takes action only when – and to the extent that – its goal cannot be sufficiently achieved by the member states and/or the local/regional authorities. The aim of the principle is for decisions to be made at the level “that is closest to the citizen.”

\(^6\) The regionalization of EU member states and candidate countries is into five tiers: NUTS 1, NUTS 2 and NUTS 3 (*Nomenclature of Units for Territorial Statistics*) as well as LAU 1 and LAU 2 (*Local Administration Units*). The division into units is the power of member states. For cohesion policy purposes, the NUTS-2 tier is the most relevant (in Poland these are voivodeships).

\(^7\) The validity of using GDP to measure living standards is coming under increasing criticism.
is Severozapaden in Bulgaria (index of 29%), so the GDP per capita gap between the richest and the poorest region is significant [Eurostat, 2015]. Five eastern Polish regions are among the EU’s least well-off regions, with a GDP per capita below 50% of the EU average. The ranks are fairly stable, which shows that regional differences tend to set in. This is confirmed by the Commission’s Reports on Economic, Social and Territorial Cohesion, which indicate that the catching-up has been uneven and that convergence processes are mainly taking place between countries, while the reduction of disparities between NUTS-2 and NUTS-3 regions has been slow. Regional disparities are also growing within member states. These processes demonstrate that the poorest regions have little chance of catching up with the richest ones8.

The cohesion reports (six have been published to date, the latest in 2014 – EC, 2014) have demonstrated that the pace of convergence processes is not steady; it varies from period to period and so does the decrease in regional disparities. The catching-up usually progresses more quickly in times of economic boom and slows down during recessions. This may derail regions from their growth track, which is particularly dangerous for regions with lower living standards as they are more vulnerable than others. As demonstrated by research results [Gawlikowska-Hueckel, Szlachta, 2014], regions with diversified economies, better developed social capital and higher standards of living are relatively more resilient to economic downturns.

Most Polish regions are classified into a group that the EU defines as “areas of unusually low living standards” (the criterion being GDP per capita in PPS below 75% of the EU average).

Table 2 shows that only one Polish region (Mazowieckie) is among those with GDP per capita between 100% and 125% of the EU28 average. In the remaining 15 voivodeships, the catching-up process was not fast enough for them to move up the ranking list. Dolnośląskie is in the best situation as it is ranked among regions with 75–90% of the EU average. The relatively low level of wealth in GDP per capita terms shows that Polish regions are particularly vulnerable to adverse external factors. Given their social and economic situation, trends related to the internationalization of the Polish economy are of fundamental importance. The degree of internationalization is shown by the fact that the trade-to-GDP ratio was about 80% in 2014, with exports accounting for 40% of the GDP. Sixty percent of exports were generated by businesses with foreign capital [Ministry of Economy, 2015]. A significant improvement, however, can be observed in the situation of all Polish regions over the past decade or so. It was the greatest in the richest regions with large, metropolitan cities and the smallest in the peripheral voivodeships in eastern Poland.

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8 Regions from the new member states are the most numerously represented in the pool of the poorest regions. Their situation did not improve much after accession. However, Williamson [1975] argues that in the initial post-accession period the best developed regions tend to grow the fastest. Growth in poorer regions accelerates only after some time and it is then that disparities in development begin to narrow.
Table 2. GDP per capita in PPS (EU28 = 100)

<table>
<thead>
<tr>
<th>Region</th>
<th>1997</th>
<th>2005</th>
<th>2008</th>
<th>2013</th>
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<tbody>
<tr>
<td>Mazowieckie</td>
<td>63</td>
<td>79</td>
<td>89</td>
<td>107</td>
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<tr>
<td>Dolnośląskie</td>
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<td>52</td>
<td>60</td>
<td>76</td>
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<tr>
<td>Wielkopolskie</td>
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<td>54</td>
<td>59</td>
<td>73</td>
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<tr>
<td>Śląskie</td>
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<td>54</td>
<td>61</td>
<td>70</td>
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<tr>
<td>Pomorskie</td>
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<td>Łódzkie</td>
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<td>Małopolskie</td>
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<td>Zachodniopomorskie</td>
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<tr>
<td>Kujawsko-Pomorskie</td>
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<td>Lubuskie</td>
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<td>Opolskie</td>
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<tr>
<td>Podlaskie</td>
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<td>Świętokrzyskie</td>
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<tr>
<td>Warmińsko-Mazurskie</td>
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<td>Podkarpackie</td>
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<td>Lubelskie</td>
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<tr>
<td>Poland</td>
<td>44</td>
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European Union as a Unique Laboratory of Regional Development Policies

The objective of cohesion (regional, structural) policy⁹ was stated in the preamble to the Treaty of Rome [1957], where member states declared they would make efforts “to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and by mitigating the backwardness of the less favored.” The legal foundations of regional policy were formulated in the Single European Act [1986].

The role of regional policy (in terms of both the size of the area of intervention and the volume of spending) grew as the European Union widened (more countries became members) and integration deepened (it went through subsequent stages: free trade area, customs union, common market and economic and monetary union). EU widening translated into an increased population

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⁹ The terms cohesion policy, regional policy and structural policy are frequently interchangeable. "Cohesion" describes the objective, which is greater social, economic and territorial cohesion; "regional" means that the policy is region-oriented; "structural" denotes the policy being designed to result in positive structural changes in the economies of regions.
of regions with low living standards (the criterion being a GDP per capita lower than 75% of the EU average). The challenge of EU enlargement in 2004 can be best illustrated by the fact that, with 10 new member states, the population grew by 20%, while the GDP increased by only 5% [EC, 2015].

The other process – that of deepening integration – successively removed barriers protecting domestic markets, such as tariffs and non-tariff instruments. It forced members to adjust to the common external tariff and to remove physical, technical and fiscal obstacles. For countries joining the eurozone, it meant the abandonment of the exchange rate as an adjustment device. The result was growing exposure to open competition, most painfully felt by the poorer regions.

For these reasons, regional policy instruments were above all designed to mitigate the adverse effects of integration felt by those regions which, because of low living standards, were the most vulnerable to the effects of growing competition.

The first financial instrument to fund regional policies was the European Social Fund established in 1958 and targeted at the labor market. In 1964, the Orientation Section of the European Agricultural Orientation and Guarantee Fund was established, which funded projects connected with the restructuring of rural areas. In 1975, the European Regional Development Fund began operating. Under the Maastricht Treaty [1992], the Cohesion Fund was established, meant for countries in which GNI (Gross National Income) per capita was lower than 90% of the EU average. The fund supported the development of particularly capital-intensive infrastructure projects. The growing role of regional policy was evidenced by the establishment, in 1967, of a special Directorate General for Regional Policy within the Commission.

A major increase in the significance of cohesion policy occurred in connection with a series of reforms known as the Delors Package [1988]. The regulatory foundations for the reformed policies were provided by the Treaty on European Union (TUE), which, in Art. 130A, says: “In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favored regions, including rural areas.”

The new solutions included more funding earmarked for regional development, integrated programming, multiannual funding, concentration of resources on precisely defined objectives, deciding the rules and directions of Community action at the Community level, and comprehensive monitoring.

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10 The rise in regional policy expenditure was caused by the accession of Greece in 1981, followed by the entry of Spain and Portugal in 1986, and the next enlargements in 2004 (Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Slovenia, Malta, and Cyprus), 2007 (Bulgaria and Romania), and 2013 (Croatia).
More changes in the regulatory foundations of cohesion policy were introduced by the Lisbon Treaty, which, in Articles 3 and 174–178, broadened the scope of previous provisions.

Cohesion policy is based on long-term programming and financing periods. This has the advantage of securing the resources for the whole period of the financial perspective, which makes capital-intensive, long-term structural projects possible.

At present, cohesion policy is "serviced" by the European Regional Development Fund and the European Social Fund as well as by the Cohesion Fund, which is not a structural fund. A regulatory framework has also been devised for a greater involvement of the European Investment Bank, which has increased its loan operations to support the funding of European projects.

Significantly, the objectives of regional policy have changed at various stages together with changing conditions and priorities.

There is ample literature on cohesion policy. Studies in the area have resulted in publications that emphasize its effectiveness [Bachtler, 2003; Bachtler, Mendez, 2007]. Its macroeconomic effects have been presented in studies by Bradley [2009], Bradley and Zaleski [2003], and Bradley, Morgenroth and Untiedt [2004]. Studies have also been conducted by the European Commission and research centers in cohesion countries. In Poland, relevant research has been done by Szlachta [1992, 2010, 2013], Komornicki and Zaucha [2015], Grosse [2010], Gorzelak [2014], Churski [2008], and others. General conclusions confirm the positive impact of structural funds on the growth of regions.

Apart from studies underlining the positive role of regional policy, there are also publications that question its usefulness and highlight its inefficacitiy. The Sapir report [Sapir et al., 2003] should be mentioned here as well as publications by S. Ederveen [Ederveen et al., 2002] and by Boldrin and Canova [2001]. These publications stress the waste of resources, lack of effective control, corruption and the growing debt level connected with the co-financing requirement for European projects.

Despite the criticism, the subsequent financial perspectives of 2000–2006 and 2007–2013 saw no radical changes in regional policy (except some revision of the rules for preparing national strategy documents and those specifying the general framework for granting funds as well as their absorption and monitoring).

The expenditure structure of the EU budget for 2007–2013 was a confirmation of the high standing of cohesion policy. The share of expenses on cohesion policy increased. The period, however, witnessed developments that led to some fairly important changes. These were primarily caused by:

- The failure of the EU’s strategic document, the Lisbon Strategy, whose flagship goal was for the European Union “to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion as well as respect for the natural environment.” The goal was supposed to have been accomplished by 2010, but, following a mid-term review
in 2005, a decision was made to revise the strategy. The implementation of the new version of the document, the so-called New Lisbon Strategy, also failed, after which a new strategic document entitled “Europe 2020 Strategy” was drafted, in which growth is assumed to be “smart, sustainable and fostering social inclusion.” The strategy laid the foundations for all EU policies designed to stimulate positive changes in the EU economy and society in the present decade. It has been stressed that European cohesion policy will be of key importance to the implementation of the strategy in 2014–2020 as it has the necessary means and instruments at its disposal;

- The 2008+ crisis, which caused immense difficulties in many member states, especially the so-called PIIGS countries (Portugal, Italy, Ireland, Greece and Spain). Greece proved to be the *enfant terrible* of the EU; it still faces the need for sweeping reforms. The Commission makes financial aid packages contingent on the implementation of austerity measures, which are vigorously opposed by Greek society.

  The crisis also exposed a number of problems in other EU member states, which – in view of their problems – began to challenge the fundamental principle of solidarity and demanded that their contributions to the community budget be reduced. The actual outcome was that the 2014–2020 budget, approved after long and difficult debates, provides for EUR 960 billion worth of commitments, but only EUR 908 billion in payments, which causes great pressure to curb expenditure.

- Different positions of politicians on the role of the state and its response to crisis. The dispute concerned the choice of one of two options: economic growth (its advocates urged governments to take measures to stimulate the economy by increased spending) versus stability and austerity (the supporters of these believe market growth is hampered by the public debt mountain and that the responsibility of the governments is its prompt reduction). The supporters of either of the options rely on the assumptions of two different economic schools, Keynesian versus neoliberal.

The debate on the policy toward growth was accompanied by a debate on the nature of the interventions taken within cohesion policy. The latter largely reflected a policy shift by key institutions such as the World Bank and the OECD. As has been said, the OECD [2009] put forward the foundations of a new paradigm of this policy, with more prominence given to categories such as information society, the knowledge-based economy, ICT, learning regions, and diffusion of growth processes. This was a clear signal of a new approach to regional development and of a priority shift from disparity reduction to endogenous regional potential.

The World Bank 2009 Report [2009] criticized the policy of concentrating financial assistance on less developed areas while stressing the importance of supporting metropolitan areas. Such areas have the best developed absorption capacity and secure the highest added value of the invested funds.
On the European forum, the need for more effective fund allocation, producing better results, was emphasized. This was considered to be of the utmost importance by a group of net payers to the budget, calling themselves “friends of better spending” (Germany, Austria, France, Finland, Sweden, the Netherlands, and Italy).

After long and difficult debates, the budget was eventually approved. On cohesion policy, the following was decided:

- the allocation for cohesion policy in 2014–2020 is the largest – EUR 351.8 billion [EC, 2014], which makes it the chief tool for investment;
- the policy shift is from the cohesion component to competitiveness enhancement;
- the stress is on four investment priorities: scientific research and innovation, digital agenda implementation, support to SMEs, and low-carbon economy. This means all EU regions are beneficiaries of the policy;
- the share of regional operational programs has been reduced (compared with the 2007–2013 period), which means policy re-centralization;
- the territorial and urban dimensions of the policy have been addressed, conditionality has been introduced;
- the concept of smart specialization\(^\text{11}\) has been introduced.

Conclusions and Recommendations for Public Policies in Poland

In view of the above, what are the conclusions for Poland, a country that – as shown by the data in Fig. 1 – went through the crisis relatively unscathed, earning the name of a “green island?”

Polish GDP growth clearly decelerated in 2007. After 2009 (when year-on-year growth was the slowest), it accelerated, only to slow down again after 2011. Despite the fluctuations, GDP did not shrink between 2004 and 2014, while GDP per capita (in PPS) rose.

There is no doubt that investment co-funded by Structural Funds and the Cohesion Fund has helped Poland. This is due to the effects generated: the demand-side effect, which, thanks to public spending, led to an economic upturn and the supply-side effect, mostly taking the form of infrastructure development and human capital enhancement.

In this fairly stable macroeconomic situation, Polish regions were able to take advantage of other benefits of the transition processes, not related to cohesion policy.

One positive impulse was the already-mentioned reform decentralizing the system of government by establishing local authorities at the municipal,

\[^{11}\text{Smart specialization encompasses taking advantage of a region’s endogenous resources and its strengths. This approach forms the basis for comparative advantages. The specializations of Poland’s voivodeships have already been selected, but recommendations are still needed to help accurately identify these specializations.}\]
and later regional, levels. The authorities thus empowered (with bodies of elected officials and with their own revenues) became important entities involved in the creation of regional policies. In this way, the previous model of interregional policy (limited to the central government’s activities vis-à-vis voivodeships) was supplemented by intraregional policy, for which the regional authorities are responsible.

Figure 1. Poland’s GDP per capita in PPS (EU=100) and Year-on-year GDP Growth (in 2004–2014)

![Graph showing Poland's GDP per capita and year-on-year GDP growth from 2004 to 2014.](image)

Source: Central Statistical Office [2015].

An important role in the process of change was also played by Polish cities (metropolitan centers). Their specific impact was largely based on initiating the process of internationalization, which may be perceived from the angle of network connections developing in the modern world. Technological progress and the rapid flow of information have caused more and more enterprises, irrespective of their size, to operate within a single business project, which is becoming the “actual operational entity” [Castells 1996]. An example of such “joint projects” is two-way trade, which creates channels of connections between enterprises making parts or components of a single final product. Networks develop (a set of nodes such as financial institutions, political organizations, and media) that subsequently become integrated if they are capable of communicating with one another. The growth of the metropolis (region) is not a mere function of its potential, but also of the relations emerging between it and other territorial entities. The greater the ability to establish such ties the deeper the relations between various centers.

Among Polish metropolitan centers, there are no global nodes (such as London or Paris) or MEGA1 centers. Warsaw has been classified as MEGA3 [KPZK, 2011], while the other largest agglomerations (Wroclaw, Poznań, 12 The special role of cities in development policy has been stressed in The World Bank Report, which suggests that the economic world is not “flat,” but there are “uplifts” capable of creating particularly high GDP per square kilometer in selected cities.
Katowice, Cracow, Łódź, the Gdańsk-Sopot-Gdynia tricity, and Szczecin) have been classified as MEGA4. The World Bank, however, claims they are centers where there is a concentration of growth potential. Connections between the centers have intensified as there has been an improvement in the rail and road networks, ICT infrastructure and institutional cooperation. But connections with eastern Poland have improved only partially.

The polycentric structure of cities supported growth. An OECD report [2010] lists Poland among countries with the highest level of polycentric pattern of settlement in Europe.

Another factor fostering regional development was the choice of growth paths based on the identification of smart specializations, with a high level of public participation in building strategies.

All these favorable circumstances, combined with the relatively good economic results (compared with many other countries), should not make the evaluation over-optimistic: the Polish “green island” is not isolated; it is not “self-contained land,” and its economic growth will depend on how the situation develops within the European Union, in the Eurozone, and globally.

It has to be remembered in this context that the present macroeconomic conditions are not favorable, which means they are going to have an adverse effect on the social and economic development of Poland and its regions in the coming years. According to World Bank forecasts (2016), the global economy will grow by 2.9 percent in 2016 (an 0.4-percentage-point downward adjustment of the June 2015 forecast). For 2017, a growth of 3.1 percent is expected. The situation in China may be the cause for further concern. There were a few sharp declines on the Shanghai Stock Exchange in early 2016 ["Puls Biznesu", 2016], which reverberated through the American and European exchanges. Despite efforts made by the Chinese government (currency devaluation), the situation is still far from stable.

In view of the shift of EU priorities, the ability to build innovation capacity will be of key importance to Poland. Poland ranks 24th among EU member states for innovation, according to the latest ranking [EU, 2015]. Although it advanced from Modest Innovators to Moderate Innovators, the distance from the leaders or even the EU average is still considerable. A good recommendation for Poland may be one from the “Poland 2025: Europe’s New Growth Engine” report by McKinsey & Company, which argues that technological progress in Polish industry depends on the ability to learn from more technologically advanced companies as knowledge generation is too costly and time-consuming.

One should also bear in mind that Poland may be caught in what is known as the middle-income trap. The risk is connected with the fact that the country’s GDP per capita (in PPS) amounted to EUR 15,780 in 2013, a level defined in the literature as a dangerous ceiling – estimated at USD 15,000–16,000 [Eichengreen, Park, Shin, 2013]. The danger is compounded by the fact that the Polish economy is marked by a low level of innovation and insufficient
ability to create competitive solutions. The demography also gives grounds for serious concern: forecasts by the Central Statistical Office suggest that Poland’s population will shrink by a few million in the next 30 years. Not even greater productivity can compensate for a loss of this magnitude.

Furthermore, the days when low wages were Poland’s key competitive advantage, both in foreign trade and in attracting foreign direct investment, are nearly over.

A summary of the experiences to date warrants the following conclusions in respect of the research questions put at the beginning of this paper:
• The remarkable growth trajectory of Poland’s regions over the past 25 years has to a large extent been the result of the resolute decentralization of the public administration model. The local level was empowered as early as 1990 – at the very start of the transition – and the regional level followed suit in 1999. After Poland’s accession to the EU, the task of managing most of the structural funds was assigned to the regional level (voivodeships), which supported capacity building in the regions within the areas of strategic programming and development management.
• The steady improvement in the position of Polish regions is in part the result of the excellent use by Poland of opportunities offered by European integration. This is particularly true of the adaptation of acquis communautaire, which replaced the kind of regulation typical of a centrally planned economy. Polish regions have also derived benefits from European cohesion policy, not only in terms of considerable financial transfers, but also in terms of modern management practices introduced in the Polish economy, connected with economic programming, monitoring, evaluation, financing and project selection. Moreover, the Common Market and the Schengen Area made it possible for Polish producers to compete with other entities from EU member states on an equal footing. EU membership also meant a much better climate for investing in Poland, a better perception of the Polish economy, which was of vital significance to the volume of foreign direct investment. Poland made an effective use of European integration, resulting in a westward shift in its economic ties. Despite geographic, social and economic differences between individual voivodeships, all Polish regions have steadily advanced in the last few decades in their position within the European Union.
• The relatively high resilience of Poland and its regions to recession developments can be attributed to sensible macroeconomic policies conducted after 2008. The Polish zloty (PLN) was allowed to weaken against the euro, which boosted export effectiveness. There were no erratic steps in economic policies, designed to stimulate business at all costs, and there was an accumulation of EU transfers available under the European cohesion policy in 2009–2010. The relatively low wage-to-productivity ratio fostered the expansion of Polish firms on international markets and stimulated the relocation of production and services to Poland. Territorially, the strength
of Poland’s metropolitan areas helped combat the crisis, thanks to their polycentric nature – more resilient to growth disruptions. The Polish regions’ strong links with the German economy (about a third of Poland’s exports) had a positive impact on mitigating the depth of the recession.

• The position of all Polish regions in the EU has improved steadily. The process accelerated after 2008, mostly due to an economic downturn in many EU member states and regions. This primarily applied to regions firmly linked with the global economy and based on the largest multifunctional metropolitan centers such as Warsaw, Cracow, Wrocław, Poznań, and the Gdańsk-Sopot-Gdynia tricity. Voivodeships with metropolitan centers with more traditional economic structures, such as Śląskie (Katowice) and Łódzkie (Łódź), experienced this to a lesser extent. Despite a special EU intervention tool in the form of the Polska Wschodnia (Eastern Poland) Operational Programme, the most disadvantaged are the five voivodeships along the external border of the EU, with their more traditional economic structures, poorer infrastructure and hardly any modern growth factors (potential).

• Until now, the growth trajectory of Poland and its regions has looked fairly good, but the possibilities of catching up with the best developed areas of the EU are eroding as competition on the basis of traditional factors of production and low labor costs has nearly been exhausted. The external conditions of the development of Polish regions changed dramatically after 2008 as the context of social and economic development was greatly modified – globally, in the EU and in Poland – under the impact of the changing external conditions in the world, but also in the European Union. EU cohesion policy, economic policy, social policy, regional policy and other policies at the national level as well as the regional policy of the voivodeships should create an integrated framework for multilevel public management. Certain regular growth patterns and the trajectories recorded in Poland and its regions indicate that there is no single and universal recipe for growth, because the context of development varies from region to region. It is therefore necessary to consistently build innovation capacity in all voivodeships. The ability to participate in networks of cooperation, including global networks, will determine the future growth trajectories. An effective use of funds available under European cohesion policy will be key to development (based on supporting measures such as the smart specialization of regions). It is necessary to resolutely shift European cohesion policy resources toward enhancing competitiveness. In the case of eastern Poland, which is and will remain peripheral in the EU, it is necessary to maintain a special instrument that will strengthen the five regional centers constituting growth poles in this part of Poland.

The research conducted [Gawlikowska-Hueckel, Szlachta, 2014] indicates that EU membership will no longer stimulate economic growth and boost employment as strongly as in the period immediately after Poland’s
EU accession in 2004. This means that new impulses have to be sought, also outside the EU. All the circumstances point to a greater external risk that the Polish central government and the regional authorities should take into account in their development scenarios. In order to mitigate the risk, the following should be undertaken:

First, monitoring, evaluation and forecasting capacity should be increased, and the same goes for the role of think tanks, including those working at the regional level. Such an approach offers a chance of prompt (not belated) response to new challenges. If alternative solutions are prepared in due time, adequate response will be quick, without having to wait for the preparation of an optimum approach. A higher degree of uncertainty means that a good deal of flexibility and readiness is needed to make the necessary adjustments in response to unanticipated opportunities and threats, which in the literature on the subject are sometimes referred to as either “black swan” or “wild card” [Taleb, 2007]. They may be extraordinary, previously not expected growth opportunities. As they arise unexpectedly it takes more than ordinary efficiency and flexibility of economic policies to turn them to our advantage. Countries, regions and cities capable of identifying such opportunities and making proper use of them become the winners of their competition with other territorial entities.

Second, it must be remembered that weak and peripheral regions will be paying a higher price for economic downturns than central or metropolitan regions. This may halt regional convergence processes and inflate disparities, both between and inside regions [MCRIT, 2012, 2013]. In Poland, the problem concerns the regions of eastern Poland in the first place. Perhaps, the result will be a new-generation cohesion policy. Poland should be clear about the issue and be prepared for debate.

Third, it is necessary to develop territorial potential. Smart specializations must be efficiently introduced, or, in other words, an individual development path for each region must be delineated, based on growth factors matching the region’s endogenous potential (strengths and competitive advantages). This will prevent the erroneous one-solution-fits-all approach and help strengthen the endogenous potential of regions (territory matters). Obviously, this does not rule out Poland adapting success stories from other regions.

Fourth, the quality of public management must improve at both the national and regional levels. Public administration must not be an obstacle to demanding tasks, but should support their implementation. In recent years, some

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13 The Black Swan Theory was put forward by N.N. Taleb. It concerns unexpected developments with significant consequences for society and the economy. The forecasting models and techniques now in use do not account for such extraordinary developments, not to mention their consequences. The point is to be protected against their negative impact and at the same time to skillfully utilize opportunities as they arise. This requires that independent think tanks be supported, pilot initiatives be easily launched, and rapid response mechanisms be introduced in the economy.
positive changes have taken place in both national and regional governance. However, further improvement is still needed because the quality of governance varies widely from one region to the next.

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WRAŻLIWOŚĆ POLSKICH REGIONÓW
NA WYZWANIA WSPÓŁCZESNEJ GOSPODARKI

Streszczenie

Artykuł koncentruje się na uwarunkowaniach wzrostu gospodarczego polskich województw. Podstawowym pytaniem badawczym jest identyfikacja czynników, które mogą sprzyjać i hamować rozwój polskich regionów (po okresie prorynkowej transformacji). Dotychczasowe trendy wskazują, że kryzys 2008+ spowolnił, ale nie załamał cyklu wzrostu, a sytuacja gospodarcza województw relatywnie się poprawia; największą dynamiką PKB charakteryzują się regiony najbardziej rozwinięte. Kluczową rolę w stymulowaniu rozwoju ma europejska polityka spójności, obejmująca unikatowy w skali globalnej pakiet narzędzi, rozwiązań i źródeł finansowania. Wpływ na obecną opcję tej polityki ma nie tylko nowe podejście wypracowane przez Bank Światowy i Unię Europejską, ale również niekorzystne megatrendy globalne. W obecnej perspektywie finansowej priorytetem polityki spójności jest wzrost konkurencyjności regionalnej. Polska jest największym beneficjentem tej polityki, mimo to pojawiają się obawy, że korzystna trajektoria rozwoju polskich regionów może napotkać na przeszkody m.in. wskutek zagrożenia tzw. pułapką średniego dochodu i niekorzystne uwarunkowania zewnętrzne. Z tego względu konieczne są dostosowania w polityce regionalnej i innych rodzajach interwencji publicznych, których celem powinny być działania na rzecz zmniejszenia wrażliwości reakcji polskich regionów na negatywne trendy globalne.

Słowa kluczowe: europejska polityka spójności, rozwój regionalny, globalizacja

Kody klasyfikacji JEL: F15, F63, R19