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Evidence for Middle-Income Trap non-occurrence in the light of KLEMS growth accounting in Poland

Much of the ongoing discussion concerning the middle income countries is focused on the economic problem coined the Middle-Income Trap. This concerns in particular the Central-Eastern Europe countries, of which Poland can stand for as an exemplifying case. It is often asserted that economic growth in the long run can be resource (mainly labour) driven, investment (capital) driven or innovation driven, and that when it is investment driven it can become exhausted, as observed at the macroeconomic level, leaving the given country economy in the above-mentioned middle-income trap and preventing it from achieving prosperity. Many contend that this is something, which is actually happening. However, this assertion has to be rejected, after observing the growth distribution between different industries, and particularly the individual industries; growth decompositions into factor contributions and multifactor productivity contribution. It has to be rejected at least for one particular case which is the Polish economy, in which we have been able to observe that industries that can be considered as growth supporting engines are mainly multifactor productivity contribution driven, not capital contribution driven, and that multifactor productivity contribution is decisive for their ranking in that matter. Capital contribution is particularly high in activities that cannot be considered as growth supporting engines (which are mostly state supported activities), therefore the possible problem solution for eventual slowing down of the economy, from the point of view of market oriented researchers, is to simply limit the share of these activities (lifting some of the state support delivered to them), whereas those who contend for the market failure case can argue that the balance between these activities and the growth supporting activities is well maintained so there should not be any great concern on the supply side. The economic growth is therefore innovation, or at least imitation driven, not investment driven at the industry level. The possibility of capital outflow will not undermine the growth supporting industries because of its little contribution for them, and this is particularly conspicuous for NACE section C, which is the largest section in the Polish economy and which is growing fastest. Investments go mostly to stagnant activities that are being modernized, to some degree from temporary necessities that may dwindle in the future and for infrastructure development that will eventually deliver growth in the very long run, such as NACE section B, D, E, H, R, and they all are presently state supported. To some degree the spatial distribution of growth in Poland confirms these findings. Voivodships with higher economic growth are those with higher multifactor productivity contributions. Even the hierarchy between them, as far as the speed of growth is considered, is closely determined by the growing share of multifactor productivity contribution. Extending this research to other

Central-Eastern Europe countries, particularly those with quickly growing economies, may possibly confirm that just as for Poland the so-called middle-income trap is not actually occurring and there is little chance that it will, but also it can be used to try to explain the robustness of Polish economy growth in the covered period. Many of these findings can be interesting for Central-Eastern economies researchers and the possible ongoing discussion.