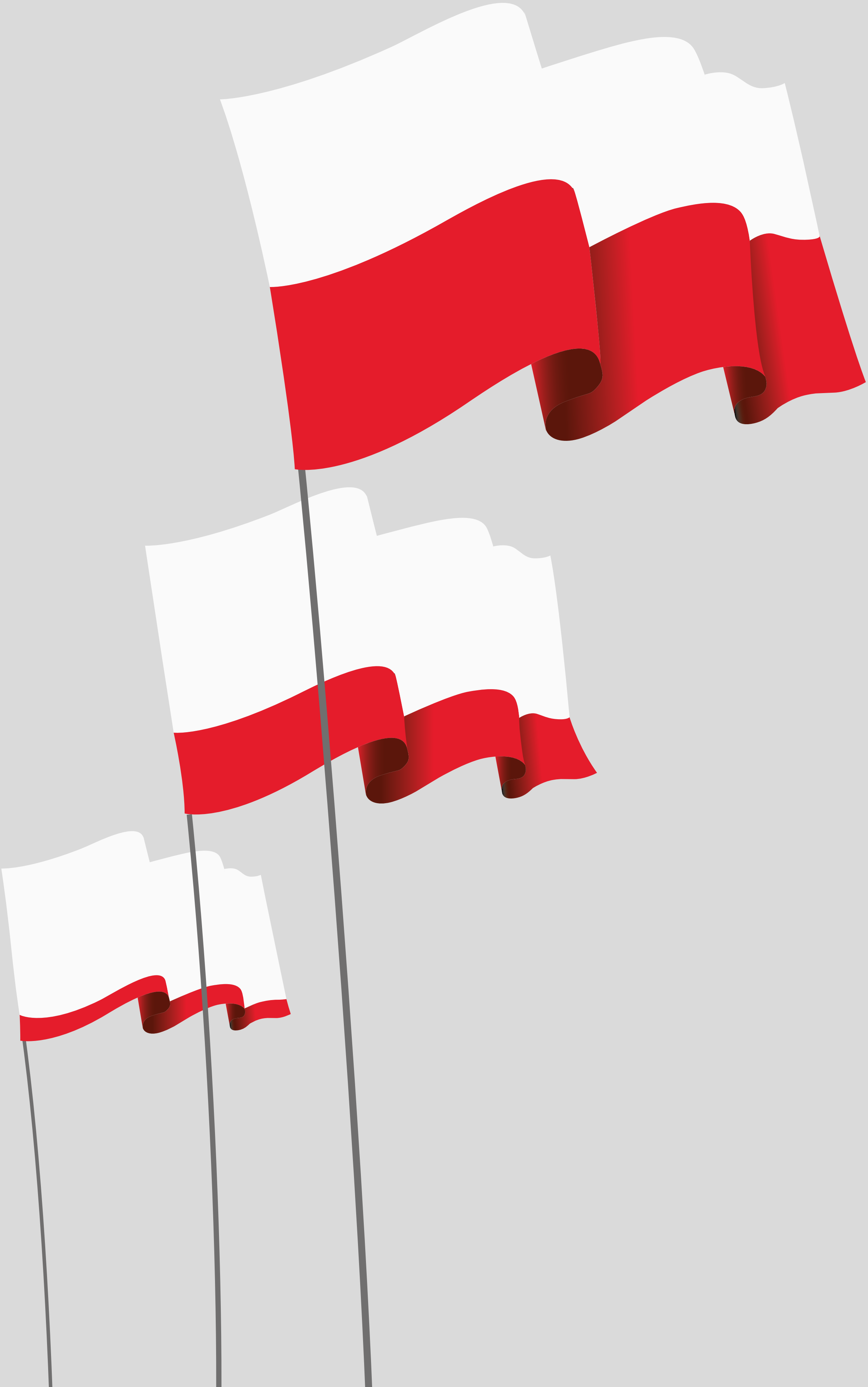


How has inequality in Poland evolved between communism and capitalism to reach one of the highest levels in Europe today? **Pawel Bukowski** and **Filip Novokmet** chart a century of data on Polish inequality, 1892-2015, to examine the key causes. Their work illustrates the central role of policies and institutions in shaping long-run inequality.

Between communism and capitalism: long-run inequality in Poland

Soaring inequality has rekindled debates about the forces shaping the distribution of income, which date from as far back as classical economists to the highly influential contemporary work of Thomas Piketty.

Our understanding of inequality depends on the available empirical evidence, and as we have obtained new evidence, charting inequality further back in time, the old paradigms have been challenged and new ones developed. Yet the evolution of inequality and its determinants are still not well understood.

Poland, one of the largest countries in the European Union (EU), has been surprisingly missing in this debate. The episodes of state formation, wars, socialism, transition to capitalism and integration into the EU make it a particularly compelling case for studying the determinants of income inequality.

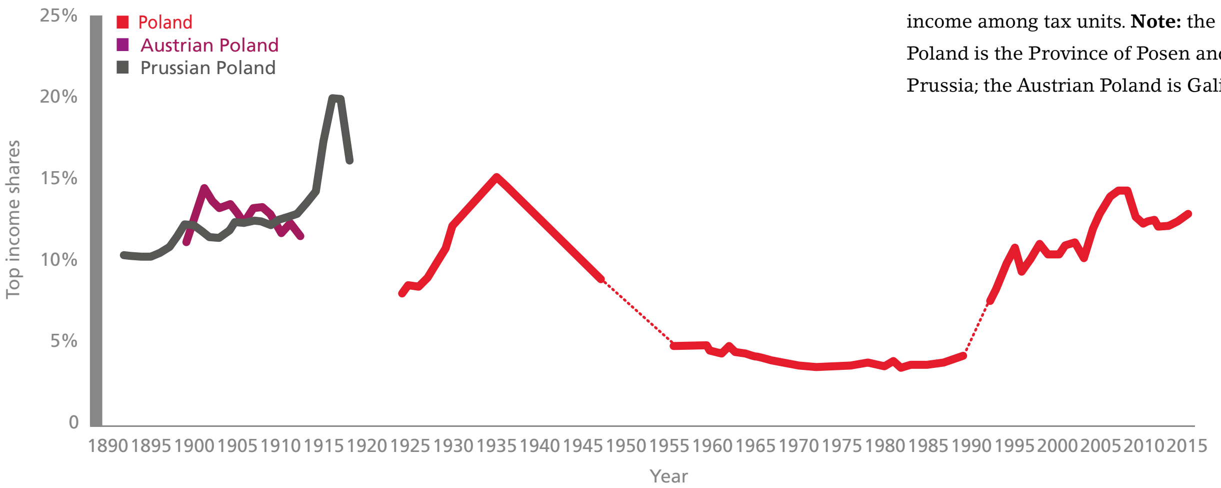
Poland has also been the fastest growing economy in Europe since 1989, with an average growth rate exceeding those of the famous 'Asian tigers'. Real average national income per capita has more than doubled since 1990, but which income groups and income sources have benefited most from it? What have been the roles of transition policies and emerging institutions in shaping inequality?

Similarly, the wave of globalisation in recent decades has been crucial for the transformation of the Polish economy. But we know little about the distributional effects of these processes.

Our study is a first comprehensive attempt to look at the long-run evolution of inequality in Poland. We combine tax, survey and national accounts data to provide consistent series on the long-term distribution of national income in Poland.

Within one generation, Poland has moved from being one of the most egalitarian countries in Europe to one of the most unequal

Figure 1:
Income share of the top 1% in Poland 1892-2015



Source: Authors' computation based on income tax statistics. Distribution of fiscal income among tax units. **Note:** the Prussian Poland is the Province of Posen and West Prussia; the Austrian Poland is Galicia.

Figure 1 shows that top income shares in Poland have followed a U-shaped evolution from 1892 until today. Inequality was high in the first half of the twentieth century due to the high concentration of capital income at the top of the distribution. As documented now in many countries, the downward trend after the Second World War was induced by the fall in capital income concentration.

The introduction of communism signified a comparatively greater shock to capital incomes relative to other countries, by literally eliminating private capital income with nationalisations and expropriations. In addition, it implied strong reduction of top labour incomes. During the remaining four decades of communist rule, top income shares displayed notable stability at these lower levels.

We analyse the transition from communism to the market economy by constructing the full income distribution (1983-2015) from combined tax and survey data. Figure 2 shows that inequality experienced a substantial and steady rise after the fall of communism, which was driven by a sharp increase in the income shares of the top groups.

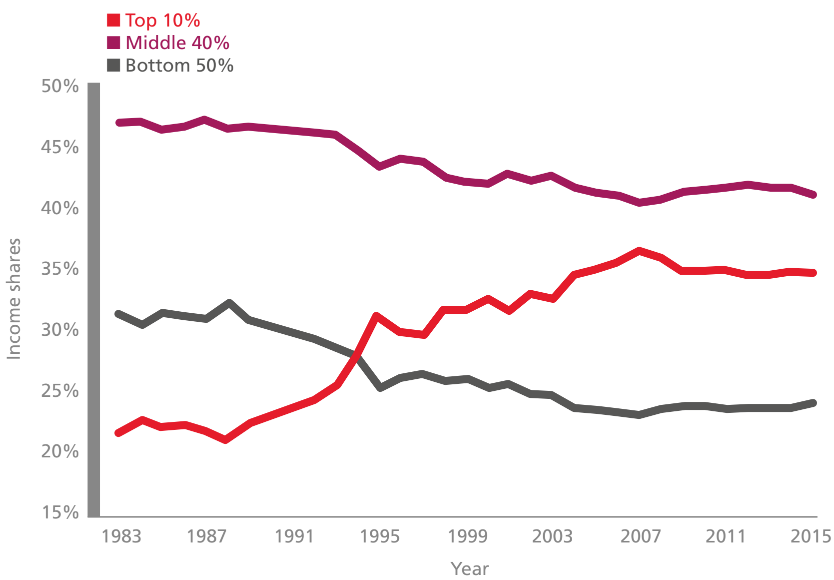
Within one generation, Poland has moved from being one of the most egalitarian to one of the most unequal countries in Europe. The highest increase took place at the outset of the transition in the early 1990s, but we also find substantial growth since the early 2000s, after Poland joined the EU.

Today, Polish top income shares are at the level of more unequal European countries, most notably Germany and the UK, but still substantially below those documented in Russia. Table 1 shows that over the whole period 1989-2015, the top 1% has captured almost twice as large a portion of total income growth as the bottom 50% (24% versus 13%). This contrasts with France, where the top 1% captured the same share of growth as the poorest half.

The rise of inequality after the return to capitalism in the early 1990s was induced both by the rise of top labour and capital incomes. We attribute this to labour market liberalisation and privatisation.

Labour market liberalisation and privatisation during the transition from communism instantly increased inequality

Figure 2:
Income shares in Poland, 1983-2015



Source: Authors' computation. Distribution of pre-tax national income (before taxes and transfers, except pensions and unemployment insurance) among equal-split adults.

But the strong rise in inequality in the 2000s was driven solely by the increase in top capital incomes, which are dominant sources of income for the top percentile group. We relate the rise in top capital incomes to current globalisation forces and capital-biased technological change, which have potentially rebalanced the division of national income in favour of capital.

Overall, the unique history of Polish inequality illustrates the central role of policies and institutions in shaping inequality in the long run. The communist system eliminated private capital income and compressed earnings, which led to the sharp fall and decades-long stagnation of the top income shares.

By the same token, the labour market liberalisation and privatisation during the transition instantly increased inequality and brought it to the level of countries with long histories of capitalism. On the other hand, a marked increase in social transfers and an expansion of the safety net during the early transition years played a key role in 'protecting' the bottom 50% of the distribution. It provided the general political support for the market reforms and enterprise restructuring in Poland.

This contrasts with the Russian transition, as shown in Table 1, where the share of the bottom 50% collapsed. Social transfer payments in Russia were small and declining, and pensions were not indexed to inflation, which led to a plunge in the living standards of the bottom 50% when a hyperinflation struck in the early 1990s. This suggests that mitigating a more substantial rise in inequality may be conducive to economic growth.

A further rise of Polish inequality is not inevitable: the future will depend on institutions and policies

Finally, the recent developments suggest that the future of inequality in Poland is likely to be linked with the prominent role of capital income among top incomes. Moreover, one should not expect a weakening of this trend, as processes connected with globalisation and technological change seem to contribute to the growing dominance of capital in the economy.

Rising inequality might have adverse social and political implications, as is evident in the recent populist anti-globalisation backlash in Poland and internationally. The issue of distribution of gains from economic growth has become crucial for sustaining long-run development.

This article summarises 'Between Communism and Capitalism: Long-Term Inequality in Poland, 1892-2015' by Pawel Bukowski and Filip Novokmet, CEP Discussion Paper No. 1628 (http://cep.lse.ac.uk/pubs/download/dp1628.pdf).

Pawel Bukowski is a research officer in CEP's labour markets programme. **Filip Novokmet** is a postdoctoral researcher at University of Bonn and World Inequality Lab.

Further reading

Bertrand Garbinti, Jonathan Goupille-Lebret and Thomas Piketty (2017) 'Income Inequality in France: Evidence from Distributional National Accounts (DNA)', WID.world Working Paper Series No. 2017/4.

Filip Novokmet, Thomas Piketty, Li Yang and Gabriel Zucman (2018) 'From Communism to Capitalism: Private versus Public Property and Inequality in China and Russia', *American Economic Review: Papers and Proceedings* 108: 109-13.

Table 1:
Income growth and inequality in Poland, France and Russia

Income group (distribution of per adult pre-tax national income)	Poland		France		Russia	
	Total cumulated real growth 1989-2015	Share in total macro growth 1989-2015	Total cumulated real growth 1983-2014	Share in total macro growth 1983-2014	Total cumulated real growth 1989-2016	Share in total macro growth 1989-2016
Full population	**73%**	**100%**	**35%**	**100%**	**41%**	**100%**
Bottom 50%	**31%**	**13%**	**31%**	**21%**	**-20%**	**-15%**
Middle 40%	**47%**	**30%**	**27%**	**37%**	**15%**	**16%**
Top 10%	**190%**	**57%**	**49%**	**42%**	**171%**	**99%**
Top 1%	458%	24%	33%	21%	429%	56%
Top 0.1%	1019%	9%	98%	21%	1054%	34%
Top 0.01%	2273%	3%	133%	8%	2134%	17%
Top 0.001%	5066%	1%	144%	3%	4122%	8%

Source: Poland: Bukowski and Novokmet (2019); France: Garbinti et al, 2017 (Table 2b); Russia: Novokmet et al, 2018 (Table 2).