International Inequalities Institute

Between Communism and Capitalism: Long-Run Inequality in Poland, 1892-2015

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Soaring inequality has rekindled debates about forces shaping distribution of income, which date from as far back as classical economists to the highly influential contemporary work of Thomas Piketty. Our understanding of inequalities 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 inequalities and its determinants are still not well understood.

Poland, one of the largest countries in the EU, has been surprisingly missing in this debate. The episodes of state formation, wars, socialism, transition into capitalism, and integration into the EU makes it a particularly compelling case for studying determinants of income inequalities. Poland has also been the fastest growing economy in Europe since 1989, with the average growth rate exceeding those of the famous "Asian Tigers". The real average national income per capita has more than doubled since 1990, but which income groups and income sources have benefited from it? What is the role of transition policies and emerging institutions in shaping inequality? Similarly, the new wave of globalization has been crucial for the transformation of the Polish economy. But we know little about 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. We show that top income shares in Poland followed a U-shaped evolution from 1892 until today. Inequality was high in the first half of the 20th century due to high concentration of capital income at the top of the distribution. As documented now in many countries, the post-WWII downward trend was induced by the fall in capital income concentration. The introduction of communism signified comparatively greater shock to capital incomes relative to other countries, by literally eliminating private capital income with nationalisations and expropriations, while in addition it implied strong reduction of top labour incomes. During the remaining four decades of the 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. The results show that inequality experienced a substantial and steady rise after the fall of communism, which was driven by a sharp increase in 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 immediately at the outset of the transition in the early 1990s, but we also find a 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 United Kingdom, but still substantially below those documented in Russia. Over the whole 1989-2015 period, top 1% has captured almost twice as large a portion of the total income growth than the bottom 50% (24% versus 13%). This contrasts with France, where 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. However, 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 globalization forces and capital-biased technological change, which have potentially rebalanced the division of national income in favour of capital.

Overall, the unique Polish inequality history shows 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 inequalities and brought them to the level of countries with long histories of capitalism. On the other hand, a marked increase in social transfers during first transition years played the key role in ‘protecting’ the bottom 50% of the distribution and provided the general political support for the market reforms and enterprise restructuring in Poland. This stands in contrast to the Russian transition, where the bottom 50% share collapsed, and suggests that mitigating a more substantial rise in inequality may be actually conducive for economic growth.

Finally, the recent developments suggest that the future of inequalities 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 inequalities might have adverse social and political implications, as evident in the recent populist anti-globalization backlash in Poland and internationally. The issue of distribution of gains from economic growth has become thus crucial for sustaining the long-run development.

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