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Economics and politics of post-communist transition to market and democracy. The lessons from Polish experience

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ABSTRACT
After the market-oriented reforms executed in Poland under the socialist system in the 1980s and the critical years of the early 1990s, a multilayered programme of dynamic socio-economic development, embedded in the building of social market economy institutions and structural reforms responding to the challenges of globalisation, arose in 1993–94. 'Strategy for Poland' was a medium-term programme, although also delineating many tasks for the long-run. The contemporary diagnosis of the conditions of sustainable development and the outlining of its long-term goals was basically correct and much of what a quarter of a century ago was addressed to structural reforms and institutional changes is still valid today. This applies in particular to matters as large as the imperative of creating a social market economy or the competitiveness of enterprises in conditions of wide openness to contacts with the world, through matters as significant as beneficial integration with the European Union or reform of the social security system, to matters as specific as efficient financial supervision or the expansion of an economy based on knowledge. Critical for further sustainable and balanced development is relying economic policies on proper economic theory and to this end, new pragmatism can bring some new thoughts.

KEYWORDS
Transformation; Institutions; Economic policy; Postcommunist; Poland

Introductory remarks

The idea of an appropriate post-communist strategy for Poland was born for many years, including the critical years 1989–1992, (Kolodko, 1989) although the 'Strategy for Poland' itself – a several years' multi-threaded programme of dynamic socio-economic development, embedded in the construction of social market economy institutions and structural reforms responding to the challenges of globalisation – was formed quickly, at the turn of the years 1993–1994. From the political nature of things, it was a medium-term programme, detailing the activities necessary in 1994–97, although also delineating many tasks for later years. From the economic point of view, it was an attempt to take on long-term challenges. Integral parts of the 'Strategy for Poland' were also 'Package 2000' referring to the desired fiscal reforms, some of which were later implemented, and 'Euro 2006', a programme indicating the directions of activities that could prepare Poland to

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join the zone of the common European currency after 2006 (Kolodko, 1996). This has not been done until now.

The then diagnosis of the conditions of sustainable development and outlining of its long-term goals was basically correct, and much of that what a quarter of a century ago was addressed to structural reforms and institutional changes, on the one hand, and internal and external development determinants, on the other hand, is still valid nowadays. This applies in particular to matters as large as the imperative of creating a social market economy or the competitiveness of enterprises in conditions of wide openness to contacts with the world, through matters as significant as beneficial integration with the European Union or reform of the social security system, to matters as specific as efficient financial supervision or the expansion of an economy based on knowledge.

It is impossible to assess unequivocally the accuracy of this concept of reforms and development, in spite of the fact that the distance of time is certainly conducive to objectivisation of opinion. Despite this, they differ in relation to many threads of the programme itself, as well as to the phenomena and processes that occurred earlier and later. And this is important because these earlier events (and omissions) had their implications for the shape of 'Strategy for Poland', and the later ones were its consequences to a different extent. While the entire period after 1989 until 2015 by some people (this is politics) is determined as a wasted time, the others think that the past three decades are the economic 'golden age' of Poland (Piatkowski, 2018). Well, for a completely objective assessment – if they are at all – we will have to wait much longer until history makes it. And this begins only when the last witness leaves. However, we are still doing well and let it be as long as possible …

Sources of 'Strategy for Poland'

In historical processes – and such is unquestionably the systemic transformation consisting in the transition from an authoritarian one-party system and a more or less pro-market -reformed socialist economy based on the domination of a state property to political pluralism and a liberalised and open capitalist economy based on private property domination – always overlap continuity and change. Proportions, force, vectors depend on the historical context in which geopolitics and geo-economy, as well as culture, play a great role. In the case of post-socialist transformation, the dialectic of continuity and change is also very special because ongoing transformations are extremely concentrated over time.

It seems to us that some changes last for long years, or even last forever, but history will evaluate it differently. The changes that have taken place in the life of just one generation are indeed fundamental and enormous. And, most importantly, basically and per account balance are positive changes. Looking at the recent decades, it seems that we tend to overestimate the aspects of change and underestimate the continuity threads, and it is their mutual arrangement that largely determines contemporary problems and the challenges for the future. It is difficult to shape it well if you do not understand what happened and why. In this short but turbulent passage of history, 'Strategy for Poland' is just a short, four-year episode. Not at all; its meaning is much bigger.

It grew from several sources. Certainly from the knowledge of the economic theory of that period, especially comparative economics, and from deep analysis of achievements and failings of structural reforms in other countries – from successes in Japan and South Korea (World Bank, 1993) through mixed results in Chile to evident failures in Argentina (Dornbusch & Edwards, 1989). First of all, it came from the critical observation of pro-market reforms undertaken in earlier periods, even in the years of the socialist economy (Ellman, Gaidar, & Kolodko, 1993), and especially from the desire to move away from the shortcomings of initial years of political transformation, 1989–1993, above all the errors of so-called shock therapy in 1990–1991 (Rosati, 1994). Although 'shock therapy' had solved certain major problems, including elimination of the shortage economy and full price liberalisation, it had created some new challenges, including mass unemployment and rise of income inequality.

The 'Strategy for Poland' – like any other governmental reform and development programme, either before or after – was characterised by complexity, covering almost all the essential aspects of the functioning of the economy (Kolodko & Nuti, 1997). It was based on four foundations, such as:

- fast growth,
- fair distribution,
- beneficial integration,
- effective state.

From a short term, it was all about giving the economy high dynamics. It was fully achieved, because not only in the years of political transformation, but within the past 45 years – from the mid-1970s – there was no period with such a high average rate of growth[1]. In the years 1994–1997, real (after eliminating the effects of inflation) GDP per capita increased by as much as 28%, which implies an annual average of 6.3%[2]. On the other hand, from the long-term strategic point of view – after a four-year period 1989–1993, in which Polish neoliberalism was mixed with 'Solidarity' populism, the game was about creating the foundations for the social market economy. Foundations only, because a full-fledged social market economy is created not for one parliamentary term, but for a longer time than one generation. So, this task is still ahead of us, because we did not want to create any market economy, but a good market economy. Interestingly, in other cases, it was even said that the work of building a market economy was already ready when it was much further away than in Poland, as in the mid-1990s in Russia (Åslund, 1995). What kind of a 'market economy' it's been, we can see even today.

The evolution of the system towards a social market economy was announced by the Round Table agreements thirty years ago[3]. However, to this day, there is no clarity even in the theory what that implies, and of course, there is never-ending debate on the matter in the political sphere[4]. No doubt, in the case of Poland and other post-socialist countries, the fulfilment of this theoretical and political category with a real content must differ, especially in the early stage of systemic transformation, from the character of the social market economy where it flourished the most – in the Nordic social-democrats (Castels 1978; Iversen, 1998), or in German ordoliberalism.

The article 20 of the Constitution of Poland adopted in 1997, says: *Social market economy based on the freedom of economic activity, private property and solidarity, dialogue and cooperation of social partners forms the basis of the economic system of the Republic of Poland* (Konstytucja, 1997). Five months after the Round Table, the social market economy, as the goal of political change, was declared by the Prime Minister Tadeusz Mazowiecki in his historic speech in September 1989. However, due to the economic policy pursued by him and his government's successors, the reality went in a quite different direction. It is interesting that at that time, from the fourth quarter of 1989 to the end of 1991, the economic policy was based not as much on the Mazowiecki declaration as on the concept resulting from the neo-liberal Washington Consensus (Frydman, Kolodko, & Wellisz, 1991; Williamson, 1992, 2005), further, radicalised by Leszek Balcerowicz and his national and foreign advisors (Sachs, 1993). So far, it did not happen that any law was effectively appealed to the Constitutional Tribunal as an unconstitutional one because of a contradiction with the principles of social market economy, yet would not be difficult to present several cases deserving it.

In this context, it is worth recalling the remarks made by John Williamson, who coined the term 'the Washington Consensus' (Williamson, 1990). He wrote:

> I was particularly pleased that you made an attempt to define an alternative approach to the so-called big-bang, in the form of more careful programming of individual elements of politics, not a general slowdown ("the gradualism.") Regarding particular threads, including protectionism and privatization, I agree with you after the fact, and indeed I could also agree then (...) But I must confess honestly that if I were in Balcerowicz's shoes, perhaps I could not construct a package that would determine the direction of reforms. Retrospectively I think that Poland was needed it at that time and laid the foundations for the success of Your successful period of work in the government. Perhaps you had to shoot a bit to allow your political partners to facilitate emotional reconciliation with the fact that the world is changing. And maybe even allow them to correct their expectations and, as a result, get them for a new model? It reminds me of my country's situation: I feel much better with Tony Blair than with Mrs. Thatcher as the Prime Minister, but I am not sure that today we could have him if she had not been there before.[5]

It is true; there would be no 'Strategy for Poland' if there had not been the achievements and errors of preceding periods, especially the so-called shock therapy. Achievements, because unquestionably getting the economy out of the earlier systemic shortageflation (Kolodko & MacMahon, 1987), as well as putting it irrevocably on the market paths were significant achievements. Errors as a large part of the incurred social, financial, and material costs were avoidable. So-called, because the clever term 'shock therapy' integrally combined these two words, suggesting that when there is a shock, it is also a therapy that is usually associated with something effective – with a change for the better.

Not at all; it does not have to be that way and it turned out that it was not. According to the government's announcements, the recession was supposed to be short-lived, as after a GDP decline by only 3.1% in 1990 it was to increase again. In fact, production was falling for the next 12 quarters, from mid-1989[6] to mid-1992. In the wake of this slump, and of otherwise desirable changes in the real sphere of the economy (elimination of inefficient state enterprises), unemployment would have risen up to 400,000 people, which later supposedly should not grow any more. Unfortunately, it was many times greater, exceeding the catastrophic 3 million and it began to fall only during the implementation of the 'Strategy for Poland'. According to the 'shock therapy', inflation was to be 1% (in monthly terms[7]) after only 3 months, and this happened only after 7 years.

The state of imbalance in the economy, in particular in the consumer goods market, was enormous in 1989, (Kolodko, 1991) which both greatly complicated the implementation of indispensable reforms and finally – in the face of internal and international political breakthrough – enabled to go forward with the implementation of proper structural and institutional changes. What previously was impossible either due to the reluctance of the government or because of the national and foreign politically motivated blockades, now it turned out to be possible. Of course, the scale of uncertainty was unprecedented, but it was not that what determined the huge discrepancy between intentions and real effects. These were not errors of the forecast, they were the mistakes of the concept, which was based on a flawed economic theory, the then dominant West doctrine of neoliberal economics, which strongly overestimated the self-regulatory market mechanisms and underestimated the regulatory role of the state and the importance of institutions in the course of economic processes. These were also errors of realisation, which were taken once from dogmatism and doctrinaire approach to matters, and at other times from the overzealousness of politicians. Let us add that sometimes also from the most ordinary naivety, of which negative consequences are intensified in turbulent periods, and after all these were the years.

Why did this happen? Well, the 'shock therapy' in its essential part was not only poorly conceived, underestimating the institutional and social aspects of transformation (North, 2002; Poznański, 1997), but it was also badly performed. A great mistake was the rapid liberalisation of foreign trade, which resulted in a flood of the internal market with imported goods, which the economy was not prepared for. Obviously, stabilisation policy was overshot, especially in 1990–1991, when interest rates were exorbitant, which, what was even worse, also referred to credits *ex ante* taken by companies. The devaluation of the zloty was excessive and the exchange rate was maintained unnecessarily first against USD, and only later against a basket of five currencies.

The burden on enterprises with a special tax imposed on the increase in nominal wages was exorbitant. The so-called *popiwek* – which rightly functioned as an instrument of anti-inflation policy already in the earlier period – was abused due to a non-pragmatic, but ideological motivation, as it was directed only to state-owned enterprises, additionally and deliberately increasing their difficulties. No wonder that in those times unusual things happened in Poland, because as a result of such a policy, there were strikes in state-owned enterprises, whose crews demanded privatisation, because *popiwek* was not in force in private companies. On the other hand, in order to perceive more distant in time consequences of such accelerated privatisation, union activists of 'Solidarity' were not enough imaginative, and neoliberal economists and politicians did not care about the negative social consequences (Ost, 2005).

This is notable, but quite a few eminent economists who, first on the wave of the Washington Consensus, were rather uncritical in favour of rapid privatisation, then they changed their minds. For example, the winner of the Nobel Prize in economic sciences, Edward C. Prescott, rightly giving the crucial importance to the improvement of competitiveness and production dynamics, facing the effects of transformations at the pace proposed by the 'Strategy for Poland', argues that the realities proved the correctness of the chosen path. He writes:

> Your 2009 article "A Two-Thirds of Success. Poland's Post-Communist Transformation 1989–2009 is a **classic**. You describe so well this remarkable transformation. Poland is now an advanced industrial county and soon will catch up, and maybe surpass its western neighbors (…) You are right that privatization is not the panacea and that it must be done in a way that enhances economic efficiency, as was done in Poland. (Prescott, 2019; bold his)

Therefore, the starting point of the 'Strategy for Poland' was very complex. On the one hand, we were richer not only with the legacy of pro-market reforms of the 1980s, but first of all with the achievements and rich experiences of the years 1990–1993. On the other hand, we were poorer, literally, because the level of production inherited after that period was noticeably smaller than in 1989. It is the fact that the then GDP drop by nearly 20% was lesser than in any other country of post-socialist transformation (Kolodko, 2000, 2002), but not because the 'shock therapy' worked as planned, but because Poland was the best prepared for market transformation of all socialist countries. There was already nearly 20% share of a private sector in GDP; about half of the market supplies, counting the current value, carried out at free prices in mid-1989; a two-tier banking system, with a separated central bank, the NBP, and a network of commercialised (though still state-owned) regional banks, was in place; there was legal currency market; there were institutions designed to counteract monopolies, enabling the bankruptcy of ineffective enterprises, and regulating the inflow of foreign direct investment. It was all in its infancy from today's point of view, but three decades ago it was a significant gate to the market economy that no other country, except Hungary, had in the region.

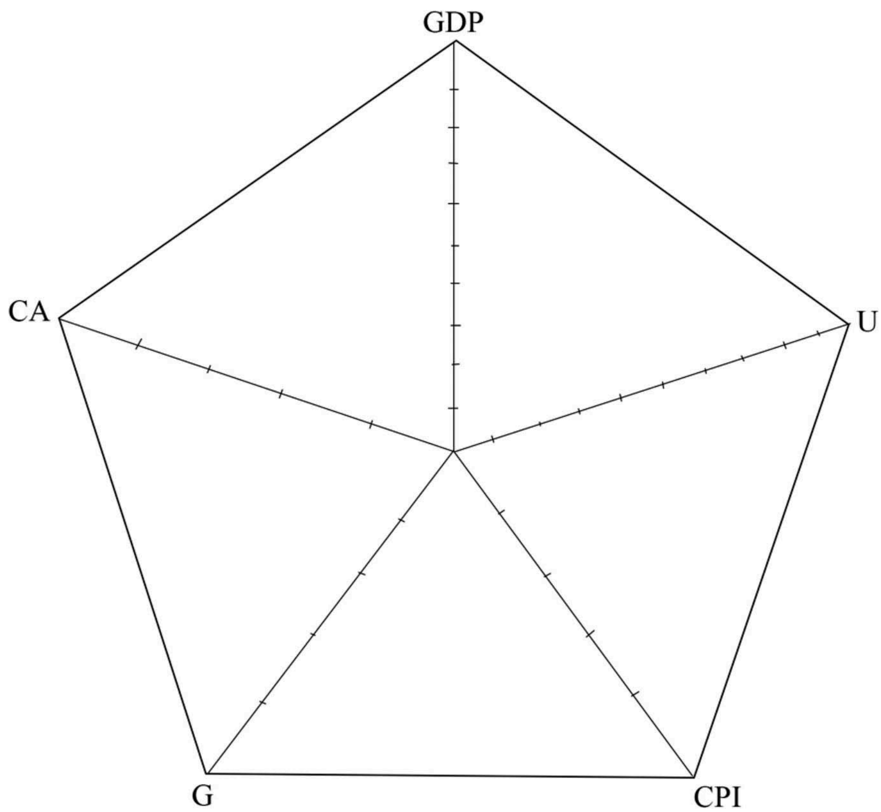
The specific feature of a distorted socialist economy in the form of financial resources of the population and enterprises also contributed to the smaller scale of the transformation recession in Poland than in other countries. Foreign currency savings of households as well as open or partially hidden resources of the foreign trade firms, which were previously inactive, were launched and introduced for the benefit of a quick turnover. This factor hardly ever occurred in such countries as Bulgaria and Romania or Belarus and Ukraine.

There would have been no 'Strategy for Poland' not only in a situation, where the short and long history that had preceded it, but it would not have taken the shape in which it had been born, if there had not been lively academic and political debates happening over more than the past quarter of a century ago. However, neither we had the theory of post-socialist transformation when it was the most needed, nor we have it in a mature and consistent form today. This homework is still waiting to be made up. Yet, many important works have been created, numerous analyses and studies, which cannot be underestimated, because they contributed much to the emerging theoretical and practical concepts.

They would not be the 'Strategy for Poland' if not a group of technocrats, which came from university to politics. Their contribution to the implementation of the outlined tasks was great and did not interfere with the struggle for power, its keeping or gaining, which is, on the one hand, the essence of politics, on the other hand, its disgrace. For the team implementing this programme, the sense of politics was not about power, but about solving socio-economic problems. To make this possible, it was necessary to break down the existing, stiff bureaucratic and sectoral system and, as it soon turned out, also the political one. Not all special interest groups and their media supporters liked it, but the reform of the government economic structure was implemented, facilitating economic control in a decentralised functional system, and not management in a centralised bureaucratic system. There have been appointed special inter-departmental, reinforced by professionals from outside the government administration as well as by independent advisors, problem teams responsible for coordinating tasks formulated in so-called key programmes. This weakened the political position of many ministers. Some observers were talking about the 'palace coup' which occurred in the palace of the Council of Ministers. But it was not a coup, it was a sound structural and institutional change for better.

The pentagon's quadrature

Against the background of a critical analysis of too radical policy of liberalisation and stabilisation of the early 1990s, the analytical and programmatic concept of the so-called pentagon of macroeconomic stabilisation was developed (see Graph 1) (Kolodko, 1994). The solution to the problems we were facing, however, was more complicated than the 'pentagon's quadrature'. What is even more interesting, we have succeeded to a large extent.



Graph 1. Pentagon of macroeconomic stabilisation.
Source: Author's own.

The pentagon itself has been taken from the simplifying attempt of quantifying the extremely complex from a practical point of view issue of dynamic macroeconomic equilibrium. It failed to achieve it during insufficiently radical reforms of earlier periods, nor was it possible due to the overly radical policy of the 'shock therapy'. And this is also because it was characterised by the lack of a comprehensive approach. Implemented in the early 1990s, the stabilisation policy clearly focused on reducing the scale of inflation and balancing the budget, as if forgetting that each action triggers a reaction. This reaction was caused by changes in the sphere of real economy, especially in relation to the scale of production and the level of employment. As a result – although neither inflation was downgraded as planned, nor was the budget balanced – the recession was far deeper than expected and unemployment was much higher. The results were also worse in terms of the external financial imbalance, which was reflected in the current account deficit.

In the literature, there is a known so-called misery index, which is a simple sum of inflation and unemployment rates. It was created following the so-called Phillips' Curve describing the coupling of inflation and unemployment (Phillips, 1958), in order to show a sad reality less unilaterally than it is done by either the index of inflation or index of unemployment. Simplifying, the problem is that the higher inflation, the lower the unemployment (at least in the short term) and vice versa. The 'shock therapy' seemed disregarding the rise of huge unemployment, treating it as a side effect of the right, of course, financial stabilisation policy.

The pentagon of macroeconomic stabilisation refers not only to inflation and unemployment relation, showing at the same time that, despite the short-term Phillips Curve, on the economic growth path may simultaneously fall both the unemployment rate and the inflation rate. Important and requiring simultaneous treatment in time are the relationships of these two dimensions with three other macroeconomic categories: income growth rate, public finance imbalance and external imbalance[8]. This is where the vertexes of the pentagon come from – the GDP growth rate (GDP), the unemployment rate (U), the inflation rate (CPI), the state budget balance to GDP ratio (G) and the current account balance to GDP ratio (CA) – whose distance from its centre informs us about the state of the economy. Calibrating of such a figure requires the adoption of certain assumptions and simplifications, but it is possible and gives us an approximate picture of a much richer situation than observation of these five measures in isolation from themselves or in the face of overestimating some (those better forming) and underestimating others (those rating worse).

Being aware of the conventionality of such a composite measure, keeping in time the parameters of its construction makes possible to compare and assess the macroeconomic situation. Thus, from this point of view, the measure of economic progress is neither the (im)balance itself, nor the dynamics itself, but the dynamic socio-economic balance. And on what and how is measured depends where it is heading. In other words, that what is done in economic policies depends on what one wants to achieve thanks to it. In this respect, the 'Strategy for Poland' was a significant step forward, reformulating not only the general aim of transformation to social market economy in the long run, but also comprehensively treating the issue of dynamic macroeconomic equilibrium in medium and short periods.

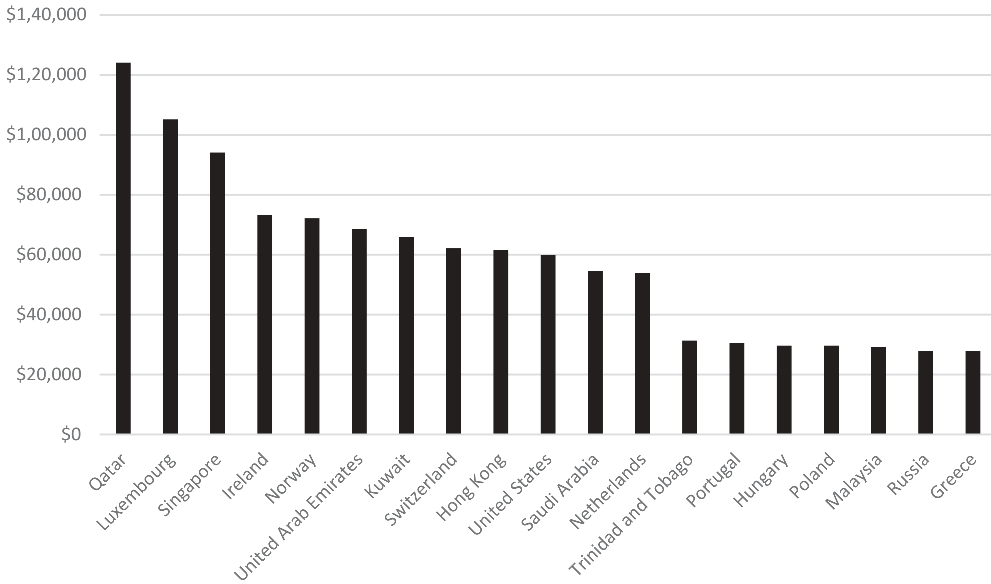
One can be justified by the fact that although the approach expressed in applying the pentagon was groundbreaking, nonetheless from the perspective of *ex post*, from nowadays' perspective, it would be much better to use other measures of development. Unfortunately, a quarter of a century ago the pressure of things to be solved, the accumulation of problems that had to be faced, was so huge that there was not enough time or energy for it either. What is more, slowly gaining alternative measures of development were then unknown at all, or in the early phases of conceptualisation. This applies to, for example, the Inequality Adjusted Human Development Index (IHDI), which widespread use is being currently calling for. Its use greatly expands the field of critical observation of the course of the socio-economic development process, while enabling the comparison of the situation in time and space. Since we are already in a post-GDP situation (Kolodko, 2014a), we also need post-GDP economics and, based on it, post-GDP economic policy instruments to assess progress, so that we can measure the scale of changes.

In the literature dedicated to the subject, there are proposed various measures of socio-economic development, but none of them have become dominant so far. There are holistic indicators, such as for years successfully used in small and still poor Bhutan[9], the *Gross National Happiness* index, GNH (http://www.gnhcentrebhutan.org/what-is-gnh/), *Legatum Prosperity Index* (https://www.prosperity.com/rankings), according to which Poland is in the 33rd place, after Uruguay, Costa Rica and Slovakia, and before Italy, South Korea and Lithuania, or the *Well-Being Index* estimated by the OECD (http://www.oecdbetterlifeindex.org/#/11111111111). This time Poland is located between Israel, Italy and Slovakia, where the situation is slightly better, and Portugal, South Korea and Latvia, where is slightly worse. Inspiring not only for the assessments, but also for adjustments to the socio-economic policy, the composite index was also developed in Poland by Kozminski University – *Balanced Development Index*, BDI (Koźmiński, Noga, Piotrowska, & Zagorski, 2015). Unfortunately, we are still dominated by assessments of the economic condition through the prism of GDP, which often distracts attention from other important issues and distorts development policy.

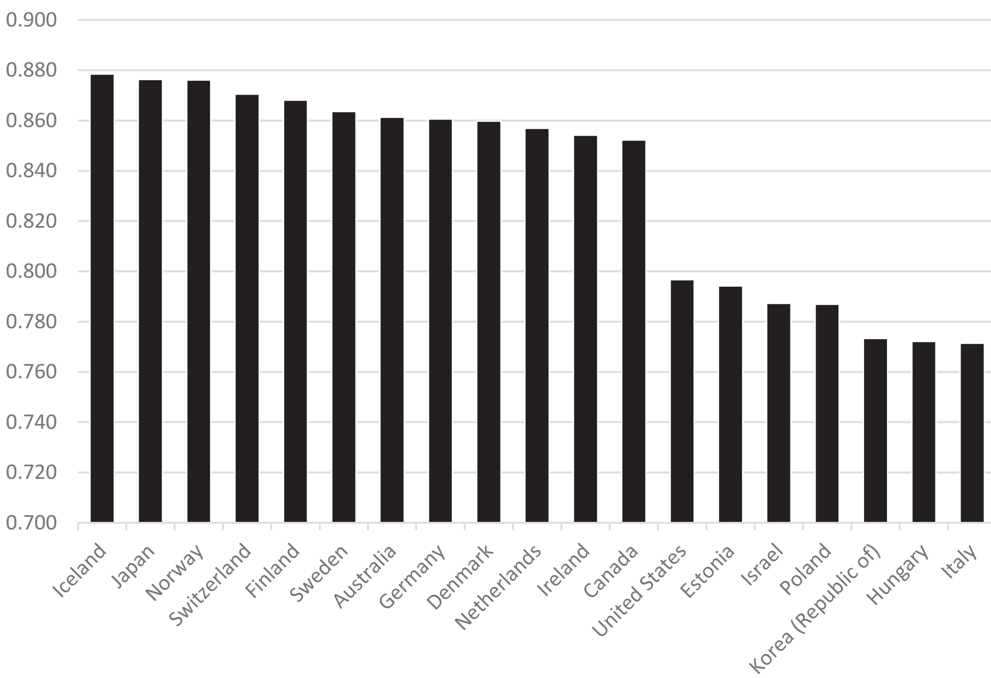
In this comparison, Poland ranks as only the 67th in the world with GDP per capita calculated according to the purchasing parity power in the amount of 29,600 USD (see Graph 2). We are on a slightly worse position than countries like Trinidad and Tobago and Portugal, and directly behind Poland, there are Malaysia and Russia, as well as Greece, whose GDP in the current decade has fallen as much as by a quarter.

If we compare the socio-economic condition from the point of view of IHDI, which takes into account not only the level of GDP per capita, but also the condition of human capital based on the level of education and health as well as inequality in the distribution of income of the population, then the picture is quite different. It is definitely more adequate in relation to the assessment of the actual socio-economic situation. In this approach, Poland compares favourably, ranking with an indicator 0.787 at the 28th place in the world, this time just behind the United States, Estonia and Israel, and slightly ahead of South Korea, Hungary and Italy (see Graph 3).

As for the 'Strategy for Poland', it was a comprehensive programme that went far beyond the areas observed even in the more sophisticated indicators that were created in later years. However, we did not develop our own holistic indicator that time, on the one hand, using the approach illustrated with the pentagon of macroeconomic stabilisation, and, on the other hand, with specific measures of



Graph 2. GDP per capita (2017). Purchasing power parity.
Source: UNDP.



Graph 3. Inequality Adjusted Human Development Index (IHDI 2017).
Source: UNDP.

implementation of particular key programmes of the 'Strategy'. There were actually 14 of them (Kolodko, 1996):

(1) Partnership work relations and the negotiating mechanism of remuneration regulation.
(2) The reform of the social security system.
(3) Preventing unemployment.
(4) Rural areas' development.
(5) Investing in human capital.
(6) Management of state assets and ownership transformation processes.
(7) Medium-term financial strategy.
(8) Development and reform of the financial sector.
(9) Security of economic turnover and absorption of the 'shadow economy'.
(10) International competitiveness.
(11) Regional policy.
(12) Environmental protection and sustainability.
(13) Housing policy.
(14) From the OECD to the European Union.

Each key programme was accompanied by a special indicator, so-called main implementation criterion, by means of which the execution of the programme was assessed in a quantified way, what facilitated the monitoring of the progress in particular areas. This was a significant institutional *novum*, as such an instrument had never been used before in economic policy. The implementation criteria adopted in the programme were met with greater satisfaction, while all quantitative indicators defining the individual vertexes of the pentagon, starting from the scale of production growth in 1994–1997, were exceeded.

It is worth to look at a similar pentagon – with its different, corresponding to the current realities of macroeconomic scaling – in relation to the present situation. The vertexes of pentagons for each of the analysed years determine data related to:

– GDP growth rate (on the axis from 0 to 10),
– an unemployment rate (on the axis from 10 to 0),
– an inflation rate at the end of the year, from December to December (on the axis from 5 to 0),
– a ratio of the budget deficit to GDP (on the axis from 5 to 0),
– a ratio of the current account deficit to GDP (on the axis from 5 to 0) (see Table 1).

In particular cases – when in 2015 there was no increase in the general price level, as their level decreased by 0.5% in December as compared to December of the previous year, and when in 2017 the current account balance in relation to the GDP was positive (0.2%) – in

Table 1. GDP growth, inflation, unemployment, budget and current account balance in 2015–2018 (in %).

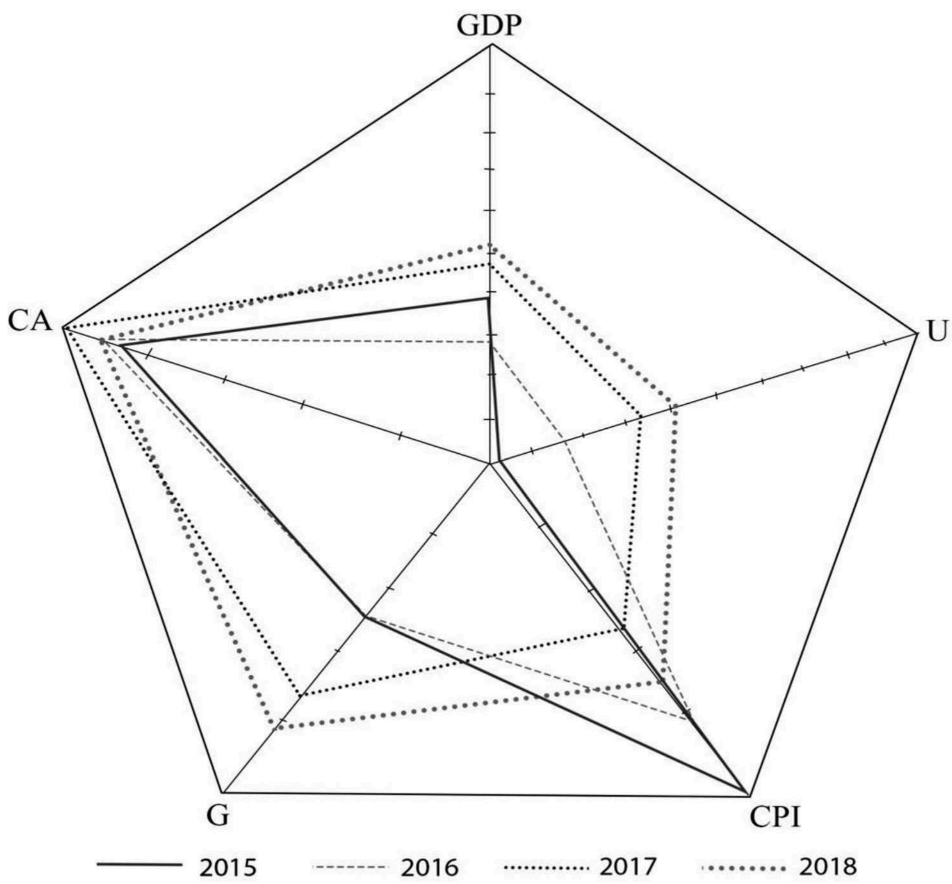
Year	2015	2016	2017	2018
Rate of growth of GDP	3,9	2,9	4,6	5,1
Rate of unemployment (end of year)	9,7	8,2	6,6	5,9
Rate of inflation (XII/XII)	−0,5	0,8	2,2	1,3
Budget deficyt/GDP	2,4	2,5	1,3	0,9
Current account balance/GDP	0,6	0,5	−0,2	0,4

Source: Central Statistical Office, GUS, and National Bank of Poland, NBP.

the graph, these situations were marked at a level 0, and therefore at the very top of the pentagon (see Graph 4).

What results from the comparison of 1994–1997 with the years 2015–2018? Indisputably, the general situation in the last four years is clearly better than in the four years a quarter of the century earlier, but the scale of progress in relation to the dynamics of production was noticeably greater in the former period. GDP grew faster, also because it was still possible to reach for shallow reserves of economic growth, such as a transfer of labour from low-productivity agriculture sector to more efficient industries and services.

Let us add that the pentagon area will shrink in the following years, because it is difficult to expect such good results in terms of the rate of growth of income, employment, price growth as well as budget and current account balances in external trade and financial relations, as it occurred in 2018. It is worth to mention that the government forecast of the GDP growth for the years 2019, 2020, 2021, 2022 and 2023 is, respectively, 4.0%, 3.7%, 3.4%, 3.3%, and 3.1%, while the rate of inflation,



Graph 4. The pentagon of macroeconomic stabilisation in 2015–2018.
Source: Own study based on GUS and NBP data.

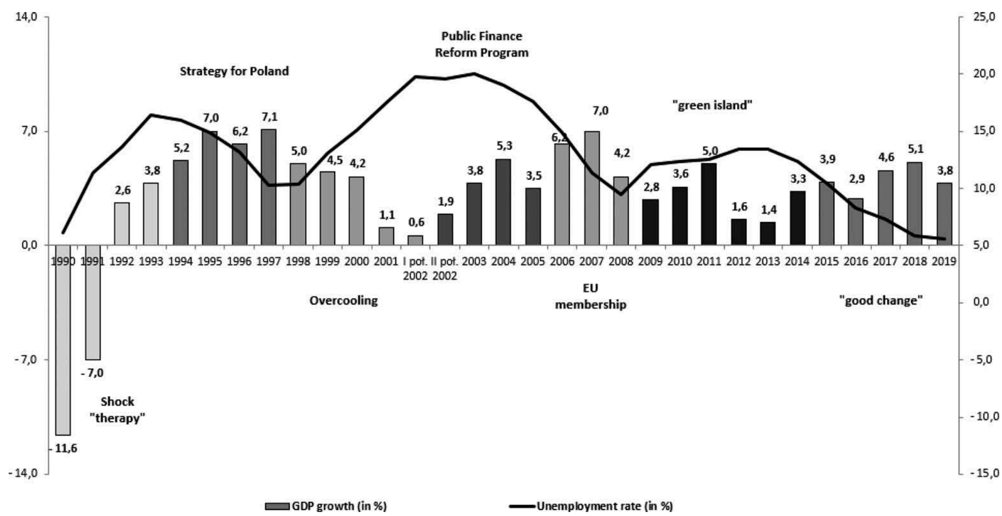
CPI, is expected to be modest 1.8% in 2019 and hover around 2.5% in subsequent 4 years, 2020–2023.

What if . . .

There are many irrational, ideologically and politically motivated opinions that the quarter-century 1990–2015, on one hand, was a period completely wasted, and, on the other hand, it was very successful. Whatever was said, we need to admit that it was a very much internally diverse period. The pace of structural reforms and the building of market economy institutions were different, the dynamics of production, consumption and investment, as well as exports and imports were different in individual sub-periods, but not every year and not on every stage the progress was recorded. If we limit ourselves only to looking at the fluctuations in the GDP dynamics and periods of rising and falling unemployment, it is easy to notice the alternation of better and worse times. It is also hard not to notice that they corresponded with political cycles (see Graph 5).

Interestingly, there is still no universal consensus, even among a group of professional economists, what to consider as an economic progress and what means a lack of it or even regression. This shows that it was never completely clear what political system and economic transformation should lead to. It must have been different and better than it was. Everyone will admit that it is different, but many will not agree that it is better, because it was supposed to be 'differently different'.

There is no doubt that the current situation would be much better if there had not been those mistakes committed during the transformation. Many of them could have been avoided if only economic policy had been based on the correct theoretical foundations, if goals had not been confused with means, if the group interests had been broken more effectively, if the political class had demonstrated the ability to make more pragmatic compromises, if the ruling elites had been able to extend the perspective of perceiving the



Graph 5. Periodisation of 30 years, 1990–2019.

Source: Central Statistical Office, GUS. Data for 2019 according to the state budget.

consequences of their decisions beyond the limits of their own terms. Unfortunately, this was not always the case, because not only the Polish experience of the last 30 years shows that the market does not eliminate dishonesty and the democracy stupidity.

Particularly costly – both economically and socially – were the mistakes of two 4-year periods of post-solidarity governments, when the right-wing populism and neo-liberalism negatively influenced the economic trends. While some economists are still trying to justify the failures of the shock without therapy, as it is more accurate to describe those years, they are less gentle when it comes to assessment of the superfluous and harmful overcooling of the economy in 1998–2001. In order to visualise the scale of errors in economic policy, it is worth to recall that despite the generally favourable external conditions for development, the growth rate was brought from a record 7.5% in the spring of 1997, to a stagnant 0.2% in the autumn of 2001.

Once again, we could see how dogmatism and doctrine, very present during both periods, are very dangerous in economic policies. It turned to be naïve to presume that the coalition of AWS-UW, which won the democratic elections in autumn 1997, changing the rhetoric greatly, will not change economic policy much, and will continue the right line of reforms and development that was followed earlier. If this were the case, there would have been no economic downturn or *de facto* zero growth at the end of that coalition's term in office. The continuation of the programme and the method of 'Strategy for Poland' required not only to be right but also to have a majority, or – more precisely – to the governing majority had it. Unfortunately, it was not so.

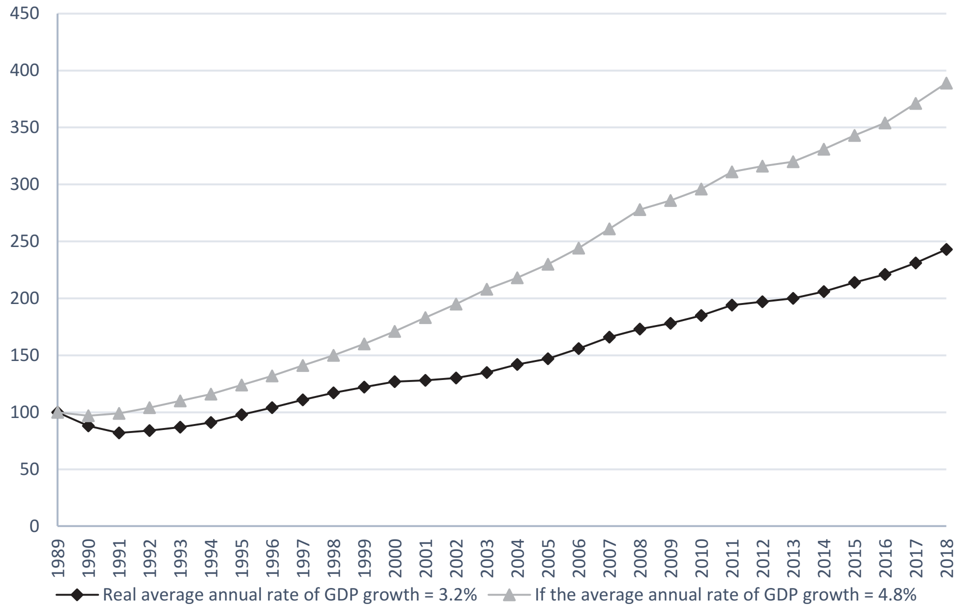
The alternative history can be meaningful and it is therefore worth considering once again what would happen if … What would have happened if these mistakes had not been made, if the economic processes had run according to the announcements of politicians in 1990–1993 and 1998–2001, if the stabilisation policy had not been overshot in the early 1990s and the economic situation had not been overcooled unreasonably at the end of that decade. At that time, taking some additional assumptions (Kolodko, 2009), the path of growth of national income during the past three decades would be quite different.

As a result, with almost unchanged number of population, per capita GDP, counting in real terms, would be now not more than two and a half times higher than in 1989, but almost four times larger (see Graph 6 and 7).

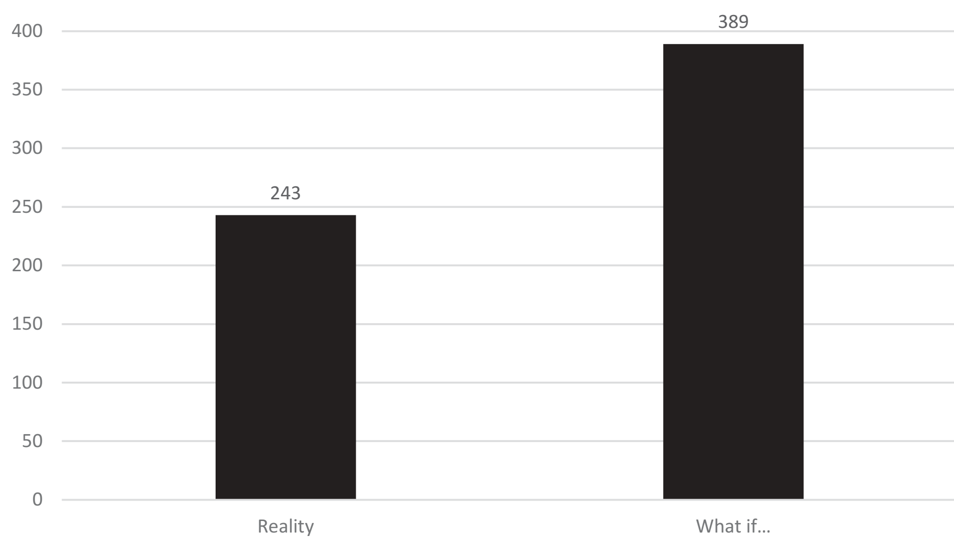
Even if we correct sharply assumptions upon which rely such estimates, we can assume that the current national income – this material basis of well-being and the quality of life of the population – could already be three times higher than a generation ago. In such a situation, Poland would not be placed between Malaysia and Portugal, but between such countries as Finland and Belgium. At that time Poland would also produce not only 0.88% of gross world product, but visibly more than 1%, with all the consequences for its international position.

Long-term consequences of mid-term strategy

The experience of the countries that have achieved the greatest successes in the field of economic growth is instructive. In the post-war period, only a dozen of countries recorded long term, at least on average annually 7% GDP growth rate. Studies in comparative economics show that they were distinguished by five features that may be considered



Graph 6. What if . . . real and hypothetical GDP growth in 1990–2018.
Source: GUS data and own calculations (regarding the methodology of estimation, see Kolodko, 2009).



Graph 7. What if . . . GDP in 2018 (1989 = 100).
Source: GUS data and own calculations (regarding the methodology of estimation, see Kolodko, 2009).

necessary, though not always sufficient factors for long-term rapid economic growth (World Bank, 2008). These five features are:

(1) Openness of the economy.

(2) Macroeconomic stabilisation.
(3) High saving and investment rate.
(4) Mature market institutions.
(5) Competent and determined governments.

For certain, the implementation of the 'Strategy for Poland' favoured the shaping of such features. The economy was becoming more and more open due to the initiation of the process of integration with the European Union, regulation of external financial relations after a reduction by 50% indebtedness to private commercial banks grouped in the London Club, and financial settlements with Russia and China, entry to Euromarkets with the first issue of bonds or the introduction of money convertibility in capital account. There has been achieved a lot in the field of macroeconomic stabilisation. National savings were growing and supplemented with an inflow of foreign funds financing increasing capital expenditures. The qualitative improvement of market institutions has resulted in joining Poland to the OECD in July 1996. Finally, the government of that time was competent and determined to create a social market economy on the path of relevant structural reforms, inclusive institutions and responsible macroeconomic policy.

Democracy, however, is governed by its own rules, and despite the economic successes of the four-year period 1994–1997 in the following years, the state was taken over by another ideological and political option, which continued some of programme strands, some abandoned, and initiated others. As before, while replacing the government, we had to deal with the overlapping and penetration of elements of continuity and variability. This time, unfortunately, as a result, too few problems were solved, while unnecessarily creating new ones. Democracy was effective again, one more time in the years 2001–2005, bringing to power similar coalition as in 1994–1997. This enabled the return to the programme path and, basically speaking, the continuation of the 'Strategy for Poland' at the beginning of the new century. The instrument of this political line became the 'Program for Reforming of Finance of the Republic of Poland', PRFP.

Some analysts see *iunctim* between 'Strategy for Poland' and presented about 20 years later by the Law and Justice government 'Strategy for Responsible Development' (Strategia, 2017). In some sense, it might be so, because both programmes – and the PRFP between them – refrain from neoliberalism, paying attention to social development goals, and both consider, although the policy instruments are quite different, that in the appropriate shaping of these processes an important role to play has the state. However, the strategies differ in a way that while the 'Strategy for Poland' – otherwise implemented in much more difficult internal conditions and in the time when it was supposed to help in reaching the European Union – was pragmatic and actively open to inclusion in globalisation, the 'Strategy for Responsible Development' has a populist deviation and sometimes distances itself against globalisation.

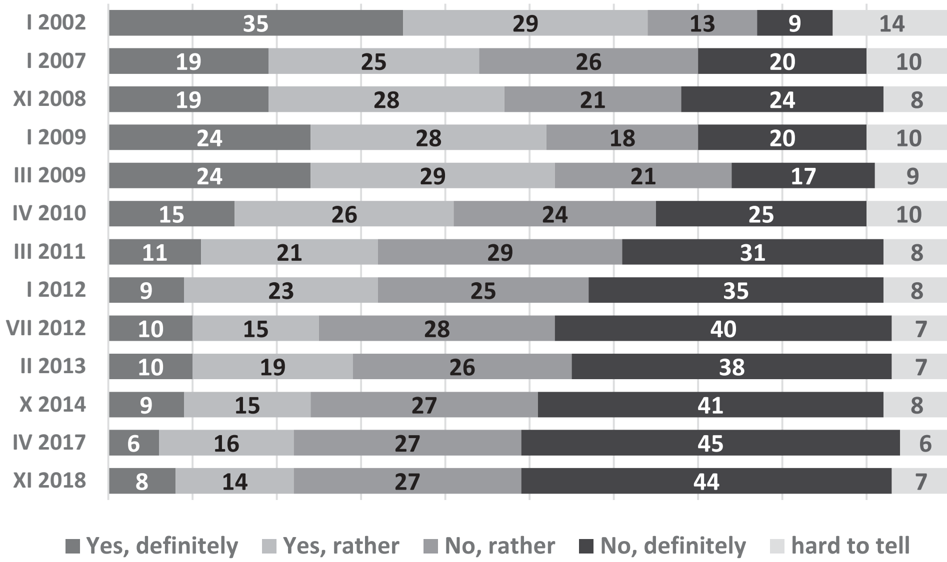
The PRFP in many cases did not close the formulated tasks in a specific time frame, but left their perspective open in the sense that the proposed changes were to last long, often longer than one, even the most fruitful parliamentary and government term. An important feature of the PRFP was also that it included the final years of institutional preparation of Poland for accession to the European Union and the first years of membership in this integration group. Hence, in contrast to the earlier stages of structural reforms and building market institutions, there were fewer areas where alternative solutions could be considered. It resulted from the imperative of adapting national regulations to the requirements of the European Union, including the *acquis communautaire.*

As a result, in this phase of transformation, in 2004, the greatest institutional success of systemic transformations was recorded, namely the integration of Poland with the European Union. This was preceded by a huge reform effort of the previous years when the integration process entered the formal path. Poland submitted the official application for membership on 8 April 1994. Interestingly, it happened in Athens, where 9 years later, on 16 April 2003, a historical treaty was signed, because in both cases Greece was in the presidency of the European Union. What's more interesting, the conditions of accession of new countries to the EU (earlier, before 1992 to the EEC), are defined by the rules adopted in Copenhagen in 1993, where also took place, on December 12–13, 2002, the key summit for EU enlargement with the most advanced in systemic transformation countries of the Central and East European[10]. The 'Strategy for Poland' played a significant role in disciplining and proper targeting of structural reforms enabling Poland's subsequent entry into the EU, while the 'Program for Reforming of Finance of the Republic of Poland' contributed to the finalisation of this work successfully. Unfortunately, although the PRFP set out such a goal, Poland was unable to lead to membership in the zone of the common European currency, the euro. Possibly, the best time to make such a convergence was 2008. Regrettably, it did not happen neither then, nor a decade later, and considering the current conditions, especially political (Kolodko & Postula, 2018), one more decade may pass before it happens.

It is important to have the support of the majority of society on the issue with such a fundamental structural change as moving away from national money to a common regional currency. That was at the turn of the years 2007 and 2008, and later public opinion more and more distanced itself from this convergence. While 10 years ago, slightly more people were in favour of ('definitely yes' and 'rather yes', 52%), in November 2018 the supporters of currency convergence were only 22%, and opponents as much as 71%[11] (see Graph 8).

This is a serious political problem, because under the Treaty of Athens, defining the conditions of the membership in the EU, each new member has the right and the duty to adopt the euro as its currency. What is important, there are many economic reasons for this, but such a serious change must not be introduced against the will of the society. However, convincing it will take years during which – hopefully – political, structural, and institutional failures in functioning of the area of the common European currency will be radically limited.

In fact, we can imagine life without the euro in circulation. One can also have a competitive economy without the euro. The examples of Denmark and Sweden[12], prove this, but it is not said at all that they would not be even more competitive, such as Austria or the Netherlands, if they had the euro. However – although the matter remains controversial – regarding new EU members from Central and Eastern Europe, economic and political arguments are by no means underestimated, they speak in favour of currency convergence. Of course, provided the introduction of the euro into circulation at the appropriate exchange rate, which will ensure the competitiveness of well-managed enterprises. This is more important because small and medium open economies – and this is the nature of EU post-socialist members – should follow the growth strategy led by exports.



Graph 8. Euro in Poland, Poland in Euro – for and against in years 2002–2018.
Source: Center for Public Opinion Research.

Conclusions

On strictly economic grounds, the challenge is about creating a system and using its policy, which favours the formation of capital and its effective allocation. Without this, there is no investment and technological progress, without which, in turn, there is no economic growth, without which, going further, there is no long-term socio-economic development and general progress of civilisation. Systemic transformation in Poland has greatly contributed to the improvement of the performance of financial intermediations, the banks and capital markets, as well as thanks to modern supervision over them to increase the propensity to save and then to allocate investment funds appropriately. Maybe we have not yet managed to create a full-blooded, globally competitive social market economy, but we have certainly failed to create an oligarchic, corrupt economy of state capitalism. That's more than a lot …

The outline of theory of economics on which the economic policy implemented during the 'Strategy for Poland' was based was not yet precisely defined at that time, but today one can see how much was in was relying on what is now known as new pragmatism of the trend, which is now known as a new pragmatism (Bałtowski, 2017; Galbraith, 2019; Phelps, 2019). Heterodoxy, interdisciplinary lines of economic and social analysis, extending the time horizon, construction of inclusive institutions, economic moderation, appreciating the behavioural aspects of development, as well as caring for triple-balanced development – economically, socially and ecologically – these are the main attributes of the new pragmatism. It can be said that, to a large extent, this economic trend is derived from practical experience and theoretical debates accompanying the Polish systemic transformation taking place under conditions of irreversible globalisation (Kolodko, 2014b). If this is the case, then it is certainly a significant consequence of the 'Strategy for Poland' also for other economies, and for it itself an important clue today and for the future.

Notes

1. Of course, a reservation should be made here about the incomplete comparability of economic growth indicators from the time before and after 1989, but certainly, with regard to the GDP, the four-year period with the highest growth rate are those years of 'Strategy for Poland', 1994–97.
2. In quarterly terms (compared to the same quarter of the previous year) the fastest GDP growth rate was recorded in the second quarter of 1997 when it amounted to 7.5%. Such a high ratio has been achieved never again so far.
3. The Round Table talks lasted from February 6 to 5 April 1989. As a result, on June 4, elections to the Parliament were held, and on September 12 of the same year, the government of the Prime Minister Mazowiecki was appointed.
4. Interestingly, in the context of the contemporary crisis of liberal democracy and the American style capitalism there is growing support for 'socialism', yet what exactly this term implies is far from clear. In the USA there is an equal number of young people (aged years), about 45%, which have 'very or somewhat positive impression' of both, socialism and capitalism (Economist, 2019).
5. Personal correspondence; see Kolodko 2000, p. 38.
6. It is estimated that in critical 1989 GDP grew by 0.2%, while in the second half of the year, especially in its fourth quarter, it was already falling.
7. A 1% monthly inflation (month to the previous month) implies an increase in the overall annual price level by 13.8%, which was achieved only at the end of 1997.
8. I write about imbalances, not about balances, the latter in practice only happen ultra-short-termly, because almost always there are deficits (more often) or surpluses (less often). A balance is a textbook concept or a point in the computer model, but not economic reality.
9. GDP per capita, according to the purchasing power parity, is about 9,000 USD in Bhutan, while in Poland it is around 30,000 and in the USA twice as much.
10. Besides Poland, these were the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia and Slovenia, which formally became members of the European Union on 1 May 2004. Bulgaria and Romania were accepted in 2007, and Croatia in mid-2011. The next ones must wait – and, above all, institutionally grow up – to the second half of the third decade of the twenty-first century.
11. These percentages illustrate the answer to the question: Would you agree to replace the Polish currency (zloty) for common to many EU countries' money – the euro?
12. Sweden, like all post-socialist economies-members of the Union, has a treaty obligation to adopt the euro, and Denmark is the only country (except leaving the grouping Great Britain), which has no such obligation.

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No potential conflict of interest was reported by the author.

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