Central Bank Review 16 (2016) 19–23

Contents lists available at ScienceDirect

Central Bank Review

journal homepage: http://www.journals.elsevier.com/central-bank-review/

Poland's economic and social transformation 1989–2014 and contemporary challenges

Stanisław Gomułka

Polish Academy of Sciences, Poland

ARTICLE INFO

Article history:
Available online 4 April 2016

Keywords:
Poland
Economic and social transformation
Transformation recession

ABSTRACT

The article has two objectives. The first one is to identify the distinctive features of the Polish transformation, especially those which may explain why the initial, transformational recession was less serious than elsewhere and why the subsequent economic growth was relatively high. It discusses positive as well as negative effects of the transition to the market-based economy. Some popular extremely negative evaluations of the transition are argued to be at variance with facts. The other objective is to discuss the reforms and policies necessary for Poland to continue the process of catching up with the most advanced countries, so that the civilisation gap is further bridged or possibly eliminated.

1. Introduction

The transformation of the economic and social system in Poland and other Central European and former USSR countries began when both the governed and governors of these countries almost commonly accepted that the economic system based on central management and state ownership lost in the competition with the system based on private property and individual entrepreneurship, market competition, coordinating role of prices and regulatory role of law.

In this way, the biggest experiment of the 20th century which tested in practice the quality and social usefulness of two globally dominating, and completely different, economic theories has come to an end.

In 1989 the level of macroeconomic destabilisation of the Polish economy was much bigger than that of the economies of other countries of real socialism. It was only Poland that did not service majority of its foreign debt and only in Poland inflation approached the hyperinflation level, undermining the confidence of citizens to its own currency so seriously that in August 1989 the average monthly pay, according to the market exchange rate, declined to 20 US dollars.

In this situation, the restoration of a sustainable macroeconomic equilibrium had to become an urgent priority goal.

The reformers' second key goal was to fully liberalise prices and foreign trade so as to promptly get rid of shortages and queues. In the new economic system the prices of products and services were to play an important informational role about the real production costs. Thus, they had to be free from severe deformation made by large subsidies and product specific taxes.

The third key goal was to restore the development capacity of the economy to a level enabling Poland the start of a process of gradual bridging, and in a few decades possibly the elimination, of a serious and long-lasting civilisation gap in relation to Western Europe that has arisen in the past few centuries.

Statistical data show that already during the first few years of transformation Poland, to a large extent, managed to achieve these three goals.

2. The impact of collapse of the former economic system on the course of transformation

The scholarly literature points to a great similarity of economic systems in nearly all countries of real socialism and to large differences in the ways the transformation was conducted in the Central European countries and the former USSR on the one hand and in China on the other.

One of these differences resulted from the fact that in all the countries but China big systemic reforms were adopted after a few decades of change suppression, but when they finally began, they were fast and in majority of cases radical. In China big systemic changes began in 1979, i.e. 10 years earlier, but they were limited almost entirely to the economic area and except for the initial revolutionary liquidation of communes have been gradual in the last 35 years. The second important difference concerns the state

E-mail address: stanislaw.gomulka@bcc.org.pl.

Peer review under responsibility of the Central Bank of the Republic of Turkey.

http://dx.doi.org/10.1016/j.cbrev.2016.03.005

financial (fiscal, exchange rate and monetary) policy, which in China was to a large extent subordinated to the achievement of a very rapid economic growth, and also a very high employment growth rate.

However, despite these differences in the course of transformation, the basic systemic reforms were conducted in all countries in response to serious economic failures. In China it was the so-called Cultural Revolution, which lasted for 6 years and was quite destructive. In the USSR and Central Europe it was a significant economic growth slowdown which began about 1975, mass shortages on the domestic market as well as a growing inflation pressure. In Poland it was also a deep recession in the period 1980–1981 and a formal bankruptcy in the foreign financial relations from 1981.

A low level of urbanisation in China enabled the authorities to isolate the economic from political reforms. Inefficient communal agriculture and a dynamic population growth forced the authorities to shift to individual farming already at the end of the 1970s. In much more developed countries of the former USSR and Central Europe the strategy of maintaining a high degree of state control over the economy meant that the social and economic crisis had to become critical to force the authorities to accept the overall transformation of the economic system. However, in the meantime the structural deformation of economies in these countries went very far.

In such circumstances, a fast introduction of market prices together with the elimination of most subsidies and the liberalisation of imports and exports meant a rapid and deep change in the composition of the domestic demand, particularly a considerable decline in the demand for a large number of goods produced domestically. And the collapse of the CMEA trading bloc and a shift to world prices necessitated a quick and in-depth reorientation of foreign trade. Moreover, in the former Soviet Union there was a big decline in its well-developed and large armaments manufacturing. In this situation, from the Elbe to Kamchatka the industrial output had to decline, in certain cases very considerably, giving rise to the so-called transformational recession (Kornai, 1994; Gomulka and Lane, 2001).

Transformational recession, measured in percentages of the decline in industrial output or the whole GDP in the transformation first few years, was smaller in Poland than elsewhere (apart from Slovenia). Also the Polish economy regained its growth capacity sooner than others. Why did it? The extensive literature does not offer a satisfactory theoretical explanation of these two phenomena. The authors (for example Blanchard, 1997; Gomulka, 1998) point to a positive role of reforms before 1989, as a result of which the private sector in 1989 represented a much bigger share in the economy than elsewhere, and to more profound liberalising reforms in the initial period of transformation, which resulted in an extremely dynamic growth of the new private sector.

3. General evaluation of the 25-year period. What are the effects of the economic transformation?

Economists are primarily interested in the indicator of the relative economic level, measured in terms of GDP per capita as a percentage of GDP per capita in the most developed countries. In 1992–2013 GDP per capita in Poland grew twice as fast as in the most developed EU countries. As a consequence, this indicator of the relative level of the Polish economy grew from about 30% in 1988 up to about 50% in 2013. Table 1 shows the relative economic level data with reference to the USA for all the countries which went through the social and economic transformation, also for Germany at the beginning and end of the transformation period.

For Poland in 2014 the level of the former Federal Republic of Germany or southern England, not to mention the United States, is still very distant. The country is at the level of Hungary and Greece, and is approaching the level of Portugal. However, the improvement in the relative economic level indicator is so large that it justifies to call the period of the last 25 years a golden quarter century of the last three centuries of the Polish history. This positive assessment is based on GDP per capita, but it may be additionally supported by data on a substantial improvement in ecological indicators, much improved access of households and companies to the latest technologies for processing information, mass scale of travelling of Poles all over the world and a rise of life expectancy by about 10%. In recent years the quality of housing and public infrastructure has also been much improved. All these mean a substantial progress in bridging the civilisation gap in relation to the world's best developed countries.

4. Issues which raise argument in public debate on economic transformation

The publicly circulated evaluation of the Polish transformation has always been and still is much diversified. Some critical approaches concern important questions and are well-documented.

Thus, on about 1/3 of the Polish territory, that less urbanised, the unemployment rate is excessive, often amounting to more than 20%.

As a consequence, labour migration has been considerable; the number of emigrants is presently estimated to be about 2 million, or about 10% of the potential labour force. In several important areas, such as health service, public administration, higher education as well as basic research and innovative activity, the progress is notable but the distance to well developed countries still remains substantial.

The level of diversification of incomes and wealth per capita is not as dramatically big as for example in China, Russia or the United States, but the scope of poverty is conspicuous. In 2013, according to data published recently by GUS (the Central Statistical Office of Poland), about 12% of people were eligible to social security support, and about 7% of people had incomes below the official level of subsistence.

What is controversial or simply incomprehensible is the appearance on a large scale of opinions which are extremely critical and ill-founded.

Let me present four of them from among the most popular and the most extreme:

(a) The initial so-called shock therapy was truly a “shock without therapy”.

This assessment is not based on facts. The liberalisation of prices had to be implemented quickly, but it did not include all prices; about 10% of prices remained regulated. The rate of inflation was reduced gradually; the initial goal – 1% or less per month at the end of 1990 was not achieved until 10 years later. The fiscal policy was not restrictive either. All throughout the transformation, except for 1990, budget deficits have been substantial and in a few years (2009 and 2010) very big. Social transfers were for many years very high and privatisation slow.

Some critics, when talking about the “shock”, refer to a big decline in real wages in 1990. Indeed, according to GUS data, they were 26.7% lower in comparison with the level in 1989. However, 1988 saw an excessive increase in real wages. In comparison with their level in 1987, the decline amounted only to 7.7%.