

**THE MARKET SOLUTION
TO ECONOMIC DEVELOPMENT
IN EASTERN EUROPE**

Edited by

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CHAPTER THIRTEEN

The Boldest Social Experiment of the Twentieth Century

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The above expression used to be, among Western intellectuals, a popular description of the Soviet regime in the 1930's, when the atrocities committed by the Soviet government were mentioned. The fact that the Soviets were experimenting on their people was supposedly a sufficient excuse for the genocide. The expression was repeated with respect to Hitler, luckily not too often, and then again for Mao, for a short while. It is no longer popular.

One of the most mentioned jokes in Moscow is that things may be bad in Poland, as Poles are getting the shock therapy of rapid transition from communism to capitalism, but things may be worse -- they could be getting a shock without any therapy, as the Soviets do.

I am returning to the old, abused expression about a bold social experiment, because if any event deserves it, the current change in Poland does. This time, however, my use of the expression is not an excuse for, or a justification of, any wrongdoing on the part of the Polish government (in fact I disagree with many policies of the Mazowiecki government), I am merely stating a fact. The events taking place in Poland, especially since January 1, 1990, are of great importance for all of the world. This is the first attempt to rapidly transform a full-scale command economy into a natural market

economy, where human action will be allowed to flourish. Yet the world seems spectacularly unprepared. When the Industrial Revolution reshaped Great Britain, the specific political changes that catalized the economic changes could be traced to the classical economist, with the great Adam Smith in the lead. When Ludwig Erhardt changed Germany overnight, the influence of the Austrian school of economics was undoubtedly of importance, especially with respect to monetary policies. Ever since the gruesome, yet for a while triumphant, march of militant socialism through the world started with the bolshevik revolution, the proponents of capitalism in the world of ideas have been mostly merely opponents of change, thus getting a label of antiprogressive and conservative. Ronald Reagan in his speech introducing Barry Goldwater as a presidential candidate said: "They say we are always against things," denied the accusation, and proceeded to give a list of government actions he was against. Ludwig von Mises' work may have been an exception, especially the grand *Human Action*, yet even the great Austrian became disappointed with the way the world had been changing in his lifetime, and felt forced to list things he was against.

Things have changed a bit. CNN News showed a short interview with Milton Friedman asking him for advice for the emerging Eastern European economies. His answer was quite in the positive: "Free private markets, with the stress on all three words."

Yet the Eastern Europeans lack specific, not general, ideas. They would like to have rapid economic growth, eventual prosperity, freedom of expression, and other capitalist goodies, but when it comes to specifics, many questions arise. The subsidies should be cut -- whose subsidies should be cut first? Is it possible to cut them all at the same time? Is there a political figure powerful enough to perform such a cut, and antagonize all previously privileged groups in the process? The government-owned enterprises should be privatized. But how exactly the conflicting claims of previous owners, whose equity was expropriated in the early stages of the communist rule, and the workers who have earned some property rights through years of underpaid labor, by the simple application of the homesteading principle, should be handled? How do you allow foreign capital into a country that has been artificially isolated from the world, where people have not yet learned

the supremacy of reason over their phobias about foreign capital? I know that the questions stated are not really as complicated as politicians try to present them, but they are vital for Poles in their "Polish road to capitalism."

What happens in Poland is important to the world. If the first attempt to steer away from communism to capitalism succeeds to at least a minimal degree, others will follow promptly -- in Eastern Europe, Russia, Cuba, Africa. If it fails, we may have to accept the Bulgarian model for Eastern Europe -- no more communist, yet ruled by communists, and the whole world will have to wait longer for freedom. I always believed that Poland would break away from communism, but thought the country not yet intellectually prepared for the transition to capitalism, and expected it to happen between 2015 and 2020. As much of an egghead as I am, I may be proven right, if the present experiment fails.

Poland has been traditionally different among the communist bloc countries. At least Poles like very much to believe that. My visits to other communist countries left me with amazement at striking similarities in everyday life under communism, no matter what the underlying culture is. Poles, however, do believe themselves to be unique. In the official propaganda, communist rulers often referred to the countries under the Soviet influence as the "socialist camp." Poles added "A labor camp, indeed, but at least our barracks is more fun."

The struggle of the nation against communism has been traditionally coupled with a hatred towards the Russians, who have dominated Poland since the days of the empress Catherine the Great who skillfully mastered elimination of Poland, or, more precisely, the union of Poland and Lithuania, from the map of Europe in 1795. During Napoleon's wars, Poles sided cheerfully with the French emperor, in hopes of regaining independence after he defeated the Russians. Napoleon delivered very little of that so desired Polish independence, yet he gladly used Polish troops in crushing the rebellions in Haiti and Spain, and in the failed invasion of Russia. Throughout the nineteenth century the main motive of the Polish culture was the struggle for independence, even if destined to fail, against all odds, against the whole world if necessary. Poles had been traditionally religious, yet the great Polish romantic poet Adam Mickiewicz in the play *Dziady* put

the statement in the speech of the hero, that if God did not listen to Polish pleas for independence, Poles would no longer consider him the God of the world, but a Tsar of the world, hated by millions.

The struggle for independence resulted in two significant, yet failed, revolutions against the Russian rule -- in 1830-31 and 1863. The national character and culture evolved and changed in a very specific way. In the sixteenth and seventeenth centuries, when the union of Poland and Lithuania was a successful, prosperous country, Polish poets concerned themselves with love, family, religion, birds, etc., i.e., natural poetic subjects. The country was inhabited by various nations. Many cultures and languages were represented, and despite the domination of the Polish language and the Catholic religion, tolerance was prevailing in almost all social affairs. The partitioning of Poland among its three neighbors, Russia, Germany (Prussia), and Austria, and subsequent struggle for preservation of the national identity, created a new vision of the world -- suspicious of foreigners, especially those coming from Russia and Germany, coupled with admiration for any enemy of the occupying empires (such as Napoleon), and glorifying violence if used in the "just cause" of Polish independence. The Industrial Revolution swept through Eastern Europe and Russia in the nineteenth century -- in Poland, even though it had glorious achievements, such as the creation of a major textile industry center in Lodz, it was culturally ignored, as the intellectuals concentrated on what was called the "Polish matter," i.e., the matter of Polish independence. In fact, the Russian and German occupation resulted in the domination of the newly formed industries by non-Polish capitalists, Germans and Russian Jews (who initially immigrated to the Polish part of Russia in great numbers to avoid pogroms in Russia, only to face hostile Poles treating their arrival as yet another trick of the Russian empire in the policy of russification of Poland). Those people were often hated for being non-Polish, not for being capitalists. As I said, a quick review of Polish nineteenth century poetry and novels proves capitalism to be mostly ignored as a subject.

Other Eastern European countries did not, luckily in my opinion, go through such a period of passion for independence. Czechoslovakia, for example, industrialized more quietly and smoothly, and the attitude of the

people towards the Austrian domination of the country was much lighter, as expressed perfectly in the immortal character of the good soldier Švejk, created by Jaroslav Hasek.

Another traumatic experience which added to the Polish uniqueness was the Second World War. Poland was the only country that found itself directly at war with both Germany and the Soviet Union. In the high point of that tragic situation, the Warsaw Uprising in the Fall of 1944, militarily directed against the Germans, yet politically against the Soviets (the Uprising's goal was to secure Warsaw for Polish rule before the Soviet army arrived), failed. Several hundred thousand Poles died in that bloody repeat of the nineteenth century tradition, and the Germans, after crushing the Polish resistance, methodically destroyed every single building in the city.

When the war ended, Poles found themselves under the Soviet occupation, within new borders, drawn for them by foreign powers, again without their own voice, with the "Polish matter" as pressing as ever.

Thus the struggle against communism was never really a struggle against the socio-economic system. It was the "Polish matter" of independence first, and anti-communism second.

There are numerous myths that prevail in the Western perception of Poland. Of course they are coupled with myths of the West in Poland. If the Polish bold social experiment is to work, some of those myths have to go.

The first myth is that Poles are socially determined by their two-hundred year old tradition of romantic uprising against the oppressor, and unable to adjust to psychological and economic requirements of a free society. I am somewhat influenced by that myth, as I felt I had to give the historical background of the "Polish matter." In fact, capitalism is now immensely popular and accepted as the solution among the masses in Poland (not necessarily among the intellectuals). The popular joke in Poland is that the world has now experienced a complete turnaround, as Germans are pacifists, Jews are fierce fighters, and Poles talk business. There is at least a very serious attempt on the part of the entire nation to break away from the romantic tradition, which believed poets, priests, and revolutionaries to be true heroes, to a new vision in which an entrepreneur is idolized.

The second myth is that since 1989 Poland has a democratic government. It does not. It has a government created by consensus. The government was formed as a result of so called Round Table negotiations between communists and leaders of Solidarity in early 1989, and the agreement that followed, which gave Poles free elections for the Senate (and the recreation of the Senate which was dissolved by the communists in 1948), with the more powerful lower house, Sejm, 65% reserved for the communists, and 35% freely elected. The elections were held in May and June 1989, and brought a spectacular defeat to the communists, who failed to get a single representative elected. All but one (in the Senate) seat went to an *ad hoc* formed political arm of Solidarity, Citizens' Committees. The best comment about that election is the popular opinion in Poland: "Anybody who appeared on an election poster with Lech Wałęsa, won." And Poles did vote in great numbers, clearly treating the vote as a chance to get rid of the communists.

But the communists did have a majority in the lower house, and proceeded to elect general Wojciech Jaruzelski, the man who imposed the martial law in December 1981 (apparently to crush Solidarity, which eventually proved to be impossible), to be the president of the country.

The country was outraged. After a series of behind the scenes negotiations, Lech Wałęsa announced that a new coalition government, led by a non-communist Tadeusz Mazowiecki, but including three communists, would be formed. The government also included one open proponent of capitalism, the Minister of Industry, Tadeusz Syryjczyk, then the vice-chairman, and currently the chairman of Cracow Industrial Society, an influential group of intellectuals and entrepreneurs from the southern city of Cracow (Kraków).

Why did the communists give up their power? There are at least three explanations popular among commentators. The first one, favored by the media, is "People Power." Solidarity has been viewed as an unstoppable movement of the masses. Ironically, when Solidarity was outlawed in 1981, it was a huge organization of over ten million people, united under the anti-communist banner. When it reached power in 1989, it had only two million members, and its unity was no longer as strong as it used to be.

For the second explanation, I would like to refer to the 1989 annual report of an investment fund run by the famous New York investor, Mario Gabelli, who wrote that "A pen may be mightier than a sword, but in 1989 Coca-Cola and blue jeans proved to be more powerful than either one." I like to call this the "Monroe Doctrine" - but I am referring to Marilyn Monroe. Capitalism wins because it is immensely attractive. It could also be called "The Madonna Doctrine" (in Japan), or "The Dallas Doctrine" (in Western Europe). The United States is winning the Cold War, and not because it won militarily (it lost in Vietnam), or even economically (it is becoming apparent that Japan and Germany did), but because it has produced an irresistible seductive culture of capitalism, the culture of full enjoyment of life, symbolized by Elvis Presley, Big Mac, Coca Cola, and Disneyland.

The third, and final explanation is probably the most truthful one -- and it starts with a reference to Ludwig von Mises. In *Human Action* (p. 187) he writes about politicians demanding easy credit:

"They want to reduce the rate of interest to zero and thus abolish altogether the scarcity of capital."

The victory of communism brought about terror and destruction in private lives, but in economic lives it brought one very significant phenomenon - a complete nationalization of the means of production. There is one important difference between a complete, or almost complete nationalization, and a partial one. A complete nationalization eliminates private investors' participation in the allocation of capital. Those private investors, condemned and hated by marxists, politicians, intellectuals and the like, as greedy speculators, are precisely the ones who create the alleged scarcity of capital, by refusing to fund projects that do not promise the return of their capital, not mentioning the return on their capital. The communists eliminated the greedy scrooges, and were free to allocate capital any way they pleased.

And so allocate they did. They created the greatest economic black hole the human race ever knew. First they slowly eroded the capital obtained through the nationalization, and then turned to Western loans. By the mid-1980's the loans had vanished into the same black hole. The

communists seem to have designed a perfect mechanism to "buy high and sell low," by constantly allocating capital to inefficient enterprises.

In Poland, when sources of capital dried up in the late 1980's, the communist government turned to two solutions of last resort -- printing money (and the resulting hyperinflation), and allowing private enterprise (which, under the last communist regime of Mieczysław Rakowski, functioned under more liberal rules than in some Western European countries). The hyperinflation of 1988 and 1989 in Poland was, however, quite unusual, as prices fell if calculated in dollars, goods became infinitely scarce, and the average monthly salary slipped to about twenty dollars (if the black market rate of exchange were used in calculation). The economy behaved as if it was entering a depression, coupled with the rejection of the Polish currency. Unable to control the situation, the communists threw in the towel -- and Solidarity came to power.

This crowned the years of Polish rebellion against communism. It started with the Warsaw Uprising of 1944, through the guerrilla war against a new oppressor in the years 1945-1948, continued in October of 1956 when the Stalinist rulers were thrown off and replaced by a slightly more civilized Władysław Gomułka, through March 1968 when the government unleashed its biggest antisemitic and anti-intellectual campaign, December 1970, when striking workers in Gdańsk were brutalized and shot, June 1976, when the same happened to the workers of Radom, and August 1980, when Solidarity was born in the Gdańsk shipyard.

The formation of the Mazowiecki government did in fact crown the struggles mentioned above. The leaders of Solidarity in 1989 were people who actively participated in previous unrests, or even led them: Lech Wałęsa, the leader of Solidarity, Adam Michnik and Jacek Kuron of the KOR organization, formed as a reaction to the 1976 events, or Tadeusz Mazowiecki and Bronisław Geremek. All of them have been in active opposition to the communist rule for quite a long time. But Solidarity lacked a program. Its leader, Wałęsa, a charismatic figure, is not much of an ideologue. The others were mainly interested in ending communism, and never clearly stated their program. They did, however, state numerous times that they identified themselves with the political left, in sharp contradiction

to tendencies expressed by Wałęsa, an admirer of the United States and Japan (by comparison, Adam Michnik had been admiring France and Sweden). And so the nation in love with capitalism (not only for the sake of capitalism as such, but simply to be different than the Russians) was suddenly ruled by opponents of communism, yet proponents of a welfare state, government intervention in the economy and other socialist inventions.

Adam Michnik, who is now the editor of *Gazeta Wyborcza*, the daily paper which became the voice of the leftist-welfarist leadership of Solidarity, during his visit to Sweden was asked by a Polish veteran of communism from the 1930's why the new Polish government would be imposing capitalism, if this means exploitation of the workers again. Michnik answered, "If you have cancer, you no longer worry about a common cold." This is definitely a plus for Michnik. As Joseph Sobran once pointed out, we are getting close to the end of the century in which totalitarian governments murdered more people than it had been imagined possible, but some peculiar characters are still fighting the robber barons.

It should be added that even though the masses do love capitalism in Poland (the Marilyn Monroe Doctrine at work, mostly), the intellectuals do not. There is no cultural tradition of capitalism. The Industrial Revolution happened when the "Polish matter" was on everybody's minds. Even during the years of independence between the First and Second World Wars, the ruling elite lead by Marshall Józef Piłsudski, consisted of declared socialists. The government nationalized over a hundred large enterprises then, and showed definite totalitarian tendencies. When Piłsudski died, the Protection of Good Name of Marshall Piłsudski Bill was passed, disallowing *any* criticism of him (if one had the urge to do it anyways, one would have to face five years in prison).

The Nazi occupation intensified the socialist trend, as the Germans in their drive to total supervision of all life in Poland, controlled the industrial and agricultural economy greatly. The Soviet rule crowned the trend.

In addition to the above, the admiration for intellectuals devoting their lives to the "Polish matter" resulted in widespread approval of offering government support to those intellectuals and writers, academics, artists, poets. In return, during the stalinist years, the intellectuals either justified

the terror, or closed their eyes to the atrocities and injustices, fully accepting government's claim of working for "a higher cause." That process has been brilliantly described in Czesław Miłosz's *Umysł Zniewolony (The Captive Mind)*. Thus it should come as no surprise that the intellectual leadership of Solidarity knew what they were against, but could not possibly accept breaking away from socialism completely.

Lech Wałęsa, understandably so, became an exception to the rule of Solidarity's leadership naturally leaning towards socialism. As I am writing these words, the media are full of news about the new conflict in Solidarity - between Wałęsa and his former advisers, Mazowiecki, Michnik, and Geremek. Wałęsa also has new advisers, Lech Kaczyński and Jarosław Kaczyński, known as "The two who stole the moon and Wałęsa." For those unaware of the subtle meaning of this amusing expression, let me add that in their childhood Lech and Jarosław Kaczyński played the title roles in a popular film *The Story of the Two Who Stole the Moon*, based on a popular fairy tale written by Kornel Makuszyński.

What is the nature of the conflict? Let us recall that Tadeusz Mazowiecki became the prime minister thanks to behind the scenes negotiations between Lech Wałęsa on one side, and the Democratic Party, United Peasants' Party (two puppet parties traditionally dominated by the communists), and the communists on the other side. Wałęsa has been a leader in the fight, and a master of compromise. Those skills have earned him the Nobel Peace Prize.

Mazowiecki took office in August 1989. By December 1989 the compromise that allowed his government to exist (with three communists holding three key ministries) did not look that appealing any more. Czechoslovakia, Hungary, Romania, East Germany...the dominos fell without any compromises. In the meantime the intellectual leaders of the Mazowiecki government clearly indicated what their attitude towards capitalism was -- they considered it desirable, but not an ideal, rather a dirty necessity. Jacek Kuroń, Adam Michnik, and Bronisław Geremek have traditionally declared themselves as the "lay left" in politics -- and their opinion of socialism as at least somewhat desired did not change.

On the other hand, Lech Wałęsa has stated that the countries he admires the most are the United States and Japan. Poles remember with some amusement how in the early eighties Wałęsa said to the communist leaders: "Just get out of the way. Just let us work, and we will build another Japan here." Wałęsa certainly did not know that he was almost directly quoting from Ayn Rand's *Atlas Shrugged*, as Rand has been an Orwellian "unperson" in Poland (even more than Orwell himself). The coincidence is certainly symbolic.

The lay left leaders view France as an ideal country. The fact that the French president is a socialist is of importance here.

The ideas of the lay left are most openly presented in *Gazeta Wyborcza* (*Election Gazette*), edited by Adam Michnik. One of their best writers is Ernest Skalski, who, in the June 14, 1990 issue stated the position of the lay left quite well -- the days of fighting are over; if Lech Wałęsa and people from groups other than the lay left want to reach for power, they must do it through parliamentary and democratic means -- even if the agreement with the communists was inappropriate.

In fact, the group directly aligned with Mazowiecki includes a wider spectrum than just the lay left. They have recently organized an alliance called ROAD, supported by the Forum for the Democratic Right, lead by Stanisław Stomma, and the far left group lead by Ryszard Bugaj.

The two previously mentioned Wałęsa's advisors, Lech and Jarosław Kaczyński, organized their own political body known as the Center Coalition. The coalition insists that the artificial arrangement of the communist representation in the parliament and the presidency of Jaruzelski (whom they want immediately replaced by Wałęsa) to end promptly. They consider it wrong and do not agree that "due process" is any excuse for keeping communists in positions of power, when the nation clearly does not want them there. The three communist ministers were finally removed due to the pressure created by Wałęsa -- but other demands of the Center Coalition, such as a dissolution of the parliament, a free election to Sejm and for the President are stalled -- not necessarily by Mazowiecki, or other lay left figures, but directly by the artificial communist majority in Sejm -- where the communists appeal to the "due process"!

The communist party was finally dissolved in January 1990, but promptly replaced by a new "socialdemocratic" SdRP (*Socialdemocrats of the Republic of Poland*), which claims that all assets of the former communist party are inherited by SdRP, but SdRP should not be held responsible for the liabilities of the communist party. Donald Trump would have loved to be able to arrange a deal like that for himself. SdRP controls or influences a significant portion of the parliament, and gets it to vote according to its positions.

There is one more political block in Poland -- a loose alliance of *Solidarity 80* led by Marian Jurczyk, one of the creators of the original Solidarity, who wants to go back to its roots, and formed his organization for that purpose, and the Confederation for Independent Poland, lead by Leszek Moczulski, with several other organizations, including representatives of farmers. It is a strongly anticommunist block, opposing the present "deal" with the communists, but it lacks a clear program, with its ideas ranging from nationalism of Moczulski to populism of Jurczyk. However, their opposition to the deal has already earned them the wrath of the system, as the government refuses to legalize *Solidarity 80*.

The most important problem in Poland remains the economy. Even the lay left wants to move Poland towards capitalism. The most discussed issue in Poland is: privatization. Poland now has even the Ministry of Privatization in its government.

When Solidarity's lay left intellectuals took power, they did not have a privatization program. They immediately started a search for one. There have been two other groups in Poland discussing ways of introducing free private markets for a while. One of them is the previously mentioned Krakowskie Towarzystwo Przemysłowe (Cracow Industrial Society), which started around 1986 in Kraków (Cracow) as a series of informal meetings of local intellectuals and entrepreneurs. Their leader was Mirosław Dzielski, the author of the book *Duch Nadchodzącego Czasu* (*The Spirit of the Coming Time*), which became quite influential among the Polish intellectuals. The Cracow Industrial Society was clearly influenced by the Austrian School of economics. The works of Ludwig von Mises and Friedrich Hayek were discussed in their meetings. Tadeusz Syryjczyk, the Minister of Industry in

the Mazowiecki government, has been an active member of the Cracow Industrial Society since it started, and became its chairman after the untimely death of Mirosław Dzielski in 1990.

The Society has been more active economically with the newly found freedom. In 1989 it designed a plan for a free enterprise zone in Cracow. It also plans to start a private bank in late 1990, with the stock subscription plan already active.

The Cracow Industrial Society has always worked to promote capitalism rather softly (yet decisively). It made every effort not to be controversial (although it always stated clearly its preference for freedom). The consensus-seeking approach earned them the trust of the lay left (even with the political differences of the two groups) and the inclusion of Tadeusz Syryjczyk in the government.

The lay left does not trust, however, the other pro-capitalist group that hardly could be called noncontroversial. I am referring to Unia Polityki Realnej (Union for Rational Politics), led by one of the most colorful figures of Polish politics, Janusz Korwin-Mikke. Korwin-Mikke makes very clear what he wants -- capitalism now and fully. The private businesses comprise approximately 20% of the Polish economy. Korwin-Mikke says that anything less than 100% is unacceptable. He rejects any form of socialism, and calls for immediate complete privatization (this includes schools, railroads, post offices, not just grocery stores). Janusz Korwin-Mikke originally intended to be a mathematician, but during his studies at the University of Warsaw, in 1964, he wrote an open letter to the communist authorities that criticized some of their policies. He was promptly expelled from the university and imprisoned for a short time. He was jailed again in 1968 and in 1981, always for his uncompromising ideas. His political activity diminished somewhat in the seventies, when he worked on research in cybernetics and played bridge professionally. But in 1977 he came back to active political life by starting *Oficyna Liberatów*, a publishing house known as the place that put out truly pro-capitalist ideas. Since April 1990 Unia Polityki Realnej publishes a weekly *Najwyższy Czas! (It Is About Time!)*, where their ideas of limited government, private enterprise, low tariffs and taxes, private education, and abolition of forced military conscription are presented.

The Mazowiecki government did not accept the vision of Korwin-Mikke. Instead, they turned to the advice of Jeffrey Sachs, an economics professor at Harvard University, and a friend of Leszek Balcerowicz, the Minister of Finance in the Mazowiecki government. The work of Sachs and Balcerowicz resulted in the implementation of the so called Balcerowicz Plan, officially started January 1, 1990.

What are the major points of the Balcerowicz Plan? It began with fiscal discipline of the government. During their last year in power, the communists ran up the largest budget deficit in the history of the country. Balcerowicz insisted on running a budget surplus. This was obtained by cutting the subsidies or even eliminating them, and sharp increases in taxes and tariffs. Prices were allowed to float freely, but wages of government employees were frozen, with only slight subsequent adjustments. No spending was authorized unless there was money in the budget for it.

The Polish currency was in an unofficial way tied to the American dollar. The government stated that the exchange rate would be fixed at 9500 zloty to a dollar, and a 10% move away from that benchmark would result in heavy government intervention to bring the exchange rate to the desired level.

The hyperinflation was fought with a tight monetary policy. Credit was made scarce, and real interest rates rose sharply, as the government central bank in many cases refused credit to enterprises owned by the government.

Unemployment, officially nonexistent under communism, now was allowed, and the Ministry of Labor, lead by Jacek Kuroñ, organized a limited program of unemployment insurance.

The next step of the reform, to come in mid-1990, was privatization. In the meantime, the government officially encouraged private enterprise (while tightening credit and raising taxes and tariffs!).

The part of the plan that was meant to kill hyperinflation has worked reasonably well. There could be some disagreements about the ways in which inflation is calculated in Poland, but the pattern of the discount rate changes (the rate at which loans are offered directly from the National Polish Bank) can be a good illustration of the process. That rate was 36% per

month in January, 20% in February, 10% in March, 8% in April, and 5.5% in May, as reported by the electronic newsletter *Donosy*. The other parts of the Balcerowicz Plan did not seem to work too well. Apparently under the influence of the International Monetary Fund, which Poland joined under the Mazowiecki administration, and the World Bank, the government considered every revenue raising measure. Taxes and tariffs were raised sharply, and subsidies were removed. This resulted in a big drop in imports, and quick adjustment of prices in Poland to the level of those in Western Europe. It should be noted that the Polish government reported the average monthly salary in Poland in July 1990 to be approximately \$90, with an average pension at \$50. The subsidies for housing mostly remained, with an average monthly rent at approximately \$4, but the rents are to be raised in October to an average level of \$16 per month.

No privatization was performed in the early stages of the Balcerowicz Plan. As a result of that, government-run businesses did not choose to be competitive but mostly decided to wait it out. As of April 1990, industrial production was down by 30.9%, as compared to that of April 1989, while real wages were down 40% as compared to that of December 1989 (reported by *Donosy*, based on the Polish government statistics). The World Bank has granted several structural adjustment loans to the Polish government, among them loans for the improvement of the railroad system, a \$250 million loan for the natural gas industry (*Wall Street Journal Europe*, June 8) to decrease the country's dependence on coal, \$100 million for agriculture, and \$260 million for industrial exports (*Rzeczpospolita*, June 13, 1990). Ironically, all these loans resulted in an increased social tension. The railroad workers, suddenly forced to undergo sharp cost-cutting measures, staged desperate strikes. The farmers, able to sell their products at higher prices, but not nearly high enough to cover the increased cost of their supplies (which they have to buy from the government) organized blockades of highways and occupied the building of the Ministry of Agriculture. The coal miners declared willingness to strike against the government. All those emergencies were handled personally by Lech Wałęsa, who appealed to the strikers to give the Mazowiecki government some more time. Then, however, he turned to the government and asked them to speed up the reforms, especially

privatization. The conflict previously described resulted, and Wałęsa was blasted in the Western liberal media as "ungrateful."

It should be noted that both the World Bank and the International Monetary Fund have adopted the same policy towards Poland as they seem to have towards the Third World countries (as reported by Melanie Tammen).

The government hoped that increased economic activity would eventually take the country out of the recession caused by the tight monetary policies. As of July 1990, the official government statistics gave no reason for such optimism.

An estimated 10% of government businesses literally did *nothing* to increase their activity, with an additional 50% doing very little. In one of his television interviews in March 1990, Jacek Kuroń stated he thought the unemployment would remain not higher than it was in Sweden, seeing no reason to panic. In July 1990, there were 700,000 unemployed, i.e., about 5 percent of those able to work, greatly exceeding the Swedish benchmark.

Ernest Skalski writes in the June 16, 1990 *Gazeta Wyborcza* that there is absolutely no sign of *any* adjustment in the attitude of government business producing consumer goods. The recession has hit the textile industry the hardest, with several large factories already bankrupt. Skalski writes that he does not blame Balcerowicz for the sharp drop in industrial production, but rather for the fact that textile companies making two-sized only women's dresses in "attractive" colors of grey and brown, as ugly as humanly imaginable or worse, and other companies skilled in such "production," are not out of business yet! Additionally, the heavy industries simply decided to trade among themselves, with no effect on the consumers' situation, but at government's expense! Skalski also notes that the strikes that were calmed by Lech Wałęsa resulted in softening of the government's stance in its monetary policies (some wage concessions were granted), and a possibility of even bigger softening in the future. If hyperinflation were to return, the Mazowiecki government would be finished.

When Paul Volcker instituted the tight monetary policy in the United States, Americans came out of the recession as a result of private enterprise's

business activity. Can Poland hope for such a salvation from the austerity imposed by the Balcerowicz Plan?

In part, such a salvation has already happened. Any person visiting Poland is astonished by the economic activity...in the streets. Abandoned by the government-run monopolist companies, Poles decided, to quote Scrooge McDuck to, "control my own destiny, thank you." When the government monopoly CPN was not able to deliver gasoline, enterprising individuals drove to Hamburg, bought gasoline from tankers docked in the port, and delivered it to Warsaw and other Polish cities. Mazowiecki's government is, in fact, complaining that illegal (as there is a government granted monopoly) import of alcohol resulted in a loss of over \$100 million to the state. And goods previously unavailable, such as bananas, oranges, or even Western made household appliances, are sold by street vendors from their cars and trucks. The prices usually equal roughly the prices in Berlin or Vienna, plus tariff, plus a rather reasonable profit margin. The sellers are young, polite, and very energetic. They are also usually quite enthusiastic about capitalism. In fact, Janusz Korwin-Mikke claims that Poland and Great Britain are the only European countries whose polls indicate that a majority views Capitalism favorably, with the margin in favor being much higher in Poland.

But such individual activity cannot replace certain businesses essential in a modern economy. Coal mines, power plants, chemical factories cannot be run at home or in the street - a certain infrastructure and cooperation of a large number of people are necessary. Poland has numerous heavy industrial plants, yet they are not competitive, their equipment is outdated, and they are owned by the government. Again and again, privatization is the key.

Additionally, most of the street vendors do not bother to get licenses for their economic activity, and do not pay taxes. The government, on the other hand, apparently under pressure from the International Monetary Fund and the World Bank, is stepping up all the tax collection activities, and insists on having a budget surplus, and a trade surplus. Thus the private businesses, which do adhere to the letter of the law, are having an extremely hard time. In fact, the government reports that as of July 1990 the net 1990 increase in the number of registered private businesses was minimal. This is

in sharp contrast to the last year of the communist rule when the growth of the private sector was rather phenomenal.

I should add, however, that Janusz Korwin-Mikke of *Unia Polityki Realnej* claims that such a perspective may be inappropriate. He states that a review of the official government statistics reveal that the government consumes roughly 100% of Gross National Product. The payroll taxes themselves amount to approximately 50%. The economy is apparently growing now. Korwin-Mikke claims that the unreported economic activity is very much alive, brisk and has become the major source of goods and income of Poles. Such a statement could hardly be verified, but if true, Hernando de Soto's book *The Other Path* takes on a new meaning, a rather universal one.

There were three major figures in the Polish parliamentary debate on privatization: Ryszard Bugaj, Leszek Balcerowicz, and Andrzej Zawislak. Ryszard Bugaj, even further left than the lay left, has been a strong proponent of privatization - which clearly shows how accepted the idea has become. Leszek Balcerowicz has had several differences of opinion with Bugaj -especially with respect to the speed of the process, as Bugaj suggested slowing it down. Zawislak, a former member of *Unio Polityki Realnej*, who quietly left it apparently to avoid being branded a controversial radical, was the man behind the scenes, who headed the parliament's committee writing the privatization bill, and apparently was, next to Balcerowicz, its major creator.

It was quite a sensation when the same parliament that rejected any early elections designed to replace its non-elected communist members, overwhelmingly voted for the Privatization Bill, passed Friday, July 13, 1990 - with only two opposed, and 39 abstaining.

It is, of course, hard to pinpoint the moment when communism ended in Poland. Maybe it never started, as Poles like to claim. The traditional criterion used by Polish comedians to determine whether a country is communist was the question: "Is it possible to buy toilet paper?" The negative answer proved a country to be undeniably communist. But it appears that communism ended in Poland on Friday the 13th.

Almost simultaneously with the passage of the Privatization Bill, the government presented its economic program for this and coming years -

which was meant to be both an internal statement, and a report to the World Bank, based on which another \$300 million structural adjustment loan is to be granted (*Gazeta Wyborcza*, July 16, 1990). The main points of the program are:

- total inflation for the second half of 1990 is to be kept below 18% (the figure for the first half was 163%);
- budget surplus of approximately \$1.3 million;
- the discount rate is to be kept below 34% per year;
- an increase in real wages of approximately 20%;
- privatization of approximately 300 enterprises;
- easing of tariffs, and a simplification of the tax code, with an increased efficiency of tax collection;
- increased efficiency of the unemployment insurance plan.

The government admits that unemployment may reach 6%, or even higher.

The Mazowiecki government inherited an economy in an awful shape, but it also inherited the communist administration - one might think that such an administration should not lack in power. Paradoxically, however, one of the dangers looming over Poland is the weakness of the government. It is quite understandable that many "apparatchiks" who obtained their jobs from the communists are not particularly loyal to the government. But the weakness has existed for quite a while, even under the communists, and could hardly be justified by lack of loyalty when fundamental functions of law enforcement and tax collection are not performed properly.

The major new attraction in Warsaw is a Marriot Hotel located next to the Central Station. The Central Station is usually full of pickpockets and other thieves. The Warsaw police has reportedly (*Donosy*) attempted to arrest or remove some of them. The police met with an organized resistance, and lost, as the thieves were better equipped in various devices for hand combat. As shocking as it may sound, the police have been used to harrassing, beating and killing political opponents, but not to real police work. They have not been performing their main duty too well.

The most spectacular example of the government's inability to enforce the law has been the story of Lech Grobelny, a currency speculator from

Warsaw, an organizer of the first big-time Ponzi scheme in the non-communist Poland. Grobelny accepted deposits into his "bank," not registered in any way, or having any form of insurance, and paid very high rates of return to first depositors (up to 180%). But in July 1990, he disappeared, apparently with the entire capital of his firms, Dorchem and Bezpieczna Kara Opieli, leaving ten thousand depositors frantic. As it turns out, neither the government, nor any private firm, ever inspected his company's books, and in fact the government does not even have any branch to deal with such fraudulent activities.

Janusz Korwin-Mikke owes his image of a controversial proponent of capitalism in Poland partly to his statement that he wants a very strong government, although a very small one. He has repeatedly claimed that even basic law enforcement is performed inappropriately, and that is due to the government's excessive involvement in economic and social matters.

The government has hoped to increase effectiveness of the local police by involving the citizens in their local governments. But the recent elections to local governments have been extremely disappointing, with only 42% of those able to vote participating. In fact, Poles are becoming increasingly disillusioned with the government, with the polls in July 1990 showing the lowest approval rating for the government since it took power.

In the long run, however, I am optimistic. Be it Friday the 13th, or the day toilet paper appeared, communism has ended in Poland. Capitalism is coming back. During the Industrial Revolution, capitalism swept through Europe without media coverage, encouragement or loans from the World Bank, or other nuisances. In fact, capitalism won quietly. I think this is the future of Poland, and other Eastern European countries. Between 1980 and 1990 the economy went from basically 100% state controlled to 20% private and 80% state. The Privatization Bill simply followed the reality that has already settled in.

One more uniquely Polish phenomenon should be mentioned. There are at least ten million Poles living abroad (and approximately thirty seven million in Poland). They live mostly in the United States, but also in Canada, Australia, and Western Europe. They are usually strongly anticommunist. They have become increasingly active in setting up businesses in Poland. In

fact, Polish-American Economic Forum of Chicago (the second largest Polish city in the world, after Warsaw) is already promoting doing business in Poland among American businessmen. This grassroots capitalist movement is yet another, next to the street vendors, silver lining for the Polish economy.

Let us hope that after years of totalitarian rule, Poland can have a government strong enough to allow for free private markets, and human action creating them, to flourish.

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Przypomniało mi się w tym momencie spostrzeżenie p.prof.Ostaszewskiego: jak to pewien profesor amerykański dostrzegł, iż giełda idzie w górę wtedy, gdy Kongres NIE obraduje – a spada, gdy Kongres bierze się do twórczej pracy dla dobra Ameryki i całego Świata. Tu ta prawidłowość się potwierdziła. Wyobrażacie sobie Państwo, jak rozwijałyby się Stany Zjednoczone, gdyby p.Clinton ogłosił strajk całej Administracji na przeciąg – powiedzmy ~ 20 lat? Ale by tam powstała bonanza!