Opinion Corner*: What can other countries learn from Poland's transition experience?

BY GRZEGORZ W. KOLODKO[1]

In times of great turbulence in the world and the European economies, it is worth looking at the example of the greatest European success in development policy: Poland over the last three decades. Furthermore, Poland is still the fastest-developing country in Europe. It is worth looking at what policy mistakes were committed and how the country's success came about. Others could benefit from this knowledge.

From the perspective of the developing countries of the Global South, the most illuminating example is provided by China and its unprecedented success in catching up economically. Hardly surprising, then, that the leaders of so many African countries converged on Beijing on 2 September to attend the 2024 summit of the Forum on China–Africa Cooperation (FOCAC), in search not only of ways to achieve bilateral and multilateral win-win cooperation, but also of how they might learn from the remarkable Chinese achievements.

But I believe they could also learn from the Polish transformation experience. The events of 1989 in Poland and the subsequent positive economic processes triggered by those political shifts could be useful today for countries as diverse as Bangladesh and Thailand, Egypt and Algeria, Nigeria and South Africa, Ecuador and Venezuela. Reasonable policies require healthy compromise; good policies need both dialogue and compromise. It is well worth learning from those countries that have a record of huge achievement in this.

Back in 1989, Poland was already at the forefront of pro-market reform. Especially in the second half of the 1980s, unlike in other centrally planned socialist countries, favourable conditions were created for accelerating the transformation. State-owned and cooperative enterprises enjoyed increased autonomy and, though the country did not yet have a market economy, it was certainly no longer centrally planned. Once a network of commercial banks was split off from the National Bank of Poland (which had functioned as a monobank), a decentralised banking system began to operate. The foreign exchange market was liberalised – fully for households and partially for businesses. Since the summer of 1989, more than half of all goods (in terms of value) have been sold with free pricing.

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In the late 1980s, there were laws regulating the inflow of foreign direct investment, anti-trust laws and regulations on company bankruptcy. Poland was a member of the General Agreement on Tariffs and Trade (GATT) and in 1986 became a member of the World Bank and the International Monetary Fund. In the late 1980s, Western countries accounted for more than half of Poland's foreign trade turnover; over 20% of national income was generated by the private sector. No socialist country at the time enjoyed such advanced decentralisation and deregulation or such a wide range of private enterprise. At the same time, the situation was unfavourable, with the worst 'shortageflation' syndrome of all the socialist countries – the efficiency-sapping coexistence of open price inflation and permanent shortages.

The year 1989 heralded a historic chain of events. After the inconsistent pro-market reforms of the state socialist system, the country experienced a political about-turn that enabled the process of systemic transformation to be pushed forward irreversibly: between 1990 and 2024, Polish GDP grew on average by 3.3% a year. Although it has become popular in certain circles to praise the 'shock therapy' pursued in the country in the early part (1990-1991) of that timeframe, it should be noted that it also includes the period 1994-1997 – when the 'Strategy for Poland' programme was in full swing and when Polish GDP grew by an average of 6.4%. Although far lower than the economic growth seen in China, that is still well above the growth attained in other post-socialist economies or in the rich Western countries.

The 'Strategy for Poland', which was implemented after the failure of the so-called shock therapy (during which time GDP contracted by almost 20%), was a medium-term development programme linked to structural reform and the establishment of social market economy institutions. The programme was based on four pillars: rapid economic growth, fair distribution of income, effective state intervention and beneficial integration with the world economy. The Strategy itself consisted of 14 specific programmes: from combating unemployment to encouraging partnership-based labour relations to the security of economic turnover; from investing in human capital to reforming the social security system; from ownership transformation to the development of the financial sector; from the development of rural areas to the international competitiveness of the economy; from introducing Poland to the Organisation for Economic Co-operation and Development (OECD) to integration with the European Union. A critical feature of this programme was its comprehensiveness.

The Polish breakthrough spread quickly, inspiring not only the entire Central and Eastern European region to engage in profound systemic change, but also stimulating liberal reforms in distant parts of the world. Within Poland itself, the move rendered it possible to pursue an economic policy that had previously been blocked due to internal social resistance and the foreign sanctions imposed on Poland in the wake of the introduction of martial law at the beginning of the 1980s. Unfortunately, the overly radical liberalisation and the excessive severity of the stabilisation package introduced in 1990, instead of limiting the scale of price increases, actually accelerated them. The government offered its assurance that month-on-month inflation would be as low as 1% after just one quarter; yet that figure was reached only after seven years. The government promised a shallow one-year recession; but in fact it lasted for three years (from the second half of 1989 to the first half of 1992) and GDP fell by a combined 20%. Unemployment was not supposed to rise any further once it reached 400,000; but it eventually topped 2.5 million and only started to fall after four years. As a result of combating the 'shortageflation' syndrome with shock therapy, industrial production fell by almost a third, and prices rose almost twelvefold.

The ineffectiveness of shock therapy was highlighted by Nobel laureate Joseph Stiglitz. In reply to the question: 'Poland is now converging on Western European living standards. Does that show that shock therapy simply can work if you stick with it?', Stiglitz answered:

> No, I think it shows quite the opposite, and I've had a lot of discussions with the architects of Poland's you might call 'miracle'. The reasons Poland is the most successful of the Eastern European countries are several, but it was not the shock therapy that had such a negative macroeconomic effect. It was the fact that after that moment of shock, they began a gradualistic policy of reform, of creating the institutional infrastructure that is the basis of the market economy … It was really their walking away from shock therapy after a very short period and moving to this gradualist policy that was the foundation of their success in this now three decades since the beginning of the transition from communism to a market economy.[2]

That is right. If the policy mistakes of the early 1990s that proved so very costly from the point of view of economic development had been avoided, the GDP of Poland – and consequently the standard of living of its people – would already have been significantly higher. Instead of lying between Portugal and Czechia with a per capita income of around USD 50,000 (in purchasing power parity), Poland could already be enjoying a per capita income of over USD 60,000 and be somewhere between Finland and France.

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2 'Joseph Stiglitz on pioneering economic theories, policy challenges and his intellectual legacy', *Conversation with Tyler,* 26 June 2024, https://conversationswithtyler.com/episodes/joseph-stiglitz/.