# THE POLITICS OF ECONOMIC TRANSITION: 'SHOCK THERAPY' IN POLAND 1990-1991

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**ABSTRACT**

In the context of the profound transformative developments in Eastern Europe since 1989, this study examines the political conception and evolution of 'shock therapy' in Poland. As the region's pioneer of neo-liberal engineering, Poland embarked on its post-communist reforms with a singular determination to eliminate hyperinflation and transfer the bulk of its state enterprises into private hands. Emboldened by a unique window of opportunity in the second-half of 1989 and driven by a philosophical attraction to Anglo-Saxon-style capitalism, Finance Minister Leszek Balcerowicz's actions epitomised the 'transition' perspective. Emphasising political imperatives in moments of accelerated change, conventional models, and a technocratic agenda, the 'transition' school chose Poland as its exemplary pupil. The 'adaptation' perspective, by contrast, defended by social democrats such as Ryszard Bugaj, recognised the constraints Polish reformers faced in departing from central planning, notably in their efforts to rid state firms of their self-managed status. Stressing the legacies of the past, indigenous structures, and a negotiated framework, the 'adaptation' school eschews sharp historical demarcations and uniform blueprints.

Focusing on the endogenous aspects of the Polish transformation, this research demonstrates the need for a multifaceted evolutionary approach in which the 'transition' perspective offers insights on the foundations of 'shock therapy' while the 'adaptation' perspective underscores the significance of the self-management inheritance; the former, it is argued, helps explain the success of macroeconomic stabilisation while the latter reveals the impediments to large-scale privatisation. Four political variants of Polish neo-liberalism are presented in the context of a well-defined policy regime which became entrenched during the 1990-1991 years. The spurious 'shock therapy versus gradualism' debate is then explored in order to illustrate the importance of initial conditions - the Hungarian route being of particular relevance. Finally, the views of the standard bearers of both schools, Jeffrey Sachs and John Gray, are discussed, if only to emphasise the need for clarity and specificity in the reform debates.

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# GLOSSARY OF PARTY NAMES

## POLAND

BBWR - Bezpartyjny Bloc Wspierania Reform (Non-party Reform Bloc)

KLD - Kongres Liberalno-Demokratyczny (Liberal Democratic Congress)
KO - Komitet Obywaltelski (Citizens' Committees)
KPN - Konfederacja Polski Niepodległej (Confederation for an Independent Poland)

OKP - Obywateski Klub Parlamentarny (Citizens' Parliamentary Club)

PC - Porozumienie Centrum (Centre Alliance)
PChD - Partia Chrześcijańskich Demokratów (Christian Democratic Party)
PL - Polskie Stronnictwo Ludowe 'Solidarność' (Solidarity Peasant Alliance)
PSL - Polskie Stronnictwo Ludowe (Polish Peasant Party)
PZPR - Polska Zjednoczona Partie Robotnicza (Polish United Workers' Party)

ROAD - Ruch Obywatelski-Akcja Demokratyczna (Citizens' Movement-Democratic Action)

SD - Stronnictwo Demokratycne (Democratic Party)
SdRP - Socjaldemokracja Rzeczpospolitej Polskiej (Social Democratic Party of the Polish Republic)
SLD - Sojusz Lewicy Demokratycznej (Democratic Left Alliance)

UD - Unia Demokratyczna (Democratic Union)
UP - Unia Pracy (Labour Union)
UW - Unia Wolności (Freedom Union)

WAK - Wyborcza Akcja Katolicka (Catholic Electoral Action)
ZChN - Zjednoczenie Chrześcijańsko-Narodowe (Christian National Union)
ZSL - Zjednoczone Stronnictwo Ludowe (United Peasant Party)

## HUNGARY

FIDESz - Fiatal Demokraták Szövetsége (Alliance of Young Democrats)
FKgP - Független Kisgazada Párt (Independent Smallholders' Party)

KDNP - Keresztény Demokraták Népi Pártja (Christian Democratic People's Party)

MDF - Magyar Demokratikus Fórum (Hungarian Democratic Forum)
MSzP - Magyar Szocialista Párt (Hungarian Socialist Party)
MSzMP - Magyar Szocialista Munkáspárt (Hungarian Socialist Workers' Party)

SzDSz - Szabad Demokraták Szövetsége (Alliance of Free Democrats)

*TO KASIA AND BARTEK*

# CHAPTER 1 INTRODUCTION

> Often the feeling prevails that everything is falling apart. In a way this is true. The former centralist, bureaucratic and dysfunctional system cannot be self-supporting and is collapsing. The new system, in all its aspects, is being born, prepared, thought through. But it is not yet up and working. - Václav Havel[1]

The demands placed on students of post-communism are extraordinary. Part of the difficulty in assessing the impact of Eastern Europe's transitions is the lack of an historical precedent. The tentative conclusions drawn from the Southern European and Latin American regime changes in the 1970s and 1980s are subject to 'conceptual stretching'[2] if applied to the geographically vast and culturally distinct region stretching from the Elbe to Vladivostok. Whilst the earlier cases involved a shift from authoritarianism to democracy, coupled with the liberalisation of economic management, their geopolitical ramifications were relatively limited. The revolutions of 1989, on the other hand, were considerably more far-reaching. The emergence of radical reformers in the former Soviet Union under Mikhail Gorbachev in the mid-1980s provided the catalyst for unimagined developments which, to this day, have profound implications for the state of global affairs. The collapse of communism was, for the most part, greeted with relief throughout the Western hemisphere as the forty-year long Cold War seemed, finally, to have been brought to a close. Nowhere was the euphoria of the moment more poignantly expressed than in the Central European capitals of Warsaw, Prague and Budapest whose citizens witnessed an almost magical domino effect following the formation of the first non-communist cabinet in Poland in August 1989.

The *annus mirabilis* confronts the observer with a multitude of questions ranging from the precise reasons for communism's collapse, the condition of 'post-communism' itself, and the role of the West in facilitating (or hindering) the rehabilitation of weak and dispirited societies. Although analysts envisaged various forms of power-sharing arrangements between discredited party-states and insurgent opposition movements, the momentum of change was clearly underestimated. In retrospect, this is perhaps understandable. The focus of reform during the waning years of Soviet hegemony centred on economic issues; the authorities hoped in vain they could buy social peace with the lifting of a restriction here and the availability of another good there. The desire for capitalist institutions - and their perceived consequences, notably improved living standards - was a motivating force compelling governments to renounce their ideological aims and integrate their economies more closely with the West's. Yet even in countries such as Hungary and Poland, where the decentralisation of decision-making progressed the furthest, the economics of reform were inextricably linked to aspects of political legitimation.

For what sets the post-communist states apart from the rest of the 'third wave'[3] democratisations is the confluence of two historical processes as the basis for the transformation: the search for accountable political systems and the introduction of a market economy. This dual-track nature of the transition (the magnitude, variety and complexity of which challenges the appropriateness of the term as well as other social scientific methodology used to analyse its progression) is unprecedented in scope and thus requires careful appraisal and judicious treatment. Whilst familiar themes emerge when discussing the intricacies of East European reform, issues ranging from macroeconomic stabilisation to interest representation, even globalisation, it is important not to lose sight of the unique character of the changes and the constraints this imposes on our understanding of these developments. For as Claus Offe notes, "the upheaval is a revolution without a model and a theory. Its most conspicuous characteristic is the lack of any elaborated theoretical assumptions and normative arguments addressing the questions who is to carry out which actions under which circumstances and with what aims; which dilemmas are to be expected [along the way]; how the new synthesis of the post-[communist] order ought to be constituted; and what meaning should be assigned to the notion of 'progress'."[4]

The daunting challenges facing the bankrupt economies of the East - similar in nature, though by no means identical across the region - command the attention of wide sections of the academic and policy-making communities. The interdisciplinary approach that is called for if the purpose of research is to uncover the multitude of factors influencing the trajectory of systemic change is not helped, in my view, by the indiscriminate and technically-oriented analyses that permeate the 'economics of transition' literature. As we begin the task of disaggregating the post-communist reform process - across the region and within individual countries - a fruitful area of investigation concerns the political and historical dimensions to economic change. In the case of the former, it is in the initial stages of transformation, particularly in those states where the drive for a radical break with the past is the most pronounced, where the predominance of political forces is manifest. Quite often, these overshadow structural factors which, with hindsight, caution against grand designs or 'quick-fix' solutions. The decisions taken during these months, hurried and visionary yet audacious and resolute, determine the priorities of the first stages of transition and thus need to be assessed. Historical conditions are equally significant in determining the viability and/or suitability of economic reform programmes. In countries such as Hungary, for instance, where the "cathartic day one of 'shock therapy'"[5] never occurred, continuities in policy are much more apparent. Yet it is in those states which chose the radical path, like Poland in late 1989, where the need for historical analyses is all the more justified in view of the difficulties in departing from 'real socialism'.

## THE NATURE OF POST-COMMUNIST REFORM

A cursory examination of the predicament faced by the ex-communist states reveals the magnitude of the task in effecting the transition to market democracy. The political opportunities present at the time of the collapse of the old order need to be placed in the context of the legacy of communism; an inheritance bedevilled by a host of structural and societal constraints. Questions relating to the uniqueness of these developments, commonly referred to as the 'difference debate'[6] in which the relevance of 'transitological' approaches to East European area studies is disputed, as well as their enduring presence in the construction of the new system are the subject of intense controversy. Whether one believes the imperatives of economic and political liberalisation can (and should) override the influence of historical factors, or whether one attaches greater significance to institutional or behavioural continuities, there is little doubt that the former Soviet bloc countries confront unparalleled challenges. While there are qualitative differences in the country-specific paths of extrication from communism[7], basic similarities in their socioeconomic, political and cultural attributes distinguish the East European transitions from their Southern European and Latin American counterparts.

Just as the Mediterranean states were spared the threat of economic collapse when dictatorships gave way to parliamentary systems, the Latin American countries could rely on the experience of long-standing (if at times misguided) development strategies to mitigate the adjustment when military *juntas* stepped down in favour of popularly elected governments. This emphasis on political objectives, on the one hand, and a pre-existing affinity for capitalist institutions, on the other, aside from its implications regarding the sequencing of reform, distinguishes the earlier transitions from the post-communist reforms. "The key question, then, is whether [these] differences constitute variations on a common process - that is transitions from dictatorship to democracy - or altogether different processes - that is, democratisation versus what could be termed 'post-communism'."[8] Observers who claim these differences are ones of degree take the first position, while those who perceive them as differences in kind take the second.

The simultaneous attempt to introduce democracy and a market economy tends to favour the second perspective. Fraught with a number of internal contradictions, the tensions, at least in the short term, between the political and economic processes of liberalisation raise new questions in the familiar debate concerning the type of political regime best suited to the interests of economic reform. Can the fledgling post-communist democracies manage the pressures of financial stabilisation? Under what political conditions is economic reform most likely to succeed? The impressive growth rates of a number of East Asian states beginning in the 1980s, in particular Taiwan and Singapore, to say nothing of China's distinctive reform path, suggest that perhaps (quasi-)authoritarian governments may be better equipped at coping with the rigours of adjustment - notably in those countries where radical macroeconomic stabilisation is required. Even Chile's experience with market reform under the guidance of General Augusto Pinochet is listed as a possible role model for Eastern Europe.[9] Leaving aside the fact that empirical evidence to support these claims[10] is, at best, controversial, and that it is invariably the states comprising the former Soviet Union (as opposed to the more western-oriented Central European countries) that, rightly or wrongly, are the target of these suppositions, one need only reflect on the underlying motivations of Eastern Europe's revolutions to understand why such arguments can be dismissed (a prominent Polish dissident once stated that "if forced to choose between General Jaruzelski and General Pinochet, [he] would pick Marlene Dietrich"[11]).

Since the sequencing of capitalism first, democracy second was not a viable option, the question becomes how to manage the plurality of changes occurring at the same time in various spheres; the temporalities of which are seldom harmonious: "The pain inflicted by the economic transition [contributes to] political instability which in turn impedes the creation of the legal and institutional infrastructure for privatisation and slows the flow of foreign investment - in the end [prolonging] the recession and [adding] to further political polarisation."[12] Ralf Dahrendorf has described these difficulties as the 'dilemma of the three clocks'.[13] He refers to the 'hour of the lawyer' in establishing the constitutional and political framework which may take several months; the 'hour of the economist' in building the rudiments of a market economy in five to six years; and, finally, the 'hour of the citizen' in regenerating the social impulses of civil society which, inevitably, will take generations.

**The 'Hour of the Lawyer'**

The development of liberal democratic institutions in Eastern Europe - prior to the establishment of capitalism and a bourgeoisie - rests on the assumption that values of compromise, bargaining and tolerance will underpin the functioning of the new order. The ability to reconcile competing interests, settle territorial or ethnic disputes and redefine the boundaries of the state are all dependent upon society's willingness to accept the new 'rules of the game' and pursue its demands in a peaceful and rational manner. Yet the majority of ex-communist states, with the possible exception of the former Czechoslovakia, lack the historical precedents for multi-party democracy. The regimes in existence before the imposition of communism were, at best, unstable parliamentary systems and, at worst, authoritarian governments. Moreover, the true legacy of 'real socialism' lay in its (rather successful) attempt to extend its rule over all areas of public life, thereby suppressing interests and restraining identities. The atomisation of the citizenry, "a kind of desertification"[14] in the words of George Schöpflin, meant that as the newly liberated states emerged from forty years of communism, a deep sense of confusion and uncertainty permeated the body politic. In response to the overwhelming support for 'market democracy', intellectuals in the opposition took on the difficult mission of articulating political and economic liberalism in the absence of social interests to act on behalf of the reforms.[15] This was perhaps best illustrated by the words of Poland's first post-communist Minister of Industry at his confirmation hearings prior to entering government: "I represent subjects that do not yet exist[!]"[16]

The success of this enterprise depended on what David Ost rightly viewed as essential: namely whether "there are [socioeconomic] interests out there - real, particular, independent societal interests waiting for a chance to articulate their views and to use the state to implement their views."[17] As the new elites soon realised, the formation of political parties with clearly-defined constituencies (as opposed to general movements with disparate members) proved highly troublesome. Quite often, 'politics' consisted of highly personalised appeals emphasising traditional concerns centred around nationalism or morality. The absence of genuine interests to support, let alone identify with, market reform - with the possible exception of the former nomenklatura, the group least deserving to 'capitalise' on the changes - presented liberal elites with huge political dilemmas in legitimating their agendas. As the state (once again) became the substitute for society[18], at least in the initial stages of the transition, and political struggles were waged around symbols as opposed to material interests, the search for populist, at times irredentist, solutions to the pain of economic restructuring threatened the basis of democracy.

**The 'Hour of the Economist'**

The state's role in establishing the rudiments of the market is equally, if not more, visible. Soviet-style central planning, even when accounting for its varying pervasiveness throughout the region, was profoundly defective. The 'fusion principle'[19] described by Bartłomiej Kamiński in which the party-state succeeded in eliminating autonomous sources of economic activity (and innovation) by controlling all spheres of public life resulted in highly centralised, overly bureaucratised and massively industrialised economic structures. Plagued by low productivity and technological obsolescence, and "mired in environmental [and ecological] nightmares that pose still uncharted threats to public health"[20], the East European economies suffered from a host of endemic ills, including shortages, high levels of debt, and near-total state ownership. Even when ideological claims of self-sufficiency were dropped in favour of greater reliance on market mechanisms and closer integration with the West's economies (Hungary leading the way with the introduction of the New Economic Mechanism in 1968), administrative tinkering merely accentuated the discrepancies between half-hearted measures and deep-seated flaws in central planning.

Aside from differences in the macroeconomic situation and the degree of autonomy accorded to state enterprises, all the post-communist states were characterised by heavily distorted economic systems in 1989. The 'initial conditions', according to the late Michael Bruno, necessitated a radical approach irrespective of reform strategy: "The chief novelty of the East European experience is the revolutionary change required in the institutional infrastructure, the financial system, the fiscal structure, social safety nets, the establishment of property rights, and the mass privatisation efforts. The circumstances dictated a much more comprehensive approach than [ever adopted before]."[21]

The Bretton Woods institutions - the International Monetary Fund (IMF) primarily responsible for issuing quick disbursements of financial aid to countries with severe macroeconomic disequilibria and the World Bank generally in charge of long-term development matters, such as the privatisation and restructuring of state industry - were immediately called upon in 1989 to provide the post-communist countries with technical and financial assistance. The (in)famous 'Washington Consensus' prescriptions, a term coined by John Williamson when describing the neo-liberal agenda embraced by a number of Latin American states in the mid-1980s (he later commented that he should have christened his list 'universal convergence' as the 'Consensus' extended far beyond Washington)[22], placed fiscal and monetary discipline, currency convertibility, price and trade liberalisation and the privatisation of state enterprises at the top of the policy agenda. Yet while the perceived credibility of the reform effort may have depended on the level of commitment to the above measures, its theoretical or philosophical basis could not substitute for the practical dilemmas and uncertainties in applying neo-liberal frameworks to state-dominated economies. Whether the preference was for spontaneous or state-driven privatisation, open or semi-protected trading regimes, 'shock therapy' or 'gradualism', the strategy of reform could not disguise the unprecedented character of the changes; many of which, ironically, required the active involvement of the state.

Nowhere was this more apparent than in the sphere of ownership transformation. Countries such as Poland and the former Yugoslavia which were once considered to be in the vanguard of socialist reform as a result of strong autonomy accorded to state firms emerged from communism with ill-defined property rights. "While the state enterprises [were] presumably owned by the state, the various components of ownership - including the rights to use property, to benefit from financial returns, and to dispose of the property - [were] in fact jointly held, in a shifting and imprecise way, among managers, workers and the state"[23] (this was not the case in Hungary or the former Czechoslovakia where strong managerial control and a centralised ownership structure respectively helped clarify property rights in 1989). In these circumstances, it was not enough for the state to simply transfer nominal ownership into private hands. It had firstly to clarify property rights by reasserting ownership claims over 'its' enterprises. These actions, ostensibly carried out in the name of economic liberalism, inevitably entailed a degree of recentralisation on the part of the state. This so-called 'sin of constructivism'[24], in the words of Jerzy Szacki, is equally apparent in other areas of the economic transformation where the state has to intervene on a grand scale to set in place the institutions of capitalism.

### The 'Hour of the Citizen'

The difficulties in developing a modern civil society that will embrace, let alone understand, the logic of market democracy constitute by far the greatest challenge for the post-communist elites. In contrast to the alleged "resurrection of civil society"[25] that a number of 'transitologists' believed could be traced to the overwhelming support for radical change in 1989, Eastern Europe was faced with a poorly organised, state-dependent and deeply confused citizenry. "Rather than strong states confronting strong societies", noted David Stark and László Bruszt, "the more typical cases of change were moments in which weak states faced weak societies."[26] Although civil society, in its attempt to create spheres of social and individual autonomy, was often successful in challenging the communist party-state (particularly in Poland where the rise of the Solidarity movement, together with the strong influence of the Catholic Church, strengthened the notion of a 'Self-Governing Republic'), its existence depended on, or at least was facilitated by, the presence of a common foe. Once this power disappeared, the presumed 'resilience' of civil society was no longer apparent. Many of the former assets of the democratic opposition - collectivist aspirations stressing religious, social (notably egalitarian) and moral aims - became liabilities in the post-communist context. The 'anti-politics'[27] of the 1970s "proved to be inadequate schooling for the practice of democracy as the 'art of the possible'. What we have witnessed instead is the fragmentation and polarisation of political life in which confrontation takes precedence over compromise and leaves the electorate confused or alienated."[28] A new structuring of interests based on a redefinition as opposed to a resurrection of civil society is arguably the most pressing yet time-consuming task facing the new liberal elites.

The 'dilemma of the three clocks' has profound implications for the viability and sustainability of post-communist reform. In the 'rush to capitalism', however, these matters were set aside as economic priorities took centre stage. At lightning speed, proposals for all-encompassing institutional change were drawn up in which democracy, market economics and civil society were perceived in contradiction-free terms. A "capitalism by design (or capitalism without the active promoters of their class interests)"[29] emerged based almost exclusively on blueprints prepared by western financial institutions. In those countries with severe macroeconomic imbalances, such as Poland, speed became paramount. "Discontinuity with everything inherited from the 'planned economy' acquired value in its own right" and "a certain radicalisation on the part of the system [designers] took place."[30] A chart prepared by the World Bank (see Appendix 1) in 1989 dubbed "the prototype reform process for a representative East European country"[31] underscored the indiscriminate nature of these programmes.

Differences in countries' initial conditions, their respective political and social structures, or their ethnic composition were generally absent from reform debates. A *tabula rasa* approach in which the irrelevance of history was probably the most conspicuous element resulted in standardised programmes in which success (or failure) was judged against the yardstick of the blueprint. Those who questioned the merits of 'designer capitalism', or who simply objected to the manner in which it was being presented, were branded 'gradualist' renegades. When the early results of reform revealed unfulfilled expectations, these 'renegades' became more vocal in their critiques. A dichotomous conception of the transition emerged in the expanding literature on post-communism. The arguments - sometimes spurious, often perceptive - were drawn along lines which appeared diametrically opposed and were maintained with equal vehemence. "Approving one of the options more or less implied rejection of - and by - the others. This led to an extreme splintering of the [academic and policy communities] into small tribal entities whose representatives were hardly on speaking terms."[32]

## TWO SCHOOLS: TRANSITION VERSUS ADAPTATION

The absence of conceptual or theoretical models to analyse post-communism has generated intense controversy over the precise nature of these developments. Many observers question the applicability of standard instruments of social science used to formulate hypotheses on the earlier transitions. The so-called 'travelling problem'[33] discussed by Giovanni Sartori - the application or, more precisely, the extension of a conceptual model to encompass additional cases - was given a new lease of life in 1989. Whether "the trick", in Sartori's words, merely "resides in making the unlike look alike"[34] (the 'conceptual stretching' argument) or, alternatively, whether there are legitimate and justifiable reasons for adapting old frameworks to suit new contexts (the 'conceptual travelling' position), "the challenge of achieving the virtue of 'travelling' without committing the vice of 'stretching'"[35] is considerable. On the surface, the basic objectives of the post-communist countries parallel the aims of the earlier transitions. While the starting positions are considerably more inauspicious and the role of external factors (both in bringing down communism as well as reforming it) is much more apparent, the East European cases can, according to some, be viewed as a sub-category of a more generic phenomenon of transition from authoritarian rule; in other words "a sub-species of the same genus."[36] The authors most commonly associated with this view, and those most willing to engage in 'conceptual travelling' throughout the East, take their cues from the seminal works on *Transitions from Authoritarian Rule*[37] edited by Philippe Schmitter and his colleagues in 1986. Credited with pioneering the proto-science of 'transitology', Schmitter and his associates are key figures in the familiar debate between comparativists and area specialists.

**The 'Transition' Perspective**

In their four-volume work dealing with the Southern European and Latin American regime changes, Schmitter and his associates argue that the reasons for launching democratic transitions are to be found predominantly in the domestic situations of the respective countries, specifically in the strategic decisions of key actors. Alluding to the metaphor of a multi-layered chess game involving not two but several players, all competing in a highly fluid and unpredictable environment where one move can have profound consequences for the next, the authors pay tribute to the participant(s) who is able to secure his/her/their imprint on the new rules of the game. Equipped with a decidedly Machiavellian understanding of regime change ('the wily Florentine' is, lest we forget, the patron saint of 'transitology'), the authors refer to "the high degree of indeterminacy embedded in situations where unexpected events (*fortuna*), insufficient information, hurried and audacious choices, confusion about motives and interests, plasticity and even indefinition of political identities, as well as the talents of specific individuals (*virtú*), are frequently decisive in determining outcomes."[38]

In contrast to structural forces, or the pre-conditions which help determine whether some authoritarian states democratise and others do not, 'transitologists' focus their attention on the strategic actions of elites in the founding moments separating the collapse of the old regime from the arrival of the new. Central to this perspective is the element of choice (as opposed to constraint). Building on the work of Dankwart Rustow in the 1970s[39], Schmitter and his colleagues, while not denying the importance of structural/historical conditions, do not perceive a direct link between structural factors and political outcomes. Instead they believe contingency is the key element in the shift from authoritarianism to democracy. Giuseppe Di Palma, a fellow 'transitologist', concurs with them by claiming that transitions are more a product of political craft than structural forces which, in any event, according to him, become "temporarily suspended [in the formative stages]" and "cease to function as tried constraints."[40] This voluntarist, politically-driven view offers a counterweight to previous analyses of regime change which searched for the pre-conditions of democracy.

In a determined effort to extend his approach to Eastern Europe, Schmitter, this time in collaboration with Terry Lynn Karl[41], urges former Sovietologists to reconcile themselves to the inevitable by incorporating the post-communist region into the body of comparative analysis. Stating that "all these cases of regime change - regardless of their geopolitical location or cultural context - should be regarded as parts of a common process of diffusion and causal interaction"[42], Schmitter and Karl believe the gains of 'travelling' far outweigh the risks of 'stretching'. While they admit that the parametric conditions favouring the 'tentative conclusions' of 1986 were based largely on political factors as well as the absence of powerful external forces, they again refuse to acknowledge a clear link between the structural legacies of 'real socialism' and the crucial decisions taken in the initial stages of transformation. In their view, the revolutions of 1989 were also characterised by great uncertainty, unforeseen contingencies and a considerable degree of choice in the mode of transition: "Actors believe they are engaged in a 'war of movement' where dramatic options are available and the outcome depends crucially on their choices. They find it difficult to specify *ex ante* which classes, sectors, institutions or groups will support their efforts - indeed most of these collectivities are likely to be divided or hesitant about what to do."[43]

Schmitter and Karl list several distinguishing characteristics of the East European countries which complicate the task of comparative analysis, yet they believe 'transitologists' should "stick to their initial operating assumptions."[44] It is his criticism of former Sovietologists and other area specialists for stressing the 'uniqueness' of post-communist developments that allies Schmitter(ism) with those who, in principle, see no fundamental reason why neo-liberal economic models cannot be applied in Eastern Europe. One should stress, however, that Schmitter (as well as other 'transitologists' for that matter) are not associated with, nor do they advocate, any particular economic model for the region. One who does is Jeffrey Sachs, Professor of International Trade at Harvard University and renowned advisor to several of the radical reformers in Eastern Europe. An expert on Third World debt, Sachs assisted the Bolivian government in the mid-1980s to stamp out hyperinflation[45] and then went on to play a key role in the design of the Polish and Russian transition programmes in 1989 and 1992 respectively.

A firm believer in the global validity of neo-liberal economics, Sachs is credited with supplying much of the intellectual rationale for 'shock therapy': the policy regime commonly associated with the unconditional and much-publicised embrace of the 'Washington Consensus' prescriptions. The public launch of his vision for the post-communist transition was provided in a contribution to *The Economist* in January 1990 provocatively entitled 'What is to be Done?'[46] (even Sachs himself, in a subsequent work, admitted that "it may seem reckless to ask the same question"[47] as that posed in 1902). Writing "in the style of a Lenin of decollectivisation against all the assorted Menshevisms of half-measures"[48], Sachs provided the baptism for a new discipline entitled 'the economics of transition' - a rapidly expanding field which now boasts its own journal under the same name[49]. The article itself was an authoritative, albeit controversial, piece which argued emphatically against any 'third way' between plan and market. The 'three zatsias' - stabilisation, liberalisation and privatisation - were presented as a 'seamless web' of reforms all strongly interrelated and dependent on one another. As a policy advisor, Sachs, as he later confessed in his Lionel Robbins Memorial Lectures at the London School of Economics[50], perceived the problem of reform to be political rather than social or economic. For this reason, and doubtless for others, he pioneered his own 'strategy of transition' (a sub-category of the 'economics of transition') and placed speed, together with comprehensiveness, at the top of the post-communist agenda; "You don't try to cross a chasm in two jumps"[51], Sachs repeatedly claimed.

Joined by other prominent 'shock therapists' such as Sweden's Anders Äslund[52], Sachs spoke in Schmitter-friendly terms when he argued that "there are powerful arguments for moving [ahead] rapidly. Fragile governments facing economic crises are best able to carry out strong measures [early on]. For this reason, Machiavelli's famous advice is that a government should bring all the bad news forward."[53] In so doing, he directly associated the strategy, tactics and design of 'shock therapy' with the existence of a window of opportunity in the formative stages of regime change. This is not to say that Sachs's 'Leninism of the market' is fugacious - indeed he goes to great lengths to prove it is not in his treatise entitled 'Understanding 'Shock Therapy''[54] - but rather that its inner logic, at least politically speaking, is limited to (possibly dependent on) a unique opening at the start of the transition. However circumscribed or one-dimensional his advice may appear to be, there is little doubt that it exerted a strong influence on the politics of initiating economic reform, notably in those states with severe macroeconomic imbalances. If speed is the primary concern of the radical school, then faith "in technocrats' knowledge of how to construct successful economic institutions"[55] is its motto. 'Shock therapists' are guided by a clear vision of the reform blueprint they seek to implement and are willing to base their policies on conventional models. While differences in the sequencing - the ordering of priorities between the 'three zatsias' - of transition programmes may occur, variations from the ideal model will be kept to a bare minimum. The exemplary reformer, therefore, is the one who is able to recognise, and capitalise on, the window of opportunity, side-step vested interests, and remain true to the original design.

The notion that choice as opposed to constraint deserves greater attention (at least in the early stages of regime change), the willingness to place the post-communist countries in conceptual categories reserved for previous democratisations, and the political underpinnings of 'shock therapy' as a programme for radical economic engineering constitute the core of a framework for *transition*. This school of thought, clearly in the ascendant at the outset of the changes, derived its legitimacy from the political language and economic aspirations expressed in 1989. "The very currency of the discourse of [East European reforms] encouraged expectations of an orderly convergence on a Western model"[56] of market democracy. Driven by strong theoretical and philosophical beliefs, emboldened by political (and hopefully financial) encouragement from Western governments, and convinced that objective realities precluded the availability of 'alternatives' ("lingering ideas of worker self-management or public ownership"[57] according to Sachs), the transition was perceived as an end in itself. Defined in terms of its intended purpose and aiming "unstintingly at the end-state"[58], the transition perspective proved attractive if only because of the perceived coherency and consistency of its goals; more easily discernable than in any 'gradualist' reform strategy. Yet as László Csaba rightly observed in his book entitled *The Capitalist Revolution in Eastern Europe*, while "the term 'transition' suggests a single trajectory between two defined points, it is not [at all] clear where the beginning [or where the end lies], and how we in fact measure 'progress'."[59] The notion of a linear movement from A to Z is disputed on the grounds that the 'A' and the 'Z' (to say nothing of what lies in between) differ from country to country - some dispense with alphabets all together.

**The 'Adaptation' Perspective**[60]

In their attempts to apply, possibly transplant, western social scientific concepts and practices to the post-communist region, 'transitologists' face resistance from various quarters. Schmitter's focus on contingency, some say, "risks descending into excessive voluntarism"[61] if it fails to address factors which shape actors' political preferences in the first place - and how these preferences change over time. For those who believe the 'differences' of the East European states are ones in kind and not degree, the merits of 'transitology' are questioned. Valerie Bunce, for instance, in a spirited and rapid rejoinder to Schmitter and Karl's piece disputes the very terms of the debate between 'comparativists' and 'area specialists' and is somewhat offended by 'transitologists'' attempts to frame the argument in such a manner. According to Bunce, the debate is one of comparative methodology *per se*: "Are we comparing apples with apples, apples with oranges (which are at least a variety of fruit) or apples with, say, kangaroos?[!]"[62]

From this perspective, area specialists are hardly taking refuge in empiricism, as Schmitter and Karl suggest, when they caution against assimilating the post-communist states into the body of comparative analysis. Rather they are pointing to the unique structural - as opposed to purely national or cultural - attributes of the region which render comparative judgements problematic. While it is true that a majority of those who object to 'transitology' are area specialists of one kind or another (an issue Schmitter and Karl stress repeatedly), pitting comparativists against area specialists does little to address the complexities of post-communist reform and, if anything, inflames the debates, notably those pertaining to the advice offered by the comparativists of all comparativists: the 'shock therapists'. Bunce provides a good illustration of this with the following remark: Schmitter and Karl's "arrogance parallels the attitude some western economists have taken. Just as they have advocated 'designer capitalism', so Schmitter and Karl and other 'transitologists' seem to be advocating 'designer democracy' - if not 'designer social science'."[63]

Clearly the notion of 'uniqueness', whether on national or cultural grounds or else with regard to structural or historical conditions, is a contentious issue. While a number of analysts stress the first set of issues[64], the second category is particularly relevant to an 'institutionalist' perspective of post-communist reform. The argument here is that the 'three zatsias' hardly operate in a vacuum and thus need to be seen as part of an elaborate process of redefining (as opposed to replacing) institutions in the construction of the new system. One of the key criticisms of the 'institutionalist' school is that 'shock therapists', in their drive to impose textbook models of market economies, perceived a systemic vacuum in 1989 - the absence of new social forces capable of providing direction to the reforms - as tantamount to an institutional one.

In this respect, all that was needed was strategic and technical advice on the mechanics of implementing reform; in other words'getting the prices right' was what mattered. Yet it soon became clear that choosing the 'right policies' or picking the 'right reform team' was not enough. Unexpected continuities in policy meant that, far from an institutional vacuum, deep-seated structural and historical legacies conflicted with the *tabula rasa* approach. Douglass North, winner of the 1993 Nobel Prize, raised the profile of development economics at a time when Eastern Europe was embarking on far-reaching changes. North's ground-breaking work entitled *Institutions, Institutional Change and Economic Performance*[65] placed economic history at the centre of the reform debates. His main premise was that it was a mistake to concentrate exclusively on policies themselves; what mattered was an understanding of the environment in which these policies could - or could not - function. Customs, habits and other informal rules and norms built up over generations were as important as formal ones. Stressing that institutions and history needed to be integrated more into conventional economics, North argued that path dependence could provide valuable insights on the prospects for institutional change. Much more than a simple acknowledgement that 'history matters', path dependence is a useful conceptual tool which enables us to better understand how specific decisions or institutional choices in the past structure, possibly foreclose, options at a later point in time.

The implications of North's findings for East European developments are considerable. While it is only recently that the 'institutionalist' position has commanded the attention of the policy-making community[66], two American academics, David Stark and Peter Murrell, have repeatedly argued for a path dependent approach. Stark applies a distinctly *tabula non rasa* framework to post-communist privatisation regimes. In a well-researched article entitled 'Path Dependence and Privatisation Strategies in East Central Europe'[67] (his conclusions seem equally, if not more, valid for the former Soviet states), he criticises 'shock therapists' - practitioners of the "science of the not yet"[68] in his words - for devising uniform privatisation blueprints which do not take into account the indigenous enterprise structures of the countries concerned; for instance a highly decentralised one in the former Yugoslavia versus a centralised one in the former East Germany. Taking the cases of four separate privatisation paths, Stark notes how countries' distinct institutional legacies strongly influenced the politics and economics of ownership transformation. According to him, "the true strength of the concept of path dependence is its analytic power in explaining outcomes where strategic actors are deliberately searching for departures from long-established routines and attempting to restructure the rules of the game."[69]

Murrell is equally critical of the 'shock therapy' design for both its constructivist nature and its abuse of history. In a series of articles contrasting the 'radical' approach with the preferred 'evolutionary' path, he attempts to debunk the myth that rapid, state-driven privatisation is a precondition for effective reform. Central to his understanding of institutional change is the view that socioeconomic mechanisms are information-processing devices and not, as the 'radical' school suggests, resource allocating ones.[70] Rather than attempting to destroy the old state sector steeped in the attitudes, values and routines of the past, post-communist reformers would be better advised, according to Murrell, to place their faith in (and channel their resources to) the new private sector: "The first step [must be] to expose the existing institutions to challenge by the new. This can only be accomplished by encouraging the nascent private sector. Such encouragement is so vital that it must be [the key] element in all aspects of policy as well as define policy towards the old state sector."[71] The 'dual-track' approach advocated by Murrell - slowly phasing out the old state sector while privileging the private sphere - is in fact similar to that recommended by the alleged Hungarian 'shock therapist' János Kornai. Whilst it is true that Kornai advocated 'surgical stabilisation' in his 1990 book entitled *The Road to a Free Economy*, he also warned of the dangers in tearing down the state sector in one fell swoop: "The process of passing state property into private hands should in no way lead to the brutal dismantling of huge, indivisible units."[72] Instead, Kornai favoured an organic or spontaneous privatisation regime in which the private sector, and not the state bureaucracy, would be responsible for selecting which state assets should be privatised.

A more fundamental critique of the 'transition' school is provided by John Gray, formerly at Oxford and now Professor of European Thought at the London School of Economics, in a paper entitled 'Post-Communist Societies in Transition: A Social Market Perspective'.[73] Gray's argument is that Western, in particular Anglo-Saxon, exemplars of market institutions have little relevance to the post-communist countries (with the possible exception of the Czech Republic), while some of the East Asian brands of capitalism at least recognise the importance of social harmony and government intervention; both central, in his view, to the East European transformations. Gray's analysis supplements the structural attacks on neo-liberalism with legitimate cultural and national reservations (notably with regard to Russia, the target of his analysis) which contrast markedly with the triumphalist declarations of the 'the end of history' made by Francis Fukuyama[74] and others in 1989. "To expect [post-communist Europe] to converge smoothly and peacefully on any Western model is", according to Gray, " to betray an ignorance of history that is staggering; yet such expectations are the basis of all Western policy to date, and are reinforced by the history-blind perspective of neo-liberal theory."[75]

In a stimulating and thought-provoking manner, Gray personifies the second school of post-communist reform which places the accent on *adaptation* in its open-ended and indigenous forms. Emphasising the diverse institutional legacies of the post-communist landscape and concerned with the structural or cultural dimensions of development, 'adaptationists' are found in a variety of disciplines ranging from social anthropology to economic history. Instead of seeing windows of opportunity or hypothesised end-states, 'adaptationists' stress path dependence as a means of understanding the constraints faced by the new elites in departing from communism. Their creed is best described by Stark: we "do not preclude the possibility of changes that are far-reaching and dramatic. But [we differ fundamentally] from those all too prevalent approaches [in 1989] that argued that economic development required a rapid, radical, extensive (even exhaustive) replacement of institutions, habits, and routines by an entirely new set of institutions and mentalities."[76] A 'stark' contrast, then, with the prescriptions advanced by the 'shock therapists'.

## POLAND AS A CASE STUDY

A country which, in my view, acts as a useful frame of reference for both schools is Poland, the first East European nation to commit itself to radical economic reform. Always a 'weak link'[77] in the state socialist world as a result of a history of fierce resistance against foreign oppression, Poland's brand of communism, perhaps more than any, epitomised the discrepancies between the ideological roots of central planning and its practice under successive administrations. The rise of the Solidarity movement in 1980-81 as an independent trade union, a national organisation opposing Soviet domination, and a powerful force for the democratisation of society[78] presented the greatest challenge to the communist system and yet, paradoxically, frustrated the plans of the country's post-communist elites (see below). With strong support from the Catholic Church and an enduring 'Solidarity Ethos' that helped the movement preserve its unity whilst underground in the 1980s, Solidarity compelled the Polish United Workers' Party (PZPR) to negotiate the terms of a power-sharing arrangement in early 1989.

The Round Table talks led to the first (semi-)free elections in Eastern Europe since the Second World War and, against all odds, resulted in the victory of the Solidarity forces on 4 June 1989. The swift passage from a social democratic, evolutionary transformation to an IMF-sponsored radical transition in the space of three to four months is one of the defining features of the Polish case. The conception of 'shock therapy' derived as much from the symbolic legitimacy accorded to the new liberal elites as it did from the necessity of extinguishing a hyperinflationary bonfire in autumn 1989. The Balcerowicz Plan, named after the country's first post-communist Finance Minister, emerged as the quintessential East European reform package long sought by the western financial institutions. The political and philosophical factors behind its launch proved as controversial as the effects of its implementation.

The choice of Poland as a case study stems from a consensus that the Balcerowicz Plan was designed to effect a rapid transition to an Anglo-Saxon-style market economy - particularly in the sphere of corporate governance. According to one observer, "Poland represents a clear and deliberate attempt at neo-liberal economic, social and political engineering on a grand scale and [should] therefore be taken as a key test-case for the adequacy of neo-liberal recipes."[79] Another claims that "Poland was the first country to change, and it became the testing ground for the 'big bang' approach that Sachs advocated."[80] The 1990-1991 years under the guidance of Balcerowicz in the governments of Tadeusz Mazowiecki and Jan Krzysztof Bielecki provide a recognisable and, for the most part, consistent policy framework in which to assess the neo-liberal project. Formally introduced on 1 January 1990, the Plan spearheaded radical reform in the region and, rightly or wrongly, provided the basis for cross-country comparisons. The comprehensiveness of the programme - its key provisions were virtually indistinguishable from the 'Washington Consensus' prescriptions and included sharp fiscal and monetary controls, the sudden removal of (most) restrictions on domestic prices and foreign trade, and the privatisation of state enterprises - was without precedent.

The circumstances which facilitated its launch relate to the peculiar, if not paradoxical, role played by the Solidarity movement in the latter-half of 1989. Deeply suspicious of the intentions of the communists in enticing the opposition into an unpropitious power-sharing arrangement (the PZPR ensured itself and its allies of 65% of the seats in the parliament and was able to preserve this 'contract' until October 1991), Solidarity - at the time consisting of a trade union in Gdańsk and a parliamentary/intellectual elite in Warsaw, with its popular Chairman Lech Wałęsa gravitating between the two - gave its blessing not so much to a specific programme of reform but rather to its representatives' political authority in implementing it. Whether or not one accepts that 'shock therapy' was chosen *faute de mieux*, its genesis lies in a Schmitteresque atmosphere in autumn 1989 which granted Polish policy-makers a unique window of opportunity to carry out their plans. This exceptional environment has been described as a period of 'extraordinary politics'; a term coined and repeatedly used by its greatest beneficiary, Leszek Balcerowicz.

Balcerowicz elaborates on this expression in a number of his western publications written following his exit from Polish politics in late 1991. His book entitled *Socialism, Capitalism, Transformation*[81] is a compilation of all his articles written for western journals. Two clear themes emerge from his work: the economic justification for proceeding with a radical approach (the book's strong comparative content offers insights on other countries' reform strategies) and the compelling case for initiating 'shock therapy' in a period of 'extraordinary politics'. Balcerowicz defines this period as one in which a clear discontinuity in a country's history occurs. In terms similar to those used by Schmitter, he describes a stage in which "new political structures, including parties and interests groups are fluid. The old elite is discredited and there is a stronger-than-normal tendency amongst the new elites and the population at large to think and act in terms of the common good. This period calls (and creates favourable conditions) for the emergence of technopols"[82]: technocrats in positions of political responsibility. The ephemeral and 'non-renewable'[83] character of this period encourages the technopol to act quickly and establish his authority. In a second contribution, this time in Polish entitled *800 Days: Controlled Shock* (*800 Dni: Szok Kontrolowany*)[84], Balcerowicz presents a virtual month-by-month summary of his efforts to sustain his Plan in the face of strong political and economic resistance. Particularly intriguing is his candid account of his self-management (as opposed to neo-liberal) objectives during the 1980-81 years of Polish reform. That the 'Balcerowicz Group' began its reform career advising Solidarity's self-management wing known as the 'Network' is, to say the least, ironic in view of its post-communist efforts to suppress, ideally eliminate, its influence.

David Ost, a specialist on Poland's politics whose book *Solidarity and the Politics of Anti-Politics*[85] traces the evolution of the opposition movement throughout the 1970s and 1980s, builds on this theme by explaining why the Balcerowicz Plan did not encounter as much resistance on the part of the Solidarity union as it did from its self-management wing - the more enduring legacy of the 1980-81 era. In a paper entitled 'Class and the Organisation of Anger in Post-Communist Poland', Ost notes how "Poland entered the post-communist era with labour in a very strong position. This was due not so much to the status of Solidarity - in many ways that status actually helped weaken the labour movement since the authority of the union was tied up with the success of market reform. Rather it resulted from the institutional position of the workers' councils [in the state enterprises]"[86] (see below). Ost focuses on the dilemmas inherent in the Janus-like role played by the Solidarity movement - a union attempting to defend workers' interests and an umbrella organisation providing tacit support for market reform. In a separate paper entitled 'Shaping a New Politics in Poland: Interests and Politics in Post-Communist Europe'[87], he analyses the weak political foundations of the Balcerowicz Plan which, in his view, stemmed from the artificial support which gave birth to it in the first place. The Solidarity union's biggest mistake, according to Ost (as well as other Polish social democrats), was not to insist on a corporatist-style pact institutionalising a role for labour. Given the hyperinflationary climate in late 1989, coupled with Ost's own admission that the union's political stature helped bolster the 'shock therapists', it is difficult to see how this could have been achieved. Instead, the union was encouraged by its own Chairman to support the Balcerowicz Plan while remaining unclear on its own identity and confused about its (class) interests.[88]

A recognised authority on these matters is the Polish sociologist Jadwiga Staniszkis. Her 1984 book entitled *Poland's Self-Limiting Revolution*[89] presented a critical account of the worker-intelligentsia relationship at the heart of the Solidarity movement (the author herself was one of the seven advisors to the union at the time of the Gdańsk Accords in August 1980). The second installment of her complex social commentary on Polish and East European developments appears in a book entitled *The Dynamics of the Breakthrough in Eastern Europe*.[90] Staniszkis offers a detailed, if at times disjointed, account of the Solidarity movement's new-found role in the post-communist environment. She claims the absence of social forces to act on behalf of the reforms in late 1989 required a 'revolution from above' which turned out to be too 'discrete' for many in the Solidarity camp. In the ensuing months, 'post-Solidarity' politics was characterised by various 'estates' competing over symbols or 'ethoses' instead of clear-cut socioeconomic interests. The so-called 'acceleration' drive undertaken by Wałęsa and his supporters in spring 1990 in response to perceived delays in political and institutional changes stemmed from what Staniszkis believed to be the Balcerowicz Plan's inability to effect swift changes in property rights.[91]

It is the privatisation process in Poland which presents the greatest insights into the applicability of the neo-liberal design. For unlike the Czechoslovak or Hungarian enterprise structures, Polish state firms emerged from communism with considerable autonomy and confused ownership rights which complicated plans for privatisation. One of the leading authorities on these matters is the Gdańsk-based research team on enterprise behaviour under the direction of the late Janusz Dąbrowski. In order to appreciate the difficulties faced by the neo-liberals one must return to the passage of two crucial pieces of legislation on 25 September 1981: the Law on State Enterprises and the Law on Self-Management. Together, these bills granted increased operational and financial autonomy to state firms. The self-management bodies known as the workers' councils - invariably under Solidarity control - were endowed with considerable legal powers broadly resembling those held by a board of directors in a western commercial enterprise; these included the right to "fire managers, veto managerial appointments made by Ministries, and control the investment and contract decisions [of] enterprises."[92]

Although both laws were suspended following the declaration of Martial Law in December 1981, they remained on the statute books up until 1989. Indeed it came as a surprise to Poland's post-communist reformers (not to mention their western advisors) that state firms not only retained their self-managed structures but lacked concentrated and clearly-defined ownership rights. For as Dąbrowski and his colleagues note in their perceptive article entitled 'Polish State Enterprises and the Properties of Performance: Stabilisation, Marketisation, Privatisation', "the politics and economics of the collapse of communism [in Poland] left the councils not only with full control over the operational decisions of firms but with *de jure* and *de facto* veto powers over government decisions to transfer assets."[93] In short, issues of corporate governance - the precise form of monitoring or control of the management and performance of firms - proved as important as questions regarding the form(s) of privatisation.

A second key event in Polish ownership transformation was a conference in Warsaw on 17-18 November 1988 in which two competing plans for privatisation were presented. The first[94] - and the one eventually chosen by the Balcerowicz Group in late 1989 - was a highly ambitious programme of public stock offerings based on the conventional British model pursued by the Thatcher administration in the 1980s. Its author, Stefan Kawalec, referred to it as 'privatisation from above' in which the state would take on the role of setting up the institutions of a capital market and auction off enterprises to investors in an objective and transparent manner. The second model was developed by two liberal academics from the University of Gdańsk, Jan Szomburg and Janusz Lewandowski. Known as the 'Mass Privatisation Programme' (MPP), it advocated "a radical transfer of property rights from the state administration to the broad masses of society."[95] The first of its kind in Eastern Europe, the Plan was based on the principle of a free distribution of shares through vouchers. Lewandowski and Szomburg, together with many other Polish and East European experts, believed this approach could overcome the capital and institutional inadequacies plaguing all post-communist states. The history of the Programme is contained in a paper written by Lewandowski entitled 'The Political Struggle over Mass Privatisation in Poland'[96] in which he explains that, unlike the 1992 Czechoslovak scheme developed by Václav Klaus which focused on the rapid transfer of ownership, Poland's MPP stressed economic, notably corporate governance, objectives.

These two visions of ownership transformation - Kawalec's British model and Lewandowski's citizens' ownership scheme - dominated the Polish privatisation agenda in 1990-1991. Both, however, were faced with the political stumbling block of enterprise reform: commercialisation, or the transformation of the legal status of a state enterprise into a joint-stock company wholly owned by the state and subject to commercial principles. For this interim step towards privatisation - strongly recommended by the western financial institutions and their advisors in late 1989 - in which the state sought to clarify property rights by disempowering democratically-elected workers' councils and vesting governance in the hands of state-appointed corporate boards conflicted with the legacy of self-management. In a decentralised enterprise culture such as Poland's, commercialisation was perceived not so much as a provisional form of privatisation but rather as recentralisation, even renationalisation. It is here where the path dependency model of post-communist reform is at its most convincing. A paper which addresses these issues in detail (aside from the numerous reports on enterprise adjustment issued by the

Dąbrowski team[97]) is a report co-authored by Barbara Błaszczyk and Tomasz Gruszecki entitled 'Privatisation in Poland, Laws and Institutions (April 1990 -January 1991)'[98].

While the Kawalec and Lewandowski blueprints dominated the policy agenda, a third, less publicised, proposal drawn up by a group of 23 parliamentarians under the leadership of Ryszard Bugaj proved equally significant. Geared towards self-management practices and awarding preference to employee ownership, the 'Law on Ownership Transformation of State-Owned Enterprises' based its provisions on the economic section of the 1989 Round Table Accords. A passionate defender of this Law, and one who has repeatedly emphasised a social democratic alternative to the Balcerowicz Plan, is Tadeusz Kowalik. In a number of western publications[99], Kowalik, like his colleague Bugaj, claims the economic document adopted at the Round Table could have conceivably provided the basis for an adaptive transformation stressing self-management methods, varied forms of ownership and, crucially, a corporatist-style pact as advocated by Ost. One of the key themes in Kowalik's works is that the severe deterioration in the Polish macroeconomy in August 1989 "only demanded [strict] anti-inflationary measures and not a [giant] 'leap' to any particular kind of system."[100] Yet as he himself recognised, the political underpinnings of 'shock therapy' dictated a radical stance on all reform fronts, irrespective of the inherent differences in the speed of the 'three zatsias', i.e. stabilisation can proceed much faster than institutional changes. These philosophical considerations proved highly controversial and led to a number of misconceptions in the early 1990s concerning the pace and content of post-communist reform programmes.

The departure of Balcerowicz from government in late 1991 led to more innovative forms of neo-liberalism as favoured by Jacek Kuroń, ironically one of the chief instigators of 'shock therapy'.[101] Kuroń's firm social democratic credentials provided the basis for a quasi-corporatist pact with employers and trade unions in the second-half of 1992. For the first time in Poland's post-communist reforms, the authorities recognised the importance of negotiation in restructuring industry. The 'Pact on State-Owned Enterprises' signed in February 1993 was a marked departure from the technical conception of privatisation in 1990-91. Kuroń admitted as much in his manifesto published following the victory of the post-communist left in the September 1993 parliamentary elections. Entitled 'A Republic for All' (*'Rzeczpospolita dla Każdego'*)[102], the manifesto claimed that whilst Balcerowicz(ism) had succeeded in stabilising the economy, he had failed to provide neo-liberalism with an effective political, let alone social, voice as a result of poor consultation and insufficient presentation.

Interestingly, Kuroń co-authored another paper on a similar theme entitled 'Negotiated Strategy in the Process of Economic Transformation' (*'Strategia Negocjacyjna w Procesie Transformacji Gospodarki'*), this time with Jerzy Hausner, a Professor of Public Economy at the Kraków Academy of Economics. Hausner emerged as the political brains behind Grzegorz Kołodko's new 'Strategy for Poland' adopted in June 1994. As Poland's new Finance and Deputy Prime Minister (the same posts held by Balcerowicz), Kołodko sought to articulate a post-'shock therapy' vision for the transition[103], privileging negotiation and favouring the restructuring of enterprises prior to their privatisation. Yet his professed alternative - an ambiguous document which built on Kuroń's Pact and openly endorsed an industrial policy - placed central administrative reform and mass commercialisation at the top of its agenda. For the workers' councils, in particular, this new 'managerialism'[104] differed little from that pursued under previous governments.

## PRESENTATION OF ANALYSIS

This discussion of post-communist reform places the Polish case in the context of the two schools outlined above - the 'transition' perspective emphasising choice, strategic action, and conventional models versus the 'adaptation' philosophy stressing the legacies of the past and country-specific institutional constraints. While the views of both schools are by no means exhaustive of the analytical and conceptual issues inherent in Eastern Europe's transformations, they offer valuable insights on the politics of initiating and sustaining transition programmes. Far from representing mutually exclusive frameworks as is often portrayed, they focus on different elements of change. This derives from contrasting perspectives on countries' initial conditions prior to the launch of post-communist reform. Just as 'transitologists' are concerned with the founding moments of the new system and believe the 'exit phase' displays similar characteristics across the region and is instrumental in defining the reform agenda, 'adaptationists' perceive the 'paths of extrication' in less homogeneous terms as a result of distinct historical and structural factors, notably the indigenous governance structures of state enterprises.

Focusing primarily on political factors in a given time frame and eager to demonstrate how grand designs originate from the elevation of specific agendas (accompanied by the relegation of others) in moments of crisis, 'transitologists' are at their most convincing when describing the conception of radical economic reform. The window of opportunity which underpinned Poland's 'shock therapy' programme in autumn 1989 is a poignant illustration of this. Equally compelling is the 'adaptationists'' depiction of the obstacles faced by the Polish neo-liberals in overcoming the legacy of the self-managed enterprise model. The numerous efforts to disband workers' councils through forced commercialisation partly served to discredit the state-driven privatisation regime adopted in late 1989. For as Stark noted, the councils constituted "the most important institutional legacy in the economic realm of Poland's extrication from state socialism."[105]

**Purpose of the Study**

The purpose of this study is to examine the conception and implementation of Polish 'shock therapy' as a test-case of the relevance of both schools. Poland's pioneering role in post-communist reform is invariably used as a *point de référence* for the 'transition' perspective. This stems from an overemphasis on the macroeconomics of the Balcerowicz Plan, together with an unfortunate tendency to compare this particular aspect of Poland's reforms with other countries' less dramatic changes; the preferred contrast is Hungary. By focusing on the endogenous aspects of the Polish transformation (as opposed to the external elements, although naturally the two are interrelated), this analysis will critically examine the myth that 'shock therapy' encompassed the entirety of the policy regime. The objective is to disaggregate the Plan by separating the radical macroeconomic component from the process of large-scale privatisation; the former, it is argued, is inextricably linked to the period of 'extraordinary politics' while the latter is much more path dependent and requires an appreciation of the self-management reforms in 1981-82.

Only in this manner, I believe, can we come to grips with the false dichotomy that pervades the literature on post-communist transitions. By going beyond the familiar technical analyses that either neglect the importance of pre-1989 developments or focus exclusively on the original reform model, this study traces the political and philosophical evolution of 'Balcerowiczism'; a term which I believe still characterised the Polish policy regime following its author's departure from government and the broad continuity in macroeconomic policy and corporate governance objectives. Whilst the period of 'extraordinary politics' provided the baptism for Polish neo-liberalism, its political trajectory under successive governments proved more complex. As a result of certain policy-makers' perceived attachment to the prescriptions advanced by the first school, the 1990-1991 era acquired the 'shock therapy' label. I believe this is misconceived and unhelpful in view of the practice of 'shock therapy', particularly with regard to large-scale privatisation.

I propose, then, to categorise Polish neo-liberalism into four political variants which reveal the mutual inclusiveness of both schools and the appearance of elements of each at different stages in, and in different areas of, the reform process. This typology is based on the view that Balcerowiczism represents a recognisable policy framework in which to assess its political and economic trajectory. The first variant is the original *Balcerowicz/Mazowiecki model* in 1990 with its roots in the period of 'extraordinary politics'. One of its defining characteristics was the Balcerowicz Plan's attempt (with strong encouragement from Sachs) to present 'shock therapy' as an all-encompassing programme for a giant 'leap to the market'. This led to severe misunderstandings regarding the pace and direction of post-communist reform. Ironically, the privatisation regime initially favoured in this variant - Kawalec's British model - proved extremely time-consuming and, if anything, emphasised quality over speed. A second feature of this model was a technocratic policy style. This stemmed from the anti-inflationary objectives of the government; ones which dictated policy towards state firms and excluded privatisation programmes which could be seen to endanger macroeconomic stability. The third aspect was a strong desire on the part of Prime Minister Mazowiecki to preserve the artificial unity of the Solidarity movement. Favouring a gradual, peaceful democratisation that adhered to the Round Table compromise with the communists, the government tried to extend the period of 'extraordinary politics' for as long as possible.

The second variant is the *Wałęsa-Initiated Gdańsk Liberals' version* in 1991 with its roots in the 'acceleration' drive in spring 1990. This 'second face' of Polish neo-liberalism as presented by the Gdańsk Liberal Democratic Congress (KLD) of Premier Bielecki resurrected Lewandowski's Mass Privatisation Programme (MPP) as part of an effort to speed up microeconomic and institutional changes. Wałęsa's eclectic policy formulations in his bid to become President of Poland were a contributing factor in prolonging the Balcerowicz Plan, albeit with a new emphasis on non-equivalent forms of privatisation. A key element of this variant was a belated recognition of a more active role for the state in the restructuring of industry. Lewandowski's revised MPP parallelled the launch of other, more interventionist, approaches aimed at monitoring firms' behaviour and providing clearer incentives for enterprises to adjust. The crucial feature of this version was the rapid acceleration of the privatisation of small- and medium-sized enterprises - to say nothing of the explosive growth of the private sector - through the less-publicised 'liquidation' paths favouring management and/or employee buyouts; precisely those which the first model had sought to avoid.

The third variant is *Kuroń's Negotiated Pact* prepared in the second-half of 1992 in response to an outbreak of militant strikes. Adopting a corporatist-style approach as a means of addressing deep-seated grievances on the part of employees in state firms, the Pact was a bold departure from the original *Balcerowicz/Mazowiecki model.* Dubbed the 'second step' of Polish reform, it placed ownership changes on an equal footing with labour relations and acknowledged the sociopolitical dimensions to privatisation in contrast to the purely technical concerns. The Pact accentuated the negotiated character of Polish privatisation by easing the requirements for the popular 'liquidation' routes in the hope of speeding up ownership changes. While political animosities between the two main unions - Solidarity and the ex-communist All Poland Alliance of Trade Unions (OPZZ) - delayed the signing of the agreement, it was the Pact's prohibitive social commitments which led to its unravelling. Yet the social partnership envisaged in the contract tempered some of the more doctrinaire aspects of Polish neo-liberalism and opened the door to the fourth variant as presented in the Strategy for Poland.

*Kołodko's 'Social Alternative'* claimed to have reversed the harsh liberalism of the first two variants and spearheaded a new approach to the post-communist transition slowly emerging in academic and policy circles in 1993-94 (assisted by a rapid investment- and export-led recovery beginning in spring 1992). A key feature of this variant, given added weight by World Bank research on Polish enterprise behaviour indicating state firms were adjusting reasonably well to macroeconomic and competitive pressures, was the view that the restructuring of enterprises prior to their privatisation could improve efficiency and contribute to effective corporate governance. A second element was the elevation of Kuroń's negotiated framework in policy-making. Hausner's academic works provided much of the intellectual and political justification for this. Finally, a strong emphasis on medium-term policy formulation and an almost compulsive need to 'sell' the Strategy to a sceptical audience stemmed from a strong personal desire on the part of Kołodko to end Balcerowizism once and for all. Given the Strategy's fiscal prudence, firm commitment to European integration, and general contempt of employee ownership, this seemed unlikely.

I believe these four variants of neo-liberalism contribute to a better understanding of the political dynamics that influenced Poland's economic reforms. Elements of both schools are visible in the actions and preferences of policy-makers (and their opponents) in the four approaches. The 'transition' perspective is most apparent in the window of opportunity which gave birth to the Balcerowicz Plan and offers insights on the politics of launching radical reform. The 'adaptation' philosophy, meanwhile, derives its analytic strength from the difficulties in implementing large-scale privatisation in view of an indigenous enterprise structure. Each variant proposed new solutions to these problems. The principal objective throughout was to commercialise firms and disempower democratically-elected workers' councils. Only in recognising the importance of the 1981-82 reforms in which the self-management system has its legal roots can we hope to understand the obstacles faced by Polish neo-liberals. At the very least, these caution against sweeping statements on 'shock therapy' and emphasise the role of initial conditions in assessing post-communist reform strategies.

**Field Work and Summary of Chapters**

This study benefited from field work carried out in Warsaw in the first-half of 1996 as well as a series of interviews conducted at the headquarters of the European Bank for Reconstruction and Development (EBRD) in London. Because of my limited knowledge of Polish at the time, the use of Polish sources often depended on the aid of a translator. The interviews, it should be stressed, were carried out in English or in French. Preparations for an extended stay at the Institute for Political Studies of the Polish Academy of Sciences (ISP-PAN) in Warsaw were made whilst attending the Fifth World Congress of Central and East European Studies held at the University of Warsaw in early August 1995. Upon returning to the Polish capital, I was able to establish contacts with the Institute of Economics (INE), the World Economy Research Institute (WERI) of the Warsaw School of Economics, and the Centre for Social and Economic Research (CASE), a foundation set up by Balcerowicz following his departure from government. Various informal seminars and workshops provided valuable information on the record of Polish reform since 1989. A fruitful venue was a conference organised by CASE on 'Ownership Transformation and Restructuring Processes in Central and Eastern Europe' in the middle of April 1996. Key speakers included Lewandowski, Balcerowicz and Krzysztof Lis, Poland's first post-communist privatisation chief. Barbara Błaszczyk, an expert on the subject who helped draft the July 1990 Privatisation Law, spoke extensively on the successes and failures of Polish privatisation. Conversations with Marek Dąbrowski and Stefan Kawalec, both members of the Balcerowicz Group, provided me with first-hand knowledge of the Polish transition.

Research carried out in the parliament's library enabled me to obtain transcripts of key parliamentary debates, notably those pertaining to the passage of the Mass Privatisation Programme as well as the Strategy for Poland in June 1994. Articles from the Polish press were also available from the library's daily press reviews. The government's Public Opinion Research Centre (CBOS) provided me with a number of their 1990-91 surveys on privatisation, in addition to questionnaires dealing with the implementation of the Balcerowicz Plan. Access to government departments - the Council of Ministers (URM), the Government Plenipotentiary for European Integration and Foreign Assistance, and the Ministries of Labour, Finance, and Ownership Transformation respectively - as well as the offices of the IMF and World Bank missions were arranged. The Press Office of URM put me in touch with government aides and provided relevant documents and legislation.

Three key primary sources, in particular, were of enormous value to this study. The first is an official copy of the 22 December 1989 Letter of Intent[106] sent by Balcerowicz and Władysław Baka (the then head of the Central Bank) to the IMF headquarters in Washington. Consisting of an exceptional letter addressed to Michel Camdessus, the Fund's Managing Director, and a 30-page Memorandum outlining Poland's 'shock therapy' agenda as well its long-term goals for the transition, the document constitutes the core of the Balcerowicz Plan. The second source is a copy of the Pact on State-Owned Enterprises[107] drawn up by Kuroń in summer 1992. Finally, the third document is a text of Kołodko's Strategy for Poland[108] passed by the parliament in June 1994 setting out the country's economic agenda for the following three years. Statistical data on the Polish economy originates primarily from the Organisation for Cooperation and Economic Development (OECD)'s *Economic Surveys* on Poland as well as the EBRD's *Transition Reports*. For more in-depth analyses, the Central Planning Office (CUP) as well as the Central Statistical Office (GUS) provided me with a number of reports. With regard to employees' responses to the reforms, the Friedrich Ebert Foundation's offices in Warsaw offered a selection of publications. The most extensive surveys were conducted by Juliusz Gardawski. His work entitled *Poland's Industrial Workers on the Return to Democracy and the Market*

*Economy*[109] is a compilation of his 1991-94 surveys.

During my stay in Warsaw and following my return to England several key interviews were arranged with prominent figures in the Polish reform process. The first meeting with Waldemar Kuczyński[110] provided a unique insight into the conception of 'shock therapy'. As economic advisor to Premier Mazowiecki in late 1989-1990 (and, for a brief duration, Poland's first Minister of Ownership Transformation), Kuczyński was responsible for selecting Balcerowicz as Finance Minister in early September 1989. The second meeting with Markus Rodlauer[111], the current Resident Representative of the IMF in Warsaw, focused on the thinking of the financial institutions in 1989-90 with respect to the implementation of economic reform. I questioned Rodlauer on the disparities between the forecasts and the actual results of 'shock therapy' (see Appendix 4). The third meeting with Jerzy Hausner[112] focused on the academic/advisor's reaction to Kuroń's Pact as well as his objectives in helping to draw up Kołodko's Strategy for Poland. The fourth meeting with Jerzy Eysymontt[113], Balcerowicz's successor, dealt with the latter's attempts to restore growth to the Polish economy in the first-half of 1992. Finally, conversations with Balcerowicz[114] and Bielecki[115] at the headquarters of the EBRD proved equally illuminating. During his stay in the Chief Economist's Office, Balcerowicz commented on the significance of the period of 'extraordinary politics' and on his country's success in launching a 'critical mass' of economic measures early on. Bielecki, now a Director at the Bank in charge of Poland, Bulgaria and Albania, discussed the problems associated with Lewandowski's Mass Privatisation Plan as well as his role in overseeing the implementation of Kuroń's Pact. His reflections on the way in which his policies differed from those of his predecessor were insightful.

In part an historical account, this study examines the genesis, implementation and aftermath of the Balcerowicz Plan. In the next chapter, the rationale and enabling factors behind the adoption of 'shock therapy' are explored. The first part focuses on the legacy of the People's Republic, with particular reference to the self-management reforms during the 'First Stage' of economic liberalisation in 1981-82. The role of the Network in bringing together Solidarity-affiliated economists to devise a programme for a radical decentralisation of enterprise management is discussed. I argue that these objectives had a strong political character: namely to reduce the power of the nomenklatura (and thus the state) in directing firms' operations. The remainder of Chapter 2 analyses the origins of the Balcerowicz Plan, starting with the arrival of

Sachs in June 1989 following Solidarity's historic electoral victory. The period of 'extraordinary politics', together with the dramatic deterioration of the macroeconomy in August 1989, radicalised economic thinking and resulted in the abandonment of the social democratic agenda agreed on at the Round Table in favour of a neo-liberal design promoted by an independent group of (ex-Network) economists gathered around Balcerowicz. The key ingredients and philosophical underpinnings of the Plan are then discussed.

Chapter 3 analyses the political trajectory of the Balcerowicz Plan in the months following its launch in January 1990. The first two political variants of neo-liberalism - the *Balcerowicz/Mazowiecki model* in late 1989-1990 and the *Wałęsa-initiated Gdańsk Liberals'* alternative in 1991 - are placed in the context of competing privatisation strategies dating back to November 1988. The first part of the chapter argues that while significant progress was made early on in stabilising the economy, protracted parliamentary debates on Kawalec's British model delayed plans for large-scale privatisation. The bitterly contested 'war at the top' in spring 1990 between Premier Mazowiecki's supporters and those of Wałęsa resulted in a political shift in favour of 'acceleration'. The success of 'bottom-up' privatisation techniques, coupled with the rapid growth of the private sector, convinced Prime Minister Bielecki of the necessity of according greater emphasis to the multi-track approach to privatisation. The latter-half of the chapter discusses the similar obstacles faced by Lewandowski's revised Mass Privatisation Programme in clarifying property rights. As declining inflation rates revealed the true impact of stabilisation, calls for state intervention - from both ends of the political spectrum - and a loosening of fiscal controls became more pronounced. Chapter 3 ends with a brief assessment of the Balcerowicz Plan following its author's exit from government.

Chapter 4 examines the post-Balcerowicz evolution of neo-liberalism under the third and fourth variants: *Kuroń's Negotiated Pact* and *Kołodko's 'Social Alternative'*. The chapter begins by focusing on the broken promises of the government of Jan Olszewski as a contributing factor to the outbreak of strikes in July-August 1992. Promoting his initiative as a change in philosophy in Polish reform, Kuroń introduced corporatist-style pacts as a means of speeding up and diversifying privatisation processes. Although an innovative approach to industrial relations, the Pact merely extended the deadline for forced commercialisation and widened the scope of collective bargaining. Chapter 4 concludes with Kołodko's Strategy for Poland presented in June 1994. Defined not so much by what it stood for but for what it claimed to reject, the Strategy attempted to articulate a post-'shock therapy' vision for the Polish transition by incorporating Kuroń's negotiated framework into a new socially-oriented approach to governing. Kołodko's firm anti-inflationary stance, together with his mass commercialisation drive, nevertheless indicated broad continuity in policy.

In Chapter 5, the 'shock therapy versus gradualism' controversy is explored. In many ways a spurious debate, the arguments stem from the false dichotomy between Poland's emphasis on radical macroeconomics and Hungary's long-standing gradualist development strategy - less abrupt in view of the experience gained from 20 years of 'goulash communism'. The views of three prominent Central European policy-makers are discussed in order to accentuate the importance of initial conditions as well as caution against the use of labels in describing reform strategies. The second part of the chapter discusses Hungary's 'gradualist' approach to the (post)communist transformation. Revealing strong path dependent characteristics dating back to the early 1960s, the country's welfare-driven policies survived the 1990 political transition intact. External preoccupations, notably servicing the country's substantial foreign debt, help explain why Hungary opted for stability instead of dramatic measures. The final section presents the views of the standard bearers of both reform schools: Gray's 'cultural/historical determinism' versus Sachs's 'portable capitalism'. I argue that the debate stems largely from Sachs's willingness to separate the means of transition from the ends; a view which Gray believes is, at best, misconceived and, at worst, dangerous given the precise 'means' Sachs has in mind.

The final chapter returns to the theme of initial conditions in analysing post-communist reforms. Dismissing the notion of 'general lessons' of the Polish transition, the chapter instead argues for clear distinctions between reform measures; between the ('extraordinary') politics of stabilisation versus that of large-scale privatisation. Six key aspects of the Polish transformation are discussed and a brief summary of the four variants of neo-liberalism is provided. I conclude with reflections on the relevance of the two schools and the need for clarity as well as a mutually inclusive approach.

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## CHAPTER 2 SOLIDARITY'S UMBRELLA

What happened to that unprecedented mass movement called 'Solidarity' and its partially socialist, syndicalist programme of a 'Self-Governing Republic'? -Tadeusz Kowalik[1]

### INTRODUCTION

By virtue of its 'big bang' on 1 January 1990, Poland became the darling of the 'economics of transition' literature. Eager to dramatise the end of the previous policy period, followers of this new sub-discipline preferred to gloss over (or else ignore) pre-1989 developments. The notion that "Poland began the transformation by launching a programme of stabilisation at the beginning of 1990"[2] figured in many of the introductory statements of analyses extolling the 'transition' perspective. While indicative of the radical nature of 'shock therapy', such views fail to account for the historical factors which influenced its design and implementation. For it is the two faces which characterised Poland's public life in the last decade of the People's Republic - the official communist ideology enforced by the Polish United Workers' Party (PZPR) and the diverse worker-intelligentsia links centred around the opposition movement Solidarity - which revealed both the imperatives and difficulties in embarking on systemic change.

Unlike the Hungarian revolution in 1956, or the Prague Spring in 1968, the rise of Solidarity presented a sustained yet peaceful challenge to the monopoly of the party-state. If it were not for the broad goals which encompassed Solidarity's social, economic and political agenda, the movement would have been unable to maintain its unity underground, let alone assume the leadership of Eastern Europe's first non-communist government. In its 16 months of freedom in 1980-81, Solidarity initiated a 'public striptease'[3] of the institutions of state socialism. This began with various proposals aimed at decentralising decision-making at the enterprise level. The self-management reforms "proved an excellent strategy for smoothing over antagonisms between professionals and workers in Solidarity."[4] Indeed self-management emerged as the opposition's common denominator in its attempts to rationalise and democratise central planning. Those who stressed the former invariably went on to preach economic liberalism in 1989 while those who favoured the latter remained faithful to their cause.

The purpose of this chapter is to examine the contrasting perspectives on Poland's initial conditions prior to the launch of 'shock therapy'. The 'transition' school focuses on the unique period of 'extraordinary politics' following the victory of Solidarity in Eastern Europe's first democratic elections. The origins of the 'big bang' are traced to the politically-charged events in summer 1989 beginning with the arrival of Jeffrey Sachs, followed by the audacious moves of Lech Wałęsa in stitching together a Solidarity-led coalition, and ending with the appointment of Leszek Balcerowicz as Finance Minister and the official presentation of his Plan on 17 December. The dramatic deterioration of the macroeconomy resulted in the abandonment of the social democratic agenda agreed on at the Round Table in favour of a neo-liberal programme with strong emphasis on short-term stabilisation.

The philosophical underpinnings of the Balcerowicz Plan are placed in the context of a decentralised enterprise culture which required the establishment of conventional forms of corporate governance prior to firms' privatisation. This is where the arguments of the 'adaptation' school with its emphasis on indigenous institutions are compelling. The entrenched position of the workers' councils in the governance structure of state enterprises has its legal roots in two crucial pieces of legislation enacted during the 'First Stage' of economic liberalisation in 1981-82: the Act on State Enterprises and the Act on Workers' Self-Management. Unlike the more centralised Czechoslovak model, Poland's state firms prided themselves on their autonomous character and objected to plans aimed at recentralising authority. While Wałęsa's union provided tacit support for radical stabilisation, Solidarity's self-management wing proved more recalcitrant in the sphere of privatisation. The opening of the post-communist Solidarity umbrella, and the gradual closing of it months later, were influenced by these two sides to the movement, each steeped in the history of the opposition in its long struggle against communism.

## SOLIDARITY AND THE COMMUNISTS' LEGACY

It was Stalin who remarked that applying socialism to Poland was akin to saddling a cow. Matters of independence and national consciousness were inextricably linked to the complex tasks of institution-building ever since Poland reemerged as a nation state in 1918. A turbulent history of multiple partitions, together with the humiliation endured under foreign occupation, could easily have ended in desperation, if not resignation, had it not been for the heroic resistance that figured prominently in successive repressions. Poland's Jewry and intelligentsia suffered the most under Nazi rule while the infamous Molotov-Ribbentrop Pact (to say nothing of the deliberate inaction of the Red Army at the time of the Warsaw Uprising) condemned the Soviet Union equally in the eyes of the Polish state. Following the tightening of Soviet hegemony in 1948, the 'nationalist-deviationist' wing of the newly constituted PZPR led by Władysław Gomułka was denounced by the Soviet authorities, thereby facilitating the ascension of a conservative faction allied uncritically to the Soviet cause. "Although the extremes of Stalinism in collectivisation, mass terror and personality cult were more limited in Poland"[5], the perceived illegitimacy of the regime set up under First Secretary Bołesław Bierut presaged further difficulties in administering communism.

**Gomułka's 'Socialist Renewal'**

Attempts at restricting the role of the Catholic Church, in many ways the preserver of national and cultural identity, as well as subjecting the peasantry - the largest segment of the Polish population - to central planning contributed to the first major crisis in June 1956. Subsequent to Khrushchev's formal denunciation of Stalin's rule, workers' riots in Poznań provoked a sharp crackdown causing the deaths of numerous activists. Despite Moscow's demands for a swift condemnation of the events, Gomułka and his nationalist-minded colleagues gained the upper hand. Brought into office in October 1956 proclaiming a home-grown 'Polish road to socialism', Gomułka's popularity stemmed from his promise to place Soviet-Polish relations on a more equal footing and to embark on comprehensive reforms.

The 'Polish October' was important for several reasons. Chief among these was the fact that workers themselves had instigated a major uprising in a communist country. The spontaneous formation of workers' councils (*rady pracownicze*) in state-owned enterprises signified a strong grass-roots demand for the democratisation, or at least the decentralisation, of economic management. A month after Gomułka assumed office, a Workers' Council Act was passed allowing employees of firms to "scrutinise and comment on the [enterprise's] annual plan, profits and performance; to agree to any changes in the internal organisational structure and production process; and to approve the appointment of the factory director."[6] By the end of 1957, almost half of all state firms had councils.[7] The decollectivisation of agriculture, the improvement in Church-State relations, as well as the greater press freedoms accorded to the intelligentsia suggested the 'Polish October' had eased tensions within society. The creation of an Economic Council functioning alongside the government and grouping eminent economists such as Oskar Lange and Włodzimierz Brus led to the publication of its 'Theses' in April 1957.

The recommendations advanced by the Council - "the democratisation of the economy", it was claimed, necessitated "the active participation of employees, workers' councils, local authorities and the parliament (*Sejm*) in the development of the Plan"[8] - placed Poland in the vanguard of East European reform. Yet once the fever of 1956 subsided, the Gomułka regime reneged on its commitments and gradually reasserted control. In December 1958 the role of the councils was reduced "to a position of complete impotence"[9] with the introduction of a law incorporating the bodies into party-based organisations. The PZPR clamped down on other short-lived freedoms by tightening censorship laws and becoming increasingly intolerant of 'revisionist' thinking, both within the party and outside. Following on the heels of a sharp rebuke of the PZPR's inattentiveness to cultural policy in the form of a letter addressed by 34 prominent intellectuals, two young Marxist students influenced by Trotskyite thinking published their own 'Open Letter to the Party' in 1965 accusing the authorities of betraying the interests of the working class through self-serving bureaucratic centralisation.[10] For their 'revolutionary incitement', Jacek Kuroń and Karol Modzelewski were sentenced to prison for several years. The decade ended with student protests in March 1968 centred around Warsaw University in response to the cancellation of the 19th century Polish writer Adam Mickiewicz's play, 'Forefathers' Eve' (*Dziady*). Adopting anti-semitic propaganda in assigning blame, the Party exposed the factional divisions within its ranks. Gomułka's 'socialist renewal', it seemed, had given way to conservative retrenchment. A mass exodus of talented professionals[11], either as a result of persecution or disillusionment, underscored the illegitimacy of the party-state.

**Gierek's Legacy of Debt**

In response to an ill-timed measure to raise food prices in December 1970, just days before Christmas, widespread rioting erupted on the Baltic coast, notably in the shipyards of Gdańsk, Gdynia and Szczecin where the idea of forming independent trade unions was first raised.[12] Fearing a loss of control the Party repressed the strikers, thereby causing hundreds of deaths. On 20 December Gomułka resigned in disgrace and was replaced by the pragmatic Silesian party boss Edward Gierek. Together with his new Prime Minister, Piotr Jaroszewicz, Gierek personally negotiated with the striking workers and agreed to rescind the price increase. Lacking the charisma of his predecessor, Gierek "tried to build support for his leadership through technocratic reform and [a] consumer revolution."[13] External finance was to provide the key for his lofty aspirations of creating a 'second Poland'. The centrepiece of his agenda was the 'New Development Strategy' calling for accelerated growth, increased consumption and a huge surge in investment. By borrowing heavily from western banks to purchase investment and consumer goods, Gierek believed he could engineer a technological boom which, in turn, would allow Poland to pay off its debts by using the proceeds from exports. In the first-half of the 1970s, living conditions improved substantially as a result of a rise in real wages: 6.8% per year between 1971 and 1975.[14] Integration into the world economy nevertheless required an efficient allocation of imports and constituted a test-case of whether "an outward-oriented economic strategy [could in fact be pursued] within the institutional framework of state socialism."[15]

The key administrative component of Gierek's Strategy - the introduction of Large Economic Organisations (*Wielka Organizacja Gospodarcza* or WOGs) - came into effect in January 1973. Linking a number of strategic enterprises in a given sector, the WOGs achieved huge bargaining power in attracting investment, often outbidding branch ministries. Yet it soon became clear that the WOGs were creating imbalances in the economy as a result of managerial incompetence and pervasive corruption (the centralising tendencies of these bodies reduced the number of workers' councils to just over 500 in 1978, down from 6000 in 1972[16]). The failure to engage in financial reform, coupled with the adverse external conditions following the 1973 oil shock, contributed to the emergence of severe macroeconomic tensions in 1975-76 as the Polish economy experienced its first balance of payments crisis. Foreign debt increased from $1.2 billion in 1971 to $20.7 billion in 1979 with the crucial debt service ratio soaring from 12.4% to 75% respectively.[17] In a belated attempt to arrest the growth in imports and boost exports, the Party discarded its commitment to keep prices stable and raised the price of meat on 24 June 1976.

The measure belied the government's consultative approach "on which Gierek prided himself"[18] and led to renewed strikes and demonstrations; this time in the city of Radom as well as Ursus, a Warsaw suburb. Despite (again) withdrawing the price increase, the regime used brute force to quell the protests resulting in the deaths of 17 activists and the imprisonment of numerous workers. On 23 September 1976, a group of 14 opposition intellectuals formed the Committee for the Defence of Workers (*Komitet Obrony Robotników* or KOR). The significance of this date, both to those who portray KOR as instrumental in raising the political consciousness of the working class[19] as well as others who assign a subsidiary role to the organisation[20], rests with the view that the Committee engineered a distinctive opposition strategy which came to symbolise the political role played by the Solidarity trade union in August 1980.

**The Rise of Solidarity**

KOR's founding members, Kuroń and Antoni Macierewicz (other key participants included Adam Michnik, Bogdan Boruszewicz, and Jan Jozef Lipski), subscribed to the 'post-revisionist' philosophy of the eminent theorist and KOR member Leszek Kołakowski.[21] As David Ost points out, the new politics of dissent was in fact a form of 'anti-politics': "Forget about the state, the opposition counselled. Forget about 'politics'. Let's start at the bottom and rebuild civil society instead."[22] Although KOR was hardly a homogeneous body (social democrats such as Kuroń mingled with more nationalist-minded figures such as Macierewicz), its 'anti-politics' served as a rallying cry for other independent forces. By rejecting the state and its power relations, KOR argued for the democratic transformation and self-organisation of civil society. In a famous 1976 article entitled 'A New Evolutionism'[23], Michnik encapsulated many of the themes developed by Kołakowski when he criticised the 1956 and 1968 generation of opposition intellectuals for relying too heavily on the party-state's capacity for reform. In Michnik's view, the opposition should instead concentrate on a gradual expansion of civil liberties and human rights; an objective which the working class, intelligentsia and the Church could all unite on. It was the latter which the secular-minded Michnik recognised as a key agent of change in the struggle against communism, a postulate he revised in the post-communist context. "The Church is a force resisting absolute power", said Michnik, "it protects civil society against the state, and therefore plays a fundamentally democratic role, even when it continues to adopt culturally conservative positions which reinforce its hold over the population."[24]

The election of the Archbishop of Kraków, Karol Wojtyła, to the Papacy in October 1978, together with his triumphal return home the following June, proved a momentous occasion for the opposition. Not only did the Pope identify with the spiritual, cultural and national aspirations of the majority of Poles, he encouraged them. A profusion of dissent throughout the late 1970s further underscored the weakness of the Gierek regime. Groups as diverse as the Catholic Intellectuals Club (*Klubi Inteligencji Katolickiej* or KIK) and the Movement for the Defence of Human and Civil Rights (*Ruch Obrony Praw Człowicka i Obywatela* or ROPCiO) drew inspiration from KOR's 'anti-politics'. The 'Flying University', operating out of the basements of prominent dissidents, offered alternative sources of intellectual development. A reform commission entitled the Experience and Future Group (*Doświadczenie i Przyszłość* or DiP) under the direction Stefan Bratkowski brought together party members, opposition intellectuals and Catholic figures to discuss the state of the nation. The findings pointed to the deleterious effects of the regime's policies on the country's psychological and social health.[25] In April 1978, workers on the Baltic coast, assisted by intellectuals such as the Gdańsk-based Boruszewicz[26], set up the Committee for Free Trade Unions of the Coast whose founders included the future Chairman of Solidarity, Lech Wałęsa. Oscillating between confrontation and compromise, ensnared in a perilous debt trap, and confronted with an economic crisis characterised by falling investment and rising inflation, the PZPR initiated gradual price increases in July 1980 which, evidently, produced a disproportionate response.

The literature detailing the Solidarity movement's 500 days as communist Europe's first independent trade union differs on the accent placed on the opposition's social, economic and political goals. Alain Touraine and his colleagues, at the cost of over-simplification, refer to three phases: the syndical or union phase from August 1980 to late March 1981; the economic phase from April to late September 1981; and the political phase culminating in the declaration of Martial Law in December 1981.[27] Concentrating more on tactical-ideological splits within the movement, Jadwiga Staniszkis perceives the above phases in terms of a self-limiting revolution, an identity crisis, and open conspiracy respectively.[28] The question as to whether different individuals (or groups of individuals) at different stages may, or may not, have emphasised one tendency or another is misleading. Solidarity's diffuse structure and all-embracing character precluded the elevation of one agenda to the detriment of others while the lack of clarity accompanying its goals blurred the distinct functions performed by its leaders.

As late as 15 August 1980, "the only thing at stake was a wage claim."[29] When the strikes spread to the Lenin shipyards in Gdańsk, an Inter-Enterprise Strike Committee (*Międzyzakładowy Komitet Strajkowy* or MKS) was formed with the charismatic Wałęsa at its head. Deeming it fair that all enterprises in the region be awarded a similar wage increase, the MKS drew up a list of 21 demands on 16-17 August calling for independent trade unions and the right to strike. Other demands included access to the media, the release of prisoners, and 'publicly approved' anti-crisis measures involving a rise in pensions and wages.[30] On 24 August, a 'committee of experts' was formed to advise the Gdańsk MKS. Its seven members included three Catholic intellectuals (Tadeusz Mazowiecki, Andrzej Wielowiejski and Bogdan Czywiński), two economists (Waldemar Kuczyński and Tadeusz Kowalik), one historian (Bronisław Geremek), and the sociologist Staniszkis. While most accounts of the committee tend to emphasise its 'moderating' influence[31], pressure from both the striking workers and the experts (together with the Church) compelled the Gierek leadership to sign up to the Gdańsk Accords on 31 August. "Under a crucifix and using a souvenir pen of the Pope's recent visit, Wałęsa signed the agreement that was to allow the formation of the *Niezależny Samorządny Związek Zawodowy* (Independent Self-Governing Trade Union) *Solidarność*."[32]

**The Self-Management Reforms**

The regime's accession to the 21 demands - similar agreements were signed in Szczecin and Jastrzębie - put to rest any lingering hope that it commanded the allegiance of the majority of Poles. The overwhelming support for the Accords, with 92% of the public in favour of the agreements[33], placed the 9 million member-strong Solidarity union at the forefront of East European reform. The 'self-limiting' character of the movement was evident in its decision to recognise the communists' leading role in the state. If Solidarity was not a political party and yet its legal recognition enabled it to confront the authorities with a host of demands, what was its precise function in autumn 1980? Most observers claim the signing of the Accords marked the end of the opposition's 'anti-political' stance. With its application for registration formally approved on 10 November 1980, Solidarity became a political force shaping the direction of Polish reform. "By calling for a single national union [- albeit with a decentralised regional structure -] that would pose a political counterweight to the state, [the opposition] was saying that the conflict had already passed the stage where societal democratisation was the only goal."[34]

The union began by pressing the PZPR on a host of employment-related issues, including the demand for free Saturdays. Given the optimism expressed by the public that Solidarity could (and should) improve the standard of living[35], syndical action alone was deemed insufficient in both securing and preserving the union's autonomy. While the new Party leader, the former Interior Minister Stanisław Kania, promised to uphold the Accords, rising numbers of strikes and arrests throughout the New Year revealed the difficulties in reaching a consensus. The deterioration in the economy, aggravated by inflationary wage settlements, suspended investment projects, and declining exports, convinced the opposition (and the regime, albeit for different reasons) that a more resolute approach was needed. The 'Bydgoszcz incident' on 19 March 1981 in which Solidarity activists were beaten by the police accentuated the increasing polarisation of views.

Touraine and his team view the rise of the self-management (*samorząd*) movement in early 1981 as a "meeting point between trade union and political action."[36] Certainly this was not how the Party viewed the reform and, according to some observers, was not what the designers of self-management had in mind. Contrary to popular opinion, the self-management agenda did not originate from within the Solidarity union. The reform was a product of the technical intelligentsia in the rejuvenated workers' councils and not of the workers themselves; some even saw a "potential rival to the new unions in a system of worker self-management."[37] The first explicit reference to self-management was in Point Six of the Gdańsk Accords which briefly stated that "economic reform [should] be based on the strengthening, autonomous operation and participation of the workers' councils in [enterprises'] management."[38] The urgency of devising a reform programme placed self-management on the political agenda in late 1980. Economic experts on Solidarity's provisional National Coordinating Commission (*Krajowa Komisja Porozumiewowcza* or KKP) such as Ryszard Bugaj "argued strongly that the union [should] abandon its [purely syndicalist] posture and take on an active role in promoting economic reform, including 'authentic *samorząd*'."[39]

In early April 1981, two Solidarity activists - Jacek Merkel, a colleague of Wałęsa's at the Lenin Shipyards, and Jerzy Milewski, an advisor from the Polish Academy of Sciences - founded the Network of Enterprise Organisations of Solidarity (*Sieć*). Grouping workers' councils in 17 of Poland's largest and strongest state firms, the Network began work on a programme of 'radical decentralisation' at the enterprise level aimed at replacing the traditional state enterprise with a more democratically-oriented 'social' one. It was during these months that a profusion of self-management schemes (Domenico Nuti lists seven competing projects including the proposals being drawn up the Party-Government Commission for Economic Reform[40]) provided the conceptual framework for the 'First Stage' of economic liberalisation.

The common objective uniting all opposition self-management plans was an attempt to weaken the power base of the nomenklatura in state enterprises. The reforms were intended as "an instrument of economic rebirth" aimed at "reducing the influence of central administrative planning."[41] The Network viewed enterprise autonomy and industrial democracy as indivisible and based their programme on this premise. One of their consultants was Leszek Balcerowicz who, at the time, was in charge of a young reform team at Warsaw's Central School of Planning and Statistics (his group included other prominent post-communist reformers such as Marek Dąbrowski and Jerzy Eysymontt). The Network had been impressed[42] with Balcerowicz's first 'Plan' published in November 1980 entitled 'Economic Reform: Main Direction and Means of Implementation' (*Reforma Gospodarcza: Głowne Kieriunki i Sposoby Realizacji*) which concurred with the group's objectives on rationalising the behaviour of state firms.

Balcerowicz recalls how "we wanted to propose something which would be consistent with our sense of realism. In this sense, we arrived at the conception of self-management as a social factor which would grant the enterprise independence and autonomy."[43] A more candid post-1989 justification for endorsing self-management was provided by Witold Trzeciakowski who claimed that he chose *samorząed* "on the principle of a choice between scarlet fever and influenza."[44] With Balcerowicz's assistance, as well as that of other independent economists, the Network drew up a programme of reform which acted as a counter-proposal to a draft law being prepared by the government. Entitled '*Sieć* Draft Law on Social Enterprises', the bill differed from the Reform Commission's proposals on three counts: firstly, the social (as opposed to state) enterprise was to be the fundamental organisational unit of the economy; secondly, the director was to be appointed by the workers' councils (as opposed to the founding organ or branch ministry with the agreement of the councils); and thirdly, the enterprise was to be managed by its workers (as opposed to its director) through their organs of self-management.[45]

The Network's proposals were among a raft of measures adopted at Solidarity's First Congress in Gdańsk in September-October 1981. The Party had already agreed on a programme of 'internal democratisation' and 'economic renewal' at its own 'Extraordinary Party Congress' in July "despite open Soviet disapproval."[46] Held amid Soviet naval exercises along the Baltic Coast, further strikes and arrests, a severe economic crisis (imports and exports had plummeted, foreign debt had soared to $25.5 billion and investment and production alone were -22% and -12% respectively[47]), and splits in the opposition between 'pragmatists' and 'fundamentalists', Solidarity's Congress was a spectacle of political theatre. Its roughly 900 delegates - 47% of whom claimed working class origins, 33% intelligentsia, 14% peasant, and 5% mixed backgrounds[48] - convened in two stages; the first from 5-10 September and the second from 26

September to 7 October. Dozens of resolutions were passed defining the character, structure and position(s) of the union on aspects of political, social and economic reform. Solidarity's 'Magna Carta'[49] for a 'Self-Governing Republic' comprised 37 theses which, although vague and visionary, revealed the extent of the union's aspirations.

George Sanford refers to schisms between 'moderates' and 'radicals' in the debates concerning the final draft to be adopted: "Was [Solidarity], as argued by Wałęsa and his Church- and Gdańsk-based advisors, primarily an independent and self-managing national trade union federation concerned with workplace problems? Or, as the radicals argued, was it a political and social movement whose [very] survival depended on a major transformation, [possibly even an] overthrow, of the communist system?"[50] Economic experts associated with the first position, the so-called 'realists' such as Bugaj and Kuczyński, favoured a gradual restoration of market equilibrium and a strong emphasis on self-management. The more intransigent elements represented by the Lublin economist Stefan Kurowski, dubbed the 'fantasy merchants'[51], championed full-scale liberalism and an abandonment of piecemeal measures. The debates surrounding the elections for President were equally contentious, this time with regard to the precise composition of the KKP; whether it should be nationalist or democratic, centralised or decentralised, union-led or intelligentsia-driven, and, crucially, to what extent it should oppose the regime. The final vote proved inconclusive: "Whereas Szeczcin union leader Marian Jurczyk [(25% of the vote)] demanded free elections to the *Sejm*, Andrzej Gwiazda of Gdańsk [(9%)] exhorted workers to take greater control [of the movement] and Bydgoszcz leader Jan Rulewski [(6%)] mocked and challenged the Warsaw Pact; Wałęsa [(55%)], for his part, began his speech by urging respect for the authorities."[52]

On 18 October 1981, the Defence Minister Wojciech Jaruzelski replaced Kania as First Secretary. The recession had reached crisis-point and pressure from the Soviet authorities was mounting. Whether "Solidarity had [by then] sowed the seeds of its own destruction"[53] by issuing increasingly radical demands is debatable. The dissolution of KOR on 29 September, coupled with a wave of strikes throughout October and November, certainly indicated a strongly political agenda. The Party claimed Solidarity had lost control of its members. Even 60% of the public believed the union was partly responsible for the conflicts dividing society; and 40% of respondents were of the opinion that both sides were to blame for the economic crisis (compared to 27% in December 1980).[54] The decision to impose Martial Law on 13 December 1981 is an issue which, to this day, divides the Polish political establishment. It is questionable whether, as Jaruzelski still claims[55], the dangers of a full-scale Soviet invasion justified the 'lesser evil': a relatively mild crackdown on the opposition, the internment of thousands of its members, the annulment of the Gdańsk Accords, and the banning of the Solidarity union together with other independent organisations. The pretext for declaring a state of emergency was that economic reform had been 'hijacked' by 'anarcho-syndicalist' elements. This appears to suggest that the Party believed its reform agenda would have benefited from a (re)centralisation of controls, or that the Reform Commission's economic proposals were somehow incompatible with Solidarity's self-management programme. To an extent this was true. Yet as the new administration's 'First Stage' of reforms later revealed, the principles and assumptions of enterprise autonomy favoured by Solidarity were broadly endorsed by the Party. That Martial Law was entirely incompatible with industrial democracy only served to illustrate that "the similarities Solidarity had with socialist principles were as important as the differences [it] raised with 'real socialism.'"[56]

**The September 1981 Legislation**

The imposition of western sanctions, moral outrage on the part of the Church, and a further isolation of the Party did not stop Jaruzelski's administration (now operating as the Military Council for National Salvation) from proceeding with its economic blueprint adopted at the Party Congress in July. Known as the 'Triple S' regime[57] in which enterprises were to become self-managed, self-dependent and self-financed, the programme represented a compromise with the Network's draft law. From the outset, the authorities had attacked the Network, "likening their ideas to Yugoslav revisionism"(views not far removed from those expressed by certain neo-liberals in 1989 - see last section) and "rejecting the Network's radicalism on central planning."[58] It therefore came as a disappointment to *Sieć* that the Party opted to legislate separately on enterprise autonomy and workers' self-management. On 25 September 1981, two bills were passed by the *Sejm*: the Act on State Enterprises and the Act on Workers' Self-Management. The bone of contention between the KKP Commission responsible for submitting the Network's proposals to parliament and the *Sejm* committee charged with overseeing the passage of the Reform Commission's draft Acts had centred on who was to appoint (and dismiss) managers in state firms: the state or the workers' councils.

The Party, according to Peter Raina, claimed it would "never abandon its right to recruit people for managerial posts and would protect them [at all costs]."[59] In the end, it reconciled itself to a compromise solution which stressed that managers would be appointed by both the 'founding organ' (the state's regional and provincial ministries responsible for supervising state firms) and the workers' councils, except in those firms of strategic importance where the decisions of the 'founding organ' would prevail. The Act on State Enterprises provided the legal basis for the 'Triple S' regime by stipulating that Polish state firms would now become "independent, self-managing and self-financing units."[60] The Act on Workers' Self-Management, meanwhile, endowed workers' councils (composed of 15 members elected for two-year terms by secret ballot by all the workers in an enterprise[61] ) with substantial rights in the management and governance of enterprises. Raina lists 17 legally-binding provisions including the approval of long-term plans and objectives of enterprises, the annual review of the activities of firms, the power to decide on the proportion of profits distributed to workers and, crucially, the power to review the appointment and dismissal of directors and other managerial personnel.[62] In short, the councils were accorded the right of veto in a swathe of industries where the state formerly held sway. Whilst Solidarity had strongly criticised both laws at its Congress and had even promised to hold a national referendum on self-management, a decisive step - analogous, in certain respects, to the implementation of the New Economic Mechanism in Hungary in 1968 - towards denationalisation had been taken. Jan Szomburg claimed that "one can say that central planning in Poland came to an end with the passage of this legislation and that enterprises became - at least formally - fully independent entities with respect to their productive and investment activities."[63]

**Reflections Underground**

Following the Pope's plea for dialogue, Martial Law was formally lifted in July 1983. Yet the removal of Solidarity from the political scene alienated many independent economists, thereby depriving the regime of much-needed technical and professional support. Despite a relative stabilisation of the economy with real wages once again growing from 1984 to 1986[64], society was characterised by a sense of apathy and dejection. Feelings of betrayal on the part of the opposition turned to humiliation with the enactment of a new trade union law in October 1982 effectively dissolving Solidarity and allowing the All-Poland Alliance of Trade Unions

(*Ognólpolskie Porozumienie Związków Zawodowych* or OPZZ) to take its place - as well as seize its assets. Now operating underground - the legendary Warsaw escapee Zbigniew Bujak formed the Provisional Coordinating Committee (*Tymczasowa Komisja Krajowa* or TKK) that served as the 'official' clandestine Solidarity - Wałęsa's union gradually became a symbol, a myth.[65] This 'myth' nevertheless had to face up to the fact that "it lost, and in the aftermath of this seemingly historical defeat everything [it] believed in became suspect."[66]

Wałęsa's award of the Nobel Peace Prize in October 1983, together with the tragic discovery of the body of a kidnapped Solidarity priest, Father Jerzy Popiełuszko, underscored the moral and political bankruptcy of the communist regime. The Party's attempts to forge a 'social contract'[67] under a 'rejuvenated' leadership proved a dismal failure. Deficiencies in the 'First Stage' of reforms led to a rise in inegalitarian attitudes. In 1984, the Poles (*Polacy*) research team under the direction of Władysław Adamski revealed a marked increase in support for differentiation in incomes, private enterprise (according to 'official figures', the private sector share of GNP already amounted to 19%, employing close to 30% of the labour force[68]), and the dismissal of inefficient employees.[69] Lena Kolarska-Bobińska, herself a member of the team, noted that respondents' approval of market-based institutions was juxtaposed with a strong desire for the state to retain its social functions, together with a fear of unemployment. This 'myth of the market'[70] resulted in a gradual reorientation in the opposition's thinking; an abandonment of the purely collectivist, syndicalist demands of the past. The notion that "Solidarity had lost because [it had been] too left-wing, too close to the left-wing views of KOR"[71] gained currency in intellectual circles through the wide dissemination of *samizdat* publications.

Jerzy Szacki observes these developments from the perspective of the history of economic liberalism in Poland during the 1980s. He stresses that while the philosophy of economic liberalism *per se* appealed to a minority of dissidents, its political value as an alternative 'neglected path of anti-communism'[72] increased. The father figure of Polish economic liberalism in the 1980s was the Hayekian theorist Mirosław Dzielski who talked of a more creative strategy of confronting the regime. Instead of one based on political intransigence, the aim was to coax the authorities into ceding their monopoly by embracing capitalism. Ost notes similar shifts in the opposition's thinking: "The new wisdom held that the 'next Solidarity' had to work for [economic reform] above all, that such was the only solid foundation for political pluralism. 'Property Rights theory' became the hot topic in Warsaw in 1984 and even prominent radicals like Staniszkis became ardent proponents of private capital"[73] (see below).

The brutal legacy of Martial Law and the pervasive distrust of the regime compelled the Party to search for new ways of enticing members of the opposition into supporting 'reformist' measures. Vacillations in policy, coupled with increased divisions within the PZPR hierarchy, precluded substantial concessions. The appointment of Zbigniew Messner as Prime Minister in November 1985 was preceded by the election of Mikhail Gorbachev as General Secretary of the Communist Party of the Soviet Union (CPSU). The Soviet leader's restructuring (*perestroika*) announced at the 27th Party Congress in February 1986 opened the door to a 'Second Stage' of Polish economic liberalisation in 1986-88. The ingredients were virtually identical to those of the 'First'. New legislation included the authorisation of joint-ventures with foreign firms, a loosening of restrictions on currency exchange (aided by Poland's readmission to the Bretton Woods institutions in spring 1986), the commercialisation of the banking sector, cuts in subsidies together with price increases, and the completion of the reform of central administration.[74] The political concomitants of these measures consisted of a Kádárist strategy of reconciliation with the opposition. Self-management practices were once again permitted (workers' councils were active in 70% of state firms by the end of 1987[75]), major amnesties for political prisoners were announced, censorship restrictions were eased, and a referendum in November 1987 was held calling for austerity and mild political liberalisation - the low turnout invalidated the results but not the economic measures.

On 25 October 1987 a new 'aboveground' body formed by Wałęsa and 10 regional representatives called the National Executive Commission (*Krajowa Komisja Wykanowcza* or KKK) replaced Bujak's 'underground' TKK. Ost describes how this 'second' Solidarity incurred the wrath of Wałęsa's old opponents on the KKP by coming out in favour of economic liberalism and hinting at a possible 'anti-crisis pact' with the authorities.[76] As strikes broke out in April-May 1988, Wałęsa, once again assisted by the Church, preached moderation and strove to disassociate himself from the events. The establishment of the 'Working Group of Solidarity' headed by Gwiazda and other 'hard-liners' was a rebuke to the KKK's perceived indifference to workers' concerns. As the views of the Party and those of the opposition slowly converged (at least on matters of economic reform and the need for negotiations) following an escalation of industrial unrest on the eighth anniversary of the Gdańsk Accords, it was clear a new Solidarity had emerged, one in favour of compromise: "It was Wałęsa, together with his hand-picked advisors and colleagues [on the KKK] who constituted the closest thing to a national Solidarity leadership. They were the ones who had to respond. They were the ones who had to create new structures. They were Solidarity now."[77]

**'Parachutists' and 'Perestroikists'**

The Party's economic liberalism intensified following the appointment of the progressive Mieczysław Rakowski as Premier in September 1988. Saddling his predecessor with the failure of the 'Second Stage', Rakowski threw his weight behind an invigorated 'Plan for the Consolidation of the National Economy' promising to arrest the sharp rise in inflation - the end-year rate surged from 25.3% in 1987 to 61.3% in 1988 as a result of higher wage settlements[78] - and place the public and private sectors on an equal footing. The inclusion of Mieczysław Wilczek in the cabinet as Minister of Industry, together with the unsuccessful attempt to enlist the services of the opposition economist Aleksander Paczyński in the Ministry of Housing, both active supporters of private enterprise, testified to the renewed impetus behind economic liberalisation. The 'political capitalism' or 'spontaneous privatisation' associated with Poland's dying days of communism can be traced to the Economic Activity Act of December 1988 encouraging the development of joint-stock companies (*spółki*) and other forms of "inter-sectoral capital formation."[79]

Various accounts of these developments[80] point to cases of rampant abuse and widespread corruption. These assertions are based on anecdotal evidence suggesting members of the nomenklatura capitalised on the more liberal environment in order to siphon off state assets and 'reinvest' them in private firms of which they, or their friends and relatives, were the shareholders (the case of *Igloopol*, one of the large foreign trade conglomerates, was probably the most conspicuous example of such 'sweetheart deals'). This led to a deterioration in enterprises' financial condition and thus an increase in the state budget. According to Staniszkis, 'spontaneous privatisation' was not entirely prejudicial as it offered hopes that the nomenklatura would eventually be willing to surrender its political monopoly in exchange for economic security.[81] Perceptions of 'parachutists' as opposed to 'perestroikists'[82], however, led to public outrage and served to discredit privatisation in the eyes of the public. Partly for this reason, opposition economists began to debate alternative proposals for large-scale privatisation.

Following the first legal anti-socialist economic conference in April 1987 organised by the Catholic University of Lublin (key figures included Kurowski, Tomasz Gruszecki and Jan Winiecki), a second gathering of economists took place at Warsaw's Central School of Planning and Statistics on 17-18 November 1988. Entitled 'Proposals for the Transformation of the Polish Economy', the conference brought together scholars from different backgrounds. Two of the participants, Marcin Swięcicki and Marek Dąbrowski, presented plans for a 'reorganisation of the public sector' and employees' self-management respectively (the first serious proposal for reform based on employee ownership had already been presented by the opposition economist Rafał Krawczyk in 1985). The two main contributions came from Stefan Kawalec, on the one hand, and Janusz Lewandowski and Jan Szomburg, on the other (see next chapter for the evolution of these two routes). Kawalec's proposal, entitled 'Outline of a Privatisation Programme for the Polish Economy (*Zarys Programu Prywatyzacji Polskiej Gospodarki*)[83], based its recommendations on conventional forms of privatisation as practiced by the Thatcher administration in the 1980s. Referring to his plans as 'privatisation from above', Kawalec proposed turning state firms into corporate entities and then selling their shares to investors through a capital market. The advantages of such a scheme, according to Kawalec, were improved efficiency, increased budgetary revenue (combined with powerful deflationary effects) and the creation of a broad base of shareholders.[84]

Lewandowski and Szomburg's proposal, on the other hand, entitled 'Property Reform as a Basis for Social and Economic Reform (*Uwłaszczenie Jako Fundament Reformy Społeczno-Gospodarczej*)[85], was decidedly unconventional and was based on a free distribution of shares to the public through vouchers. Its conceptual roots could be traced to a plan put forward by the eminent liberal economist Milton Friedman in the mid-1970s to privatise the British and Italian state sectors. The two economists had developed their scheme in their home town of Gdańsk. They argued, like many other East European experts, that capital and institutional inadequacies precluded the application of standard models of privatisation; especially in view of the scale of ownership transformation. Instead the two academics favoured a radical, swift "transfer of property rights from the state to the broad masses of society."[86] The voucher scheme, according to Lewandowski[87], received a frosty reception at the conference and, perhaps for this reason, was dismissed as naive and utopian.

## The Round Table Negotiations

The 1989 Round Table talks (*Okrągły Stoł*) stemmed from a series of contacts - encouraged and facilitated by the Church - between the Interior Minister Czesław Kiszczak and Wałęsa's hand-picked team of advisors; officially recognised on 18 December 1988 as the Citizens' Committee under the Chairman of Solidarity. The Committee, according to Wałęsa, represented "the sharpest minds and greatest authorities of the country" yet, at the same time, functioned "outside the union, the creation of which was a consequence of Solidarity's duties to society in general."[88] The social democratic bent of the body - prominent members included Geremek, Mazowiecki and Michnik - was challenged by more nationalist-minded figures within the opposition who felt marginalised. Gwiazda's Working Group joined forces with the Confederation for an Independent Poland (KPN) - a party with firm roots in the opposition dating back to the late 1970s - in condemning the negotiations. The prospect of entering into formal talks with the communist regime, the significance and legitimacy of which, to say nothing of the final outcome, were questionable, provoked heated debates on the implications of reaching an accord. It was only after an acrimonious PZPR plenum on 17-18 January 1989 that the authorities themselves finally agreed to Jaruzelski's proposals for 'pluralism' in the trade union and political spheres, thus clearing the way for preliminary meetings with the 'constructive opposition' at a secret villa outside Warsaw known as Magdalenka.

Unlike the previous negotiations in Gdańsk in 1980 where "the MKS's conversations were broadcast over a loudspeaker system so that the mass of striking workers could keep track of the bargaining"[89], the discussions of the Round Table working groups - the three key committees were those on trade union pluralism chaired by Mazowiecki, Aleksander Kwaśniewski and Romuald Sosnowski; socio-economic policy headed by Trzeciakowski and Władysław Baka; and political pluralism led by Geremek and Janusz Reykowski - were conducted by a select group of individuals often having to repair to Magdalenka to 'resolve' their differences.[90] Yet the reclusive character of the talks should not disguise the unpredictable and, as would soon become apparent, unintended outcome of the negotiations; a consequence of the competing agendas. "The communists", notes Frances Millard, "fully expected the arrangement to benefit them; they expected to continue to control the state even while relinquishing some of their previous mechanisms of rule. Solidarity expected this too, but while the communists saw a deal as presenting the possibility of peaceful transformation within the system, Solidarity saw it as the first phase of the transformation of the system."[91]

Commencing on 6 February and ending on 5 April, the Round Table talks laid the foundations for Poland's systemic transformation. The final provisions called for a formal end to the seven-year old ban on the Solidarity union; the revival of the pre-war bicameral legislature through semi-free elections ensuring the PZPR and its allies - the United Peasant Party (ZSL) and the Democratic Party (SD) - of 65% of the seats, with the new Senate to be elected by a free vote; the election of a President (presumably Jaruzelski) with a six-year term by both houses of the National Assembly; the reform of state institutions, notably an independent judiciary; open access to the media; and, finally, the adoption of an economic document entitled 'Positions on Social and Economic Policy and Systemic Reform'. The political implications of the accords overshadowed the economic contents. Solidarity regained its legality on 17 April and was assured of its status as the 'loyal' opposition. The unprecedented nature of the agreement, sanctioned by Moscow as a legitimate right of each socialist country to pursue its own form of political liberalisation[92], testified to the exhaustion of 'real socialism'. Nowhere was this more evident than in the economic section of the negotiations. For what was revealing was not so much the agreement itself (the measures were more a declaration of intent rather than an official programme) as the converging opinions on the scope and direction of economic reform: "Bugaj, Solidarity's social democrat, often had more in common with Baka on the government side than he had with Janusz Beksiak, Solidarity's other [liberal-minded] negotiator. Beksiak, meanwhile, could find much in common with the government's free market liberal, Wilczek"[93].

The recognised authority on the philosophical underpinnings of the 'Positions' document is Tadeusz Kowalik. For it was he who, when observing the rise of the neo-liberal agenda in the coming months, insisted that "things could have turned out differently. There was, after all, an alternative programme [of transformation in spring 1989]."[94] Barring the excessive 80% wage indexation figure demanded by the opposition (20% less than that demanded by the OPZZ), the 'Principles' could have conceivably provided the basis for an evolutionary transformation relying on long-established patterns of self-management and the gradual restoration of market equilibrium. One of the document's key elements was a constitutional guarantee demanded by Solidarity for varied forms of ownership (see next chapter for a refinement of this position). A National Property Fund was to be set up which would distribute state assets in accordance with clearly defined laws agreed on in the *Sejm*. Strong parliamentary oversight and a prominent role for employee ownership were, in Kowalik's view, compatible with Solidarity's manifesto adopted eight years earlier. Bugaj himself, in a recent interview, noted that even ardent liberals signed up to the agreement, at the time deeming an evolutionary transformation to be better than none. "The Round Table was in our hands", he lamented; "even the most dogmatic liberals such as Beksiak and Cezary Józefiak accepted the formula of an evolutionary transformation. They were there, they signed everything." [95] In short, the Positions document "was the most radical of all reforms, but without the 'shock therapy'."[96]

## A TIME OF 'EXTRAORDINARY POLITICS'

That it was the regime and not Solidarity who, for various reasons, favoured holding early elections on 4 June 1989 was best illustrated by Wałęsa's comment: "None of us want these elections, they are the terrible price we have to pay in order to get our union back."[97] Meeting on 23 April, the closely-knit Citizens' Committee approved a list of candidates to contest the 35% of seats reserved for 'independents' in the *Sejm* and the full 100 in the Senate, adopted an electoral programme, and put in place the local and regional bodies comprising the Solidarity Citizens' Committees (*Komitety Obywatelskie* or KO). The KO, with the help of the Church and the new Solidarity daily *Gazeta Wyborcza*, mounted an effective campaign designed to expose the divisions in the PZPR leadership and convince the public that the elections constituted the first step in Poland's transition to democracy. The deterioration of the economy with a rise in shortages and an erosion in the value of the *złoty* diverted attention away from the poll. Expressing its support for a "policy of full employment", the "elimination of the nomenklatura" in the privatisation of state assets, and the promotion of agriculture as "the country's most important priority"[98], the KO upheld the 'Positions' document. The Party, for its part, refused to publish its election manifesto until 29 May[99] and witnessed its leadership jostle for places on the so-called National List of 35 seats which, although uncontested, required the approval of a majority of the electorate.

When the final results were announced it was obvious the regime had underestimated the bitter resentment towards it - much more decisive than actual support for Solidarity candidates. Already in the first round, the opposition managed to capture all but one of the 161 seats out of 460 in the *Sejm* and 92 in the 100-member Senate; in the second round, two weeks later, these numbers rose to 161 and 99 respectively. To add insult to injury, only two of the Party's candidates on the National List garnered the minimum 50% of votes necessary for election: voters simply crossed out their names. While the turnout was relatively low at 62%, the results sent shock waves throughout Eastern Europe and attested to the profound shift in Polish politics. As Solidarity rejoiced over its spectacular showing, all the more surprising in view of the spontaneity and improvisation that characterised its campaign, a sense of incredulity and apprehension began to sink in. As for the Party, its propaganda machine had failed miserably and it was left with a discredited and insecure Round Table strategy.

The opposition's 'identity crisis'[100] following the elections became more pronounced in the summer months. Now consisting of various decision-making centres - the KKW in Gdańsk, the disparate members elected to the parliament and Senate comprising the Citizens' Parliamentary Club (*Obywatelskie Klub Parlamentarny* or OKP), the regional Citizens' Committees, and Wałęsa and his advisors - the opposition was faced with practical dilemmas over its precise role(s) in the new political environment. On 6 June, Jaruzelski chose to include Solidarity in a future coalition government. This marked the beginning of a 72-day political marathon culminating in the appointment of Mazowiecki as leader of Poland's first non-communist government. The OKP's immediate reaction to Jaruzelski's offer was one of caution, if not repudiation. The Club's 16-person presidium chaired by Geremek rejected the idea of a 'grand coalition' as a ploy on the part of PZPR; Geremek himself remarked that the communists were only interested in saddling the opposition with "the Ministry of Debts, the Ministry of Wretched Housing, and the Ministry of Abysmal Labour."[101]

The reasoning, at this stage, was that the Party's consent to holding free and fair elections in 1993 would grant Solidarity the time and the means to organise itself as an effective opposition and, in so doing, ensure the proper implementation of the Round Table agreements. The first test of the viability of this approach came on 29 June when, contrary to expectations, Jaruzelski announced he would not seek the Presidency. Indelibly associated with the introduction of Martial Law, he proposed his colleague Kiszczak for the post, thereby shifting attention to the man responsible for implementing the crackdown. The prospect of lending its support to either candidate proved disheartening for the opposition, creating perceptions of a wide gulf between its moral and political authority. These perceptions intensified in the coming weeks as it became clear Solidarity needed to revise its assumptions in forming a 'shadow cabinet' and entertain the prospect of sharing power. The fear of being awarded decorative functions, or worse as envisioned by Geremek, inspired radicalism in thinking. Timothy Garton Ash captured the political atmosphere in Poland in early July 1989: "To enter government while the basic structures remained unchanged would be, [Solidarity] said, to condemn yourself to failure. To change these structures required time. But time is what they did not have. They had won the election. The country needed them - now."[102]

**Sachs's Stimulus**

Gorbachev's speech at the Council of Europe in Strasbourg on 6 July professing 'non-interference' in the internal affairs of East European states[103], together with Jaruzelski's embarrassing one-vote confirmation to the Presidency two weeks later (realising he could rely on Solidarity's tacit support after all, he reversed himself and was elected head of state owing to the creative arithmetic of 37 members of the OKP who either abstained, spoiled their ballots or 'forgot' to vote), underlined the acute dilemma confronting the Polish political establishment. In a vain attempt to arrest "the chaotic spiral in which wage and subsidy increases fed still more price rises"[104] the Rakowski government imposed a wage and price freeze in late June. This did little to impress the G-7 Group of industrialised nations at its annual summit in Paris. With financial aid to Hungary and Poland high on the agenda, the consensus was that without a radical stabilisation plan (and preferably a new set of faces), promises of financial assistance would not be forthcoming.

Floating a proposal in a front-page editorial of his paper on 4 July, Michnik suggested the concept of 'Your President - Our Premier' as a way out of the crisis. Representing a minority view at the time, Michnik (also acting as a deputy in the *Sejm*) endorsed an alliance between the democratic opposition and the reformist segment of the PZPR that would, in effect, grant Solidarity the Premiership in exchange for Jaruzelski's accession to the Presidency. This "new order that would be acceptable to all the main political forces"[105] was swiftly denounced by other figures in the OKP as, at best, premature[106] and, at worst, "a temptation [on the part of Michnik] of playing the role of an *avant-garde*."[107] A second article on 20 July, this time in *Polityka* written by Kuroń entitled 'A Government: When, What Kind and Whose'[108], echoed Michnik's thinking by stressing that only a cabinet with Solidarity's full backing would have the political legitimacy to carry out radical economic reform. As he later revealed in his memoirs[109], Kuroń, at the time, was championing the cause of economic liberalism through his contacts with two economists: Sachs and Beksiak.

The origins of 'shock therapy' can partly be traced to Sachs's arrival in Warsaw on 18 June. Poland's crushing $40 billion foreign debt owed to western governments and banks had compelled the Solidarity leadership to seek international advice on the mechanics of implementing a comprehensive systemic adjustment programme; a *sine qua non* of any debt restructuring agreement. The 'Outline of Proposals for the Economic Programme of Solidarity' (*Zarys Proponowanego Programu Gospodarczego 'Solidarności')*[110], or 'Sachs Plan', was presented to members of the OKP on 28 July by its author and his colleague David Lipton. Sachs had been invited to Poland courtesy of the Stefan Batory Foundation funded by the American financier and philanthropist George Soros. The 'Outline' "quickened the pulse and clarified the terms of the debate"[111] by arguing for a 'shock' approach to suppressing inflation; at the time in the 'high' as opposed to the 'hyper' category (see Appendix 2). Price liberalisation, drastic cuts in subsidies, a balanced budget, the promotion of free trade, and the immediate convertibility of the currency constituted major conceptual breakthroughs in Polish economic reform. Addressing the OKP, Sachs boasted of his successes in Bolivia in the mid-1980s where he helped the then Planning Minister Gonzalo Sanchez de Losada eradicate the 60,000% inflation rate devastating the economy. He even found time to quote his Bolivian client with a phrase which came to symbolise his economic philosophy: "If you are going to chop off a cat's tail, do it in one stroke, not bit by bit."[112]

The Plan itself was broken down into various stages with sharp anti-inflationary measures to be introduced in the first three months, followed by a host of microeconomic, institutional and regulatory changes (see below for Sachs's equally explicit advice on privatisation). Aside from technical support offered by the two advisors, as well as their pleas to western governments for speedy financial assistance, the main attraction of their programme was the fact that it was one, and a radical one at that. In his detailed account of Polish 'shock therapy', Sachs emphasises this point: "it was here that economic and political logic coalesced. I stressed that the idea of radical reform was not just an economic strategy, but also a political strategy to overcome Solidarity's lack of personnel and control in the ministries."[113] The stimulus provided by Sachs - "while listening to [him] speak, Kuroń had heard his colleague Bugaj whisper 'what nonsense that chap talks' and replied 'I don't know much about [his economic agenda] but I know it has [immediate] political value"[114] - convinced other Polish economists of the merits of a 'shock' approach, including certain members present at the economic section of the Round Table Accords.

A similar argument for speed was presented in a second 'Outline' drawn up by a team of economists under Beksiak. Judging stabilisation and liberalisation to be "two sides of the same coin"[115], Beksiak and his colleagues - Gruszecki, Winiecki and Aleksander Jedraszczyk - prepared a crash programme of radical anti-inflationary measures combined with structural transformation. The plan, entitled 'Outline of a Programme of Stabilisation and Systemic Change'[116], was, if anything, more liberal than Sachs's. While the American advisors favoured the use of wage controls in stabilising the economy, the Beksiak team believed this would freeze wage differentials and thus preferred controlling consumption rather than incomes: "For us liberalisation means liberalisation - and that includes the price of labour."[117] They were equally sceptical of the fixed exchange rate mechanism and preferred to let the *złoty* float as soon as possible.

The *differentia specifica* of their plan was the emphasis on rapid institutional changes, specifically the immediate transformation of state firms into joint-stock companies with 20% of the shares distributed free of charge to employees. As "the only shares with voting rights", workers would then be able to "appoint a new board of directors that would, in turn, appoint a new manager"[118]; the quickest and most effective way, according to the Beksiak team, of ridding state firms of the nomenklatura. Anti-inflationary concerns, however, took centre stage on 1 August when, in his last act as Premier, Rakowski (cynically some say) eliminated all remaining price controls on agricultural products. Though in principle correct, the manner in which the reform was executed sparked a hyperinflationary bonfire (see Appendix 2).

### Wałęsa's *Coup-de-Théâtre*

Financial catastrophe was accompanied by humiliation for the opposition when, on 2 August, the *Sejm* approved Kiszczak's nomination as Premier. With controversy still rife over the OKP's decision to facilitate the accession of Jaruzelski to the Presidency, the opposition spurned Kiszczak's offer to join a coalition, this time insisting on an 'all or nothing' approach. As the political impasse intensified with Kiszczak stymied in his attempts to form a cabinet, Wałęsa, seemingly out of nowhere, produced the master stroke. On 7 August he presented "as a virtual *fait accompli*"[119] his proposal for a 'small coalition' between Solidarity and the two satellite formations, Jerzy Józwiak's SD and Roman Malinowski's ZSL. Naturally, this caught the entire political establishment by surprise and, at first, was frowned upon by members of the OKP who resented Wałęsa's behind-the-scenes manoeuverings. The PZPR, for its part, under its new leader Rakowski, condemned the idea as a betrayal of the Round Table.[120]

The fact remained that no other viable solutions were on offer. With the assistance of his Plenipotentiary for Coalition Talks, Jarosław Kaczyński, Wałęsa conducted exploratory meetings with the SD and the ZSL and, following Kiszczak's withdrawal from the Premiership, announced a coalition pact between the three partners on 17 August. Up until the last minute, OKP deputies as diverse as Bugaj and Paczyński resisted Solidarity's entry into office, preferring a non-party cabinet which would be responsible for dismantling the nomenklatura.[121] Wałęsa's historic proposal - Sachs described it as "a typically brilliant manoeuvre"[122] - was finally embraced by the OKP *faute de mieux*. In customary style, the Chairman boasted: "I alone succeeded in doing what two-hundred-and-sixty of you were unable to do."[123] With the backing of his union in Gdańsk, Wałęsa managed to outflank the communists, sway the two puppet parties into awarding Solidarity the Premiership, and reassert his authority on the Polish (and East European) political scene.

In conferring the post of Prime Minister on Mazowiecki - the other candidates were Kuroń and Geremek - Jaruzelski chose the soft-spoken, mild-mannered 62-year old Catholic intellectual with firm roots in the opposition. Mazowiecki's previous functions as a *Znak* (the relatively independent lay Catholic grouping in the *Sejm*) deputy in the 1960s, an editor-in-chief of the Catholic monthly *Więź* and later the Solidarity weekly *Tygodnik Solidarność*, and, last but not least, a long-term advisor to Wałęsa signified that he, for one, had had his feet in the state, Church and Solidarity camps.[124] In his brief speech to parliament on 24 August, Mazowiecki sought to play to each of these audiences by stressing the new cabinet's consensual approach as a "government of all Poles", its obligation to speak the truth, and its commitment to profound changes in the political and institutional spheres.[125] The key message in his address was a promise to arrest the inflationary spiral and embark on profound economic restructuring. "The long-term strategic objective of this administration", said Mazowiecki, "will be the adoption of tried and tested market institutions; a precondition for their creation will be the restoration of market equilibrium through the suppression of inflation, a task of the highest social, political and economic importance."[126] In order to separate his government's responsibility from that of its communist predecessors, Mazowiecki proposed drawing a thick line (*gruba linia*) under the past;

a metaphor which came to haunt him in the ensuing months as a number of his critics interpreted it as a policy of leniency towards the communist nomenklatura. For the moment, the *Sejm's* overwhelming confirmation of his appointment - 387 votes for, 4 against and 4 abstentions - crowned the opposition's spectacular achievement and gave birth to Poland's post-communist regime.

**'Looking for a Ludwig Erhard'**

Faced with a crisis over its exclusion from office, the PZPR insisted it be awarded the Defence and Interior Ministries. That the communists were eventually assured of receiving "two more than the bare minimum of two ministries than had at one time appeared [likely]"[127] underscored the fragility of the 'small coalition'. As if to make matters worse, the U.S. President George Bush, in a fleeting visit to Poland in mid-July, promised a paltry $119 million in foreign aid; roughly one percent of the sum Solidarity was requesting (Wałęsa had already accused western governments of "behaving like hesitant virgins."[128]). The primordial concern of the incoming cabinet, therefore, was to capitalise on its popular legitimacy by convincing the West, notably its financial institutions, of its readiness to embark on comprehensive reforms. The search for a suitable Finance and Deputy Prime Minister for the Economy took centre-stage in the weeks leading up to the cabinet's confirmation on 12 September. With limited knowledge of economics, Mazowiecki entrusted the task to his confidant and economic advisor Waldemar Kuczyński. Anxious to find a candidate for the posts lest he be the one appointed, Kuczyński began a frantic search for an economist who, according to him, would adhere to, and espouse, "the general direction of the radical anti-inflationary policy already chosen by Mazowiecki on 24 August."[129]

Contemplating the appointment of various individuals, Kuczyński, with the assistance of his long-time associate Stanisław Gomułka of the London School of Economics, entertained the option of selecting Bugaj, Trzeciakowski and Józefiak. The final decision to appoint Balcerowicz, only after the latter declined the offer on two or three separate occasions and then reversed himself[130], was, according to Kuczyński, a consequence of the favourable impression he had made on the Premier. In "looking for his Ludwig Erhard" Mazowiecki had been informed by Kuczyński of "the stubborn and indefatigable character of Balcerowicz during the fading years of the Gierek regime when, against all odds, he assembled a closely-knit group of researchers to work on a blueprint of radical reform."[131] Naturally, Balcerowicz's economics (not to mention Poland's) had evolved considerably since then. The 1980 self-management plan commissioned by *Sieć* had been replaced by a April 1989 version advocating stringent anti-inflationary policies; price rises in August alone reached close to 40% (see Appendix 2).

The formation of the cabinet in early September had a surreal air to it. Henryk Wujec, a Secretary of the OKP Presidium, remarked how "virtually straight from prison, we found ourselves in the 'palaces of power'."[132] The nomination of Kuroń to the Ministry of Labour alongside his old foe Kiszczak in the Interior Ministry - another PZPR candidate, General Florian Siwicki, became Minister of Defence - was inconceivable only weeks earlier. The cabinet line-up announced by Mazowiecki on 12 September comprised 24 ministers with Solidarity holding 12 of the portfolios, the SD three, the ZSL four, the PZPR four, and one independent (see Appendix 3). The key posts were those responsible for the economy. With overall control over economic policy, Balcerowicz had a strong say in appointing the liberal-minded Tadeusz Syryjczyk to the Ministry of Industry[133]; Paczyński became Minister of Housing; and Jerzy Osiatyński, another Solidarity advisor, was appointed head of the Central Planning Office (CUP).

In his speech to the *Sejm*, Mazowiecki claimed to be "a man of Solidarity, loyal to the August [1980] heritage"[134] yet revealed little, if any, sympathy for trade union concerns (Kuczyński remarked that, "generally speaking, we were fairly independent from the union"[135]). Instead, the objective was to carry out "pioneering changes in the economy to initiate the transition to a modern market economy"; this 'breakthrough' was conditional on the "total elimination of empty money", a policy which Mazowiecki stressed might well involve "temporary falls in production and the standard of living."[136] Radical economic reform would be juxtaposed with the judicious application of legal principles. The Prime Minister promised to uphold the Round Table compromise by cooperating fully with the President and the *Sejm*. He also announced plans to construct an appropriate legal framework for the post-communist state (including a new constitution), and "apply criteria of professionalism and competence in the selection of state administrators."[137] Concluding his address on matters of foreign policy, Mazowiecki instructed his Foreign Minister, Krzysztof Skubiszewski, to begin preparations for Poland's entry into European political institutions while respecting its treaty obligations with the Soviet Union. A key objective for Poland in its relations with western governments was the achievement of a favourable debt accord; in this respect "he who helps fast helps twice."[138] In hort, the government's programme espoused the two liberalisms - economic and political - avoured by its members.[139]

## 'HE BALCEROWICZ PLAN

'he challenges confronting the 'Balcerowicz Group' - its key members included Kawalec, )ąbrowski and Wojciech Misiąg[140] - in September 1989 were considerable. Poland was entering period of hyperinflation, the budget deficit was approaching 10% of GDP (partly because of he excessive wage increases agreed on at the Round Table), pervasive shortages remained, the *łoty* was worthless, and the servicing of the country's large foreign debt was consuming a growing share of national income. The structural flaws of 'real socialism' left Poland with a tate-dominated (roughly 70% of GDP) and Soviet market-dependent economic base. The redeeming' characteristics of the People's Republic were the predominantly private ownership of land (close to 80%, albeit with millions of small unproductive holdings with an average size of only 7.2 hectares[141]), a sizable private sector employing over 30% of the labour force, and, in he past year, a relatively free foreign exchange market together with a two-tiered banking system establishing the National Bank of Poland (NBP) as a central bank and creating nine new regional ones. The double-edged sword of Polish economics was the self-management legacy. On the one hand, the *de jure* and *de facto* autonomy of state firms had facilitated informal privatisations n the late 1980s which, despite their unsavoury political character, had contributed to the growth of the private sector. On the other hand, the ill-defined ownership structure in which managers, he state bureaucracy and the workers' councils all had rights over enterprises' assets needed to be clarified if privatisation was to proceed.

Property rights in the state sector, according to Kresimir Sajko, were based on the principle of 'divided ownership: "The state is the owner in the economic and public law sense, while the enterprises [themselves] have ownership rights over the assets [they] hold."[142] Unlike he former Czechoslovakia where a centralised governance structure in the Stalinist mould left he post-communist state with full control over firms' operations (or even in Hungary where at east managers - instead of labour - were the dominant force), Polish enterprises were not classical state-owned entities already in corporate form whose shares were held by the state, and hence whose privatisation simply required the transfer of these concentrated shares into private hands. The self-managed structure of Polish firms had resulted in a property rights vacuum, of orts, in which any one of the three key stakeholders - the managers, the state, or the workers' councils- could effectively veto decisions to transfer assets. In short, the problem facing the new government, at least in the short term, was not privatisation *per se* but rather how the state could reassert its ownership claims by establishing a provisional system of corporate governance that would centralise property rights in the hands of responsible managers pending privatisation.

The range of issues to be addressed by the new government might have called for (perhaps benefited from) a public debate on the method(s) of transition to a market economy. This was not to be. The urgency in developing a comprehensive reform programme precluded lengthy discussions. Balcerowicz's appointment signalled the rise of the free market (*wolnorynkowy*) school of transformation. The government's policies would be based on 'proven economic models', i.e. standard macroeconomic measures (accentuated by the hyperinflationary environment), a strong emphasis on free trade and private enterprise, and a limited role for the state in the restructuring of industry. The new reformers perceived issues of private property and free markets in holistic terms; in other words "they believed they could both create and allocate property rights"[143] by simply privatising state assets. Macroeconomic stabilisation, by imposing hard budget constraints and exposing firms to foreign competition, would, it was claimed, provide the microeconomic incentives for state enterprises to adjust. Only "strict financial discipline [would] provide the real background for a true verification of the economic potential of state enterprises. Tight credit [would] force loss makers out of operation and ensure profit-takers take their place."[144] Judging state firms to be incapable of wage restraint and operational restructuring, the Balcerowicz Group saw privatisation not only as an end in itself but as a means to transform the Polish economy.

### A Window of Opportunity

The sheer presence of Solidarity representatives in office generated enormous trust in the cabinet (see Appendix 5). Wałęsa's decision to stay on the sidelines and delegate the tasks of governing to his intellectual advisors - he had stated, quite openly, that "if I build a strong union, I will be building an obstacle to reform"[145], yet later confessed that "certain forces persuaded [me] that Poland needed a period of social calm and that public debate should be muted for some time"[146] - granted Mazowiecki's government a precious window of opportunity to carry out radical stabilisation. It was advantageous for Balcerowicz that practically no one had heard of him. This llowed him to focus his energies on economic matters. At the annual meetings of the World Bank and the IMF in Washington in late September, Balcerowicz burst onto the scene with a preliminary outline of the government's economic programme. Proficient in English and German, he cultivated relationships with key members of the Bretton Woods institutions.

On 9 October, the cabinet adopted a plan entitled 'Economic Programme: Chief Assumptions and Directions (*Program Gospodarczy: Głowne Założenia i Kierunki*).[147] Dubbed the 'Balcerowicz Plan' in the media, it emphasised two main objectives: the immediate suppression of inflation and the swift change of the economic system based on 'tried and tested methods'. The anti-inflationary component profited from expert opinion - aside from Sachs, Gomułka and Jacek Rostowski joined other Polish economists in collaborating with the IMF mission[148] - which based its advice on the orthodoxies of fiscal and monetary control embraced by many of the Latin American reformers in the 1980s. According to Balcerowicz, "the quality and effectiveness of stabilisation would determine how successful the institutional changes would be."[149] Questioned on the precise duration of the government's honeymoon period, he responded by saying that he was "convinced Poland [was] witnessing an unrepeatable historical experiment, observed by the entire world, to transform its future."[150]

A strong aversion on the part of the Balcerowicz Group to a 'third way' based on workers' self-management or corporatist arrangements set the tone of Polish reform. Kowalik doubts whether a social democrat such as Mazowiecki with "strong social corporatist inclinations" understood the full consequences of adopting 'shock therapy': "This was a man who had always been looking for his model in Bonn, but landed unexpectedly in Chicago."[151] While the 'Positions' document, in Kowalik's view, "would not have been incompatible with, say, Austrian- or Swedish-style corporatism"[152], the Balcerowicz Group chose to effect a dramatic reorientation of reform away from a social democratic agenda and towards full-scale liberalism. Interestingly, Bugaj had encouraged Balcerowicz to take part in the Round Table discussions. The latter had declined the offer, partly as a result of his then expected departure to England on a research fellowship, but primarily, according to Bugaj, because "he viewed the Round Table agreements as a purely political affair based on Solidarity's utopian notions of an evolutionary transformation. Even if this was true, this was still the biggest event in Polish history; and Balcerowicz claimed he did not 'have time'."[153]

Bugaj is certainly correct in claiming that Balcerowicz was ill-disposed towards any orporatist arrangement as the latter revealed in his memoirs: "We knew from the experience of ,atin American countries that trade unions had been consulted over [economic policy]. Iowever, at the time, I could not envision any possibility of agreeing on and signing - in such short period - any kind of social pact."[154] Did Rakowski's mishandled price liberalisation, then, xclude the possibility of a programme other than one similar to Sachs's? All the evidence oints in the affirmative. That there was already a pre-hyperinflationary impulse to 'shock herapy' ensured that Balcerowicz, to a greater or lesser extent, was given a free hand in conomic policy.

**The Privatisation Impasse**

The Polish privatisation process was less amenable to radical solutions. Szomburg notes three listinct features which the Balcerowicz Group had to contend with in late 1989: the confused tate of property rights in state enterprises; a strong attachment to employee ownership based on history of self-management; and the weak capacity of the state to monitor and supervise the ehaviour of enterprises.[155] All three factors strongly influenced the course of events. From the eginning, the government was faced with two distinct approaches to ownership transformation. t could proceed with an organic method as advocated by János Kornai[156] whereby the state relied n the spontaneous development of the private sector to gradually reduce the public sector's hare of the economy; or, alternatively, it could adopt a constructivist approach using the political nd administrative power of the state to establish the institutional infrastructure of the market. Because of lingering resentment towards the 'political capitalism' of the late 1980s and a strong lesire to brandish its reformist credentials, the government felt compelled to assume direct ontrol over privatisation and take an active stance - scepticism towards the nascent private ector's capacity to reform the economy was another factor.

The next question was whether to pursue equivalent forms of privatisation - the transfer f state assets at market value and with market instruments - or non-equivalent ones - the transfer f assets below market value and by non-market means. Equivalent methods required the stablishment of a capital market and would inevitably entail an extraordinary degree of nstitutional engineering over a short period of time; "one giant leap to an Anglo-Saxon-style apital market with a stock exchange"[157] according to one observer. Non-equivalent forms, on he other hand, either by distributing shares to employees or else to the public at large, would uicken the pace of privatisation and prove politically or socially attractive. While employee wnership "would be the natural continuation of self-management"[158] practices and potentially erve to motivate the workforce and minimise industrial conflicts, citizens' ownership would opefully lay the foundations for a middle class and popularise capitalism in the eyes of millions f shareholders (a separate matter altogether was the issue of reprivatisation, or the restitution f property to their former or legal owners). Tradeoffs, then, in the objectives of privatisation - peed and feasibility, on the one hand, versus quality and efficiency, on the other; or greater airness versus increased budgetary revenue - were among the dilemmas confronted by the overnment.

In opting for a tough anti-inflationary stance, the Balcerowicz Group closed the door to ny privatisation programme which could be seen to endanger the task of combatting yperinflation. At the time, ownership transformation was seen through a macroeconomic lens nd the emphasis was on quality as opposed to speed. Kawalec's British model was the ideal ath in this respect (see next chapter). As Anthony Levitas notes, the new government "sought o create private property by defining the state as the auctioneer of its assets and letting the narket determine the optimal distribution of property rights. The whole operation had a much-lesired air of normalcy about it."[159] Critical and distrustful of employee ownership (Branko Milanovic states that "several government documents explicitly referred to the failure of the Yugoslav model"[160]), Balcerowicz was convinced that a strong role for employee ownership vould jeopardise corporate governance and undermine the state's plans to create a privately wned, corporate-based economy.[161]

Kuczyński notes that Sachs's role was important in the early privatisation debates. His ampaign for a 'shock' approach had already been widely publicised, notably in Michnik's *Gazeta Wyborcza*[162], and, in Kuczyński's view, had "offered strong intellectual and educational upport."[163] Prior to arriving in Warsaw, Sachs had been advising the Yugoslav government vhose model of enterprise made Poland's look relatively centralised. This is a crucial point ecause, according to one observer, "Sachs [felt] the Yugoslav outcome would differ [fundamentally] from Poland's for Yugoslavia would maintain, in large measure, its self-nanagement approach to corporate governance"[164] (the implication here being that Poland would ot). Sachs claimed the greatest danger Poland faced in late 1989 - aside from hyperinflation and efaulting on its debts - was a situation in which insiders of firms would challenge the state's power to privatise its assets by capitalising on ambiguous property rights. Kawalec's British model based on lengthy valuations would, in Sachs's view, lead to paralysis as the government became embroiled in case-by-case bargaining. Instead, he proposed a rapid mass privatisation programme based on a free distribution of shares through investment funds.[165]

His primary concern was for the state to fully assert its ownership rights in order to ensure that it, and it alone, could dispose of its assets as it saw fit. Whether or not influenced by his experience in Yugoslavia, Sachs viewed the establishment of effective corporate governance as a matter of the utmost urgency. Statements such as "there is still no one [in Polish firms] to lose anything from the decapitalisation of state property"; "there are strong reasons, on grounds of equity and efficiency, for rejecting [employee ownership]"; and, crucially, "the complete inadequacy of the current structure of governance, in which the manager is completely unmonitored, or, [even worse], is monitored by the workers' councils"[166] signified that Sachs, for one, felt post-communist self-management, *à la Polonaise ou à la Yougoslave*, to be a distinct liability.

His proposal, therefore, and the one which, in his view, would determine whether (mass) privatisation would proceed unimpeded, was for the state to forcibly commercialise enterprises by concentrating property rights in the hands of state-appointed corporate boards pending privatisation. Recognising that this entailed political risks, he nevertheless believed that these risks "paled in comparison to the potential economic gains."[167] This desire to turn the page on self-management was shared by the Balcerowicz Group which favoured a similar approach aimed at removing the workers' councils from the policy process. The government's "insurance policy against worker-run firms"[168] was the passage of the Act on the Transformation of State-Owned Enterprises. This was designed to convert state firms into corporate form by changing the legal status of enterprises into joint-stock companies wholly owned by the state and subject to commercial principles. Workers' councils would then be disbanded and corporate governance vested in a new board of directors appointed by the state.

At lightning speed, the self-management lobby - the workers' councils in the large state firms centred around the Network (see first section) together with their parliamentary representatives - sprung into action and, for obvious reasons, resisted such a move. The lobby contributed to a passionate debate on the precise interpretation of commercialisation in the context of a decentralised enterprise culture. "As the only organised social group capable of articulating a [clear] position on privatisation"[169], the self-management activists portrayed commercialisation as recentralisation (which it was), even renationalisation, instead of as a provisional system of governance pending privatisation. Indeed the Balcerowicz Group itself was divided over the rationale and consequences of commercialisation. Was this, as Balcerowicz and Syryjczyk argued, simply a means of strengthening the position of managers *vis-à-vis* the workers' councils, thereby improving the prospects for privatisation and foreign investment; or, alternatively, was the state, as Dąbrowski feared, in danger of (re)politicising the economy by assuming direct responsibility for enterprises' operations?[170] The question facing Polish reformers, then, was whether to run the risk of alienating the Solidarity-led councils before the launch of 'shock therapy'. For unlike "the fragmenting Solidarity movement, the councils constituted a powerful para-political movement and were [quite willing] to oppose the economic strategy of the government."[171] The quiet withdrawal of the draft Act in the dying days of 1989 in the face of stiff resistance from the self-management movement presaged further difficulties in the privatisation of Poland's state firms.

**The Unveiling**

With a keen sense of the historical drama being played out, Balcerowicz presented his Plan to the *Sejm* on 17 December. According to Ost, Wałęsa, just days before, had told his union that "the Plan was in the interests of workers since a 'Solidarity government' had produced it."[172] Laying the foundations for radical economic reform in Eastern Europe, the Finance Minister announced that anti-inflationary measures would be accorded top priority: "The Polish economy is gravely ill. An operation is needed - a deep surgical incision which will remove the inflation devastating our economy."[173] He presented to the parliament the 11 draft laws and regulations comprising the package of economic legislation to be implemented on 1 January 1990. A special legislative procedure was agreed on with deputies and senators to expedite the bills' passage before the New Year; the PZPR contingent, according to one observer, presented little, if any, opposition.[174] The 'shock' approach was justified on the grounds that political and economic logic dictated a once-and-for-all purge of inflation. Pyschological elements, as Balcerowicz later pointed out, were also at work: "I remembered from Leon Festinger's psychological theory of cognitive dissonance that people are more likely to adapt internally to quick, radical changes if they consider them irreversible than they are to gradual changes."[175] An extraordinary commission chaired by the OKP deputy Andrzej Zawiślak grouping dozens of members of parliament from the respective caucuses managed to approve the legislation by 27 December. President Jaruzelski then signed the bills into law.

In his address, Balcerowicz informed the chamber that the cabinet's economic programme was dependent (and based) on an upcoming agreement with the IMF - a $1 billion stabilisation fund for the convertibility of the *złoty* constituted the other main foreign ingredient. The signing of a Letter of Intent with the Fund on 22 December 1989 capped four months of frantic activity in the development of Poland's post-communist economic strategy. Drawn up by Balcerowicz and Baka (the head of the Central Bank), the document included an exceptional letter addressed to the IMF's Managing Director, Michel Camdessus, as well as a 30-page Memorandum of Economic Policies. The following elements, derived from the Letter itself, deserve consideration:

GOALS

- To stabilise the economy quickly and decisively by bringing about a rapid and lasting deceleration in the rate of inflation and eliminating shortages.
- To press ahead forcefully in transforming the economic system by moving to market mechanisms.

STRATEGY

- The two goals are interdependent. Economic stabilisation is a necessary prerequisite for success in pursuing systemic changes. Yet without systemic changes, economic stabilisation will not pave the way for sustained growth in output.
- We believe speed is of the essence, so that the transitional stage - so hard on society - will be as short as possible. Radical change is also dictated by the bad experience with piecemeal reforms in the 1980s.

STABILISATION COMPONENT

- The freeing in January 1990 of virtually all remaining price controls. Only 3-5% of consumer spending - mostly rents, public utilities and public transportation fares - will be subject to restrictions. Only 5% of producer prices - hard coal, coke and electricity - will be subject to restrictions. With regards to energy pricing, the government does not consider it realistic in the present circumstances to raise the domestic price of coal to world levels. Coal prices will, however, be increased by 400% to industry and 600% to households. Electricity prices will increase by 300%.
- The unification of the foreign exchange market on 1 January 1990 in addition to the elimination of all quantative restrictions on imports from the convertible currency area. The export trade regime will also be substantially liberalised. The exchange rate is to be set at 9500 złoty per US dollar. Financial policies should enable the monetary authorities to maintain a stable nominal rate of exchange during the first three months of the

programme. The new exchange rate - underpinned by a $1 billion stabilisation fund - will provide a stable anchor in the fight against inflation.

- A restrictive tax-based incomes policy based on the application of a steep progressive tax on wage awards in excess of a specified norm (no more than 30% of the rate of inflation in January and 20% for the following three months). This second anchor complements the exchange rate policy. The tax is to be implemented without exceptions or reliefs. Taxes on excess wage increases will be levied at the following rates: 200% for an excess up to 2% of the permitted amount; 300-500% for an excess of more than 2%. Our plans in this area have been discussed with the labour movement. We expect over the medium-term to shift to a system of wage determination which permits greater income differentiation and wage flexibility.
- Attainment of fiscal balance in the state budget through cuts in total expenditure amounting to 3% of GDP (subsidies to be cut by more than 7% of GDP, primarily on food and coal). Most of the revenue increase is to be achieved by raising the burden of taxation on enterprises. Pending the introduction of major tax reform in 1991-92, we must continue to rely heavily on the taxation of the state sector.
- A major tightening of credit policy involving no direct or indirect financing of the state budget on the part of the Central Bank. Strict limits on the money supply to the nongovernment sector. A restoration of the value of the złoty by the introduction of positive real interest rates.

SYSTEMIC COMPONENT

- Legislation to be introduced for the setting up of an organisational framework for the transformation of state-owned enterprises. Main forms envisaged are joint-stock companies, worker-owned entities and socialised enterprises.
- The sale of state assets. The basic mechanism will be public stock offerings, open to all. Solutions will be applied to facilitate the purchase of stock by employees. The government is committed to wide-ranging privatisation.
- The breaking up of monopolies, notably the elimination of coal and energy 'communities'.
- Amend legislation governing bankruptcies.
- Modernisation of the banking system; setting up of a securities exchange with strong regulatory powers.
- Revision of the labour code to allow for a genuine flexible labour market.
- Establishment of a modern social safety net to shelter the poorest members in society. Establishment of a Labour Fund to be financed by a 2% payroll tax in order to provide a protective shield for workers made redundant. Pension benefits and family allowances will be revalued on a quarterly basis (the average pension benefit will be maintained at 52% of the average monthly wage).[176]

In addition to the above measures, the Plan requested the immediate disbursement of a $545 million Stand-By Arrangement from the IMF to help sustain the policies. It is noteworthy that Balcerowicz related the Letter to the 'Washington Consensus' prescriptions discussed in Chapter 1: "I note that the programme included practically all its elements, but also many others."[177] The stabilisation component forecast a number of outcomes in the first year of implementation (see Appendix 4 for a contrast with the actual results). Yet the Plan's authors repeatedly stressed the unique and unprecedented character of the changes. Contingency plans were therefore prepared and a review of the programme was to be undertaken in the coming months. The year ended with a fundamental shift in Polish policy-making commensurate with, possibly exceeding, the dramatic political changes in the summer months. Poland spearheaded radical reform with the adoption of the first neo-liberal economic framework in Eastern Europe. The huge expectations generated by Solidarity's leading role in the government compelled Mazowiecki to accord top priority to the economy; if only to supersede the fragile political consensus reached at the Round Table. While some were angered by the lack of public debate, the unspoken consensus was that the Solidarity leadership would, for the time being, provide a protective umbrella over the Plan. The period of 'extraordinary politics' inspired confidence in the government, masking, at times suppressing, differences of opinion; at the time "it was not important to ask 'how?' or 'in what form?', because this seemed unimportant."[178]

## CONCLUSION

This chapter analysed two distinct aspects of Poland's initial conditions - the period of 'extraordinary politics' in the second-half of 1989 and the self-management legacy with its roots in the September 1981 legislation - prior to the launch of 'shock therapy'. Both of these factors were a product of the Solidarity inheritance; perhaps best illustrated by Ost's memorable comment when surveying the Polish political scene in mid-1989: "Where else is a '68 radical like Michnik such a key player today?"[179] The political forces which underpin the 'transition' perspective are seen in the Schmitteresque environment following Solidarity's historic victory in the 4 June elections. Michnik's adventurous proposal for Solidarity to form a government laid the groundwork for Wałęsa's *coup-de-théâtre* in announcing a coalition pact with the SD and the ZSL. That Sachs himself deemed it essential to provide a day-by-day analysis of these events in his account of Polish 'shock therapy'[180] underscores their significance in the conception of radical reform. The passage from a social democratic agenda at the Round Table to a neo-liberal programme emphasising stringent macroeconomic policies, while strongly influenced by the sharp deterioration of the economy in August 1989, can only be explained (if it can be explained at all) by the paradoxical role - Kowalik prefers the term 'liberal incarnation'[181] - played by senior figures in the Solidarity leadership, in particular Kuroń and Michnik. Yet just as Wałęsa's union "stood as the putative social base of a government that stated its intention [to proceed with full-scale capitalism]"[182], it was Solidarity's self-management wing that proved more resistant to the Balcerowicz Plan.

The institutional legacies which lie at the heart of the 'adaptation' perspective reach as far back as the Economic Council's 1957 'Theses'. The decisive step towards denationalisation was taken in September 1981 with compromise legislation between the Network and the PZPR's Reform Commission granting legal rights to workers' councils in the management of firms' assets. Once perceived as a bastion of resistance against the power-base of the nomenklatura, self-management bodies emerged from communism with their rights intact, eager to preserve Poland's indigenous form of corporate governance. Assuming office in a hyperinflationary climate and driven by strong faith in Anglo-Saxon-style capitalism, the Balcerowicz Group, while once agreeing that self-management was an improvement on central planning, perceived private ownership as preferable to self-management. Yet unlike the Czechoslovak or Hungarian exits from communism where the state or market-oriented managers were the dominant players, labour remained the key actor in Poland's state firms. Sachs's comment that "it would [have] been so much easier had [Poland's] enterprises taken the form of [classical centralised] enterprises already in corporate form"[183] is revealing and symbolises yet another paradox in Polish reform. For while Poland was once at the forefront of economic liberalisation, its self-management inheritance turned out to be something of a curse in the eyes of the country's neo-liberal elites. As the Balcerowicz Group came to realise in the months ahead, the prerequisites to large-scale privatisation proved just as important as the reform itself. State-driven privatisation, as envisaged in late 1989, emerged as one of the greatest flaws in the 'shock therapy' design.

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## CHAPTER 3 CONSTRAINED LIBERALISM

> The most characteristic feature of Polish economic policy in [1990-1991] was a Thatcherite monetary framework combined with an almost Yugoslav model of enterprise.
> -Janusz Lewandowski[1]

### INTRODUCTION

The focal point of post-communist reform in the early 1990s was the Balcerowicz Plan in Poland. According to one observer, "Polish economic policy from October 1989 until approximately mid-1991 was based upon a reasonably coherent economic philosophy."[2] If Hungary prided itself on its debt-servicing record, the former Czechoslovakia on its capitalist traditions, then Poland, in the words of its second post-communist Prime Minister Jan Krzysztof Bielecki, had its "radical macroeconomic agenda."[3] There is little doubt that this aspect of Poland's transition, rightly or wrongly, singled out the country's policy regime in the eyes of many. Tadeusz Mazowiecki's government acted decisively in setting in place a tough anti-inflationary regime of fiscal and monetary controls; the "politics of stabilisation", noted Waldemar Kuczyński, "demanded nothing less."[4] Yet three months into the programme, the Chairman of Solidarity Lech Wałęsa had accused the government of dragging its feet over democratisation, governing in an insular manner and, if anything, not being radical enough in implementing economic reform. The notorious 'war at the top' in spring 1990, while partly the result of political jealousies accentuated by old worker-intelligentsia tensions resurfacing, threw into question the methods and aims of the Balcerowicz Plan. Privatisation, in particular, proved highly controversial with purists favouring conventional models and realists reconciling themselves with the legacy of self-management. It is in this sphere of Poland's transformation where the contrast between both schools of reform is most pronounced. Interestingly, Bielecki has described this as a process of 'constrained liberalism'.[5]

The purpose of this chapter is to analyse the political trajectory of the Balcerowicz Plan in 1990-91. The first two variants of neo-liberalism, the *Balcerowicz/Mazowiecki model* in 1990 and the *Wałęsa-initiated Gdańsk Liberals' version* in 1991, are placed in the context of competing privatisation strategies dating back to November 1988: Kawalec's British method of commercial sales and Lewandowski's Mass Privatisation Programme advocating citizens' ownership. In order to appreciate the difficulties faced by the two strategies, it is important to understand their common objective: the recentralisation of authority through commercialisation resulting in the elimination of the workers' councils. This process was hampered by the voluntarist, consensual character of Polish privatisation enshrined in the July 1990 Privatisation Act. A less publicised yet, in the end, equally significant scheme based on employee ownership ensured that state firms retained their autonomy and thus their right to veto proposals put forward by the government.

This compromise law, in certain respects analogous to the September 1981 legislation (see previous chapter), did little to clarify ownership rights and, perhaps for this reason, favoured 'bottom-up' privatisation schemes initiated by firms' insiders. State-driven privatisation nevertheless dominated the policy agenda in 1990-91 as both variants sought to institute conventional forms of corporate governance. This was accompanied by a technocratic policy style which stressed the economic prerequisites of privatisation as opposed to its social or political ones. This chapter argues that many of the (Yugoslav-inspired) fears with regard to asset stripping were exaggerated and that the deepening recession in 1991 had as much to do with the state's "failure to reform the banking system and improve the functioning of labour markets"[6] as it did with external factors such as the abolition of the old Soviet trading regime. Finally, a contrast is drawn between the lofty aspirations of privatising half the state sector in two to three years and the huge boom in private sector activity; in many ways the saving grace (but not necessarily the direct result) of Polish 'shock therapy'.

## ELITISM AND TECHNOCRACY

The myriad of economic measures introduced on 1 January 1990 delivered a profound shock to the Polish economy. The 'big bang' lived up to its reputation with a huge surge in prices - 'corrective inflation' in reformist discourse - in the first two weeks of January. Even the self-assured Jeffrey Sachs admitted that although he "was very confident the price explosion would soon end, it was frightening to watch nonetheless."[7] Fortunately the inflationary pressures subsided towards the end of the month and Poland recorded its lowest monthly rate of inflation for years in March with the figure standing at 4.3% (see Appendix 2). With the aid of the Balcerowicz Plan's two main 'anchors' - the fixed exchange rate and the punitive tax on excess wages known by its Polish acronym PPWW or *popiwek* - the government was able to prevent state firms from raising wages in line with prices. The black market practically vanished overnight, shortages disappeared, and street sales expanded throughout February and March. The steep devaluation of the *złoty*, together with the gradual lifting of restrictions on foreign trade, provided unprecedented opportunities for Polish enterprises to compete in international markets.

Despite ongoing debates over the dramatic changes in living standards, often blurred by the dubious quality and varied interpretations of the country's economic statistics[8], the Balcerowicz Group asserted its authority over economic policy with the signing of a 13-month Stand-By Arrangement (SBA) with the IMF in early February, the passage of a tight budget, and an agreement to reschedule payments on the country's foreign debt for the duration of the SBA. In the first-half of 1990, the Plan's stabilisation component was considered a success with the budget moving rapidly into surplus (see Appendix 10), exports (to the West) rising and the *złoty* remaining firm. Public opinion polls, aside from showing strong support for the government (see Appendix 5), revealed a favourable impression of the Plan (see Appendix 7) and an intriguing divergence of opinions on the effects of stabilisation: 44.5% of respondents deemed the programme to be prejudicial to their interests yet 55% saw positive developments for the economy as a whole.[9]

The economic 'shock' served to expose the more limited developments in the political sphere. Ten days before the Final Congress of the PZPR on 27-29 January 1990 in which the party disbanded to form a new group called Social Democracy of the Republic of Poland (SdRP) led by the progressive-minded Aleksander Kwaśniewski, Bronisław Geremek had complained of "too much stabilisation and not enough freedom."[10] The same day Mazowiecki delivered his first policy speech of the year in which he laid out his vision for Poland's systemic transformation. He noted that in order to build stable foundations for democracy the changes must be "conducted with reflection"; the rule of law required the renouncement of "revenge and spectacular gestures."[11] Mazowiecki also emphasised his government's attachment to local and regional initiatives by claiming "the system cannot be introduced from above or developed centrally, it must be created from below."[12] His aspirations notwithstanding, the Balcerowicz Plan was (and could only be in the absence of established socioeconomic interests to support the reforms) a creation of the state. The measures contained in the Plan required an active role for the government in establishing the rudiments of a market economy. The initial focus on stabilisation, "changes that [did] not require massive learning and [could] be implemented by a small group of people"[13] according to Balcerowicz, accentuated the technocratic bent of the reforms.

In his dual role as Finance and Deputy Prime Minister, Balcerowicz exerted considerable influence on the political agenda, profiting from the initial calm to launch a critical mass of reforms. His position as a 'technopol'[14] (see Chapter 1) proved instrumental to the Polish economic transition and served to bolster the 'shock therapy' agenda. The IMF praised the cabinet for "recognising the unique opportunity for radical up-front stabilisation." The Fund's own credibility, according to Markus Rodlauer, "rode on the success of the [SBA], the pilot scheme for East European reform."[15] Balcerowicz himself later confessed that "the period of extraordinary politics should last as long as possible and its shortening inevitably has adverse consequences [for the economy]. The process of [democratisation] will take place anyway and there is no need to hasten it."[16] Many in the Solidarity movement, however, took exception to his thinking. Jadwiga Staniszkis, for instance, objected to the government's so-called 'revolution from above': "The 'revolution from above' is [in fact] a discrete revolution. It is [based] on the rhetoric of 'stabilisation and control for the sake of the reforms'. At the same time, there are no visible changes at 'the bottom'."[17] To understand why we must return to the privatisation debates in which the government adopted a technocratic view of ownership transformation based on rational economic criteria.

### The Privatisation Debates

Nowhere was the state's role more apparent than in the sphere of large-scale privatisation; this contrasted with the decentralised 'small' privatisation of retail outlets and service establishments which gathered pace throughout 1990, partly as a result of previously enacted legislation. In order to transfer the roughly 8500 state enterprises into private hands, the government needed to adopt new legal and organisational frameworks "guaranteeing substantive political control over the process yet flexible enough not to stifle different methods."[18] From the beginning, the cabinet signalled its preference for Initial Public Offerings (IPOs) through a capital market. The new Plenipotentiary for Ownership Transformation, Krzysztof Lis, adopted Kawalec's 1988 British model (see previous chapter) and emerged as a fierce "opponent of the idea of employee ownership."[19] Lis, whose Agency for Property Transformation was symbolically located in Balcerowicz's Finance Ministry pending the enactment of legislation creating an institutionally separate Ministry, embarked on a highly ambitious programme of public stock offerings in early 1990. The justification for the British model, aside from its presumed deflationary and budgetary value, derived from "a strong attachment to Anglo-Saxon-type capital markets (itself partly due to the influence of aid-financed investment bankers and financial market specialists); and, more generally, the feeling that the valuation and sale of assets was the only 'civilised' approach."[20] Targeting 20 attractive firms whose workers' councils had agreed to privatisation, Lis's Agency began work on a draft Act on the Privatisation of State Enterprises which advocated the forcible commercialisation of enterprises prior to their sale to domestic and foreign investors.

The government's early attempts to recentralise property rights - a paradox in view of its professed economic liberalism - immediately drew condemnation from the self-management lobby as well as "others who, while not fond of the workers' councils, realised that the [Agency's] plans for widespread commercialisation were both politically divisive and potentially economically [unsound]"[21] (see below). The history of the legislation leading to the passage of the Act in July is enlightening. The two draft laws prepared by Lis's Agency - the first on the privatisation of state firms and the second on the creation of a Ministry of Privatisation - were discussed by the cabinet over a period of six months. At the end of March 1990, the laws were sent to a special parliamentary committee on privatisation chaired by the OKP deputy Andrzej Zawiślak. A counter-proposal to these bills was drawn up by a group of 23 deputies under the leadership of Ryszard Bugaj, the Chairman of the *Sejm's* Commission on the Economy, Budget and Finance. The bone(s) of contention between the two versions related to the envisaged scope of the legislation; the institutional framework of the privatisation process, notably the degree of political control over it; the choice of privatisation methods; and, crucially, the role and importance of employee ownership.[22]

From the outset, Lis's Agency favoured a law which would apply purely economic criteria to privatisation. The main objectives were greater efficiency, access to the capital markets, and increased foreign investment. According to Barbara Błaszczyk and Tomasz Gruszecki, the explanatory statement of the Agency's draft law claimed that "privatisation should be implemented under the state's supervision and on the basis of rational economic methods so as to the lay the foundations for a capital market as well as protect [shareholders] of privatised firms."[23] In a separate article Gruszecki described this approach as aiming for "correctness of form and elegance of execution."[24] The law would apply to all state enterprises and a decisive role would be given to the President of the Agency who, in turn, would be responsible to the government. Two methods of privatisation were listed: privatisation by IPO for all large firms in which the President of the Agency would direct the entire process, and privatisation by 'liquidation' for small- and medium-sized firms in which insiders would be able to sell, lease or transfer the assets of their enterprise. The only provision for employees was for them to be entitled to appoint one-third of the members of the corporate boards in commercialised firms - the issue of reprivatisation was not even mentioned.

The counter-proposal bill, entitled 'Law on Ownership Transformation of State-Owned Enterprises', was supported by two sizable factions in the *Sejm*: one led by Bugaj in his other role as head of the Group for the Defence of Workers' Interests (prominent members included Karol Modzelewski, Bogdan Lis and Grazyna Staniszewska) and the other by Andrzej Miłkowski, the Vice-President of the Association of Self-Management Activists. The bill itself had been drawn up by Professor Juliuz Izdebski of Warsaw University and Krzysztof Ludwiniak, a member of the US employee ownership movement advocating Employee Stock Ownership Plans (ESOPs).[25] The workers' councils, the government's 16-member economic advisory body known as the Economic Council chaired by Witold Trzeciakowski, and a host of other independent economists and associations[26] had all found elements in the draft Law which they supported. The self-management lobby had its own journal (*Tygodnik Robotniczy*), its own research institute (SIBISZ) and, according to Jan Szomburg, "was over-represented in the *Sejm*, was influential in the economic press, and had very dynamic activists [at the time]."[27] The shared view was that the government's bill was a highly centralised, *étatiste* piece of legislation which attempted to impose one specific path of privatisation without consultation or compromise. Central to this view was a strong objection to the limited scope for parliamentary scrutiny of privatisation - Bugaj later commented that the government seemed to have forgotten that the British model involves strong parliamentary oversight of individual privatisations[28] - as well as the inadequate provisions for employee ownership.

With a strong emphasis on the socio-political dimensions of ownership transformation, the *Sejm* representatives' bill proposed that the main decision-making body on privatisation should be the National Property Council, as recommended by the 'Positions' document endorsed at the Round Table negotiations (see previous chapter). "The Council [- appointed by the *Sejm* and composed of parliamentarians as well as high-ranking members of the Constitutional

Tribunal -] would conduct quasi-judicial investigations for each enterprise separately; announce its verdict as to whether privatisation should [proceed]; and, if so, [determine] which methods should be applied."[29] A National Property Fund would then implement the decisions of the Council and would contribute funds to an Employee Shareholding Fund (no less than 20% of the annual income of the Fund[30]). In short, the counter-proposal was a refined version of the 'Positions' document and sought to ensure strong political control over the privatisation process as well as accord priority to employee ownership. For three full months, the Zawiślak Committee debated the two drafts with the hope of reaching a compromise.

The practical implementation of a large-scale privatisation programme was therefore delayed at a time when the public expressed its strongest support for ownership transformation. Two opinion polls in March and April 1990 revealed sharp discrepancies between respondents' general desire for privatisation and their limited knowledge of the cabinet's plans in this area. The first poll indicated 83% support for privatisation coming from those who considered themselves well-informed on the economy; 50% were in favour of privatising most or all of the large firms, and 76% believed this should be accomplished in no more than two to three years.[31] The second questionnaire revealed that while 52% of respondents believed a general decision to privatise had been taken, only 21% thought the government had agreed on a precise path (for the 43% who believed a decision to privatise had not been taken, 72% claimed the government was unsure of the precise route). Finally 43.5% of those who believed privatisation was proceeding too slowly judged ownership reforms to be of secondary importance to the government; 30% claimed it was not even favoured by the cabinet.[32] Conceptual and technical discussions consumed the Mazowiecki government's privatisation agenda at the most opportune moment to proceed with rapid ownership changes. Had Lis's Agency been more willing to entertain unconventional routes in early 1990, or at least not been so attached to the British model, privatisation might not have emerged as such a politically contentious issue.

### Divisions in Solidarity

The Bugaj and Miłkowski factions were only two of the many informal lobbies and pressure groups exerting influence over the reforms. Jozef Slisz's farmers' lobby had stepped up its criticisms of Balcerowicz's tight credit policies while members of the eclectic Economic Council engaged in heated debates over the consequences of commercialisation. Differences of opinion within the OKP - between social democrats and economic liberals as well as between nationalists and moderates - were microcosms of the Solidarity movement's disparate elements. Already in November 1989, the Polish journalist Piotr Wierzbicki drew up his own political topography of the Solidarity camp. In an article entitled 'The Family, The Retinue and the Court'[33], Wierzbicki concurred with Staniszkis's notion of a German feudalist 'Standestaat' comprised of different estates (in this case Solidarity camps) united not by socioeconomic interest but by common ethos.[34]

According to Wierzbicki, the 'Family' constituted the veteran opposition leaders in the Workers' Defence Committee (KOR) now gathered in the OKP. Grouped under Geremek and including prominent figures such as Jacek Kuroń and Adam Michnik, the 'Family' was dominated by secular-minded social democrats, "ideologically close, disciplined and extremely well organised."[35] It was in a position of strength since it was willing to abide by the Round Table formula and, through Michnik's control of *Gazeta Wyborcza*, was able to advance its agenda. Less charitable observations, of which there were many, talked of a discrete alliance between Michnik and Kwaśniewski's SdRP in which the two men complimented each other for arranging a peaceful transition: "Kwaśniewski called Michnik an exemplary European", while the latter reciprocated by referring to the SdRP leader as "a man who had civilised the PZPR."[36] The 'Retinue' consisted of the assorted Christian Democrats, free-market liberals, and moderate nationalists that entered Mazowiecki's cabinet in September 1989. Less secular-minded than the 'Family', but equally pragmatic, the 'Retinue' identified with the Premier's political and economic liberalism. Wierzbicki singles out Aleksander Hall, Mazowiecki's Minister for Political Parties, as the personal embodiment of the group's moderate style.

Finally, the 'Court' stood for the more radical, uncompromising elements gathered around Wałęsa who, ever since the formation of Mazowiecki's cabinet, felt marginalised, possibly threatened, by the status quo. Based in Gdańsk, notably in the Solidarity union's National Executive Commission (*Krajowa Komisja Wykanowcza* or KKW), the 'Court' voiced its criticisms in the weekly editions of *Tygodnik Solidarność* edited by the Wałęsa *protégé* Jarosław Kaczyński. Maintaining warm relations with the Church and espousing a fierce anti-communism, the 'Court' believed the Round Table Accords, following the dissolution of the PZPR, were, at best, a hindrance to Poland's systemic reforms, and, at worst, a vehicle for the advancement of a (neo-)communist agenda.[37] Although at odds over the degree to (and manner in) which the group should compel the government to renounce the Round Table compromise, the 'Court' was adamant that an injection of pluralism be given to the Solidarity patient lest the 'Family' and 'Retinue' consolidate their positions. Wierzbicki, whose political allegiances lay firmly with the 'Court', argued for an honest airing of differences within the Solidarity movement and claimed that "the problem [at present] is not that Poles are arguing too much, but that they are arguing too little!"[38]

The 'Court's influence grew after Solidarity's Second Congress on 19-24 April 1990 in which delegates criticised the government for failing to consult with the union and refusing to discuss an 'alternative' programme to the Balcerowicz Plan.[39] The largest group of delegates declared themselves to be for a "pluralistic system of ownership with a wide variety of individual and institutional forms."[40] Wałęsa nevertheless managed to prolong the 'dual role' of the union as a representative of workers' interests and as a defender of economic reform (he also managed to extend his Chairmanship of the union). It was the latter function, as David Ost notes paradoxically, which Wałęsa emphasised: "The reason workers are suffering is because the government is not moving towards capitalism fast enough[!]"[41] The message was symptomatic of the symbolic as opposed to material legitimacy he relied on at a time when stabilisation resulted in huge falls in production - 20% in the first quarter alone - and a sharp decrease in real wages. This was the time when the government should have been more responsive to the 'Court's concerns given that it was the latter who held the Solidarity umbrella; this was the time when the period of 'extraordinary politics' lost its relevance.

**The 'Acceleration' Drive**

Calling for an 'acceleration' of the reforms, harsher treatment of the nomenklatura, and greater independence for the Citizens' Committees (KO), Wałęsa expressed his frustration and impatience with Mazowiecki's perceived aloofness. As for the 'Retinue', it continued to support the Premier's non-confrontational and evolutionary political stance. Mazowiecki's attachment to moral values, principles he believed could absorb the possible social unrest caused by the Balcerowicz Plan[42], became the hallmark of his administration: "The Prime Minister and his team decided to base their contacts with the public, as well as with their critics, on a moral code. That code meant telling society the truth about unfavourable consequences of reform, standing firm, and justifying the absence of a particular decision on theoretical grounds."[43] In an article in early

March, Michnik went a step further by warning that any splits in the Solidarity movement - either inside the 'Family' or else in the KO - risked undermining economic reform.[44] The schisms between the Wałęsa camp and the government intensified throughout the spring as it became clear the latter was unwilling to countenance a more radical stance. With growing support from disparate elements within the Solidarity movement who, for various reasons, were dissatisfied with the "dry, legal language"[45] of institutional change, the 'Court' challenged the government's monopoly on the 'Solidarity Ethos'; its artificiality, it claimed, needed to be exposed.

The formation of a new party, the Centre Alliance (PC), on 12 May headed by Kaczyński provided impetus to the 'Court's' political agenda. Grouping 41 deputies and 12 Senators from the OKP and bringing together parties as diverse as the Christian National Union (ZChN), the Liberal Democratic Congress (KLD), and Slisz's Polish Peasant Party-Solidarity (PSL-S), the PC championed the causes of 'acceleration' and 'decommunisation'. Fielding Wałęsa as its candidate for the Presidency - its first official statement was that Jaruzelski should resign from his post[46] - and calling for an end to the "transitional stage between communism and democracy"[47], the PC effectively ended the Mazowiecki cabinet's peaceful nine-month cohabitation with the former PZPR.

The Alliance resented the dominance of 'Warsaw intellectuals' inside the OKP and in the cabinet. Wałęsa himself felt excluded from the policy process and betrayed by his erstwhile colleague Mazowiecki who, not only had spurned his demands for 'acceleration', but had chosen to seek the support of the 'Family' rather than lean on the 'Court'[48]; a decision which prompted the Chairman to call for the removal of the Solidarity logo from the masthead of *Gazeta Wyborcza*. The first signs of industrial unrest came in May when railworkers in Słupsk demanded an end to the *popiwek*. The poor turnout in the local elections the same month, together with the gradual decline in support for the government (Appendix 5 and 6) and the Balcerowicz Plan (Appendix 7), signalled that the Solidarity umbrella was in need of repair. In the months ahead, the PC, with the assistance of the KLD and a host of other independent economists, coordinated its attacks on the government's 'monopoly' with a series of critiques on the alleged delays in economic reform. As Marek Dąbrowski noted, "one might think that [the objective] of 'acceleration' was the rapid promotion of Wałęsa to the Presidency and a massive purge of the nomenklatura. However the PC [developed] its own economic programme which generally supported the Balcerowicz Plan but at the same time suggested [it] could be implemented [much] more quickly."[49]

Wałęsa's denunciations of the government exposed and exacerbated the political divisions within the Solidarity movement. At an emotionally-charged meeting of the Citizens' Committees on 30 June-1 July 1990, Zdzisław Najder, whose role it was to prevent the merger of the OKP and the Committees into a single bloc under the control of Mazowiecki, argued against including the KO "in a formula which no longer exists - that of unity imposed by a common foe."[50] Zbigniew Bujak, meanwhile, echoed the Premier's words in favouring a loose federation of regional and local bodies set up to provide political support for the reforms.[51] In the end, Wałęsa's pluralist version triumphed and many intellectuals, ashamed at the Solidarity Chairman's 'disruptive' behaviour, chose to resign. In the summer months, "a dramatic escalation in both the degree of bitterness and drama of the political battle"[52] ensued. On the economic front, the continued delay in the legislative framework for privatisation fuelled accusations of nomenklatura capitalism.

A June opinion poll questioning those who declared themselves to be sympathetic to the Solidarity union revealed 76% in favour of privatisation; a lower figure of 55% was reported by those who aligned themselves with the former communist All Poland Alliance of Trade Unions (OPZZ).[53] Sixty percent of respondents who had watched at least a dozen television appearances of Balcerowicz announcing the government's economic agenda claimed to have only fragmentary knowledge of the cabinet's plans for privatisation. For those who considered themselves 'experts' in the field, 30% advocated straight sell-offs, while 55% favoured a voucher-based scheme.[54] The same day as the Citizens' Committees were debating the country's political future, the KLD hosted its first National Convention in Warsaw. The final resolution endorsed the "privatisation and de-monopolisation of the economy in such a way as to enable the creation and development of domestic capital through citizens' shareholdings in order to universalise ownership in Poland."[55] This position, among others, was taken up by Wałęsa in his drive for the Presidency. As the lustre began to fade from Kawalec's British model in mid-1990, Janusz Lewandowski and Jan Szomburg's Mass Privatisation Plan (MPP) (see previous chapter) proved increasingly attractive in view of its perceived emphasis on the rapid transfer of ownership rights to the public.

## THE 'WAR AT THE TOP'

The incessant pressure on Mazowiecki to repudiate the Round Table Accords and call early elections met with resistance on the part of members of his cabinet, Balcerowicz included. The government's spokeswoman, Małgorzata Niezabitowska, issued the mildest of rebuttals by calling the Solidarity Chairman's remarks 'unhelpful'; other, less dispassionate, voices accused Wałęsa of harbouring 'dictatorial ambitions'.[56] Yet not all of Mazowiecki's ministers took the same line. Trzeciakowski, for instance, lamented the Premier's stubborn, legalistic approach: "Mazowiecki told me that in politics it is absolutely essential to preserve the same morals as in public life. Then I knew it was impossible for me to reason with him."[57] On 6 July 1990, the Premier relented and informed the *Sejm* of his decision to replace the ex-PZPR Defence and Interior Ministers (see Appendix 3) with independent appointees; at the same time using the occasion to express his alarm at the "threat to our calm Polish road of transformation"[58].

He also announced a relaxation in monetary and fiscal policy in view of the good standing of the budget (see Appendix 10): a temporary easing of the *popiwek* coupled with a lowering of interest rates from a crushing 66% to 34%. Both of these concessions did little to assuage the concerns of the Wałęsa camp. Mazowiecki's 'thick line' policy (see previous chapter) was increasingly viewed as "one of leniency and forgiveness"[59] towards members of the former nomenklatura. President Jaruzelski now represented the last vestige of communist rule and it was only a matter of time before he himself would agree to shorten his tenure and make way for Poland's first fully-free elections.

### The July 1990 Privatisation Act

As if to accentuate perceptions of delay and protracted debate, the *Sejm* belatedly passed the legislation on the privatisation of state enterprises on 13 July; the final vote was 329 for, 12 against and 39 abstentions. After some 20 versions[60] and concessions on the part of the government to the citizens' ownership lobby in the OKP (these had been made on a 'lesser of two evils' basis in order to draw votes away from the employee ownership scheme), the Act on the Privatisation of State Enterprises[61] - accompanied by the Act on the Establishment of the Office of the Minister for Ownership Transformation - favoured the government's proposals but, significantly, left the self-managed governance structure in place. Whilst the government (through the new Ministry of Privatisation) would assume responsibility for devising the framework for privatisation, a standing committee in the *Sejm* would "exercise overall control over ownership transformation as well as monitor its implementation"[62]; it would not, however, have the right to vote on individual privatisations.

The 26 articles devoted to the British model known as 'capital' privatisation (in contrast to the mere six on the so-called 'liquidation' routes) reflected the government's thinking at the time. Intended for large firms, the capital route would begin by a decision by the Ministry of Privatisation to commercialise a firm in order to then ostensibly sell it to a domestic or foreign investor. The self-management lobby's 'insurance policy' against forcible commercialisation lay in the all-important Article 5 of the Act: "The Minister of Ownership Transformation may [transform] a state enterprise into [corporate form] only upon a joint motion of the director of the enterprise and the workers' council, submitted after having sought the opinion of the general assembly of employees as well as the opinion of the founding organ [(the branch ministry or provincial representative supervising the firm)]"[63]

In short, state enterprises were ceded the right to veto plans for commercialisation and/or privatisation (Article 6 of the Act did in fact state that the Prime Minister could, in exceptional circumstances, order the privatisation of the of the enterprise but the initiative rested with the firm itself). In cases where commercialisation occurred, workers' councils would be replaced by western-style corporate boards known as supervisory boards in which employees were entitled to appoint two of the six representatives (Article 17) and were offered 20% of the firm's shares on preferential terms (Article 24)[64] - the Act's most controversial article in view of the Bugaj/Miłkowski factions' demands for much stronger provisions for employee ownership. Almost as an afterthought, three or four paragraphs were added at the end of the Act dealing with the liquidation routes which applied to small- and medium-sized firms.

Designed to facilitate a "decentralised and bottom-up process that accommodated itself best to [insiders]"[65], the liquidation paths did not, as it would seem to indicate, refer to bankruptcy *per se*. Rather the aim was to offer smaller firms the choice of deciding on their own forms of privatisation. Two methods were envisaged: the first for enterprises in relatively good standing and the second for those in arrears. The former provided for management and/or employee buyouts (MEBOs) either through the direct sale of firms' assets, the use of these assets to set up a new private company, or the leasing of these assets for a specified duration (Article 37). The latter granted enterprises the right to appoint a liquidator to sell off their assets and reimburse their creditors (Article 19 of the September 1981 Law on State Enterprises).[66] The issue of reprivatisation, it should be stressed, was not considered and foreign companies were only allowed to purchase a mere 10% of the shares in state enterprises; a permit from the Agency for Foreign Investment was required for acquisitions above this amount and there were notable restrictions on the repatriation of profits.

Just as the Bugaj/Miłkowski factions secured their imprint on the Act, the Gdańsk Liberals' lobby managed to ensure that citizens' ownership schemes remained in contention as a method of privatisation. Jan Krzysztof Bielecki and Jacek Merkel, in consultation with outside experts from the KLD including Lewandowski and Szomburg[67], submitted their own proposals at the end of June which, in Article 23 of the Act, were recognised as a potential route for privatisation: "The *Sejm* shall, upon a motion of the [government] adopt resolutions on the issue and value of privatisation bonds designed to pay for 1) the acquisition of rights on shares [in commercialised firms] and/or 2) the acquisition of titles to participate in financial institutions having at their disposal shares [in commercialised firms]."[68] The Article also stated that the bonds in question would be issued free of charge to the public.

In short, the Act on State Enterprises favoured the British model but dropped plans for a single controlling body - the Ministry of Privatisation - determining the privatisation process. More importantly, it institutionalised a voluntarist, consensual approach to ownership transformation by retaining the self-managed enterprise structure of 1981. The Act attempted to strike a balance between the interests of the state and those of the firms: "The legislators' intention was to stimulate employees' interest in privatisation without hindering its progress."[69] While both privatisation methods - the capital path and the liquidation routes - involved the elimination of the workers' councils and their replacement with more conventional supervisory boards, the second method allowed the councils to exchange their governance functions for favourable privatisation procedures; a crucial factor for the future course of Polish privatisation. It is noteworthy that the Act did not include any provisions which would grant the councils a diminished but nonetheless guaranteed institutional role in enterprise reform[70]; an indication the self-management lobby had, after all, suffered a major setback.

The real significance of the legislation, not fully recognised at the time, was that it ensured a multi-track process for ownership transformation; one which emerged as a precious asset in view of the limited success of the British model. We can see, therefore, that Polish privatisation proved particularly path dependent even though the Act envisaged corporate governance changes aimed at gradually removing the councils from the policy process. The 'shock therapists' were unable to centralise property rights in the manner in which Sachs and others had advocated: by administrative decree. Ownership rights were still dispersed and it was the enterprises themselves, rather than the state, that would ultimately decide whether commercialisation, let alone privatisation, was in their best interest.

**The Presidential Elections**

Three days after the Act's passage, Mazowiecki's supporters established their own political group called the Citizens' Movement for Democratic Action (ROAD). Formed on the initiative of the journalist Jerzy Turowicz and counting among its members 23 deputies and 23 Senators from the OKP, ROAD's firm Solidarity pedigree placed it in direct competition with Kaczyński's PC. Comprised of prominent Warsaw intellectuals with a social democratic bent such as Geremek, Kuroń and Michnik, ROAD espoused the non-confrontational stance of Mazowiecki. At its Founding Congress on 28 July, aptly entitled 'Freedom without Chaos', the group portrayed itself as a proponent of evolutionary political changes and cautioned against what it saw as "the nationalist excesses and brutalisation of public life [in recent months]."[71] While ROAD dismissed the left-right labels favoured by the PC, it did its best to disassociate itself from the populist instincts of the Alliance; instead emphasising its strong attachment to parliamentary democracy and European values. Bujak, one of ROAD's founders, astutely declared that "we are simply to the west of centre [Alliance]."[72]

Mazowiecki's supporters maintained that sheer opportunism was the motivating force behind the PC's actions. Clearly there was an element of truth in this. Yet ROAD, in its sober and intellectual manner, provided little inspiration to the public at a time when disenchantment with the government's policies was growing (see Appendix 5 and 6). As the 'war at the top' escalated throughout August and September with "the two sides exchanging a series of devastating insults"[73] - in an acerbic television duel with Kaczyński, Michnik went so far as to say "Please do not call me 'secular left' and I will not call you 'Muslim right'"[74] - Wałęsa all but announced his decision to seek the Presidency, characteristically stating: "I do not want to become President, I must become President."[75]

On 19 September, Jaruzelski agreed to shorten his tenure in office and make way for

Presidential elections in November. Following Wałęsa's decision to declare his candidacy, Mazowiecki, albeit reluctantly, accepted ROAD's endorsement and entered the race on 5 October. With opinion polls revealing just under 60% support for the Premier and roughly 40% for Wałęsa[76], it appeared Mazowiecki would be the likely winner. In the two months leading up to the vote, the sharp contrast in personalities - between a rabble-rousing Wałęsa and a sober Mazowiecki - together with the professed solutions to the country's troubles - the 'quick-fix' solutions of the Alliance versus the airy and dry words of ROAD - turned the contest in the Solidarity Chairman's favour. Unlike the government camp which, barring some final alterations, stood for unity and a continuation of the Balcerowicz Plan, the Wałęsa forces, profiting from their leader's eclecticism, entertained a number of alternatives. Sprinkled with doses of liberal, unionist and nationalist rhetoric[77], the common denominator in Wałęsa's electoral programme, entitled 'A New Beginning', was the repeated accusation that the government had, as Staniszkis put it, "overestimated the impact of political participation in [the reforms] and underestimated the necessity for changes in property rights as the basic impulse for the development of the [market economy]"[78]. Mazowiecki's electoral slogan, by contrast, was entitled 'The Force of Calm' (identical to François Mitterand's 1988 campaign message: '*La Force Tranquille*') and, perhaps for this reason, inspired little hope.

Wałęsa's grandiose scheme of awarding each Polish citizen 100 million (old) *złoty* for privatisation purposes was a more populist offshoot of the citizens' ownership programmes favoured by the KLD. Lewandowski and Szomburg dedicated their 'Decalogue for Privatisation[79] - a programme calling for accelerated ownership transformations, notably for small- and medium-sized firms - to the Solidarity Chairman's campaign. The PC, for its part, preferred to concentrate on 'decommunisation' and the (re)assertion of Polish independence *vis-à-vis* the Soviet Union, particularly a speeding up of the withdrawal of Soviet troops from Polish soil. The Alliance's economic experts, notably the eminent liberal economist and longtime Wałęsa advisor Stefan Kurowski, were, to varying degrees, critical of the Balcerowicz Plan's 'exaggerated' fiscalism. Both the *popiwek* tax and the fixed exchange rate were perceived as contributing factors to the huge falls in production; 'acceleration', in this instance, meant a loosening of the anti-inflationary screws.[80]

The State Electoral Commission's presentation of the list of candidates for President contained the names of four other individuals: Roman Bartoszcze, the Rural Solidarity activist who emerged as head of the reconstituted Polish Peasant Party (PSL): Włodzimierz Cimoszewicz, the non-party candidate heading the Democratic Left's Parliamentary Club and supported by Kwaśniewski's SdRP; Leszek Moczulski, the fiercely anti-communist leader of the Confederation for an Independent Poland (KPN); and Stanisław Tymiński, an unknown Polish *émigré* businessman. The first three candidates' campaigns were, for the most part, unremarkable and reflected their respective constituencies' traditional concerns: an end to the tight credit policies of 1990 as well as guaranteed minimum prices for farm produce; a strong attachment to the principles of the welfare state, coupled with a more balanced approach in favour of the public sector (positions, to a greater or lesser extent, endorsed by Bugaj's newly formed 'Workers' Solidarity' group (*Solidarność Pracy*) in their 'alternative' Economic Theses fleshed out in November[81]); and a total abrogation of the Round Table Accords in order to implement 'radical decommunisation' at both the political and economic levels.

Tymiński, meanwhile, was the quintessential dark horse. He had appeared from nowhere and, in the space of a few weeks, had managed to steal some of the populist fire from Wałęsa's campaign. Tymiński accused Mazowiecki personally of treason in selling off the state's assets for a pittance and depicted the Balcerowicz Plan as a financial conspiracy engineered by Wall Street. His demagogic manner caught the public's eye as he boasted of his material riches in Canada and spiritual ones in Peru. In a curious book entitled 'Holy Dogs', he offered "tips on how to build America in Poland."[82] Appealing to the unemployed and disaffected - his strongest support lay in the depressed Silesian coal mining areas - as well as with the "younger generation of workers who had no personal affinity with Solidarity"[83], Tymiński capitalised on the public's irritation with the 'war at the top' (see Appendix 5 for the marked drop in support for Solidarity) and offered a host of instant, albeit frivolous, remedies for Poland's ills. An opinion poll released one week before the election revealed the impact he had had on the electorate's thinking: 30% of respondents believed Tymiński most capable of overcoming the recession (in contrast to 27% putting their faith in Wałęsa) and 29% felt he would best address the issue of privatising state enterprises (as opposed to 34% favouring Wałęsa).[84]

The cold shower for Poland's post-communist elites came on 25 November when Tymiński managed to capture nearly one-quarter of the vote, humiliating Mazowiecki (18%) and forcing Wałęsa (40%) into a runoff on 9 December. The non-Solidarity vote, together with the sizable level of abstention, contributed to Tymiński's success. Aside from the respectable 9.2%

accorded to Cimoszewicz, the other two candidates managed to garner just under 10% between them. Although receiving most of his 4 million or so votes from the young and those with only primary or vocational education[85], Tymiński placed Wałęsa in an awkward position as he now had to woo the disgraced, and offended, Mazowiecki camp into lending him its support. The *froideur* between the two sides, the visible shock on the part of the political establishment (Geremek went so far as to say that "Poles are [simply] not adult enough for democracy"[86]), and the resignation of the cabinet as a sign of protest against the populist tone of the campaign signified that Wałęsa could hardly take their support for granted.

Despite continued objections to a Wałęsa Presidency[87], the Chairman, with the help of the Church as well as Tymiński's own political (possibly mental) blunders, managed to win a convincing victory with nearly 75% of the vote. While his opponent's performance remained stable, it was clear the country had sensed a threat and chose to side with the known quantity. Yet the fact remained that Wałęsa had widened the gulf between his erstwhile advisors and the advocates of 'acceleration'. On 2 December, ROAD, Hall's Democratic Right Forum (*Forum Prawicy Demokratycznej*) and the various electoral committees under Mazowiecki banded together to form a new party called the Democratic Union (UD). Despite having endorsed Wałęsa in the second round *faute de mieux*, the UD believed the stabilisation programme, even Balcerowicz, was, in the words of Kuczyński, "expendable under a Wałęsa Presidency".[88] According to this view, the Tymiński phenomenon had been unleashed by the Solidarity Chairman and there was little reason to think he would place fiscal prudence at the top of his agenda. The fact remained that Wałęsa had averted danger and, as one observer put it, "perhaps [could] claim credit for having flushed out such previously unsuspected depths of resentment at such an early stage in [Poland's transition]."[89]

**'Shock Therapy' in 1990**

Presenting its final report to the *Sejm* on 14 December, the Mazowiecki cabinet prided itself on having eliminated hyperinflation and restored value to the *złoty*. Convinced Poland was now "a different country" in which "a rational economic system for market competition existed"[90], the outgoing Premier spoke out against empty gestures and promises while conceding that a 'new consensus' needed to be developed. On the one hand, he was correct in his assertion that macroeconomic stability had been preserved. The successes of 1990 exceeded the expectations of the Balcerowicz Group[91], and the IMF[92], as the country surpassed many of the performance criteria agreed with the Fund, leading some economists to criticise the Finance Ministry for excessive overshooting.[93] The end-year figure for inflation stood at 250%, primarily as a result of the 'corrective jump' in January. Current account surpluses were registered in response to a 13.7% increase in exports (notably a 43% rise in the volume of trade going to the West)[94], the budget was in good standing (see Appendix 10), foreign reserves were climbing, and shortages had vanished.

By far the most spectacular achievement in Polish economic reform had been the dynamic growth of the private sector. The fiscal and monetary loosening in July had, according to Balcerowicz, resulted in a 15-fold increase in loans to the private sector; total credit, meanwhile, soared from 3.6% to 15.4%.[95] Industrial production in the private sphere grew by almost 9%, employing close to 50% of the workforce (82% in trade) and amounting to 31.4% of GDP.[96] The number of registered individual businesses surged from roughly 820,000 to 1.3 million by the end of 1990.[97] While the turning-point here may well have been Rakowski's December 1988 Act on Economic Activities (see previous chapter), the organic growth of the private sector, irrespective of the government's emphasis on state-driven privatisation and in spite of the crushing macroeconomic regime, turned out to be one of the welcome revelations of 1990.

The negative effects of 'shock therapy' were self-evident. A steep recession in the state sector savaged Poland's industrial base resulting in a 24% drop in production and an 11.6% decrease in GDP (see Appendix 4 for contrast between forecasts and results). Admittedly part of the contraction could be attributed to so-called 'pure socialist output'[98]; production which, to a greater or lesser extent, stemmed from the previous directives of central planning. The outdated statistical system also failed to compensate for the growth in private sector activity. Yet the huge decrease in real wages (roughly 25% compared to an initial forecast of 10%), the rise in unemployment, and the increase in the poverty gap[99] (salaries below the minimum level of income required to meet the approved standard of living), notably among industrial workers, reflected the hardships of adjustment. In view of these bleak figures, it seemed remarkable that there were no major strikes throughout the year, not to mention any bankruptcies among the large state firms.

Whilst growing signs of industrial unrest were visible in the latter-half of the year, the total number of strikes in 1990 amounted to only 250; half of these occurred in one enterprise alone, the Polish State Railways (PKP). On the whole, these were of short duration, attracting less than 30% of employees in affected areas[100] and, for the most part, were limited to the issue of wage increases. Indeed the initial wave of job losses had been largely voluntary: employees took advantage of lucrative early retirement schemes and were awarded hefty pensions of up to three-quarters of the average wage. As for large-scale bankruptcies, the high rates of inflation in the early part of the year boosted firms' profits and depressed real wages, allowing enterprises to avoid mass lay-offs. Many of the large firms exploited their monopolistic positions and limited production to compensate for the drop in demand. The government's initial emphasis on stabilisation resulted in a certain inattentiveness towards structural changes, particularly in the banking and financial sectors. The notion that 1990 had been a year of "unsustainable performance and minimal adjustment"[101] was confirmed by the gradual build-up of inter-enterprise debt. The problem of "nobody's banks lending to nobody's firms"[102] had yet to be addressed.

The root cause of these problems could be traced to the modest results of the state's role as the auctioneer of its assets. The British model of large-scale privatisation had failed to cut the Gordian knot of confused property rights. Out of the 20 firms chosen by Lis's Agency, a mere 5 had gone on the market by the end of the year; this, despite the rosy assumptions of the government's privatisation blueprint approved by the *Sejm* on 9 November which aimed for a 35% decrease in state assets by 1994.[103] On 30 November, Kuczyński, in his new role as Minister of Ownership Transformation, had authorised subscriptions to shares in 5 of the 58 commercialised enterprises (see Appendix 11). Many of these new joint-stock companies chose to become commercialised on the grounds they would be exempt from the *popiwek* and *dywidenda*taxes (the latter was levied on the fixed assets of state firms) rather than as a strategic decision to change ownership. As an incentive to privatise, firms were told that commercialisation would immediately result in a 20% decrease in the *popiwek.*[104]

Only the Exbud construction firm in Kielce met the deadline for subscriptions. The time-consuming nature of the process - it took several months for consulting firms to value the enterprises - and the cost of the services involved - 22% of the value of issued shares and almost 14% of the total value of the five companies[105] - raised serious doubts concerning the viability of IPOs. These were all the more apparent considering that the "least organised of the government's efforts to privatise state firms - enterprise-led liquidation - proved the most

Mazowiecki government's "fateful mistake", in his words, in opting for the British model; only an "across-the-board approach to large-scale firms that would cut through the logistical and political problems"[112] associated with self-management would, according to Sachs, help speed up privatisation. As Poland entered 1991, the state's frustrated role as the auctioneer of its assets turned to one of distributor: "If public offerings were justified [on the grounds] of neo-liberal faith in the market's ability to allocate resources, including property rights, then the justification for [citizens' ownership methods] grew out of an attempt to save [neo-liberalism] from its own failures to specify exactly what [was] meant by private property."[113] That the envisaged voucher scheme once again placed governance objectives at the centre of enterprise reform questioned its ability to legitimate enterprise-level ownership changes.

The uncertain position of Balcerowicz after the elections[114], notably the absence of a clear verdict on his Plan (see Appendix 6 and 7) was, to a large extent, attributable to Wałęsa. As far as international opinion was concerned, notably that of the IMF, the Finance Minister had become the guarantor of Poland's economic reforms. Domestically, however, Wałęsa's victory in the elections raised the expectations of disparate elements within the Solidarity movement; industrial and agricultural lobbies hoped for an end to tight credit and an assortment of liberals (and extreme liberals) believed the reforms would benefit from a purge of the nomenklatura, a broadening of privatisation methods, and new 'anchors' for economic policy. Juxtaposed with these economic aspirations were ones relating to the appositeness of the Round Table formula. Kaczyński's PC, together with other parties who had campaigned on behalf of Wałęsa, anticipated fully free parliamentary elections in the spring and a fresh set of faces - ideally their own - in the new cabinet.

The first sign the President-elect was unwilling to interpret his victory as a mandate for the above demands came on 18 December when Jan Olszewski, a Solidarity lawyer, abandoned his attempts to form a government due to 'personnel' differences with Wałęsa (the focus of the dispute, it emerged, was the precise role(s) of Balcerowicz[115]). In finally appointing Bielecki as Premier, four days after his swearing in as head of state on 22 December, Wałęsa chose the little-known entrepreneur and KLD member from his home town of Gdańsk. Although initially portrayed as a pawn in the hands of the President by certain factions in the *Sejm*[116], Bielecki represented the second face of Polish neo-liberalism that had contributed to the 'acceleration' drive. With its roots in the liberal *Przegląd Polityczny* journal dating back to 1983, the KLD, successful."[106] MEBOs constituted the bulk of Polish ownership transformations in 1990 (see Appendix 11). The 72 firms that qualified for the liquidation routes embarked on a path "designed to facilitate a decentralised, bottom-up process whereby interested enterprises could take the initiative to privatise themselves."[107] The fact that the workers' councils, the *bête noire* of the Balcerowicz Group and the financial institutions, were, in many instances, the instigators of these changes was revealing. At the very least, it questioned the assumptions in late 1989 that firms' self-managed status was inimical to market reform.

A compelling analysis of state enterprise adjustment in the first-half of 1990[108] shed new light on the capacity of firms to undergo restructuring. The views expressed differed from the hitherto hostile attitude taken towards the workers' councils. In examining a number of small, medium and large firms in different sectors and with different profiles, Janusz Dąbrowski and his colleagues concluded that, in the case of the first two categories of enterprises, the councils acted as agents of change playing off recalcitrant managers and unions against each other in order to devise an appropriate route for privatisation. The OECD's 1992 *Economic Survey* on Poland backed up these claims by noting that 275 managers from the communist era had been dismissed by the councils in the first nine months of 1990 - as opposed to 44 the previous year.[109] The councils' desired form of ownership, moreover, was not, as was generally assumed, self-management *per se* but rather mixed ownership schemes in which the sale of shares constituted one element among others. "It would be extremely unwise", the Dąbrowski team cautioned, "to eliminate the councils [at all costs] for they widen the pool of industrial skills available to firms and serve [as a counter-weight] to unions' [wage-maximising] interests."[110]

The authors' main argument, however, was that tight macroeconomics alone was insufficient as a means of assessing firms' true microeconomic potential in the new market environment; these policies had not, they claimed, resolved the stalemate over property rights in the large enterprises where "new rights and entitlements had yet to be defined"[111] The Dąbrowski team opted for a solution close to the hearts of the Gdańsk Liberals (Dąbrowski himself was a prominent member of the KLD-affiliated Gdańsk Institute for Market Economics (IBnGR)) emphasising a partial give-away of state assets combined with enterprises' immediate commercialisation; insiders would be compensated through increased representation on the supervisory boards while the public would finally acquire ownership rights through investment funds holding shares in the enterprises. Sachs himself favoured a similar scheme in view of the through its chief strategists Lewandowski and Szomburg, had come out forcefully in favour of rapid privatisation. Sensing this to be a way of enlivening the reforms, of providing 'shock therapy' with a new *élan*, Wałęsa opted for change, insisting, at the same time, that "Vice Premier Balcerowicz's Plan will continue."[117]

## THE GDAŃSK LIBERALS' TURN

Bielecki assumed office in early January 1991 amid hopes of a release from the grip of stabilisation. Yet as he himself later admitted[118], this 'release' had already occurred in the form of a loosening of fiscal and monetary policy in July; followed by a further retightening in the last quarter of 1990 as it became apparent inflation was rising. Indeed some argued that Balcerowicz engineered a second wave of recession in late 1990-early 1991 by embarking on a 'Keynesian roller coaster'[119] of stop-and-go macroeconomic management; while interest rates were in the mid-30s in autumn, they were now set at 55%, to be raised to 72% the following month.[120] A second 'release' was provided by the final abolition of the Council for Mutual and Economic Assistance (CMEA) trading regime with the Soviet Union on 1 January 1991. Hidden subsidies on energy vanished and the traditional market for a host of Poland's (and other East European countries') state enterprises disappeared as payments were switched from the old transferable rouble system to hard currencies. The short-term consequences of both of these developments - a retightening of macroeconomic policy coupled with the adverse external conditions confronted by a number of SOEs - in the face of an ongoing recession compounded the new government's problems. From the beginning, however, Bielecki favoured a less rigid, more innovative economic liberalism than previously implemented.

In his maiden speech to the *Sejm* on 5 January, he emphasised his determination to provide dynamism to the reforms by according top priority to the restructuring of state enterprises. Praising Balcerowicz for "mastering the art of stabilisation", Bielecki nevertheless renounced "textbook measures" and placed his faith in small-scale ownership and competition as "the key to enlivening the state sector."[121] Stressing his cabinet would neither "impede nor delay privatisation by waiting endlessly for a bankruptcy to occur"[122], the Prime Minister announced an extension of ownership reform to the widest group of beneficiaries. A diversity of methods, with particular emphasis accorded to the liquidation routes but also including reprivatisation, would be encouraged. His main domestic objectives were financial and banking reform (including the setting up of a stock exchange as well as drafting an attractive foreign investment law), new pensions legislation, the promotion of agriculture, and 'cordial' relations with the unions. In foreign affairs Bielecki singled out closer relations with Germany (as opposed to France under the previous cabinet), the signing of a debt accord, and an Association Agreement with the European Community. Presenting the chamber with a makeshift government of experts designed to presumably see the country through until parliamentary elections in the spring, Bielecki rewarded the PC by appointing the party's economic experts, Jerzy Eysymontt and Adam Glapiński, to the Office of Central Planning (CUP) and the Ministry of Housing respectively. The other key portfolios (see Appendix 8) went to the KLD with Lewandowski assuming the Ministry of Privatisation and Zawiślak replacing Syryjczyk as Minister of Industry. Michał Boni, a Solidarity union negotiator, accepted the poisoned chalice of Minister of Labour. Both Balcerowicz and Skubiszewski retained their posts.

While the Round Table formula was still in existence, with the 'contract' *Sejm* broadly consisting of three main factions (the postcommunists gathered under Cimoszewicz's Democratic Left Club, the disparate members of the OKP - minus the 46 who left to form the UD's parliamentary Club - and Jan Zych's PSL caucus - see Appendix 9), the ex-communists were now formally in opposition[123] and, despite having voted for the cabinet, had little sympathy for the KLD's brand of liberalism. As if to accentuate the perceived illegitimacy of the 'contract' parliament, Wałęsa, sensing that spring elections were impractical in view of the Pope's visit in June, began preparations to form a 'Political Council' grouping individuals representing non-parliamentary interests. This Council eventually became an Advisory Committee consisting of political and economic proponents of 'acceleration'. Several of its members, including Kurowski and Jan Winiecki[124], were, to varying degrees, critical of the Balcerowicz Plan and were hoping for corrections in policy.

### The *Popiwek* Controversies

As soon as the cabinet assumed office, the 'battles over the *popiwek*'[125] began in earnest. In exempting private firms from the tax (now changed from the total wage bill to the average wage norm), the Finance Ministry increased the level of taxation on the state sector to 84% of total revenues. This figure provided the basis on which the 1991 budget was constructed and underpinned the growth projections in the Memorandum on Economic Reform and Medium-

Term Policies[126] signed with the IMF in April. The latter, aside from being tied to a favourable debt accord, forecast a 3.5% rise in GDP in 1991, a 5% growth in industrial production, and a drop in inflation down to 36% (see Appendix 4). For the moment, the issue of wage controls consumed the cabinet's agenda. Staunch liberals such as Kurowski and Winiecki called for the immediate abolition of the popiwek[127] on the grounds the tax constituted a 'highly visible form of state intervention'[128] and precluded differentiated wage settlements based on productivity levels. These two were joined by a host of managers in state firms who felt the tax was outdated and prejudicial given the deteriorating financial condition of state enterprises. A survey by Marek Belka and his colleagues revealed that directors felt discriminated against *vis-à-vis* their private sector counterparts and "expressed irritation at having to still deal with [a restrictive tax] whose role and time they felt had [long] passed."[129]

Trade unions, on the other hand, were far more intransigent. The former communist OPZZ, under its chairman Alfred Miodowicz, was deeply critical of the Balcerowicz Plan. Pressing for wage increases (notably in the transport sector), it organised a series of demonstrations throughout February chanting 'Down with the *popiwek*!', 'Down with Balcerowicz!' and 'Down with the government!'[130] With an older and larger membership than Solidarity and a strong role in allocating social service funds in the large state firms (see next chapter), the OPZZ, aside from its political stance, was less willing to endure the anti-inflationary regime. A 1991 survey found that 52% of the union's members felt 'real socialism', if properly administered, was still worth preserving; this contrasted with a 30% figure for those affiliated with Solidarity.[131] The union's inability to mount an effective opposition to the Plan, however, stemmed partly from its tainted past as an organ of the PZPR.

The Solidarity union, meanwhile, although still willing to grant the government a protective umbrella, was equally firm in denouncing the *popiwek*. The newly-elected Chairman of the union, Marian Krzaklewski, endorsed the notion of joint responsibility for the reforms yet declared that unionist functions would now take precedence. Solidarity would run its own slate of candidates in the upcoming parliamentary elections so as to ensure it had its own labour lobby in the *Sejm*. Convinced the(ir) new President would compel the government to rescind the tax, the KKW felt betrayed once it emerged that Wałęsa, following 'consultations' with Balcerowicz, favoured a more gradual phasing out of the tax. At Solidarity's Third Congress on 23-24 February, Bielecki delivered a speech in which he deeply regretted the previous cabinet's "omission of a white paper which would have, without emotion, depicted the true state of the Polish economy in late 1989."[132]

Pleading for the union's continued support in overcoming the recession, he attempted to justify his decision to preserve the *popiwek* on the grounds that state firms would sink deeper into debt if they were freed from the state's anti-inflationary anchor. Bielecki, like Balcerowicz[133], alluded to the paradoxical meeting of the minds between former communists and doctrinaire liberals who, albeit for different reasons, were demanding the tax's abolition: "The shortsightedness of the former is pure demagogy, while the plan of the latter envisages the withdrawal of the state [in conditions of near total public ownership]."[134] Clearly centralised incomes polices such as the *popiwek* were a politician's nightmare; that private firms were now exempt from the tax was equally difficult for the government to justify. Yet given that large-scale privatisation and tax reform had been considerably delayed, the government had little choice but to keep the tax in place. Ideological factors also played their part. The Bielecki cabinet, like its predecessor, was convinced state firms were unable to restrain wage pressures (or restructure for that matter) until fully privatised.

Both main unions, however, were, for the moment, confining their criticisms to wage-related issues and were not calling for an abandonment of economic reform. In his yearly 'Workers' (*Robotnicy*) surveys, Juliusz Gardawski claimed that 'moderate modernisation' - a rather eclectic formulation emphasising employee ownership, bankruptcies for indebted firms, and Polish capital leading to competition and autonomy for enterprises - best characterised the attitude of public sector employees.[135] This economic orientation was, according to Gardawski, attributable to a certain ambivalence towards privatisation: while workers endorsed the general principle of ownership transformation, they expressed a sceptical, distrustful attitude towards privatisation when referring to their own enterprise (see Appendix 13). "This peculiar yes-no conflict in approving privatisation on a [macro] scale [while, at the same time,] opposing denationalisation of one's own firm is a fact whose significance [should not be underestimated]"[136], Gardawski noted. Part of this ambivalence could be traced to the limited restructuring that occurred in 1990. As the full effects of CMEA trade shock became apparent, and declining inflation rates revealed the true impact of stabilisation, this ambivalence towards privatisation turned to outright hostility. It was in this atmosphere that Lewandowski began work on his original Mass Privatisation Plan (*Program Powszechnej Prywatyzacji*).

**Mass Privatisation, Polish Style**

The *popiwek* was only one example of the state's active role in building capitalism. This dilemma for Poland's post-communist elites became more acute with the presence of self-proclaimed liberals in office. Macroeconomic stabilisation was accorded precedence in 1990 and thus accentuated the technocratic character of the Balcerowicz Plan. The new government, however, placed citizens' ownership, decentralisation and the popularisation of the market at the top of its agenda. It was therefore paradoxical to hear Bielecki concede, amid accusations of 'verbal liberalism'[137] from some of his free-market critics, that the state needed to participate more actively in creating the proper conditions for capitalism: "This is not a liberal motto, it is how things really are."[138] The implementation of Lewandowski's Mass Privatisation Programme (MPP) reflected these realities.

Ever since its first presentation in November 1988, the programme sought to overcome the impediments of shallow markets and lengthy valuations. Lewandowski and Szomburg - with strong encouragement from the PC, members of the Solidarity union (including Wałęsa), and a host of other independent economists - had championed the MPP all throughout 1990 as a means of speeding up ownership transformation and rendering it socially attractive. Lewandowski himself, in one of his first press conferences following his appointment to the cabinet, stated that "the energy of the Ministry [of Privatisation] was somewhat wrongly directed; it concentrated too much on public offers of shares and it gave insufficient attention to small privatisation and to non-conventional methods."[139] Yet practically all the arguments in favour of mass privatisation were based on the ideal 1988 version emphasising highly dispersed ownership, political as opposed to economic goals, and speed as opposed to efficiency. With a deepening recession and a self-managed enterprise model still in place, these aspirations gave way to hard-headed assessments of the programme's viability.

The preliminary work on the MPP began as soon as Lewandowski assumed office (support for privatisation was still relatively favourable - see Appendix 12). With financial aid from the British Know-How Fund, Jerzy Thieme, the project's manager in the Ministry of Privatisation, recruited the services of the British investment bank S.G.Warburg in order to examine the logistical, organisational and economic feasibility of the programme.[140] Immediately embroiled in technical arguments over how to reconcile his 1988 version based on the simple transfer of ownership with the need to establish effective corporate governance, and facing resistance from sections of the economic establishment (this ranged from supporters of conventional privatisation who objected to 'shortcuts'[141] being made, to fears of an excessive concentration of shares in the hands of the nomenklatura as vouchers were exchanged for money), Lewandowski began his 'privatisation offensive'[142] in inauspicious circumstances. His original scheme was, to all intents and purposes, impractical in view of the deteriorating financial condition of state enterprises; the budget recorded its first deficit since the start of the Balcerowicz Plan in February (see Appendix 10). Rather the aim, as Lewandowski later confessed, was to reconcile social considerations (as opposed to political ones which, according to him, "never played a part in the preparation of the MPP"[143]) with the harsh economic realities of 1991: "Eighty percent of society consists of frustrated workers who believe they deserve to be rewarded for overthrowing communism. Something has to be done for them in order to save the reforms."[144]

A second key priority for the cabinet was a law on foreign investment. The paltry $88 million invested in Poland in 1990 belied the rosy forecasts in late 1989. Assisted by his economic advisor, Anthony Doran, a microeconomist seconded from the Word Bank's International Finance Corporation, Bielecki commenced work on a law which, in his words, would "streamline foreign investment and be 'sexy' for investors."[145] The aim was to offer a huge package of tax-based incentives to foreign firms for a limited period of three to four years. Doran provided invaluable advice on the intricacies of the proposed law and, more importantly, assisted the cabinet in its delicate foreign debt negotiations with the Paris Club of Creditor Nations. On 18 April 1991, Poland concluded a three-year Extended Fund Facility (EFF) agreement with the IMF which, in turn, led to a historic debt accord with the Paris Club effectively reducing the country's foreign debt obligations to western governments - 65% of the total - by 50% (a separate, yet equally important, development in April was the opening of the first stock exchange since the war on the top floor of the former PZPR party headquarters). The IMF, according to Rodlauer, was, at the time, "entirely unaware of the extent of the collapse of the budget"[146] and, as far as Bielecki was concerned, "there was simply no time to renegotiate an admittedly irrational budget."[147]

As the deficit increased throughout the spring and the effects of the CMEA trade shock became more visible, Lewandowski met Bielecki in early May to inform him that "he had fundamentally changed his mind"[148] with regard to the MPP's objectives: "The financial crisis affecting state enterprises [demanded that] the programme provide a genuine restructuring capacity to the state sector. This element became at least as important as the universal access to ownership rights."[149] Following lengthy deliberations inside the Ministry of Privatisation, Thieme's group concluded that the MPP would focus primarily on improving corporate governance. The Polish approach, therefore, unlike the Czechoslovak MPP implemented the year after, eschewed dispersed ownership on the grounds this would do little to address the underlying microeconomic impediments to privatisation stemming from confused property rights and hence weak incentives for firms to adjust. Thieme's scheme sacrificed political gains associated with a transfer of assets to the public *en masse* in order to concentrate on providing a strong role for institutional investors through state-managed investment funds (see below). Only with the passage of time - four years elapsed from the moment Lewandowski officially presented the MPP in June 1991 to its actual implementation in autumn 1995 - did this closely monitored process turn out to be more effective, at least economically speaking, in improving enterprise governance than the Czechoslovakian and Russian MPPs granting largely unregulated funds a free hand in privatisation.[150]

The *Sejm's* decision to postpone parliamentary elections until October offered Thieme's group time to prepare the revised MPP. Increased tensions between the President and the parliament over the precise formula for the electoral law led to a disruptive four month tug-of-war culminating in Wałęsa finally consenting to a mixed proportional-majority bill satisfying no one. The perpetuation of the 'contract' *Sejm* for another six months subjected the country to a long drawn out unofficial election campaign in which political animosities precluded the passage of key pieces of legislation. A programmatic divorce, of sorts, between members of the cabinet occurred in the spring when the PC's two ministers, Glapiński and Eysymontt, broke ranks with Balcerowicz in arguing for a mild fiscal stimulus as part of an 'anti-recessionary' programme.[151] Bugaj's Labour Solidarity was equally critical of the cabinet's anti-inflationary stance and had a strong ally in the person of Jan Mujzèl, the Vice Chairman of the Economic Council. His idea for a 'selective industrial policy'[152] found an echo in the President's Advisory Committee whose much-touted Economic Conference on 17 May was hailed (by its organisers) as a turning point in Polish economic policy.[153]

In the end, the only 'turning point' was the government's decision to devalue the currency by 15% to 11,200 złoty to the dollar. From now on, the *złoty* would be pegged to a basket of currencies which reflected more accurately the country's closer trade links with Germany. This 'loosening of the screws' - against the advice of Balcerowicz and the IMF - was the first sign that the tough anti-inflationary regime was becoming increasingly untenable. As the embattled Finance Minister defended his Plan in the *Sejm* on 23 May by stressing that "drops in production have occurred in all the former Soviet bloc states irrespective of the type of reforms they have undertaken"[154], Krzaklewski's union held its first nationwide day of protest against the cabinet's 'erroneous' policies. Solidarity objected to the emergence of what it perceived as 'red capitalism' benefiting the nomenklatura. These arguments soured the atmosphere surrounding Lewandowski's MPP and, despite the considerable progress in 'small' privatisation as well as the liquidation routes (see Appendix 11), undermined confidence in the project.

The passage of the cabinet's foreign investment law, or Law on Companies with Foreign Participation, on 14 June marked a significant victory for the government. The legislation ensured equal treatment for both domestic and foreign firms and, with the exception of regulations pertaining to the purchase of land, provided a host of fresh incentives to invest in priority sectors. In addition, the Law abolished most permit requirements and allowed foreigners to repatriate 100% of their profits.[155] Other key pieces of the cabinet's legislation, however, notably a draft pensions bill submitted in early May, were held up by arcane debates over the electoral law. Talks with the recession-plagued European Community over the proposed Association Agreement proved equally labourious. The government was sceptical as to whether an asymmetrical partnership - EC duties on Polish products lowered at a much faster rate than Polish duties on EC goods - could be guaranteed. This was largely a consequence of the Community's reluctance to grant Poland full access to its agricultural, textile and steel sectors; the key competitive areas for Polish exports.

Bielecki himself noted that "in external terms, we generally felt that the euphoria of the West was evaporating and we tried to achieve as much as we could in as short a time as possible."[156] Sensing the public's growing disenchantment with the reforms (see Appendix 6 and 7), the President proposed special powers for the cabinet on 11 June as a means of circumventing the *Sejm* and compensating for the delay in drafting a post-communist constitution. These were declined on the grounds they would do little to address the underlying causes of the economic crisis. On 27 June, Lewandowski finally presented the Mass Privatisation Programme at a press conference. The MPP had only been discussed by the cabinet two weeks prior to its formal announcement. The parliament, meanwhile, had not been consulted with regard to its contents and there was no educational campaign to inform the public of its objectives.

The original 1988 scheme was dropped in favour of an amended version introducing the concept of 'National Wealth Management Funds'.[157] The programme called for the immediate commercialisation of 400 of the largest state firms generating 25% of industrial output and employing 12% of the labour force. Shares in these firms would be allocated in the following manner: 10% to employees, 60% to the Funds, and the remaining 30% held by the state. Shares in the Funds themselves would be distributed free of charge to each eligible Polish citizen. The Funds, meanwhile, would hire western consulting firms to ensure proper management of the enterprises in their respective portfolios (out of the 60% of shares in a given firm allocated to one of the 10 or 20 Funds envisaged in the Programme, 33% would be held by one Fund alone with the remaining 27% split evenly among the rest). In short, "the selection procedures ensured that effective control would be exercised by one leading Fund. The approach relied on extensive oversight by the government to achieve ownership and control of both the enterprises and of the Funds themselves."[158] The Polish programme differed markedly from the Czechoslovak scheme in the order of priority accorded to its three stages: the creation of carefully regulated investment funds; the distribution of shares among the Funds; and, only then, the distribution of the Funds' shares to the public. Corporate governance, as opposed to the rapid transfer of assets, was the *differentia specifica* of the Polish MPP.

On the surface, Thieme's scheme represented a departure from the previous cabinet's emphasis on IPOs. Yet like the British model, it required the government to "unilaterally determine privatisation procedures."[159] In calling for the commercialisation of hundreds of state firms, the authorities once again insisted that workers' councils give up their rights and cease to exist. Perhaps recognising the difficulties of such a scheme, the government began work on a more varied package of restructuring measures. A discernible shift in policy occurred in late July when the Industry Minister, Zawiślak, was replaced by the more interventionist-minded Henryka Bochniarz. With an increasing number of state enterprises sinking deeper into debt (incestuous links between the nine state banks and the large enterprises precluded major bankruptcies with the former allocating 90% of commercial credit[160]), Bochniarz was put in charge of establishing a unified Ministry of Industry and Trade that would address "the nexus between privatisation and industrial policy and that [for the first time] had as [its] slogan: 'restructure then privatise'."[161] For the moment, mass privatisation *à la Polonaise* continued to operate under the assumption that commercialisation - and the associated governance changes - would provide effective management structures and improve firms' efficiency pending privatisation. Inherent in this view was a belief that enterprises which commercialised themselves did so in order to prepare for privatisation. Yet with a deepening recession and an increasing number of firms incurring losses, a new incentive for commercialisation arose: a desire to be renationalised in order to live off the state.

## FRAGMENTATION AND THE LIMITS TO STABILISATION

The cabinet's pragmatic or 'practical liberalism' Lewandowski had referred to in an interview in April[162] was given new relevance with the government's tepid endorsement of an industrial policy. Only seven firms had been sold via capital privatisation since the beginning of the year (see Appendix 11) and the profitability of large enterprises was -3.6% - compared to 25% in the first six months of 1990.[163] Parallel to the implementation of Lewandowski's MPP, Bochniarz initiated work on a 'sectoral' privatisation scheme aimed at identifying the correct method of privatisation by commissioning studies on entire branches of industry instead of individual firms. It was hoped this would reduce consultancy fees by avoiding unnecessary duplications inherent in a case-by-case approach. This was accompanied by a more overt industrial policy of 'prioritising and ranking'.[164] The reasoning here was that since the infirm banking sector provided no guarantees that indebted enterprises would be shut down, the government had to pick its own 'winners and losers' by dividing firms into various categories of (in)solvency.

Yet the real problem confronting the government was that there was no effective mechanism for monitoring and assessing state enterprises' behaviour. A lack of organised and up-to-date information on firms precluded a large-scale restructuring and/or privatisation strategy that would address the specific needs of enterprises, notably those targeted for sell-offs; hence the success achieved in the liquidation routes where the practical knowledge of insiders was matched by greater awareness of firms' true potential.[165] The liquidation paths nevertheless applied to smaller enterprises and, while a close link existed between privatisation (albeit mostly in the form of workers and managers leasing state property) and restructuring[166], were distinct from the legal and organisational barriers confronted by the large firms. Prior to his resignation, Zawiślak had described these problems as the 'Bermuda Triangle'[167] of Polish enterprise reform.

**Is Commercialisation the Answer?**

In a separate 1991 survey of Polish privatisation, the Dąbrowski team once again found that, in the case of small- and medium-sized firms, support for ownership changes on the part of the workers' councils was stronger than generally assumed. "What is particularly striking about these liquidations", they stressed, "is not only the strength of the motivations of [the councils] but the clarity of their intentions [with regard to privatisation]"[168] - even more surprising given that privatisation required their institutional elimination. The same could not be said for the large enterprises where the high inflation rates of 1990 masked many of the microeconomic and structural weaknesses of enterprise reform. The 'Bermuda Triangle' essentially referred to an alleged desire on the part of all three actors at the enterprise level - the councils, the managers and the unions - to "prolong the status quo"[169] by impeding plans for commercialisation and/or privatisation. The councils naturally objected to their institutional liquidation and therefore resisted changes in governance; the managers, notably holdovers from the communist era, also feared losing their positions as well as their extensive connections with the state banks; and the unions, having not been properly consulted or informed on the logistics of privatisation, generally favoured public ownership (see Appendix 13). Analysts such as Wojciech Bieńkowski who did not discriminate between small and large firms and who felt all self-managed enterprises irrespective of size "work for their own destruction"[170] evidently felt mass commercialisation was the answer. The Dąbrowski team, on the other hand, were more circumspect.

What was troubling, they claimed, was that commercialisation, as an attempt to introduce more effective management structures and improve firms' performance, was not having the desired effect (admittedly the recession had much to do with this). Contrary to the spirit of commercialisation, many of the state firms that were transforming themselves into joint-stock companies were continuing to do so solely on the grounds of becoming exempt from punitive taxes and thus improving the prospects for wage increases or loans from the state. Another dilemma inherent in commercialisation was that by eliminating the councils an important channel of communication between management and labour ceased to exist, thereby making it more difficult for the newly installed supervisory boards to explain the rationale for privatisation to a disgruntled workforce[171]; if that was indeed their aim. The most dynamic adjustment efforts, according to the Dąbrowski team, were to be found in the insider-led liquidation routes where "the councils came to see survival as being linked to privatisation."[172]

Szomburg concurred with the team by suggesting that delays in privatisation, together with a deepening recession, confirmed many of the fears of those who, from the outset, viewed commercialisation with a degree of scepticism: "A new motive for commercialisation emerged within firms [in 1991]: the desire to relieve themselves of their self-managed responsibilities [and] return to the protective umbrella of the state in the hope [the latter] would not allow them to go bankrupt."[173] Roman Frydman and his colleagues were of the same opinion and noted that, in many cases, the workers' councils' parting shot prior to being dissolved was to ensure that the new corporate boards provide them with guarantees that no mass lay-offs would occur following commercialisation, thus defeating the purpose of commercialisation. "Informal reports", according to Frydman and his associates, "indicate that the supervisory boards [in many commercialised firms] are either passive or are ignored by insiders. It appears that [commercialisation] has not yielded the desired changes in corporate governance and behaviour of state enterprises."[174] These revelations questioned the state's motives in winning back control over 'its' firms if the only demonstrable effect was softer budget constraints. Moreover, they cast doubt over the views of those, like Sachs, who placed their faith in corporate boards as a means of improving firms' efficiency. For the real irony of Polish enterprise reform in mid-1991 was that, from a strictly macroeconomic standpoint, the self-managed firm was an ally of the 'shock therapists'; a bulwark against a further *étatisation* of the economy.

**The Parliamentary Elections**

In the run-up to Poland's first fully free parliamentary elections on 27 October 1991, the economic situation deteriorated further with a collapse in the budget in the autumn (see Appendix 10). Balcerowicz, whose resignation from the Deputy Premiership had been sought by a number of his critics ("He should simply restrict himself to what he does best"[175] Kaczyński said drily), announced in early August that, for personal reasons, he would not seek a post in the next cabinet. Confidence in Poland's institutions, let alone in the government's ability to extricate the country from recession had plummeted in recent months (see Appendix 5 and 6 respectively) and Wałęsa was becoming increasingly critical of Balcerowicz's 'conceptual rigidities'.[176] New import tariffs on agricultural products failed to placate angry farmers and the *popiwek* was still the subject of intense controversy. Although the attempted *coup d'état* in the Soviet Union on 19 August temporarily diverted attention away from domestic troubles (Bielecki admitted that "for the first time in my life, I genuinely felt like a member of the European Community"[177]), delays in passing the cabinet's emergency legislation compelled the Premier to submit his resignation on 30 August.

Following an emotionally-charged Budget Amendment speech by Balcerowicz the previous day in which he proposed further cuts in spending, including an overhaul of the profligate pensions system, and a freeze on public sector wages[178], Bielecki announced that the Polish state was threatened with "paralysis in decision-making".[179] The upsurge in strikes, the despondency among the public, and the parliament's general disapproval of the cabinet's economic agenda had, according to Bielecki, convinced him of the negative repercussions of postponing spring elections. The *Sejm's* unwillingness to accept his resignation offered him a chance to appeal for special powers in passing emergency laws (these were part of a package of ad hoc amendments aimed at increasing the powers of the government *vis-à-vis* the *Sejm*). The parliament's final refusal to comply with his demands capped a two year period, almost to the day, in which the appositeness of the Round Table formula revealed its limitations. With the IMF suspending relations with the government in September and the impending exit of Balcerowicz, the neo-liberal policy regime was under threat: "The effects of recession, tight money, and fiscal discrimination against state firms had [by now] made the liberals' industrial policy a political and economic non-starter."[180]

The fate of Lewandowski's MPP was determined by both the fiscal crisis confronting the state as well as the continued reservations regarding its implementation. The former was attributable to the government's reliance on the profits from state firms as the main source of revenue. Anti-inflationary imperatives collided with institutional realities, specifically the delayed reform of the tax system with personal income tax and VAT put off until 1992, in producing what János Kornai and others referred to as the 'fiscal trap'[181]: "The hardening of the budget constraint causes economic activity to contract, thereby reducing the tax base; meanwhile, spending on [social benefits] represents a growing burden on the budget."[182] These difficulties were compounded by strong opposition to the proposed pensions legislation. The *Sejm's* decision to reject the cabinet's version of the bill in late September - "the most expensive and severe defeat for my government"[183] according to Bielecki - was prompted by fierce condemnation of the measures, notably on the part of the OPZZ. Amid taunts of "Boni [the Labour Minister] is delivering the pensioners to their graves"[184], parliamentary commissions began deliberating over various drafts and were only able to agree on a compromise bill nine days before the elections.

The other constraints to the MPP stemmed from professional criticism of the project. Aside from the drop in support for privatisation (27% of respondents deemed it disadvantageous for the economy compared to 25% believing it to be beneficial; while 42% disapproved of the MPP in contrast to 15% who supported it[185]), most critiques focused on the precise role of the 'National Wealth Management Funds'. Fears of a "new layer of neo-socialist bureaucracy"[186] in which the Funds would become heavily politicised and lobby vigorously for more money conjured up images of Gierek's WOGs in the mid-1970s. A strong role for foreign consultants as well as the risk of the nomenklatura buying up vouchers were among other objections being raised. Bielecki's distrust of the programme, the President's continued attachment to his 100 million *złoty* version (together with the public's confusion or equation of the two)[187] and, crucially, the limited success - and questionable objectives - in commercialising the 400 designated enterprises (see Appendix 11) forced Lewandowski to scale down the Programme and delay its implementation until after the elections.

The electoral campaign differed markedly from the Presidential poll a year earlier, not least because of the sheer number of parties - over one hundred, albeit with limited recognition and/or volatile constituencies - as well as the strongly proportional electoral law enacted in July. Broadly divided into four groups (Solidarity 'pro-reform' parties, Solidarity 'anti-reform' parties, the ex-communists, and a mass of 'couch parties' pressing mostly single-issue agendas[188]), the main contestants concentrated on emotive issues such as 'decommunisation', the role of the Church, and the neo-liberal policy regime. That these three dimensions to the transition, i.e. communist-purging versus communist-forgiving, clerical versus secular, and liberal versus interventionist, cut across party lines precluded coherent programmes and sowed confusion in the minds of the electorate. With regard to the first issue, Kaczyński's PC, Moczulski's KPN, Wiesław Chrzanowski's ZChN (the main force behind Catholic Electoral Action (WAK)) and Krzaklewski's Solidarity, together with the movement's peasant offshoots, all campaigned vigorously under the banner of decommunisation and, to varying degrees, were in favour of 'lustration': laws providing for the removal of former communist functionaries or informants.

They were opposed, first and foremost, by the ex-communist parties - the Democratic Left Alliance (SLD) (an amalgamation of 20 or so political groupings of which Kwaśniewski's SdRP was the largest) and Waldermar Pawlak's PSL - as well as Mazowiecki's UD and Bielecki's KLD. The latter three were equally ill-disposed towards the ZChN's religious fundamentalism, notably its anti-abortion crusade.

The economics of the campaign featured an outpouring of criticism directed at the Balcerowicz Plan, including its author[189]. Populist, even anti-semitic[190], attacks on the Finance Minister were fuelled by the media's coverage of various pathological phenomena emerging in Poland's nascent capitalist system. These stemmed largely from the poorly regulated banking sector. Two high-profile corruption scandals, the Art-B affair and the FOZZ conspiracy, revealed the infirmity of the country's financial system. The former led to the resignation (and subsequent arrest) of the head of the Central Bank, Grzegorz Wojtowicz, as it transpired that Art-B, the firm in question, had exploited inefficiencies in the banking system to earn interest on the same funds deposited in numerous accounts. The second case involved a private firm operating under the name of the then defunct Foreign Debt Servicing Fund (FOZZ) in order to embezzle state finances. Other legal improprieties, mainly because of lax customs regulations, such as 'alcohol affair' (in which Balcerowicz himself was implicated)[191], the 'cigarette affair' and the 'rouble affair' testified to the primitive state of Polish capitalism.

The bulk of criticism was reserved for the Plan's perceived shortcomings in tackling the recession. With 50% of respondents in July voicing their displeasure with the policy regime (see Appendix 7), the search for alternatives intensified. A recent poll revealed that 67% of those questioned deemed the Plan's social costs to be excessive; 50% believed the Plan was only one of a number of routes; and more than 50% were either in favour of an entirely new Plan or else a new one combining elements of the old.[192] While mass privatisation may have been sold as a panacea for the country's ills in the Presidential elections, monetary and fiscal relaxation, coupled with increased state intervention, were the chosen favourites this time around. In its final 'Testament' concluding its two-year stint as the government's advisory body, Trzeciakowski's Economic Council noted that "the assumption that the economy would pick up of its own accord without state intervention"[193] was flawed. A more forceful advocate of this view was Wałęsa's economic advisor and celebrated IMF critic Kurowski. At the second installment of the President's economic conferences in late September[194], he castigated the IMF for leading the country into recession through monetary strangulation.[195] The KPN, the peasant parties, and the PC endorsed many of Kurowski's misgivings concerning the anti-inflationary regime and argued for a 'breakthrough' (*przełom*) in the transition (see next chapter). Indeed all the main political contestants in the elections, with the exception of the UD and the KLD, were in favour of some form of monetary and fiscal relaxation; this, at time when the budget deficit was approaching 6 to 7% of GDP.

An all-encompassing critique of the Balcerowicz Plan was published in the form of an Open Letter to the President[196] on 15-16 October. Its authors, Beksiak and Winiecki, while strongly liberal in outlook, argued for a more active role for the state in restructuring industry. Their main criticism was that an overly-restrictive ( 'inelastic' in their words) macroeconomic policy had failed because of an inattentiveness to institutional changes. Seemingly oblivious to the legal impediments to commercialising state firms, the Letter nevertheless argued for a speeding up of privatisation "at any cost [to efficiency] and with the explicit objective of creating new owners, rather than as a source of income for the budget."[197] Aside from their demand for a relaxation in monetary policy, as well as the elimination of the *popiwek* and *dywidenda* taxes, the authors' main recommendation dealt with the restructuring and commercialisation of the banking sector in order to address the pernicious issue of inter-enterprise debt.

Industrial polices of a more genuine and traditional kind were demanded by left-of-centre groups competing in the elections. Bugaj's Labour Solidarity, Bujak's newly-formed Democratic Social Movement (*Ruch Demokratyczna-Społeczny*), and, if one includes Kuroń's rumblings about a 'social pact'[198] (see next chapter), Mazowiecki's UD were all advocating corrections to the liberal regime. These emphasised options for self-management and an end to fiscal discrimination. Bujak's own electoral slogan was 'I am sorry about Solidarity'.[199] Krzaklewski's union's demands for 'positive state intervention'[200] and the SLD's concern for parity between public and private sectors provided further evidence of anti-liberal sentiment at opposite ends of the political spectrum. The only parties which broadly endorsed the Balcerowicz Plan - now contained in the government's Principles on Socio-Economic Policy for 1992[201] - were the UD and the KLD. Two weeks before the elections, both of these parties, surprisingly, were in the lead with 20% and 8% support respectively.[202]

Whether or not it represented, as one observer put it, "a collective act of national hara-kiri"[203], the splintering of the *Sejm* on 27 October 1991 came as a shock. Even in the Senate, where a majority system applied, dozens of groups gained representation. In the parliament, a total of 29 parties managed to win seats despite (or perhaps because of) the low turnout of 43%. Boni's pensions legislation, the lingering effects of the 'war at the top', and the economic and social *malaise* all played their parts. The proportional electoral law, with no minimum threshold, lived up to its reputation with no single group dominating the *Sejm*. The so-to-speak 'winner' was Mazowiecki's UD with 12.3%. Yet in reality the party performed poorly. Kaczyński's PC received just under 9%, the KPN 7.5%, Bielecki's KLD 7.5%, the PSL 8.6%, and Solidarity a meagre 5%. The surprise performance of the SLD with almost 12%, coupled with the strong showing of WAK with close to 9%, underlined the disparate attitudes of the Polish electorate. The new parliament was of a broadly centre-right orientation with a number of potential candidates to be included in a future coalition. Hostility towards the UD[204], especially on the part of the PC and WAK, detracted from what little consensus there was on economic matters. The exit of Balcerowicz raised expectations (and fears) that Poland was about to embark in a new direction with a much stronger emphasis on fighting the recession - and the nomenklatura - instead of inflation. Balcerowicz's departure "marked the end of the first stage of Polish economic reform commonly associated with his name"[205] and left open the question of a viable alternative.

**'Shock Therapy' in 1991**

The suspension of relations with the IMF was one of a number of setbacks. For the second year running the Balcerowicz Plan failed to meet its key targets (see Appendix 4) and the ambitious goal of privatising half the state sector by 1993 was unfulfillable with one-third of state firms reporting pre-tax losses while 40% reporting after-tax losses.[206] The economy had again contracted, this time by 7.6%; industrial production fell by 12%; inflation was at 70%; and foreign investment barely exceeded $100 million (several important deals, nonetheless, are worth noting: Philips took a 51% stake in Polam-Piła, Poland's largest producer of fluorescent bulbs; Gerber acquired 60% of Alima, a baby food factory; Unilever bought an 80% stake in the Pollena detergents plant - Coke, Thomson, Asea Brown Boveri and Alcatel were among other large foreign investors). In addition, unemployment doubled, real wages remained at their 1990 levels, and the poverty gap widened with the brunt of social costs shifting to farmers and mixed households.[207] The number of strikes in 1991 rose to 305 with their average size and duration increasing by 80%, notably in state farms.[208] Confidence in Poland's institutions (see Appendix 5) and support for privatisation (see Appendix 12) had sunk and the reforms were characterised by a deep sense of despair. On the positive side, the private sector's share of GDP soared to 45% (almost a 15 point increase since 1990), employing 55% of the labour force and creating 1.5 million new firms since 1989[209]; all this, while the bulk of the country's state enterprises remained languishing in the recession.

The most successful privatisations, not surprisingly, were conducted via the decentralised liquidation routes with close to 200 firms deleted from the register of state enterprises compared to the modest number of 30 sold via the capital path (see Appendix 11). In the 20 commercialised and/or privatised enterprises surveyed by the Dąbrowski team in 1991, insiders initiated privatisation proceedings in 15 of them; in all but two, workers' councils played an important role in explaining privatisation plans to the workforce irrespective of whether they themselves initiated the change in ownership.[210] On this basis alone one has to question the merits of commercialisation as an institutional mechanism to facilitate privatisation. Macroeconomic policy *per se* proved inadequate in forcing state enterprises to adjust - in part due to conflicting signals from both governments but primarily as a result of cumbersome and ineffective bankruptcy procedures - and little was accomplished in the way of clarifying property rights or implementing reprivatisation.

Lewandowski's MPP, hailed as a popular alternative to Kawalec's British model in 1990, emerged as a carbon copy of the latter in the sphere of corporate governance. As Anthony Levitas notes, "legally there was [absolutely] no difference between the state as auctioneer and as distributor of its assets. Both required that firms give up their rights."[211] The July 1990 Privatisation Act nevertheless prolonged the self-managed enterprise model at a time when the banking and budgetary crises were not yet apparent. Neo-liberalism's failures only became clear once the Balcerowicz Plan's radical macroeconomics collided with the more complex microeconomics of enterprise reform. Delays in implementing institutional measures or, in the words of the OECD's 1992 *Survey*, to "put in place many of the structural reforms rapidly enough to establish the conditions for successful stabilisation"[212], impugned the Plan's logic and questioned the assumptions of 'shock therapy'.

## CONCLUSION

This chapter focused on the two political variants of Polish neo-liberalism during the 'shock therapy' years of 1990-91: the original *Balcerowicz/Mazowiecki model* and the *Wałęsa-initiated Gdańsk Liberals' alternative*. While both had their roots in distinct political conditions, the former in the period of 'extraordinary politics' and the latter in the 'acceleration' drive, they approached large-scale privatisation with similar objectives. The purists in the first variant perceived the British model of commercial sales as the most effective safeguard against employee ownership - or any other 'shortcuts' for that matter. A strong philosophical attraction to Anglo-Saxon-style capital markets and an unwillingness to sacrifice quality for speed resulted in a technical approach to ownership transformation. The realists in the second variant, while equally constructivist, understood that capital and institutional inadequacies plaguing all post-communist economies precluded "one giant leap to a developed securities market"[213]. Instead they believed, perhaps naïvely, that the only way to move ahead swiftly was to forsake quality and to depoliticise the property rights conflict by assigning ownership rights *en masse* to the public. Yet as Lewandowski himself admitted in the opening quotation to this chapter, the self-managed enterprise model - accompanied by a steep recession - precluded Czechoslovak-style giveaways and focused Polish decision-makers' attention on corporate governance. As the only organised social group capable of (legally) challenging the privatisation regime, the self-management lobby defended the rights of the workers' councils and ensured that the commercialisation controversy "dominated political and professional debates in 1990 and 1991."[214]

It is worthwhile once again mentioning Sachs's comment when setting out his proposals for Polish privatisation in early 1990: "The political risks of [commercialisation] pale in comparison to the potential economic gains."[215] This was not prescient on his part. One need only reflect on the words of Tomasz Stankiewicz, the Ministry of Privatisation's Director of Commercialised Firms, to realise that the fears on the part of Polish reformers that state enterprises would perceive commercialisation as an unwelcome form of renationalisation were justified: "Mass commercialisation would have made me a second Hilary Minc (the economic tsar of Polish Stalinism)."[216] This candid assertion epitomises the difficulties faced by the Polish neo-liberals in their attempts to undo the legacy of self-management. 'Shock therapy' was undoubtedly radical in its macroeconomics yet left much to be desired on the microeconomic front. The failure to disentangle the property rights knot (to the state's advantage) and, once commercialisation occurred, to achieve the efficiency and governance objectives inherent in commercialisation constituted one of the key setbacks of the 'big bang'.

One of the important questions concerning Polish privatisation in late 1991 was whether the self-managed enterprise model was, as many neo-liberals argued, the main impediment to reform. In Błaszczyk's opinion, the underpinnings of commercialisation needed to be reassessed: "If a state firm run by managers appointed by the state administration is the only realistic alternative to [a] self-managed firm, the former seems no more effective than the latter."[217] Clearly the poor performance of many joint-stock companies was a consequence of the recession and not an argument against commercialisation *per se*. Yet given the political risks in forcible commercialisation and the success of the workers' council-initiated liquidation routes, might not a more indigenous form of neo-liberalism providing a stronger role for employee ownership and greater choice in privatisation methods have been more appropriate? As far as the Dąbrowski team were concerned, "the blame being placed on firms for their failure to adapt had [less] to do with their worker-run character [than] in the failure of the state to undertake [deeper] institutional reforms."[218] With a democratically-elected *Sejm* and the departure of Balcerowicz, new hopes arose for a more conciliatory stance towards state enterprises. Slowly but surely, a *renaissance* of employees' participation in the privatisation process emerged, albeit one tempered by 'Balcerowiczism'.

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# CHAPTER 4 'BALCEROWICZISM' WITHOUT BALCEROWICZ

> Many of the [liberal] experts and politicians who struggled with an imaginary socialist enemy in the form of employee ownership are the main advocates of the Pact on State Enterprises with strong syndicalist and neo-corporatist [undertones]. -Barbara Błaszczyk and Marek Dąbrowski[1]

## INTRODUCTION

In extending the focus of this study to encompass the two-and-a-half years leading up to the passage of the 'Strategy for Poland' in June 1994, the purpose of this chapter is to examine the philosophical and conceptual evolution of 'Balcerowiczism': a broadly neo-liberal framework in which anti-inflationary objectives, systemic reforms and swift European integration constituted the key priorities. The term is appropriate, in my opinion, in view of the enduring legacy its author bequeathed on the Polish policy regime; one which served as the frame of reference for the post-Balcerowicz transition. The shift from the technocratic stabilisation phase to the institutional changes of budgetary, banking and enterprise reform took place amid increasing antipathy towards neo-liberalism. In academic and policy-making circles, analysts, prematurely or belatedly depending on one's view, began to adopt a more critical perspective of post-communist reform which questioned some of the assumptions behind the 'three zatsias'. Even standard bearers of the 'Washington Consensus', such as the late Michael Bruno, in a seminal article in the IMF's *Staff Papers* in December 1992, posed hitherto taboo questions in the in-house journals of the western financial institutions: "Was the initial price shock necessary?"; "Was the output collapse unavoidable?"; "Is rapid privatisation the answer?"; and, perish the thought, "What, if anything, can ensure the maintenance of a social consensus over the period of the reform programme and its political sustainability?"[2] Others, such as Richard Portes, spoke of 'transformation traps'[3] which focused on early errors in implementation and hoped to alert other East European countries of the risks in embarking on 'shock therapy'. Once the exemplary pupil of neo-liberalism, Poland, as it entered 1992, had to extricate itself from a number of these traps while simultaneously avoiding others along the way. Balcerowicz had left his road map but it was up to the disparate body of parliamentarians in the newly-elected *Sejm* (prodded by President Wałęsa) to decide on whether his directions were the right ones.

Two policy-makers, in particular, made their mark on Polish economic policy in the 1992-94 years. The first, the flamboyant and down-to-earth Jacek Kuroń, was partly responsible for launching 'shock therapy' and, by his own admission, had 'taken the leap' in the absence of a credible alternative.[4] The second, the highly ambitious Grzegorz Kołodko, was a renowned critic of the Balcerowicz Plan and claimed to have devised an alternative to 'shock therapy' as early as mid-1993.[5] What united these two, at least philosophically, was an attempt to add a social dimension to Poland's economic transition. In his familiar role as Minister of Labour, the imaginative Kuroń sought to extend the political boundaries of Balcerowiczism by alleviating some of its austere elements. Kuroń's 'Pact on State Enterprises' concluded with the main unions and the Employers' Confederation in February 1993 was, following Kawalec's British model and Lewandowski's Mass Privatisation Programme, the third major attempt in as many years at accelerating privatisation. A quasi-corporatist arrangement emphasising social partnership, the Pact would have been almost inconceivable under the aegis of Balcerowicz. Inspired by Kuroń's methods[6], yet objecting to the framework in which they operated, Kołodko, with the assistance of his Chief Advisor Jerzy Hausner, seized on the Pact's negotiated philosophy to help define a new socioeconomic agenda for the victorious ex-communist parties in the September 1993 parliamentary elections. Kołodko's Strategy for Poland, the first medium-term policy document since the Balcerowicz Plan, claimed to have reversed the 'destructive anti-inflationary policies' of 1990-91 and placed Poland on a path of rapid, yet more equitable, growth.

These last two variants of Polish neo-liberalism, *Kuroń's Negotiated Pact* and *Kołodko's 'Social Alternative'*, engaged in revisionism to justify their agendas. Kołodko, in particular, defined his Strategy as much in relation to the Balcerowicz Plan as an attempt to fashion a new approach to the Polish transition. Yet while the Pact was willing to (further) sacrifice the quality of privatisation - by increasing workers' participation and according greater emphasis to the popular liquidation routes - in the hope this might speed up ownership changes, the Strategy once again reasserted the state's role as the manager of its assets and perceived commercialisation as the key objective. Both of these aims - the Pact's continued emphasis on privatisation and the Strategy's renewed commercialisation drive - have, at least in the sphere of corporate governance, maintained the broad thrust of Polish economic policy. The self-management lobby, although progressively weaker, experienced Balcerowiczism without Balcerowicz.

## NO 'BREAKTHROUGH'

The unclear verdict rendered in the October 1991 parliamentary elections (see previous chapter) placed neo-liberalism in an awkward, defensive-looking position. Poland's first fully democratic *Sejm* since the 1920s was, on the whole, comprised of parties eager to translate their anti-Balcerowicz rhetoric into practical realities. Forceful proponents of a 'breakthrough' (*przełom*) in the transition - a politically-laden term calling for a reflationary, interventionist stance in economic policy in order to restrain the 'liberal excesses' of 1990-1991 - included Kaczyński's PC, Moczulski's KPN, Chrzanowski's ZChN, as well as Gabriel Janowski's Solidarity-backed Peasant Alliance (PL). It seemed odd, therefore, that Bielecki's Liberals would join these four in a five-party coalition proposing the PC's Jan Olszewski as Premier. With the stigma of elitism isolating Mazowiecki's UD and a political quarantine, of sorts, still imposed on Kwaśniewski's SLD, the 'coalition of five' emerged as the front runner to form a cabinet.

Constitutional skirmishes with President Wałęsa (the 'contract' *Sejm* had precluded agreement on a new constitution, thus obscuring the prerogatives of government formation[7]), together with the sudden withdrawal of the KLD and the KPN over economic policy and personnel disputes respectively, underscored the fragility of the coalition. Convinced Wałęsa was determined to veto his nomination and groping for suitable candidates to fill his cabinet (the former, Olszewski claimed, impeded the latter), the Premier-designate abruptly resigned from his mission on 17 December. The day after, the parliament voted to reject his resignation fearing the President himself might assume the post. In the end, the tireless campaign on the part of Kaczyński to win approval for his PC colleague, the unofficial support of Pawlak's PSL, and the consensus that the six-week interregnum had lasted long enough, enabled Olszewski to present his hastily-arranged cabinet to the *Sejm* on 21 December under the slogan of a 'government of hope'.

Retracting his familiar sharp criticisms of the Balcerowicz Plan, Olszewski nevertheless deplored what he called the 'provisional' character of Poland's post-communist governments: "I am not saying this as an accusation, but as a matter of fact. They were 'temporary' because they were based on provisional arrangements."[8] The enduring structures of communist rule, according to Olszewski, had vitiated many of the reforms introduced by the two previous cabinets. Describing the economic situation as 'catastrophic', he alluded to the Beksiak Letter (see previous chapter) to lend weight to his arguments concerning the previous governments' neglect of institutional measures. Olszewski reserved his sharpest words for the 'erroneous' privatisation record of his predecessors: "The privatisation process must be clearly organised and subject to more effective control in order to prevent abuses and the plundering of state property."[9] Promising to deal separately with privatisation and reprivatisation, Olszewski announced the immediate establishment of a State Treasury (*Skarbu Państwa*) to clarify ownership rights once and for all and supervise the handling of state assets; the words 'social control' were repeatedly used. On the macroeconomic front, he pledged to restore relations with the IMF based on a 'renegotiated' agreement, accord top priority to overcoming the recession by stimulating exports and easing the burden of taxation on state firms, and begin the arduous task of clearing up the bad debts afflicting the banking sector.

Social policy, legal and administrative reforms, and the signing of a concordat with the Vatican were also listed as key priorities. The trade unions were promised consultative functions in the formulation of policy and farmers were pledged increased support in restructuring their farms with the help of the recently established Agricultural Property Agency. In foreign affairs Olszewski stressed closer links with NATO and stronger ties with the Baltic states as well as the other newly-independent republics of the former USSR. The cabinet line-up contained few recognised authorities yet its novelty was the appointment of four cabinet-rank 'directors' of ministries destined to be liquidated or consolidated. Tomasz Gruszecki, an independent economist, and Andrzej Lipko, a member of the tiny Christian Democratic Party (PChD), were put in charge of the Privatisation and Industry and Trade portfolios respectively which, together with the Ministry of Communications, were meant to be incorporated into an all-powerful Ministry of Economy; this was meant to place privatisation policy in a more integrated framework of economic decision-making. Eysymontt, the head of the Central Planning Office (CUP), kept his post and took over Balcerowicz's position as head of the cabinet's economic committee (KERM), while Karol Lutkowski, a little-known economist, emerged as the surprise choice to head the Finance Ministry. Skubiszewski, having just congratulated his chief negotiator Jarosław Mulewicz on the historic signing of Poland's Association Agreement with the European Community (see below), remained at Foreign Affairs. The appointment of fervent nationalists such as the ZChN's Antoni Macierewicz (Internal Affairs) and Zbigniew Dyka (Justice) to sensitive posts proved highly controversial. In the end, the cabinet was confirmed by a vote of 235 to 60 with 139 abstentions; Mazowiecki's UD and Bielecki's KLD (together with the President) withheld judgement pending the announcement of a concrete economic plan.

**Budgetary Constraints**

From the outset, Olszewski's cabinet was constrained in its attempt to effect a 'breakthrough'. The Association Agreement signed in Brussels on 15 December imposed certain safeguards on the direction of reform. Covering all areas of relations between Poland and the EC, i.e. political, economic (specifically trade-related), and legal affairs, the commercial side of the Agreement took effect as early as 1 March 1992; the treaty itself came into force on 1 February 1994. Representing, in the words of the Government Plenipotentiary for European Integration and Foreign Assistance, "the strategic policy goal of future membership in the European Community"[10], the Agreement's *acquis communautaire* - the raft of legislative measures and regulations adopted by each EC applicant to approximate those of the Community - ranged from financial protocols liberalising the banking sector to educational programmes aligning Polish curriculums with EC ones. A period of roughly 10 years was envisaged to implement the 7000 or so measures contained in the treaty. The key areas of economic integration lay with the tenets of the European Single Market providing for the free movement of goods, services, capital and labour. An asymmetrical relationship called on EC member states to eliminate all tariff and non-tariff barriers on industrial goods by 1 January 1996; Poland would then follow suit three years later. The requirements of a "stable constitutional order and effective democratic institutions fulfilling their obligations and actively participating in the European integration process"[11] were viewed as a test-case of Poland's commitment to membership.

The more immediate concerns dealt with the provisional budget bequeathed by the outgoing cabinet. In the absence of a Chairman of the Central Bank (the previous *Sejm* rejected Balcerowicz's nominee, Marek Dąbrowski, for the post[12]) and faced with a budget deficit which, according to an IMF forecast[13], was veering towards 7-8% of GDP, the government had little choice but to accept the measures contained in the previous draft. With a 'heavy heart'[14] Lutkowski announced the government would not only implement the interim budget but would also proceed with delayed energy price increases due to come into effect on 1 January 1992. Eager to make amends for its about-turn lest its anti-recessionary credentials be frowned upon, the cabinet made a point of withholding the so-called 'Balcerowicz testament'[15] on which the budget was based. Displaying his reservations with the 'testament', Olszewski was unequivocal:

"We cannot undersign a practice which, for over a year if not more, consisted in turning a blind eye to the growing negative phenomena in the economy."[16] Heaping blame on his predecessors yet, at the same time, directing his ministers to uphold the original forecasts did little to convince sceptics of the cabinet's resolve in overcoming the recession.

The early months of 1992 were characterised by alarmist, at times incendiary, rhetoric from the government. Prior to Eysymontt's presentation of the revised outline for economic policy, the government issued its Report on the State of the Nation[17]. Glossing over the achievements of the Balcerowicz Plan, the Report's authors held the previous cabinets responsible for the country's economic and social *malaise*. The ZChN's imprint was palpable in sections dealing with the collapse of the moral fabric of society as a result of 'social evils and corrupt practices'[18] stemming from legal lacunas. Intolerable levels of (economic) crime, anachronisms in the functioning of the state administration and the main organs of power, and the 'decimation' of the state sector (roughly 40% of state firms, together with 50% of state farms, were believed to be insolvent[19]) were among a number of ominous declarations. Olszewski himself spoke of a situation in which the "invisible hand of the market proved to be the hand of the swindler, plundering public funds from the state treasury."[20] Whether such statements rendered Eysymontt's job any easier when he presented the cabinet's 'Principles of Socioeconomic Policy for 1992' (*Założenia Polityki Społeczno-Gospodarczej na 1992 rok*)[21] on 15 February was doubtful. Since the Principles were the trailer for the budget, the government left itself room for manoeuvre. The much-heralded (or -feared) 'breakthrough' had been quietly dropped in favour of what Eysymontt described as "a rearranging of accents given the difficult circumstances".[22]

The main objective was to arrest the fall in production in 1992 and then, hopefully, restore economic growth by 1993-94 without triggering an increase in inflation. A two-pronged strategy was proposed: "an aggressive promotion of exports (coupled with a deceleration of imports) and an investor-friendly economic environment."[23] As of July 1992, the *dywidenda* tax on enterprises' assets would be reduced by more than half, thereby encouraging firms to invest more heavily. To make up for lost revenue, Eysymontt announced a rise in sales tax in preparation for the implementation of VAT in 1993. A slight increase in the money supply at a rate exceeding that of inflation, coupled with more favourable terms of credit for farmers and construction firms, constituted the other fiscal sweeteners.[24] Budgetary stability would be maintained with the deficit capped at 5% of GDP and the *popiwek* tax on wage increases, much to the union's displeasure, was to remain in place. As if to accentuate policy continuity, Eysymontt conceded that an increase in consumption had been ruled out - at least for the next three years.

The Principles, not surprisingly, were accorded mixed reviews.[25] Lutkowski's resignation the same day the programme was announced heightened speculation that the cabinet was suffering from economic schizophrenia. The Finance Minister had assisted in Balcerowicz's more austere version of the programme[26] and, apparently, had objected to several of his cabinet colleagues' cavalier treatment of macroeconomic policy by contenting themselves with a 10-12% budget deficit and inflation in the mid-70s.[27] Balcerowicz, for his part, with the support of members of the *Sejm* who had joined his reform lobby entitled the Social Movement for Economic Initiatives (*Społeczny Ruch Inicjatyw Gospodarczy* or SPRING)[28], repeatedly stressed his 'six cardinal principles' emphasising hard budget constraints and rapid privatisation.[29] Both of these recommendations, it now seemed, were subject to revision. The analogy of a 'dry sponge'[30] was used by the government in its attempt to justify an increase in the money supply; the rationale was that since enterprises had been starved of credit, a slight 'loosening of the screws' would hardly result in hyperinflation. It was in the sphere of privatisation, however, where Olszewski's government wanted to make its mark. According to Eysymontt, the decision not to appoint a Deputy Premier for the economy was precisely to ensure that central administrative reform would proceed unimpeded[31]; hence the commencement of legal proceedings to establish the State Treasury.

**The State Treasury**

An advisor to the two previous governments on commercialising the state sector, Gruszecki emerged as the chief advocate of a centrally-managed state property trust charged with overseeing the privatisation process. A first draft on the Law on Establishing the State Treasury had been completed as early as mid-1990 but had encountered resistance on the part of the self-management lobby as well a host of independent economists.[32] The concept of a Treasury was based on the East German experience with the *Treuhand*. One of the first steps following German unification in 1990 was the establishment of a state agency, the *Treuhandanstalt*, responsible for "mandating the conversion of all state enterprises into corporate form by administrative decree" (this quotation comes from Sachs who in 1989 had advised the Polish government to adopt a similar model)[33]. The *Treuhand* itself was charged by law with privatising and restructuring all enterprises under its control. Its *raison-d'être* stemmed from the collapse of the East German state - a development which questioned its relevance in the Polish context where the state remained fully functional.

Given the problems Poland had encountered with the dozens of 'founding organs' scattered across the country and the impediments associated with the 'Bermuda Triangle' syndrome (see previous chapter), the objective of the Treasury would be to centralise ownership rights to an unprecedented degree and restore order to a hitherto "overextended and confused [privatisation] effort."[34] Yet in view of a history of enterprise autonomy and the power of the self-management lobby, the establishment of a "strong bureaucratic agency with an almost unquestioned mandate to impose radical, sweeping, and rapid restructuring [and] privatisation"[35] had been viewed as political suicide by the Mazowiecki and Bielecki cabinets. Moreover, the record of Polish privatisation in 1991 had shown that there was a real danger that mass commercialisation, given the desperate financial condition of state firms, would make the state - instead of the firms - directly responsible for their upkeep pending privatisation.

The Olszewski government nevertheless viewed the creation of the Treasury as desirable on the grounds of ensuring proper "'social' control over 'national' property and [guaranteeing] fair privatisation"[36] (see contrast with Kołodko's views on the role of this institution). This conception derived from a view that the previous governments had neglected the legal and ethical dimensions to ownership transformation in their rush to privatise. Aside from initiating work on a separate 'reprivatisation fund' (since the settling of all restitution claims was expected to amount to roughly $18 billion[37], part of the proceeds from capital sales would be made available for reprivatisation purposes), the government favoured a reassessment of the methods and direction of Poland's privatisation regime. Following Bochniarz's attempts to wrest control over industrial policy from the Ministries of Privatisation and Finance, Olszewski's government continued to insist on a clear division of powers between budgetary matters, on the one hand, and the restructuring and privatisation of industry, on the other. Eysymontt himself claimed that "far too much authority had been concentrated in the Finance Ministry"[38] and believed anti-recessionary objectives would best be served by strong institutional counter-weights to financial policy. The establishment of the Ministry of Economy and the Treasury, together, would redress the balance in favour of a more interventionist role for the state; "Just because you privatise 10% a year doesn't mean the other 90% should not be looked after"[39], Gruszecki cautioned.

These assumptions were criticised by various liberal members of the *Sejm* who believed the 'Principles' would, in the words of the KLD's Donald Tusk, "impose excessive financial strains on the budget."[40] Others, such as the KPN's Krzysztof Krol, attacked the document for "its rigid continuation of the Balcerowicz line."[41] In the end, an unholy alliance of opinions, together with difficulties in deciphering the cabinet's economic language, resulted in the parliament voting down the programme on 5 March by a vote of 171 to 138 with 38 abstentions. Similar voting patterns were displayed in the final confirmation of Wałęsa's appointee, Hanna Gronkiewicz-Waltz, for head of the Central Bank.

**A Political Impasse**

The appointment of Andrzej Olechowski, an independent economist with a strong reputation in banking circles, as Finance Minister was meant to add credibility to the cabinet's economic team. Immediately dispatched to Washington in early March to gain the IMF's imprimatur for the 5% budget deficit, Olechowski seemed to provide direction to Polish economic reform.[42] In order to gain the necessary votes to pass the budget (as well as other pieces of the cabinet's legislation), the government had to consider broadening its parliamentary base to include Mazowiecki's UD, and possibly Bielecki's KLD, yet, at the same time, contemplating talks with Moczulski's KPN. The PC's Jarosław Kaczyński - together with his twin brother Lech - engaged in a series of politically fraught negotiations with the UD throughout March and April which, if anything, further exposed the divisions between the centrist, liberal-minded UD and the more nationalist, interventionist-prone parties represented in the cabinet.[43]

Just as Olechowski managed to convince the IMF that a 5% deficit was the bare minimum Poland could afford in the present circumstances (the Fund steadfastly refused to countenance anything over 3.5% but, according to Markus Rodlauer, eventually "softened its stance in view of [its] failure to anticipate the enormous difficulties and time constraints involved in building an efficient tax system"[44]), Henryk Goryszewski, the ZChN's economic spokesman in the *Sejm*, praised the cabinet for having "stood up to the unprecedented pressure exerted by the IMF and defended Poland's national sovereignty."[45] Emotions were also running high in the sphere of education where Minister Andrzej Stelmachowski, a passionate believer in religious instruction, aroused controversy with his plans to abolish the Academy of Sciences and forbid teachers from going on strike.[46] As the government's cultural authoritarianism intensified, a vituperative political style precluded a widening of the coalition. Olszewski himself retreated into moral propaganda and often blamed the media for his government's woes.

A bruising battle with the President in April over the respective jurisdiction of the head of state and the Minister of Defence precipitated a long drawn out crisis culminating in the latter's resignation a month later. Olechowski followed suit on 7 May in response to the *Sejm*'s decision to uphold the Constitutional Tribunal's ruling that sections of the previous cabinet's hastily arranged pensions legislation were unconstitutional[47]; new wage settlements in the public sector, together with revised old-age and disability pensions, laid to rest any hopes of meeting the 5% deficit target. Wałęsa had already contemplated removing Olszewski from his post[48], dissatisfied with the tenor of his premiership and going so far as to publish his own privatisation proposals (Andrzej Kozakiewicz, an Under-Secretary of State in the President's Chancellery, in cooperation with Gruzecki's Ministry, resumed work on Wałęsa's old 100 million *złoty* scheme; this time floating a figure of 300 million *złoty* to be made available to each eligible citizen in the form of long-term investment bonds, interest-free in the first 10 years[49]).

Operating without the full backing of the two peasant parties and deprived of special powers, the government was faced with the unpalatable decision of having to resign in order to pass its budget. Seemingly undeterred and exhibiting a bunker-like mentality, the government capitalised on a 'lustration' resolution passed in the *Sejm* in late May to up the political ante. Macierewicz disobeyed the President's warnings of the legal, not to mention personal, implications of revealing the names of public figures who had allegedly collaborated with the communist security services. Instead he presented a dubious list of 64 individuals which, apparently, contained the names of respected figures in the Solidarity camp - Wałęsa included. Recriminations ensued and a vote-of-no-confidence was tabled by the 'small coalition' representing the UD, the KLD and Janusz Rewiński's small liberal group, the Polish Economic Programme (PPG). On 4 June 1992, following the President's motion for a no confidence vote, Olszewski's government was unceremoniously removed from office by a huge margin of 273 votes to 119 with 33 abstentions. The day after, the parliament passed the 1992 budget in a virtually unchanged form from that presented by Olechowski.

The awful fear of having the country's political future decided in the Ministry of Internal

Affairs contributed to the downfall of Olszewski's cabinet. The issue of 'lustration' divided the political establishment with the Premier himself leaving the PC to inaugurate his new nationalist party, the Movement for the Republic (RdR). Olszewski, together with other 'pro-lustration' elements in the Solidarity camp, depicted his ouster as a *coup d'état* engineered by Wałęsa: "'Whose Poland is it to be?', [he] asked metaphorically: 'ours' or the communists?"[50] Economic factors also played a part in the government's defeat. The cabinet's desire to distance itself from Balcerowicz(ism) presented a serious challenge to liberal continuity. The absence of a recognisable and credible strategy to extricate the country from recession - tentative signs of a recovery, ironically, were registered in the construction industry in March with a 13.4% increase in production relative to the same month the previous year[51] - deprived the government of support from both ends of the economic spectrum.

Liberals in the UD and the KLD, together with their acolytes in the media, accused Olszewski of jeopardising the stabilisation regime; one influential columnist for the weekly *Polityka* even suggested that "with a weak Finance Minister and no head of the Central Bank [up until March], we could have ended up like the Ukraine."[52] Large-scale privatisation slowed markedly in the first-half of 1992 with only 6 firms sold via capital privatisation compared to almost 20 in the second half of 1991[53] (a key development, nonetheless, was a lucrative foreign investment deal worth an estimated $1.7 billion involving FIAT's purchase of the FSM car plant in Tychy on 28 May - see below for political repercussions). Advocates of reflation, meanwhile, comprising, first and foremost, the trade unions as well as those parties which initially supported the cabinet, felt bitterly disappointed. Having dashed all hopes of across the board wage increases and cheap credits for state firms, Olszewski's government sowed the seeds for an outbreak of industrial unrest in the summer.

## KUROŃ'S PACT ON STATE ENTERPRISES

"There are no guarantees the recession will not deepen. There are no guarantees because there is no long-term plan for recovery. We will not move ahead unless there is a clear concept of the future; unless a strategic plan emerges."[54] Political divisions prompted President Wałęsa to speak out forcefully in favour of coherence in economic decision making. Whether by nominating the young Pawlak for the post of Premier on 6 June he believed he was contributing to this objective was debatable. Once again characterised by constitutional wranglings (Wałęsa chose the PSL leader because he was convinced the parliament, specifically its Solidarity camp, had run out of breath and was incapable of agreeing on a Prime Minister) as well as sharp differences over economic policy, Pawlak's 33-day mission to form a cabinet ended in failure. A delicately poised seven-party coalition comprising the 'small coalition', the ZChN, two peasant groupings, and Paweł Łączkowski's tiny PChD emerged in early July as an alternative to Wałęsa's preference for a Pawlak premiership. The Solidarity union's parliamentary caucus played an important role in bridging ideological divides and, in the end, was able to rekindle the 'Solidarity cause'. Proposing the UD's Hanna Suchocka for the post of Prime Minister, the coalition chose the pragmatic constitutional lawyer from Poznań. Whilst claiming the support of only half the deputies in the *Sejm*, the ZChN's Deputy Premier-designate, Goryszewski, proclaimed the cabinet "a government of ideological peace."[55]

In her maiden speech to the parliament on 10 July, Suchocka began by refuting the promulgations of her predecessor: "No force, domestic or foreign, has succeeded in assuming control over the Polish state for its own ends."[56] Promising a government of national accord, she urged the *Sejm* to quickly adopt the 'small constitution' clarifying the prerogatives of government formation. Stressing popular themes such as law and order, local government, an improvement in the health and education sectors, as well as the principles of a 'social market', Suchocka tried to strike a balance between the liberal, Christian Democratic and peasant interests of her cabinet. Insisting on fiscal prudence and the implementation of much-needed tax and banking reforms, she nevertheless favoured a stronger role for workers' participation in the privatisation of state firms. While "negotiations on an appropriate pact with trade unions [would] be undertaken without delay", Suchocka reminded her audience that "it was in Poland where independent economists first came up with the idea of universal [or mass] privatisation as a radical means of transforming the economy."[57]

An Agricultural Restructuring Fund would begin purchasing farmers' debts in order to reschedule them on more favourable terms (by mid-1992, 400 state farms had gone bankrupt and another 800 were virtually insolvent[58]). The Labour Code would be amended in conjunction with an overhaul of the social security system. Finally, the *Sejm*'s recent ratification of the Association Agreement with the EC would allow the government to deepen the process of integration while guarding against "dishonest foreign competition."[59] The cabinet line-up was a model of compromise with the 'small coalition' receiving 10 of the posts, the ZChN 5, Janowksi's PL 4, and the rest evenly distributed amongst the other partners. Goryszewski and Łączkowski were both named Deputy Premiers for the economy and social affairs respectively; Jerzy Osiatyński, Mazowiecki's CUP Director, took the Finance Ministry; Kuroń reclaimed his favourite spot in the Labour Ministry (with Boni appointed as one of his deputies); Lewandowski replaced Gruszecki with the explicit purpose of steering through the MPP; Bielecki was named a Minister without portfolio, provisionally in charge of relations with the EC; and Foreign Minister Skubiszewski was now serving in his fourth post-communist cabinet. The government was confirmed by a vote of 226 to 124 with 28 abstentions. Olszewski's RdR, together with Bugaj and Zbigniew Bujak's newly formed Labour Union (UP), were among those who opposed the confirmation.

**Summer Strikes**

No sooner had the government assumed office than it was confronted with a series of explosive strikes. A sharp increase in strike activity in the first-half of the year, primarily in the education sector but also of a more vehement kind as exemplified by Andrzej Lepper's new radical 'Self-Defence' (*Samoobrona*) union specialising in road blockades and 'anti-expropriation exercises'[60], had been partly attributable to the mixed signals emanating from the previous cabinet. The new wave of protests was equally vociferous in its demands and, although at times illegal (the opaque Labour code posited that in order for a strike to be considered legal, arbitration, conciliation, or a referendum amongst the workforce was necessary), gathered momentum day by day. The protesters' grievances were not all identical and, in the case of the WSK-PZL aviation plant in Mielec, were tied to the restructuring of entire branches of industry. Staving off bankruptcy, and operating in an area of high structural unemployment, WSK Mielec had been unable to pay its workers ever since the firm had been deprived of its traditional markets in the former Soviet Union. The strike fizzled out in late August only when the Ministry of Industry finally consented to a rescue programme involving a reorganisation of the enterprise's operations together with guaranteed government contracts.[61]

The two largest strikes since the inception of 'shock therapy', a legal one involving some 38,000 employees at the *Polska Miedz* copper combine in Lubin and an illegal one at the FSM car plant in Tychy, revealed the desperate state of industrial relations. In the case of the former, the provisional status associated with commercialisation resulted in workers pressing the new supervisory board, i.e. the state, for an end to the *popiwek* and *dywidenda* taxes. The government, for its part, maintained, rather disingenuously, that it was not a party to individual wage disputes. Andrzej Machalski, the Chairman of *Polska Miedz*'s supervisory board (and, coincidentally, the head of the Polish Employers' Confederation (*Konfederacji Pracodawców Polskich* or KPP)) responded to the strike by threatening to dissolve the combine - an illegal act prompting the government to immediately disavow his statement.[62] In the end, Lewandowski, as the state's representative on the board, intervened in the dispute by giving the management leave of absence and, to all intents and purposes, assuming *de facto* responsibility over the firm's day-to-day operations.

Militant strikes in Tychy, meanwhile, revealed strong anti-foreign capital sentiment regarding FIAT's 90% stake in its joint venture with FSM. Confident the car maker would not withdraw from the contract based on previous investments in the plant[63], the strikers reneged on a previous agreement not to raise wages - negotiated by the local Solidarity branch - and instead demanded salaries amounting to 10% of the market value of the Cinquecento car assembled at the factory. In short, while the *Polska Miedz* strike questioned the virtues of commercialisation as the unions made financial demands on the state - instead of the workers' councils or the managers nominated by the councils in the case of self-managed firms - and turned the 'Bermuda Triangle' into a potentially more damaging two-sided argument over privatisation, the FSM strike revealed deep hostility towards foreign capital (see Appendix 13) and an unwillingness to accept the logic of privatisation.

Fearing an escalation of the strikes, Kuroń met with leaders of the main unions to impress upon them the importance of preaching moderation. As early as 25 July, he informed the parliament of his Ministry's plans for "a novel approach to restructuring industry"[64] and presented a host of social, financial, and employment-related initiatives. While the initial reaction, both on the part of the unions and the *Sejm*, was one of cautious optimism, the emotionally-charged events of 10 August revealed the urgency in reaching a consensus. In scenes reminiscent of August 1980, leaders of six radical unions comprising Marian Jurczyk's rabidly anti-communist Solidarity '80 and, ironically, six other postcommunist unions organised a National Interunion Negotiating Strike Committee. Drawing up a list of 21 demands calling for an end to the 'chaotic and larcenous' privatisation programme, a cancellation of enterprises' debts, obligatory consultations on the cabinet's economic policy, and the indictment of those responsible for the 'ruin' of the national economy[65], the Committee placed the government. not to mention the two other main unions, in a difficult position. For just as Suchocka refused to be drawn on the subject of the 21 demands, the Network (*Sieć*) - the Solidarity-affiliated self-management activists in the large state firms (see Chapter 2) - urged Krzaklewski to adopt a confrontational stance. In the end, Wałęsa's discrete dealings with the Network, coupled with Kuroń's overtures towards Solidarity and the OPZZ, managed to placate some of the more intransigent elements and offered Suchocka's cabinet a respite to proceed with its 'Pact on State Enterprises' (*Pakt o Przedsiębiorstwie o Państwowym*).[66]

### A 'Stroke of Ingenuity'

"It was a stroke of ingenuity on his part; nothing more, nothing less."[67] That even Bugaj recognised the concerted effort on the part of Kuroń to negotiate the terms of enterprise reform was significant. Following the limited success of the British model in 1990 and the (similar) obstacles encountered by the Mass Privatisation Programme in 1991, Kuroń's Pact represented the third major attempt in as many years at privatising Poland's state enterprises. Drawn up in the Labour Ministry with strong input from Boni as well as another Deputy Minister, the late Andrzej Bączkowski, the Pact was, in essence, willing to place ownership transformation on an equal footing with industrial relations - in itself a demonstrable shift in policy. The Pact's main objective - by no means embraced by other Ministries, notably Privatisation and Finance (see below) - was to institutionalise a social contract offering workers a stronger role in the management and methods of privatisation in exchange for taking greater responsibility in the running of state firms. This was to be undertaken in conjunction with a comprehensive debt restructuring agreement involving the state banks as well as the introduction of modern social security mechanisms.

The notion of a social contract had been envisaged in late 1989 but was resisted by the Balcerowicz Group on philosophical and practical grounds[68] (see Chapter 2). The Pact stemmed from the Democratic Union's own electoral programme in the October 1991 elections[69] entitled 'Pact for Poland'. Yet, fundamentally, the initiative was the brainchild of Kuroń.[70] In a series of articles in the press throughout July and August, notably in his special columns in *Gazeta Wyborcza*[71], he sympathised with the strikers and claimed that a 'second step' (*drugi krok*) had in fact been sought by Mazowiecki in autumn 1990 but that, at the time, "we did not know [(perhaps did not want to know)] how to do this."[72] Although refraining from directly criticising the Balcerowicz Plan, Kuroń claimed that "employees in state enterprises should be given [more] autonomy, given a chance. Already in late 1990 it was clear to me that apart from political democracy we needed workers' democracy."[73] Quite a statement from an early advocate of 'shock therapy'.

In a conversation with Bielecki following the confirmation of Suchocka's cabinet, Kuroń informed the ex-Premier - subsequently put in charge of the Pact's implementation - that "he was extremely fond of introducing social pacts as a means of legitimating privatisation."[74] Bielecki, who at first sensed these to be "a dangerous form of corporatism", eventually consented providing "these pacts offer us a chance to speed up privatisation... even if this means giving workers 30% of the shares!"[75] Initially insisting on a two-month cut off period in which state firms would be allowed to select their own routes for privatisation, Bielecki later agreed to extend the deadline for compulsory commercialisation to six months (an indication of the tense atmosphere surrounding the talks). Asked whether the Pact constituted a form of blackmail, a quasi-corporatist arrangement providing various social and financial guarantees in exchange for a firm commitment to privatisation, Bielecki was philosophical: "This Pact, as far as I was concerned, was a means of repaying my debts from 1991 when I overemphasised the technical and economic aspects of privatisation at the expense of the necessary transfer of ownership. Yes, I suppose it could be construed as a bribe, a form of corporatism. Yet our [unconcealed] intention was clear: we wanted to speed up privatisation."[76] Hardly a Kurońesque endorsement of workers' democracy.

As the unions soon realised, the Pact was tied to (if not dependent on) the passage of other pieces of the cabinet's legislation, in particular Lewandowski's MPP and a tight budget designed to restore relations with the IMF. With the adoption of the interim 'small constitution' in mid-October strengthening the government's powers *vis-à-vis* the parliament[77], the cabinet pressed ahead with its ambitious agenda. A wafer-thin parliamentary majority, however, together with an, at best, ambivalent attitude towards privatisation (within the cabinet and outside -see Appendix 12), hindered the passage of the MPP. A nerve-wracking series of no-confidence votes against Lewandowski, spearheaded by Moczulski's KPN and supported by a farrago of peasant and Christian Nationalist deputies representing the coalition, laid bare the divisions surrounding privatisation. This convinced the government to negotiate directly with the unions.[78] On 9

September, Suchocka and five of her ministers presented the first draft of the Pact on State Enterprises at a televised press conference. The document brought together 14 draft laws and amendments to existing laws[79] covering four key areas: inducements for privatisation, including the freedom for firms to choose their own paths of transformation and the distribution of 10 to 15% of the enterprises' stock to employees free of charge (a notable departure from Krzysztof Lis's thinking in early 1990 - see previous chapter); selective debt relief aimed at addressing the huge build up of inter-enterprise debt stemming from the insolvency of roughly half of all state enterprises[80]; new wage settlement procedures leading to the removal of the *popiwek* and *dywidenda* taxes; and, finally, safeguards against bankruptcy compelling employers to contribute to a 'guaranteed wage fund' to provide severance pay.

Tripartite negotiations involving the Employers' Confederation, the main unions and the government commenced on 6 October. Fifteen trade unions in all were invited to participate[81] in the three working groups on finance, privatisation and social policy. Four of these, including Jurczyk's Solidarity '80, walked out citing the cabinet's unwillingness to negotiate the terms of its economic programme, while Solidarity refused to sit at the same table as Ewa Spychalska's OPZZ. Juliusz Gardawski's 1992 Workers (*Robotnicy*) Survey revealed the important political functions performed by Krzaklewski's union. Questioned on the most effective way of defending employees' interests, 48% of all workers surveyed chose direct negotiations between Solidarity and the government (23% opted for similar talks with the OPZZ, 14% for direct assistance from the President, 21% for strikes, and as many as 26% deemed the situation beyond repair).[82] Moreover, while 72% of Solidarity members questioned favoured bilateral negotiations with the cabinet, only 8% of OPZZ members placed their faith in direct talks with the government; instead 43% of the union's respondents felt bilateral negotiations between the government and Solidarity would achieve a better deal[83]. Jerzy Drygalski, an Under-Secretary of State in the Privatisation Ministry heading his department's side of the talks, admitted that whilst it was often the OPZZ who appeared more amenable to compromise, Solidarity's economic concerns predominated and, for the most part, were indistinguishable from political agendas.[84]

Training programmes for union leaders were set up in each enterprise and with the cooperation of the media, local governments, and the provincial administrations (*wojewoda*) considerable educational efforts were undertaken to 'sell the Pact' to the unions (Kuroń admitted that if 30% of enterprises signed up to the agreement, it could be considered a success[85]). As the talks dragged on into November, it was clear the three sides viewed the Pact's provisions in a different light. An October opinion poll commissioned by CBOS revealed not only that 72% of workers were unaware of the proposed legislation (20% knew 'something' about it) but that conflicting signals, together with an abundance of information, prevented a clear assessment of the Pact.[86] Managers viewed the clarification of ownership rights and a swift reduction in enterprises' debts as the two crucial elements of the contract.. Unions, meanwhile, perceived social guarantees, employee participation, and the abolition of the *popiwek* as the main advantages.[87] Bielecki himself foresaw the dangers in proceeding with three separate, and potentially contradictory, working groups and expressed his reservations to Suchocka in late 1992: "All of a sudden I realised that Bączkowski's [social policy] group was slowly emerging as an independent, integral, and sometimes dominating element. This had to be avoided."[88]

The extent to which the Pact's 'new deal'[89] - the visionary expression used by Boni in promoting his Ministry's initiative - was contingent upon the successful implementation of other pieces of the cabinet's legislation was made clear on 9 October when Suchocka presented her cabinet's economic programme[90]. Promising to double national income in 10 years, increase foreign investment (recently given a much-needed boost by the International Paper Corporation's $120 million 80% stake in the ZCP pulp and paper mill factory in Kwidzyń), achieve a favourable debt accord with the London Club of commercial banks and overcome the crisis in public finances, Suchocka called for consumption to be limited to half the growth in GNP over the next decade. This drew condemnation from the unions as well as the varied advocates of reflation in the *Sejm*, prompting fears that the Pact's social provisions were fictitious. In the end, the cabinet's programme passed by a mere three votes.[91] Both Solidarity and the OPZZ, together with a host of other small unions, signed up to the Pact only after extracting favourable concessions: Solidarity set new conditions on Lewandowski's MPP requiring a change in the name of the Programme from Mass Privatisation to National Investment Funds (*Narodowy Fundusze Inwestycyjny*) while the OPZZ insisted on a modified Pact based on amendments to the Labour Code in the area of collective bargaining. The year ended with a resumption of strikes over wage increases and promises of restructuring - this time in the Silesian coal mines. Poland's tepid economic recovery, lost in a myriad of gloomy statistics (real wages once again fell by 2.3%[92], the net profitability of state firms - including those commercialised - was negative[93], and foreign investment for the year barely exceeded $280 million[94] - see Appendix 16 for key figures), was hailed by the cabinet as a sign of the rapid growth of the private sector[95]; now constituting almost 50% of GDP, employing 55% of the labour force, and contributing 47% of external trade.[96]

## The Pact's Facts

Suchocka's threats to resign should the *Sejm* fail to pass the IMF-approved budget capped at 5% of GDP - she claimed that any extra expenditures were tantamount "to an expression of a different reform concept" while Jan Rulewski, a prominent Solidarity deputy, pointed to the "absurd asymmetry"[97] between the bill and the Pact - provided the political context for the signing of the 'Pact on State Enterprises in the Process of Transformation'[98] on 22 February 1993. Three versions were signed simultaneously: the first with Solidarity, the second with the OPZZ, and the third with seven other unions ranging from the Mining Supervisors' Union to the Railway Workers' Union. The first and third agreements were virtually identical barring minor differences in the language and accent placed on privatisation. Solidarity's version stressed that "privatisation is an essential part of reform. Work will be undertaken, without delay, to create a general [framework] for [mass privatisation] involving [different forms of ownership]. The first step will entail the implementation of the Law on National Investment Funds and their Privatisation."[99] Enterprises were to be given six months to come up with an appropriate route (IPO, trade sales, MPP, or liquidation paths); failing that, they would be forcibly commercialised. Employees were granted 10% of the shares - Solidarity had requested 25%[100] - in a given firm free of charge and the right to acquire an additional 10% on preferential terms. Once commercialised, workers would still be allowed to elect one-third of the seats on firms' supervisory boards. Lastly, leasing conditions for enterprises opting for the popular liquidation routes would be eased.

In the sphere of wage bargaining, all of the agreements began by stating that "a permanent dialogue and [the search] for [a consensus] between the three major partners in society is necessary for the economic growth of the country and an improvement in its living standards."[101] The Pact proposed to abolish the *dywidenda* tax on 1 July 1993 and to replace the *popiwek* with a less centralised two-tier structure for wage negotiations. A Tripartite Commission representing the unions, management, and the government would debate wage limits at the national level, while enterprises themselves would negotiate specific wages within the fiscal constraints set by the Commission. The Employers Confederation endorsed the measures while emphasising that the elimination of the *popiwek* could only be undertaken "in parallel with mass privatisation and the restructuring of [firms]."[102]

The sections pertaining to social issues were given higher priority in the Pact initialled with Spychalska's union (another distinctive feature of the OPZZ's version was an introductory statement on changes to the law on privatisation which claimed that "it is necessary to ensure that [enterprises], together with their employees, are able to decide independently on their [preferred route for ownership transformation], based primarily on [efficiency criteria] as well as satisfying employees' interests"[103]). All three pacts stipulated that employers would contribute to a 'guaranteed wage fund' protecting employees against the threat of bankruptcy; severance pay would entail a minimum of three months full wages. In addition, an obligatory 'social fund' would provide workers with various work-related benefits such as housing subsidies and transportation discounts. The fund, despite strong opposition from the KPP, was to be extended to private firms with the level of employers' contributions subject to negotiation through collective bargaining.[104] Labour safety and hygiene standards were also included in the Pact. The OPZZ insisted on the *Sejm* enacting a Charter of Social Guarantees[105] enshrining the Pact's social clauses into law - various amendments to the Labour Code were introduced for this purpose.

Finally, the provisions on corporate debt relief were to proceed independently of the rest of the legislation. The much-praised Law on the Financial Restructuring of Banks and Enterprises drawn up in the Finance Ministry under Stefan Kawalec[106] was passed by the *Sejm* in December 1992 and, arguably, constituted the greatest economic achievement of the cabinet. Described as "the most ingenious and comprehensive reform aimed at simultaneously solving the financial and structural problems of both banks and enterprises"[107], the Law provided for 'bank conciliation proceedings' giving recapitalised banks a strong role in the restructuring and governance of state firms.

**The Pact's Unravelling**

The reactions to the Pact were, for the most part, restrained; in this sense the agreement constituted a victory for the government since no one opposed it outright. Spychalska talked of "limited successes for trade unions that will hopefully lead to increased social dialogue".[108] The UP's Karol Modzelewski believed the Pact's "small steps in a progressive direction" were not half as significant as the government's final admission that "it could no longer carry out its reforms without trying to reach [some form of] compromise."[109] Kuroń hailed the agreement as unprecedented in scope and as a "first step in the direction of a social order based on social contracts"[110] while Krzaklewski admitted that, providing the legislation was implemented, the Pact would improve social dialogue and economic efficiency. Liberals, meanwhile, were concerned the Pact's provisions on privatisation would compel the government to revise its assumptions regarding the enterprises targeted for mass privatisation: "The Pact sanctions [employees'] appropriation of state assets and makes a fiction of ownership by the [soon to be established] State Treasury"[111], noted Lewandowski. Others stated that "in the context of experience gained during the first two years of Poland's transformation, bribing our 'anti-communist Bolsheviks' of Solidarity descent was unavoidable."[112]

The risks in proceeding with the initiative were clear from the outset. These included the inflationary repercussions in lifting the two enterprise taxes; the illusory hopes for across the board wage increases and universal debt forgiveness; and, more importantly, the limited knowledge on the part of the unions of the Pact's provisions and the concomitant responsibilities in adhering to them (see Appendix 13 for the shortcomings in this area). Kuroń's role, as one observer put it, had been to hark back to the romantic era of Solidarity in 1980-81, to 'soften the blow', and to assuage workers' fears by repeatedly stressing the Pact's social dimension, notably its negotiated character.[113] What he overlooked, according to Bielecki, were the legislative obstacles to its implementation.[114]

Following the *Sejm's* rejection of the MPP on 18 March, the cabinet decided, once again, to modify the Programme; this time by incorporating an SLD/OPZZ amendment involving two types of share certificates: one for all eligible citizens and the other for certain groups of pensioners and public sector employees (the first would involve 400 firms, the second 200). Faced with a competitive 'mass privatisation' programme in the form of the President's'/Network's '300 million *złoty*' scheme, and unable to rely on the support of its Christian Nationalist and peasant coalition partners, the government depended on the votes of the SLD to pass the MPP on 30 April 1993. The Law on National Investment Funds and their Privatisation was approved by a vote of 215 for, 178 against and 22 abstentions; Solidarity's 26 deputies split their votes.[115] Convinced the authorities were reneging on their (social) duty to implement the Pact, and increasingly committed to Olszewski's fierce anti-communist stance, Krzaklewski's union tabled a motion of no confidence on the very cabinet it helped create. Closing the Solidarity umbrella on 27 May 1993 by stating that "from now on, no government will have the right to call itself a 'Solidarity' [cabinet]"[116], the union, to its own astonishment, managed to pull the rug from under the government as a result of yet another exotic alliance of nationalist and ex-communist votes. With his customary flair for the theatrical, Wałęsa dissolved the parliament and called for early elections in September. The Pact, as well as other pieces of the cabinet's legislation, were put on hold or simply abandoned.

**A Change in Philosophy?**

The Pact's quasi-corporatist features raised interesting questions for Balcerowiczism. Was it simply a tactical move on the part of the authorities designed to forestall further strikes or, alternatively, did it amount to a philosophical change in the Polish transition? In my opinion Kowalik is wrong to suggest the Pact represented "the most spectacular concession by [the government] to social pressures"[117] (admittedly, given his social democratic beliefs, it may have appeared so to him at the time). Indeed as his colleague Modzelewski observed, the term 'workers' council' was never even mentioned in the Pact[118]; hence the Network's disregard for the agreement. It seems the aim of the agreement was to adhere to the corporate governance objectives set out in late 1989 - commercialisation ostensibly leading to privatisation - by circumventing the self-management lobby which, with an increasing number of firms being commercialised, was in a weaker position and offering various inducements to unions and managers in the hope of accelerating privatisation.

As Poland's 1994 OECD *Economic Survey* noted: "Under the Pact, legal incorporation of enterprises and the termination of the [workers' councils] were viewed as essential steps towards privatisation and [improved enterprise governance]. There was little presumption that the state could be an effective owner"[119] (see next section for a contrast in philosophy). That the Pact continued to view the liquidation routes as a second-best solution to privatisation was nevertheless significant. This suggests the contract recognised the *étatiste* dangers inherent in mass commercialisation and, in the case of small- and medium-sized firms, was willing to sacrifice the quality of corporate governance in the hope that a decentralised approach would hasten privatisation. If this was indeed the case, then the Pact endorsed the Dąbrowski team's research findings on enterprise behaviour (see previous chapter) which called for clear distinctions between small and large firms as the former were quite capable of restructuring and improving efficiency while preserving their self-managed status.

The Pact's negotiated character, as two senior editors of the weekly *Polityka* argued, was nevertheless an indication of the pressing need to reorient Balcerowiczism away from its technocratic conception in 1990-91 and towards a sociopolitical compromise. Janina Paradowska and Jerzy Baczyński claimed the agreement represented the last concrete attempt at rescuing the 'Main Plan', i.e. the Balcerowicz framework, from the increasingly popular leftist alternatives which, ever since the Olszewski government's declarations of a 'breakthrough', had convinced the political establishment of a 'third way'.[120] Kuroń himself, almost a year after the defeat of Suchocka's government, admitted as much in his manifesto entitled 'A Republic for Everyone' (*Rzeczpospolita dla Każdego*).[121] In a 16-page *exposé* in the economic weekly *Życie Gospodarcze*, he reflected on the genesis of the Balcerowicz Plan, its strengths and weaknesses, and the tasks that lay ahead (at the time of writing, Kuroń was a member of the newly established Freedom Union (UW) party, the product of a merger between Bielecki's KLD and Mazowiecki's UD). While still maintaining that the 'shock' approach was the only realistic option in 1989-90, Kuroń faulted the early governments for mishandling privatisation and, as a consequence, jeopardising the Solidarity umbrella.

In a candid account - perhaps too candid for the likes of his liberal colleagues in the UW - of the 'psychosis of betrayal' that afflicted the Solidarity union in the early 1990s, Kuroń alluded to the stark contrast between the electoral programme of the Citizens' Committees in May 1989 (see Chapter 2) and the 'technocratic-statist revolution from above' that characterised the Balcerowicz Plan[122]; a position virtually identical to that taken by other Polish social democrats such as Kowalik[123] and Bugaj. According to Kuroń, "passing from a system of central planning to the market economy requires, at least initially, effective management by the state administration. Yet at the same time building the institutions of capitalism is inherently a social process. [Regrettably], neither the [Mazowiecki] government nor the Citizens' Parliamentary Club developed such a programme. Instead, the government appealed for patience, which, in essence, meant: "We will do it for you, you need only wait""[124] (see next section for similar views on the part of Hausner). Presenting the main ideas of his programme - citizens' ownership, options for self-management, local and regional development as well as social security reforms - Kuroń stressed that it would have been advisable to proceed with Lewandowski and Szomburg's

1988 MPP in the first phase of the Balcerowicz Plan; this would have increased support for the Plan and assuaged fears regarding nomenklatura privatisation. The Pact, according to Kuroń, was partly intended to serve this purpose and it came as no surprise to him that the recently victorious ex-communist parties "adopted the phraseology of the Pact to suit their own interests"[125] (see next section).

Kuroń's post-Pact revelations are significant in view of their author's prominent role in the conception of 'shock therapy'[126] (it was Sachs, after all, who, in autumn 1989, gave the dishevelled Kuroń his own tie as a sign of respect). What is clear is that his manifesto, as well as the Pact, are open to interpretation. On the one hand, one could argue that the 'second step' should have been taken much earlier; that its conception should not have depended on Kuroń alone and should have been institutionalised in the decision-making process; and that perhaps the workers' councils ought to have been recognised (or at least consulted) in the agreement given that commercialisation still required their consent. Social democrats such as Ost, Kowalik or Modzelewski would go a step further by arguing that corporatist arrangements were both morally and practically justified given the social base of the Solidarity movement. The 'psychosis of betrayal', in their view, stemmed from the neo-liberals' ivory tower approach to governing coupled with their exaggerated fears of asset stripping in late 1989.

Alternatively, one could point to Kuroń's repeated defence of the 'shock' approach; the absence of the consensual and financial prerequisites for corporatism in Poland in the early 1990s; and the legal and logistical impediments to tripartite negotiations as a result of the self-managed enterprise model. Indeed the latter may be one of the reasons, aside from political/cultural traditions, why the former Czechoslovakia, with a much stronger and centralised state, found it easier to implement corporatist arrangements[127] - as well as proceed with rapid, 'top down' privatisation. As far as the Pact is concerned, I tend to agree with Bugaj that it was a case of quick thinking on Kuroń's part and that the contract, as Bielecki never ceased to point out, was always intended - and perceived - as a means of speeding up privatisation. Yet the manifesto suggests the Pact's philosophical underpinnings were as important as its practical aims and that Kuroń genuinely wanted to change the tone of, and possibly make amends for, Balcerowiczism. For this, he is to be applauded.

## A NEW 'STRATEGY FOR POLAND'?

What began in Vilnius in 1992 made its way to Warsaw in 1993. On 19 September, Poles returned the two ex-communist parties to power. As a consequence of both the passage of a new electoral law stipulating a five percent threshold for parties (eight percent for coalitions) and the perennial disarray in the Solidarity camp, Kwaśniewski's SLD and Pawlak's PSL managed to obtain just over one-third of the votes, translating into 65% of the seats in the *Sejm* together with 76 in the 100-seat Senate. Moderate, pragmatic and running a well-organised campaign aimed at cushioning the effects of stabilisation, the SLD's 20.4% of the vote was as much a reward for the party's disciplined behaviour as a vote-of-no-confidence in Solidarity's emotionally-laden and ideologically divisive politics. The PSL's 15.4%, coupled with the Labour Union's 7.4%, constituted further evidence of hostility towards privatisation and the longing for a 'social alternative'. The expulsion of the nationalist right - the Solidarity union, the PC, the ZChN-led 'Fatherland' (*Ojczyzna*) coalition, and Olszewski's milieu - from the parliament, barring the KPN's meagre 5.8%, underscored the leftward shift in the transition. Indeed had it not been for the 10.6% accorded to Mazowiecki's UD, and the 5.4% going to the Wałęsa-sponsored Non-Party Bloc for the Support of Reform (BBWR), economic liberalism would have been deprived of political representation.

Amid ominous predictions of 'creeping economic destruction', '300% inflation within six months' and a 'national catastrophe'[128] (the latter remark was attributable to the former Polish Director of the EBRD, Jan Winiecki, who, apparently, felt he could no longer 'do business' with a cabinet comprised of ex-communists), the SLD's liberal wing under Kwaśniewski went out of its way to convince the financial community of its determination to ensure (macro)economic stability. Originally aiming for a 'historic compromise' with the UD, the Alliance eventually signed a coalition pact with the PSL on 13 October - already having lost the support of Bugaj's party over charges of 'liberal continuity'. In a delicate power sharing arrangement handing Pawlak the premiership and control over the state administration in exchange for the SLD's command of the main economic portfolios - the atmosphere surrounding the talks was described as "one of a total lack of mutual trust, with everyone suspicious of everyone else"[129] - Kwaśniewski deliberately chose to take on the role of an *éminence grise* supervising the cabinet's work in parliament. If moderates like him were to be believed, a majority coalition was an improvement on the interminable debates and cliff-hanging votes of the previous *Sejm*. As the

*Financial Times* put it, "Poland may enjoy something it has not seen [in a while]: a period in which the government can take a medium- to long-term view of the economy rather than engage in crisis management."[130]

Pawlak's presentation of his government's programme on 8 November laid the groundwork for a realignment of Polish economic reform. Differentiating his cabinet from those of his predecessors not by its "general objectives but by its methods, ways and means of implementation", he claimed that "a significant part of the social costs [borne in the transition] were a result of mistakes, including, above all, excessive dogmatism."[131] Placing the battle against unemployment - now (officially) standing at roughly 13% - as one of his government's chief priorities, Pawlak promised to boost pensions and wages, reform the health and education sectors, increase exports and investment, and "ensure similar levels of agricultural protection as in other countries".[132] Decrying the erratic, and at times illegal, management of public finances under the Solidarity governments, the PSL leader promised to raise additional revenue by targeting the grey economy while, at the same time, curbing inflation and achieving a favourable debt accord with the London Club of private banks. The strategic objectives of European integration and NATO membership were to be accompanied by strengthened economic and political cooperation further East.

Kwaśniewski's address the following day was more specific. Having firstly apologised to those wronged by the communist authorities, he went on to speak of flexibility and a variety of approaches to managing the state sector: "This is how we understood the essence of [Kuroń's Pact]."[133] Replacing the "magic word of privatisation with that of commercialisation"[134], Kwaśniewski placed efficiency criteria and strong management controls by the soon to be established State Treasury as the bases for enterprise reform. Perceiving privatisation solely as a means to an end, the SLD Chairman claimed the previous governments' fixation with transferring nominal ownership into private hands had penalised state enterprises; many of which, according to him, had made significant progress in restructuring their operations and improving corporate governance. A change in philosophy, therefore, according equal treatment to public and private sectors was needed. Kwaśniewski noted that "experts from the financial institutions have concluded that many state firms have managed reasonably well in market conditions. This should make even the most ardent of liberals [think twice]"[135] (see below for Marek Belka's study on enterprise behaviour).

The coalition's stewardship of the economy in the early months of 1994 revealed sharp differences over the extent to (and manner in) which the government should distinguish itself from its Solidarity-based predecessors. Aside from the two parties' mutual interests in ensuring greater protection for public sector employees, raising consumption and lowering unemployment, opposing views on budgetary allocations, structural reforms, and the pace and scope of European integration could be discerned. The single-minded resolve of the PSL *vis-à-vis* agricultural protection was antithetical to the largely urban, consumer-oriented and internationalist outlook of the Alliance. A damaging intra-coalition battle in January over the privatisation of *Bank Śląski* (one of the 9 commercialised state banks of which *Wielkopolski Bank Kredytowy* was the first to be privatised in April 1993) confirmed Bugaj's prophecies concerning liberal continuity.

Pawlak's 'pro-social'[136] agenda struck a chord with the 60 or so OPZZ deputies belonging to the SLD, thereby splitting the party and leading to the resignation of its liberal Finance Minister Marek Borowski. Poland was placed in the uncomfortable position of having to submit its formal application for membership in the European Union (EU) on 8 April 1994 while facing "awkward questions about change, continuity, and credibility in economic policy."[137] Deprived of an authoritative voice on economic affairs for nearly three months and temporarily operating without wage controls, the SLD, after considerable difficulty, managed to win approval for its candidate Grzegorz Kołodko to become Finance and Deputy Prime Minister for the economy on 27 April. A former Director of the Institute of Finance and Professor at the Warsaw School of Economics (SGH), Kołodko had been a member of the government's Economic Council in 1990-91 and had issued a number of critiques of the Balcerowicz Plan.[138] His most recent publication, presented informally to Pawlak in early October 1993, was a 44-point programme entitled 'Strategy for Poland' (*Strategia dla Polski)*; this appeared in the form of a working paper as well as an extended article in a November issue of *Życie Gospodarcze*.[139] Immediately following his appointment to the cabinet, Kołodko mounted an artful media campaign on behalf of his document[140], won the cabinet's approval for it on 27 May, and presented it to the *Sejm* as early as 9 June.

**An Ambitious Agenda**

A 69-page summary of the economic objectives of the Polish transformation in 1994-97, the Strategy contained 10 sections covering areas such as wage settlements, social security reform, management of state property (in conjunction with the reform of the central administration), macroeconomic stabilisation, and the development of agriculture. The introduction to the document began by stating that there was a general consensus that the social costs of the transition had been excessive. The political verdict rendered in the elections necessitated the development of a strategic concept of reform designed to serve three purposes: [rapid] economic growth, systemic and macroeconomic stabilisation, and an improvement in living standards.[141] The Strategy privileged negotiation in resolving industrial disputes. Labour relations would from now on be conducted in a decentralised manner through the Tripartite Commission offering a flexible framework for collective bargaining. In the sphere of social security reform, the document proposed moving as quickly as possible from a system based on wage indexation to one based on prices. All key areas, i.e. old-age and disability pensions, health insurance, unemployment assistance and sickness benefits would be subject to a radical overhaul. Pensions were to operate on a two-, possibly three-tiered system providing for the basic state pension together with a privately funded scheme.

Ownership transformation ('privatisation' was replaced by 'management of state property') would be subject to "wide public approval, and a [variety] of routes and methods."[142] In order to improve corporate governance, a programme of mass commercialisation would be launched in 1995. As part of the long overdue process of central administrative reform, the new State Treasury would centralise hitherto dispersed ownership functions and "exercise more effective control"[143] over state firms. This would strengthen the position of managers and ostensibly "create more favourable conditions for an acceleration of ownership transformation."[144] Both the Mass Privatisation Programme and the restructuring of the banking sector would proceed on course. The Strategy's tough anti-inflationary stance presaged continuity in macroeconomic policy. Rosy forecasts of 5% growth (or more) for the next four years, single digit inflation by 1997, rising exports and investment, increased consumption, and lower unemployment[145] seemed to offer the best of both worlds. Kołodko's programme was designed to eventually fulfil the EU's 'Maastricht criteria' of a budget deficit not exceeding 3% of GDP, public debt at or below 60% of GDP, and inflation and interest rate differentials roughly within 2% of the respective rates of the three star performers in the EU[146]. Finally, the Strategy offered vague recommendations on how to rationalise agricultural investments, boost exports and find alternative sources of development; direct intervention, it was stressed, would be severely limited.[147] The words 'peace and quiet', 'social consensus' and 'negotiation' permeated the document.

## Mixed Reception

The Strategy's reception was interesting to observe. The IMF's Rodlauer, while finding the SLD's economics "difficult to decipher and couched in a different language than that of the previous cabinets", praised Kołodko's plan as "a crucial guiding framework for macroeconomic policy formulation and implementation"[148]; Jan Wejchert, the President of the Polish Business Council, responded by saying: "We have been demanding the development of an economic strategy for more than two years now"[149]; and President Wałęsa, who had attended the Strategy's presentation in the *Sejm*, welcomed it as "the best project in the last five years."[150] Parliamentarians, notably those from the opposition, were more circumspect. During the Strategy's parliamentary debate on 23 June, Borowski congratulated his colleague for presenting the first "long-term programme for reform which broadly continues the policies of the previous cabinets but in a style which is acceptable to society."[151] Borowski claimed the novelty of the document lay in its assumption that privatisation was not, in itself, a precondition for success. The OPZZ's Spychalska also complimented Kołodko on assigning priority to long-term decision-making. The three main objectives of the Strategy were, according to her, acceptable from the union's point of view. While recognising that principles of social fairness had, for the first time, been mentioned alongside profits and capital, Spychalska feared this was simply a 'socio-technical device' rather than an actual change in philosophy.[152]

Bugaj's comments were more revealing. The Labour Union chief found the Strategy to be extremely vague and short on specifics; the absence of a coherent industrial policy, moreover, was, according to him, inexcusable: "If anything, this is a step back from [Suchocka's Trade and Industry Minister] Niewiarowski's proposals."[153] He applauded the decision to involve workers in the process of ownership transformation yet failed to understand how this could be achieved given the renewed emphasis on commercialisation. Deploring the Strategy's anti-inflationary stance for its professed goals and its 'lack of realism', Bugaj claimed his party could not, in all honesty, support the programme: "This document will not, as far as I can see, diminish the social costs of the transition and therefore does not constitute a genuine leftist alternative."[154] Only a clear and unambiguous statement on the precise economic model for the transformation would, according to Bugaj, provide an indication of whether the government had truly renounced Balcerowiczism.

The Freedom Union's Syryjczyk was equally critical of the Strategy's nebulous character. The UW deputy claimed to recognise elements of his own party's thinking "which, at one time, were discounted by the present coalition partners and are now embraced [in the Strategy]."[155] Syryjczyk objected to what he saw as the contradictory aspects of the programme, namely the accent placed on anti-inflationary objectives while, at the same time, "centralising authority in the hands of management [as a means] of avoiding the necessary restructuring and privatisation of strategic industries, notably in the energy sector. This will inevitably increase the budget deficit."[156] The notion of joint responsibility for the reforms, moreover, as envisaged in Kuroń's Pact, had, according to Syryjczyk, been discarded in favour of a much more centralised approach. The UW joined the UP in rejecting the plan. Yet, in the end, the Strategy was passed by a comfortable majority of 244 to 87 with 13 abstentions.

**The Strategy's Philosophy**

With the official launch of the first medium-term policy framework since the Balcerowicz Plan, observers of the Polish transition were keen to draw conclusions on the shifts in policy inherent in Kołodko's Strategy. The Deputy Premier himself came under intense scrutiny in the weeks and months following his appointment to the cabinet. Was he, as some suggested, the new 'postcommunist Balcerowicz'?[157] Was it sensible to compare his Strategy - drawn up and implemented amid a rapid recovery characterised by investment- and export-led growth (see Appendix 17) - with the hyperinflationary environment associated with launch of the Balcerowicz Plan? Perhaps the answers to these questions would not have generated as much interest had it not been for the strong desire on the part of Kołodko to assert his authority on Polish economic policy and claim, in countless interviews and press conferences, that his Strategy had been developed "as an alternative to the Balcerowicz Plan."[158]

A member of the technocratic left, though politically unaffiliated, Kołodko had often voiced his reservations with the neo-liberal design. His objections - spelt out in a recent paper co-authored with his long-time colleague Domenico Nuti aptly entitled 'The Polish Alternative'[159] - concerned the restrictive financial policies (or 'overshooting') in the first-half of 1990; the 'overzealous' liberalisation of trade, notably the lack of protection accorded to the domestic market following the collapse of the CMEA (itself much too premature in Kołodko's view); the delayed budgetary and tax reforms contributing to the 'fiscal trap'; and, crucially, the 'state desertion' inherent in the privatisation crusades undertaken under Balcerowicz.[160] Adamant that the signs of recovery in 1992-93 were attributable to the softening, if not the abandonment, of many of the 'shock therapy' policies of 1990-91, Kołodko claimed that the "creative destruction' of the early years was replaced with schemes aimed at improving the management of the state sector - instruments designed for this purpose included the Pact on State Enterprises."[161]

In a similar style to Balcerowicz, Kołodko brought his own closely-knit team of advisors into government in May 1994 to lend intellectual support to his policies. The three key figures were Jerzy Hausner, his Chief Advisor; Danuta Hübner, an Undersecretary of State in the Ministry of Industry and Poland's Chief Negotiator with the OECD; and Jan Monkiewicz, an Undersecretary of State in the Council of Ministers in charge of banking reform. The 'Kołodko Group' proved adept at promoting the Strategy in the media; often appearing as a team peddling the same message[162]: long-term strategy formulation and a decrease in the social costs of reform. The fact that Kołodko's press coverage was, for the most part, quite critical may have convinced him to redouble his efforts at 'selling' his package (a critic of the Finance Minister noted that "he spends more time fighting the fictitious enemies of his policies than he does implementing them"[163]). The philosophical underpinnings of the Strategy, notably the accent placed on negotiation, could be traced to Hausner's academic works. Indeed the first distinguishing characteristic of the Strategy Kołodko listed in a recent book outlining his agenda referred to his programme's 'social democratic' philosophy as opposed to the 'liberal fundamentalist' approach of 1990-91.[164] A more refined version, as presented by Hausner, talked of an 'interactive versus imperative method of transformation'.[165]

It is a little known fact that Hausner's theoretical analysis appeared in a 1994 paper co-authored with Kuroń entitled 'Negotiated Strategy in the Process of Transformation' (*'Strategia Negocjacyjna w Procesie Transformacji Gospodarki'*)[166] in which both authors extolled the virtues of social partnership in implementing economic reform. Hausner claims that "there is real merit in contrasting the Strategy for Poland with the Balcerowicz Plan because the philosophical basis of the two programmes is entirely different."[167] Polish neo-liberalism, according to Hausner, was faced with a systemic vacuum in 1989 in the absence of social forces and institutional arrangements which could give direction to the reforms. Seemingly encouraged by this, the Balcerowicz Group reposed its trust in liberal doctrine and implemented its programme in a centralised, technocratic manner, treating the public as passive objects in the transition: "The aim here was to stimulate, using the limited means available, the desired changes in mentality and behaviour and to adjust them to the new ideology. What [the Balcerowicz Group] was, in essence, saying was: "Believe us, trust us we will lead you to the promised land; you need not worry about your own interests.""[168] This 'imperative' method of reform, according to Hausner, proved ruinous by the end of 1991 and, slowly but surely, gave way to an 'interactive' approach as apparently favoured by Kołodko.

The 'interactive' method consists in eliciting the desired changes through an ongoing process of social interaction resulting from a genuine discourse between the authorities and the public. Rather than claiming that there is no alternative to 'shock therapy', the 'interactive method' envisions a variety of capitalisms and acknowledges that the role and scope of the state will be subject to negotiation.[169] Hausner, in a more genuine manner than Kołodko, accepts that "in a hyperinflationary context you are hardly able to discuss a negotiated discourse. Either you are able to implement a radical 'shock' approach or you are not able to do it at all. The question, in my view, becomes how and when to shift from the 'imperative' to the 'interactive' method."[170] That he believes the two approaches to be mutually exclusive, that it is "highly doubtful whether it is possible to quickly replace one with the other"[171], raises interesting questions concerning the extent to which Kołodko's Strategy was able to distance itself from Balcerowiczism.

**Continuity and Change**

One can safely set aside the macroeconomics of the Strategy as they differ little from the Solidarity-based government's fiscal and monetary policies (the fiscal follow-up to the Strategy entitled 'Package 2000' (*'Pakietu 2000'*)[172] was described by Bugaj as "the most liberal document in the history of post-communist Poland"[173]). Where there is room for interpretation is in the Strategy's microeconomic assumptions, specifically with regard to privatisation. It seems Kołodko concurred with the findings of Marek Belka (coincidentally his successor as Finance Minister in February 1997) and his associates in their report on Polish enterprise behaviour covering the period from June 1989 to June 1992. Published in the same journal in which Sachs and Lipton launched their mass privatisation strategy in early 1990 (see Chapter 2), the Belka report challenged the conventional wisdom that privatisation was a *sine qua non* for improving state firms' efficiency and establishing effective management structures. A change in the macroeconomic environment of enterprises was, according to the report, significant in itself: "Our findings suggest that hard budgets and import competition - essential ingredients of [the Balcerowicz Plan] - can exert [sufficient] adjustment pressures even when changes in ownership lag behind."[174] Moreover, unlike the Dąbrowski team's findings, the Belka study took a more sceptical view of the workers' councils (and employee ownership in general). Instead, it emphasised "the importance of addressing firm-level managerial incentives and empowering managers"; also noting that the latter "expressed a distinct preference for commercialisation and, after restructuring, privatisation."[175] In short, the Belka study endorsed the Balcerowicz Plan's hard budget constraints but questioned the need for (rapid) privatisation.

The Strategy for Poland's Section 6 on 'Management of State Property' is the *point de référence* in determining to what extent Kołodko departed from Balcerowiczism. In the sphere of corporate governance the Strategy is highly reminiscent of the Mazowiecki government's early attempts to pass a law on the forcible commercialisation of state firms (see Chapter 2). Kołodko once again placed commercialisation at the centre of Polish political and economic debates; admittedly at a time when the self-management lobby was much weaker. Charging the previous governments with "grossly neglecting and penalising the state sector"[176], he perceived commercialisation as a means of redressing the balance in favour of public ownership as well as facilitating a decentralised wage bargaining mechanism in which managers would have greater negotiating power in setting wages. Whereas liberal-minded Privatisation Ministers from Kuczyński to Lewandowski perceived commercialisation as a prelude to privatisation (whether they were correct in their assumptions is another matter), the Strategy, while equally contemptuous of the workers' councils, focused on governance objectives as opposed to the transfer of nominal ownership into private hands. Unlike the Pact, it did not discriminate between small and large firms and viewed the self-managed governance structure as a distinct disadvantage - irrespective of enterprises' size.

Not surprisingly, liberals accused Kołodko of strengthening the role of managers for political purposes and using the newly established State Treasury to exert influence over firms' operations. Jan Szomburg, for instance, characterised Kołodko's mass commercialisation drive as essentially "using the same instrument [- commercialisation -] to serve different ends."[177]

Similar fears of a 'cloak of commercialisation' were expressed by the World Bank which criticised Monkiewicz's bank consolidation programme (since Polish banks' capital bases were too small to meet foreign competition, the government decided to merge several state banks into three or four large groups) for "assuming that the state has a better knowledge of how to restructure/merge banks than the private sector."[178] These views are slightly exaggerated and hardly unique to Polish developments. What is significant, however, as the Council on Social and Economic Strategy (the new version of the Economic Council) observed, is that "the Strategy made no mention of the specific privatisation process which radically altered the ownership structure [of the Polish economy]: the spontaneous, large-scale establishment of the new private sector."[179] Thus it appears that the Strategy, like the Balcerowicz Plan in late 1989, did not distinguish between the privatisation of the economy resulting in an increase in the share of the private sector and the privatisation of state assets which, by all accounts, was not half as significant as the former in lifting Poland out of recession.

**A Turning Point?**

It is worth mentioning a recent debate on the shifts in Polish economic policy.[180] Pitting Kuczyński against Hausner, the discussion focused not so much on the 'shock therapy' years of 1990-91 but instead on which of the two main reform teams - those associated with Balcerowicz(ism) and the members comprising the 'Kołodko Group' - deserved the credit for Poland's economic recovery. What is interesting is that both economists' arguments revolved around the philosophically ambiguous 1992-93 years; the notion of a sharp break in policy following the left's victory was dismissed by both advisors. While Kuczyński's objective seemed to be to force Hausner to admit that Balcerowiczism was alive and well in 1996, Hausner's comments constituted an attempt to associate the Strategy for Poland with the philosophy of the Pact on State Enterprises. This is not surprising given Hausner's respect for Kuroń: "I regard him as a kind of guru who provided all of us with inspiration"[181], he noted recently.

Just as Kuczyński accused Kołodko of hypocrisy in criticising the Balcerowicz Plan for its "destructive anti-inflationary policies", Hausner pointed to dogmatists like Syryjczyk who once claimed "the best industrial policy is no industrial policy."[182] Kuczyński refuted this by claiming that the Solidarity-based cabinets "started to intervene in the economy as early as mid-

1990"[183], and then went on to claim credit for policies such as tax reform, the Law on Financial Restructuring of Banks and Enterprises, as well as the Pact. Hausner, meanwhile, maintained that the "one-sided macroeconomic character" of Balcerowiczism - "Everyone will remember that it was our team who abolished the *popiwek*", he boasted - compromised the negotiated framework of the Pact; "Yes, Kuroń may well have been the exception in your team", Hausner told Kuczyński, "but let us not forget the Pact was, at the time, strongly criticised within your ranks"[184] (in a separate interview, Hausner, like Bugaj, claimed the Pact was "simply a case of good intuition on Kuroń's part. He discovered it because he was more sensitive than others"[185]). The two economists finished their discussion with opposing views on the significance of the professed change in philosophy undertaken under Kołodko: Hausner viewed it as indicative of "a new consensus based on a language of partnership that is more amenable to compromise", while Kuczyński dismissed the changes as "mere cosmetics which, if anything, conceal an *étatiste* approach to governing."[186]

On the whole, there is little evidence, either in this debate or elsewhere, that Kołodko has, so to speak, turned the corner on Balcerowiczism. Anti-inflationary objectives, the belated implementation of Lewandowski's MPP, a similar (if not greater) distrust towards the workers' councils, and the immutabilities of European integration all cast doubt on Kołodko's much-repeated assertion that he has replaced neo-liberalism with "a more participatory and open-ended vision of the transformation."[187] That he feels forever compelled to define his Strategy in relation to the Balcerowicz Plan, together with Bugaj's acid test suggesting the Strategy failed to articulate a genuine social alternative, says more about the durability of Balcerowiczism than anything else. In his paper co-authored with Nuti, Kołodko talks about a 'new consensus' that has supplanted the traditional 'Washington' one[188]; his Strategy, he contends, led the way in translating this into practical policy. He also claims that the World Bank repudiated free-market economics in the mid 1990s (see next chapter) in favour of an 'institutionalist' approach to post-communist reform stressing social and political factors. Lastly, he states that all the early 'mass privatisers' now recognise that effective corporate governance, as opposed to private ownership *per se*, is the key to improving efficiency in the state sector. If Kołodko is trying to pass himself off as an 'adaptationist', a policy-maker who adopted a more path dependent approach based on historical or cultural reservations with neo-liberalism, I believe he has failed. If, on the other hand, he is claiming that the social dimension to the economic transformation was antithetical to Balcerowiczism, then the real question is whether the social partnership envisaged in Kuroń's Pact is, as this analysis suggests, a variant of Balcerowiczism or, alternatively, to coin another term, pre-'Kołodkoism'. That Kołodko himself regards the Pact as "a mere social democratic appendage"[189] of neo-liberalism argues strongly in favour of the former.

## CONCLUSION

This chapter analysed the aftermath of the Balcerowicz Plan during the recovery phase of 1992-94. One of the key features of this period was the constant struggle between technocracy and social dialogue; between Hausner's 'imperative' method of transformation and the 'interactive' approach. Both Kuroń and Kołodko, in their separate ways, sought to articulate a post-'shock therapy' vision for Polish reform but were constrained by macroeconomic pressures as well as the continued reliance on commercialisation as a means of ridding state firms of their self-managed status. While the Pact accentuated the multi-track character of Polish privatisation by easing the leasing requirements for the popular liquidation route and granting employees 15% of the shares free of charge, it set a time limit for commercialisation and perceived privatisation as the ultimate goal. Yet the fact it recognised that commercialisation might not, in itself, lead to faster privatisation and that small- and medium-sized firms had demonstrated their capacity to adjust while preserving their self-managed status was significant.

Kołodko's Strategy, meanwhile, did not discriminate between small- and medium-sized enterprises, on the one hand, and large ones, on the other. Like the early attempts at centralising ownership functions in late 1989, it viewed the forcible commercialisation of all state enterprises as a matter of the utmost urgency. Inspired by the Belka team's research suggesting improved governance through managerial incentives, together with hard budgets constraints, should be the main priorities for enterprise reform, Kołodko, like Gruszecki (but for different reasons), championed the establishment of the State Treasury as a means of clarifying ownership rights once and for all. Yet given his emphasis on reducing the social costs of the transition, liberals feared commercialisation had become a substitute for privatisation.

It is interesting that Kołodko relaunched the commercialisation drive almost five years after Sachs, Balcerowicz and others were arguing in favour of similar steps to undo the legacy of self-management. One has to wonder whether self-management, in a paradoxical way, strengthened the philosophical attraction to neo-liberalism - specifically the British model of privatisation - and yet, three years later when a new approach was attempted, made it equally difficult for policy-makers such as Kuroń to proceed with a corporatist framework given the state's weak role in the supervision of state enterprises. Indeed it seems that self-management not only complicated neo-liberals' plans to privatise state firms, it also constituted an impediment to those, like Kuroń and Kołodko, who sought to adopt a social democratic approach emphasising trilateral negotiations between the state, employers and the unions. Evidently Kołodko felt the only way of ensuring tripartite consultations was for property rights to be centralised to an unprecedented degree. The significance of Balcerowiczism without Balcerowicz is that Polish decision-makers continued to rely on state-driven restructuring in spite of the much greater progress achieved with 'bottom-up' methods, not to mention the spectacular growth of the private sector. Clearly self-management, and the perceived flaws inherent in its design, was partly responsible for this. Whether these policies were justified given the difficulties in commercialising, let alone privatising, state firms is debatable.

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## CHAPTER 5 TOO BIG A LEAP?

The 'shock therapy' versus 'gradualism' controversy was a wrong and false dilemma that, to our great regret, played an important role in determining our reform strategy. - Václav Klaus[1]

### INTRODUCTION

In the introduction to its 1995 *Transition Report*, the European Bank for Reconstruction and Development (EBRD) argued that "while there are core features which a market economy must possess, there is no unique destination for the transition."[2] A cursory examination of the Report's findings, however, reveals a more regimented approach to East European reform with a host of 'transition indicators' ranging from the progress achieved in large-scale privatisation to the extensiveness and effectiveness of legal rules on foreign investment. The EBRD's criteria, and those employed by other western financial institutions such as the IMF and the World Bank, have, rightly or wrongly, defined the terms of the economics of post-communist transformation. The expanding literature on the subject, notably the two volume set of essays edited by Olivier Jean Blanchard and his associates aptly entitled *The Transition in Eastern Europe*[3], invariably presupposes that the prescriptions offered by these institutions - sharp, contractionary fiscal and monetary policies, open trading regimes and the swift privatisation of state industry - constitute sound advice for the former centrally-planned economies. In certain cases, there is an unfortunate tendency to describe a "Manichean dichotomy between 'good' and 'evil' paths to successful transformation"[4]; the former are associated with the 'shock therapy' school, while the latter are characterised by 'gradualist' methods. Aside from the unhelpful, misconceived and *démodé* nature of these contributions, issues of politics, culture and history are generally absent from such analyses. This is a mistake, not least because the motivating forces underpinning transition strategies reside as much in non-economic factors as they do in technical concerns..

This chapter analyses the 'shock therapy versus gradualism' controversy in view of its political resonance in the early years of post-communist reform. At the time, observers were keen to draw conclusions between the radical stabilisation plan launched in Poland in January 1990 and the less dramatic measures implemented by the first democratic administration of the late József Antall in Hungary. What they often failed to recognise and/or appreciate were the differences in the starting points of both countries at the time of the collapse of communism. For the central theme of this chapter is the importance of initial conditions in accounting for differences in the accent placed on certain aspects of the transformation, notably macroeconomic stabilisation; the *point de référence* for 'shock therapy'. Only by disaggregating the components of economic reform - policies that should be carried out quickly, others that can but do not have to be, and ones which require a longer time frame[5] - can one hope to shed light on the practical dilemmas which become eclipsed in the philosophical debates surrounding the changes.

The views of three prominent Central European policymakers are discussed in order to point out the misconceptions in attaching simplistic labels to reform measures. A brief overview of Hungarian developments is then presented which suggests that while a path dependent approach to the transition was more pronounced than in Poland, with one observer extending the familiar term of 'goulash communism' to 'goulash post-communism'[6], a liberal privatisation record of trade sales to foreigners hardly amounts to a 'gradual' embrace of market forces. Finally, two rival models of post-communist reform as presented by John Gray and Jeffrey Sachs place the 'shock therapy versus gradualism' controversy in its broader context. Their controversial, yet stimulating, analyses contained in two back-to-back papers issued by the London-based Social Market Foundation[7] stem from sharp disagreements on the appositeness of neo-liberalism in Eastern Europe. The sharp contrast between the views of a social theorist and those of a problem-solver[8] go to the heart of the debates surrounding systemic transformation, questioning both the purpose and reach of the leap to capitalism.

## 'SHOCK THERAPY VERSUS GRADUALISM': A SPURIOUS DEBATE

Questions regarding the pace of post-communist reform commanded enormous attention in the early stages of regime change. From the moment Poland signed its seminal Letter of Intent with the IMF in December 1989 (see Chapter 2) declaring "speed [to be] of the essence"[9], a competition in radicalism - egged on by the financial institutions - ensued. With the notable exception of Hungary where, according to one analysis, as many as six or seven key measures ranging from the abolition of central quotas to a personal income tax system were already in place by 1988[10], East European countries with windows of opportunity subscribed to the maxim that the quality and quantity of reforms to be introduced depended on the speed at which they were implemented. László Csaba notes how political imperatives overtook economic arguments and thus provided the baptism for 'shock therapy': "The idea of quick fixes [- policies relating to macroeconomic stabilisation -] was extended to structural and institutional reforms and the consideration of speed gained prominence among the success criteria of systemic change."[11] This combination of two economically distinct yet politically fused elements of the transformation (Csaba refers to them as 'a strange couple') resulted in a great deal of confusion surrounding the pace, and anticipated effects, of the changes. Unwilling to specify which policies were to be included within the compass of 'shock therapy', "the language of the 'shockers'"[12] proved somewhat offensive to those who, for a variety of reasons, favoured a less abrasive adjustment.

**'Shock Therapy'**

The 'big bang' method of transformation has at its core an uncompromising stance towards the old system. By dramatising the end of the previous policy period, 'shock therapists' are, from the outset, preoccupied with speed, comprehensiveness and intensity; the 'shock', they claim, is meant to be part of the 'therapy'. Equipped with a technocratic view of the transition, seemingly "untainted by historical prejudice"[13], the radical reformer places his/her faith in actions directly and solely related "to the attainment of the envisaged endpoint."[14] The target is an Anglo-Saxon-style market economy based on the recipes contained in the 'Washington Consensus' prescriptions. Primarily concerned with establishing credibility in policymaking, domestically as well as internationally, the 'shocker', invariably profiting from a honeymoon period, believes in a simultaneous initiation of the 'three zatsias'. The intellectual rationale for this was provided by Sachs in his much-publicised piece in *The Economist* in January 1990 in which he argued that "the economic and political complexities of the transition argue [overwhelmingly] in favour of a decisive and comprehensive approach."[15] In a separate work dealing with Poland, his ideal 'transition scenario', he reserved a special sub-section on 'the political context' where he once again stressed that "the economic strategy must take cognizance of the new political context which, in [my] view, argues for a very rapid, straightforward and sharp programme of economic reform."[16]

Sachs is also credited with providing 'shock therapists' with their motto: "The main debate in reform should be about the means of transition, not the ends. [The question of] whether to aim for Swedish-style social democracy or Thatcherite liberalism can wait."[17] While many accused him of hypocrisy in claiming to be politically neutral in the form of capitalism on which his advice was based[18], his willingness to separate the means of reform from the ends proved a defining feature of the 'big bang' approach; one with which 'gradualists' begged to differ (see below). By claiming that tough anti-inflationary policies should not be equated with the end goal of the transition, that the technocratic stabilisation phase is, in certain cases, a non-negotiable part of adjustment, 'shockers' ensure that the interrelationships between stabilisation and institutional reforms are, at best, blurred.[19] Interestingly, it is the 'big bangers' who prefer to dismiss the sequencing debates regarding the 'three zatsias' (the order of priority among stabilisation, liberalisation and privatisation) and, instead, stress the Sachsian notion of a seamless web[20] of reforms, all interconnected and strongly dependent on one another. The 'means', instead of being confined to short-term stabilisation, are discretely extended to microeconomic and structural measures, notably privatisation.

That 'shock therapists' are aware of the differences in speed among the 'three zatsias' - stabilisation, for instance, can be carried out much faster than institutional changes - does not prevent them from treating all three measures, at least politically speaking, in homologous terms.[21] Gérard Roland, a noted 'gradualist' who with his colleague Mathias Dewatripont has written on the political aspects of transition strategies[22], argues that 'big bangers' are more concerned with *ex post* political constraints, or the dangers of a backlash and/or reversal after the reforms have been launched.[23] Roland explains the crucial significance of the window of opportunity following the downfall of the old regime in providing 'shock therapists' with an opening to practice, what he calls, 'scorched earth politics'[24]; the notion of an irreversible critical mass of policies constraining successor governments from changing course. Since speed is paramount, 'shockers' have to decide on how to reconcile their preference for rapid stabilisation and liberalisation with the legacies of a state-dominated economy. The Schumpeterian notion of 'creative destruction' - a legitimating term appropriated by the radical school in its defence of sharp contractions in output which, in turn, act as 'purifying' forces replacing outmoded production lines and inefficient enterprises with more innovative forms of economic activity - provides the philosophical underpinnings of the privatisation crusades advocated by the 'big bangers'.

While intent on promoting efficient corporate governance in state enterprises, it is the 'radicals' who champion the cause of early mass privatisation or voucher-based schemes[25]; programmes which, in contrast to the more time-consuming methods of commercial sales, do not involve financial restructuring before privatisation. The underlying motive behind mass privatisation, it should be stressed, is to transfer state firms into private hands as quickly as possible - irrespective of the quality of governance and/or privatisation. The assumption that state enterprises would be unable to restructure before privatisation, a strong aversion to self-management or public ownership (fashionable views in Poland in late 1989 - see Chapter 2), and the political imperatives of popularising ownership transformation by creating a broad middle class of shareholders convinced 'shockers' of the merits of giveaway schemes.

**'Gradualism'**

The 'gradualist' or 'evolutionary' school of transformation, although "in practice [standing for] very different economic policies ranging from consistent reforms to [evasive ones]"[26], clearly distinguishes between the tasks of stabilisation and structural change. Objecting to 'shockers'' arguments for a simultaneous initiation of reforms, notably their political fluidity in the course of implementation, 'gradualists' are keen to engage in the sequencing debates. One observer even talks of a 'four-by-five matrix' in which the 'three zatsias' together with institutional measures are subject to different speeds, sequencing, comprehensiveness, intensities and sectoral requirements[27]; a more philosophical formulation is the late Deng Xiaoping's dictum of 'feeling the stones to cross the river'. Their reasoning is that since the means of transformation cannot (and should not) be separated from the ends, it is essential to be unambiguous on the precise measures adopted. Short-term stabilisation should, under no circumstances, say 'gradualists', obscure the long-term goals of the transformation; in other words "the problem is by no means solved by stating that it is untimely to discuss what kind of capitalism [a given country] is aiming for, because the choice has immediate and far-reaching repercussions."[28]

It is the perception on the part of 'evolutionists' that their radical counterparts seek to capitalise on the nexus of stabilisation and structural adjustment in order to impose a technocratic policy agenda that compels them to speak out forcefully against the politics of 'shock therapy'. Peter Murrell and David Stark are the chief exponents of this view. Murrell criticises the technocratic instincts of the 'shocker' on the grounds that the latter believes "the involvement of society in the creation of formal structures - new institutions, new laws, or credible policies - is a distinct disadvantage" for the reforms; instead "the exemplary reformer is the person of technical prowess standing outside society."[29] Stark, meanwhile, builds on Csaba's arguments concerning the qualitative differences between stabilisation and institutional measures by urging analysts to disaggregate the transition in order to "better understand how changes in [individual] countries and in [individual] domains have very different temporalities."[30] It is this emphasis on a 'plurality of transitions', in Stark's words, that provides 'gradualists' with their principal objection to the 'big bang': the notion of a 'standard' reform package for the entire region (see Gray's strongly held views on the subject).

At the cost of over-simplification, the evolutionary school believes an exaggerated emphasis has been accorded to macroeconomic stabilisation; an area in which both (responsible) 'gradualists' and 'shock therapists' agree offers little room for manoeuvre. Where 'gradualists' part ways with 'radicals' is in the sphere of institutional reforms, notably large-scale privatisation. Murrell accuses 'big bangers' of an over-zealous approach to privatising state industry; one which neglects, if not constrains, the ground-up development of the private sector by channelling resources to state privatisation bodies and their advisors. "The [key] theme", according to him, "is the [negative] trade-off between the reform of the old state sector institutions and the creation of new private sector ones."[31] Referring to János Kornai's notion of a 'dual economy'[32] - the rapid development of the nascent private sector alongside the gradual phasing out of the old state sector - Murrell argues that only organic privatisation processes similar to those which emerged in developed countries can allow for the gradual replacement of existing structures (attitudes and behaviours) while, at the same time, exposing them to competition by investing in a new private sector "uncommitted to the past."[33] Stark, meanwhile, focuses on the varied institutional legacies of East European countries in the spheres of politics and economics in order to demonstrate that post-communist "privatisation programmes are not derived from master blueprints but are shaped by the specific institutional resources that are the legacies of the paths of exit from communism."[34] He has recently refined his arguments by suggesting that what is in fact emerging in Eastern Europe are highly indigenous forms of "recombinant property that will differ as much from West European capitalism as do contemporary Asian variants."[35]

'Evolutionists' are equally critical of the radical school's insistence on private ownership as a precondition for effective restructuring. One of the first comprehensive analyses to challenge the prevailing orthodoxies of the early 1990s was a book written by Alice Amsden and her colleagues entitled *The Market Meets its Match*.[36] The authors claimed that the conditions attached to the loans offered by western financial institutions, notably the World Bank, monopolised the policy debates on enterprise reform by 'disempowering Ministries of Industries', putting the accent on 'getting the prices right' and, above all, ruling out restructuring before privatisation; the latter stipulation, in the authors' opinion, proved "as significant for its omissions as for its commissions."[37] They also argued that by focusing exclusively on a nominal change in ownership, the financial institutions neglected the significant restructuring undertaken by firms' insiders - they admit a reappraisal took place in Poland in 1992-93 and in fact refer to the Dąbrowski and Belka surveys on enterprise behaviour[38] (see Chapters 3 and 4) - and ended up favouring 'pseudo-privatisation' based on giveaway schemes (see below). The Amsden book joined other works on post-communist enterprise reform suggesting policy-makers would be better advised to focus on corporate governance and efficiency instead of privatising as quickly as possible.

**How Fast, How Slow?**

Given that "there still remains the [open] question of how much and how fast one should go on a broader reform front"[39], i.e. once price stabilisation has occurred, which of the two schools offers the soundest advice for the region? Clearly it is only once the initial conditions in a given country have been correctly diagnosed - in itself problematic - that tentative prescriptions can be advanced. The EBRD's 1994 *Transition Report* points out that while the early literature on economic transition concentrated on the issue of sequencing, the "debate was never resolved" as a result of the absence of an "optimal path"[40] However, the Bank notes several "crucial ingredients central to the success of the reform process"[41].

'Shock therapists' are on *terra firma* when they argue for a swift enactment of macroeconomic stabilisation in those countries with severe internal disequilibria in 1989 such as Poland, the former Yugoslavia, Bulgaria and Romania. While the Balcerowicz Plan eliminated hyperinflation in the first month of implementation and led to resumed growth as early as spring 1992, the Bulgarian and Romanian programmes were symptomatic of the failure to achieve the critical mass of measures which, prior to the announcement of a second round of 'shock therapy' in 1997, had dramatically impaired policy credibility. Advocates of a 'big bang' are at their most convincing when they point to the close relationship between a political breakthrough and the speedy implementation of stabilisation[42] (see Chapter 2 for the period of 'extraordinary politics' in Poland). One need only reflect on countries such as Russia - only recently enjoying macroeconomic stability following four major anti-inflationary surgeries dating back to January 1992[43] - not to mention the Ukraine - still in the 'muddling through' stages after several abortive stabilisation attempts in the early 1990s[44] - to illustrate the perils of gradual stabilisation in cases of extreme hyperinflation.

The reform debates sharpen considerably in the sphere of microeconomic liberalisation, i.e. the removal of restrictions on foreign trade, the elimination of price controls, etc. The Balcerowicz Plan, for instance, chose to decontrol prices on sensitive goods such as energy gradually for fear of the inflationary repercussions as well to soften the impact on the population and on the large state enterprises (there was also a 'guinea pig' factor at work in the sense that there was no historical precedent for such a herculean manoeuvre). Questions regarding the degree of import liberalisation, the convertibility of the currency or the reorientation of foreign trade (the latter is subject to geographical and historical conditions) hardly require 'overnight' solutions.[45] In a country like Hungary, for instance, where the first steps in liberalising prices were already taken as far back as the late 1960s (see next section), the merits of a 'shock' approach were doubtful: "If 90% of prices are already liberalised, it is hard to conceive how moving to 100% constitutes a 'big bang'."[46] Yet the experience of those states who chose to administer 'shock therapy' points to a simultaneous initiation of macro and microeconomic liberalisation. That their implementation is, in the words of a 'shocker', "a technically simple process not requiring a mass effort"[47] renders them amenable to the 'seamless web' arguments advanced by the 'radicals'.

The third area of changes involving institutional reforms, notably large-scale privatisation, is inherently a long-term process. It is interesting that many 'gradualists' have characterised the mass privatisation schemes adopted in the former Czechoslovakia and Russia as "desperate forms of pseudo-privatisation"[48]; perhaps given added weight by a comment by a prominent East European policy-maker suggesting that "privatisation is when someone who doesn't know who the real owner is and doesn't know what it's really worth sells something to someone who doesn't have any money."[49] One need only contrast 'gradualist' Hungary's privatisation record of direct sales to domestic and foreign investors with 'radical' Poland's liquidation routes favouring insiders to realise how futile the labelling of reforms can become. The fashionable view in the early years of transition was that "faster privatisation would automatically lead to faster restructuring of enterprises"[50]; hence the attraction to giveaway schemes. When steep falls in output, ill-defined property rights, and delayed structural reforms collided with the logic of privatisation, attention shifted to restructuring.

Instead of arguing over the form of ownership, experts on privatisation, having conceded that a substantial number of enterprises would remain in state hands for the foreseeable future, began questioning the extent to which enterprise restructuring was tied to the adoption of specific privatisation strategies. While the conclusions reached so far are, at best, tentative, the voucher scheme favoured by the 'radicals' has revealed itself to be somewhat inadequate in providing effective corporate governance[51]; the exception is the Polish scheme in which the state ensured that the investment funds had both the incentive and the capability to improve corporate governance in state firms (see Chapter 3). Moreover, recent studies[52] have shown that the depth and pace of restructuring is more a function of macroeconomic stabilisation, notably hard budget constraints, than a simple transfer in ownership. According to one 'gradualist', "the delay in privatisation did not [turn out] to be the trap most of us thought it was. There is still time to do [much] of the restructuring necessary to make privatisation successful."[53]

### Three Countries, Three Views

The 'shock therapy versus gradualism' controversy, whether perceived as somewhat arid or lacking in specificity, typified the reform debates in the early 1990s. While there is more consensus at present regarding the fundamentals of adjustment, with countries as diverse as Slovenia and (now) Russia demonstrating the logic behind stabilisation, questions persist as to the 'correct recipes' for the transition. It is indicative of the importance attached to initial conditions that countries such as Poland, Hungary and the Czech Republic - all 'fast track' candidates to membership in the European Union - exhibit substantial variations in both the strategy and philosophy of transformation. In an insightful book on the Central European experience (bar Slovakia) entitled *The Making of Economic Reform in Eastern Europe*[54], Mario Blejer and Fabrizio Coricelli present the views of three prominent policymakers in the region: Václav Klaus, the former Czechoslovak Finance Minister and subsequent Prime Minister of the Czech Republic; Finance Minister Balcerowicz of Poland; and Péter Ákos Bod, President of the National Bank of Hungary and formerly Industry Minister. Based on extensive interviews with the three economists concerning the origins, formulation and implementation of their respective reform programmes, the authors claim to have "emerged from these conversations with a strengthened conviction of the uniqueness of each country's experience."[55]

Klaus repeatedly emphasises the importance of devising a radical economic plan with strong political foundations. As the country enjoying "the most favourable initial internal and external macroeconomic balance"[56], the January 1991 'shock' approach to liberalising prices proved not half as significant as the mass privatisation scheme launched in May the following year, the cornerstone of the Czech transformation. As much a product of Klaus's dislike of "state bureaucrats controlling markets and choosing the future owners of state property" as his scepticism of foreign advice and "disregard for textbook measures"[57], the voucher programme, much to Klaus's benefit, emerged as the most popular variant of East European capitalism. In the first wave of privatisation, 8.5 million Czechoslovaks were allowed to bid for shares in the roughly 1500 state firms included in the programme.[58] When Polish policy-makers were engaged in technical and conceptual debates surrounding ownership transformation (see Chapter 3), Klaus was "spending a lot of time defending and explaining [his] reform blueprint to the population [at large] and using its support as a defence against opponents [of the programme]"[59] These actions were not lost on former Premier Bielecki of Poland who, in a conversation with Klaus, recalls his Czech colleague boasting: "While you guys were talking about nitty gritty theoretical issues, I was holding 250 rallies and putting my signatures on millions of coupons!"[60]

Although Klaus has gone to great lengths to cultivate his Thatcherite, indeed anti-federalist[61], image as a politician who champions deregulation and free markets, the Republic's active labour market policies, together with wage increases outpacing productivity, have, it is now claimed, been achieved at the expense of genuine restructuring. The vaunted method of mass privatisation came under intense scrutiny when a currency crisis in spring 1997 exposed the microeconomic weaknesses of the programme, accentuated by poorly regulated capital markets and charges of corruption in the (privately created yet state-owned) investment funds.[62] The Klaus era, however, will probably best be remembered for its political stability, underpinned by what its former Premier likes to refer to as "the sound rational logic of the Czech people and the long tradition of private enterprise."[63]

Balcerowicz, Blejer and Coricelli note, "was more open to foreign advice"[64] in the formulation of his Plan (see Chapter 2). Seeing "no alternative to standard macroeconomic policies", Balcerowicz "entered government with a strong 'anti-gradualist' attitude"[65] towards the transition. He states that the role of western financial institutions, notably the IMF, was crucial in lending credibility to his Plan and "strengthening [his] belief"[66] that priority should be accorded to anti-inflationary measures. Keen to embrace liberal orthodoxies such as free trade, hard budget constraints, and a limited role for the state in the restructuring of industry, Balcerowicz admits that one of his goals was to keep his programme's measures as "uniform as possible. I was [therefore] against constant demands to introduce an industrial policy or [any] microeconomic intervention." Indeed he admits that he viewed privatisation as "the most important condition for enterprise restructuring."[67] The political foundations for his economic strategy reside exclusively in the period of 'extraordinary politics'. He provides no indication of which element(s) of his Plan helped sustain the reforms once 'normal politics' set in. While Klaus revels in the politics of his (once) popular mass privatisation scheme, Balcerowicz seems more concerned with the technicalities of transformation and the manner in which to introduce as opposed to nurture the reforms.

Bod, who in a recent account of the East European transition declared that "there is no such thing as 'gradualism', either in Hungary or else in any of the other countries who embarked on profound transformations [in 1989]"[68], is adamant that "a plan does not have to induce a shock to be comprehensive."[69] A self-confessed path dependency advocate who is grateful his government did not "enter the unwarranted competition in radicalism", Bod sees little merit in a "once-and-for-all purge"[70] of economic structures in a country which could draw on experience gained from two decades of reforms. While doubtful whether Hungary's 'goulash communism' constituted an asset for the post-communist transformation (see next section), he echoes the views of Stark who has called for a "reconfiguration of institutional elements rather than their immediate replacement"[71] by suggesting that "there are certain existing features (resource combinations, institutions, traditions and values) that could come in useful [in the transition] and would [therefore] be a shame to bulldoze away."[72] Critical of the IMF's advice on the structural aspects of adjustment ("If there is such a thing as a theoretical framework for the transformation it is IMF conditionality"[73] he laments), Bod nevertheless praises his country's privatisation regime for its openness and conventional approach. "The Hungarian strategy", in his view, "in contrast to restitution, distribution [or] other procedures that accord preference to [insiders] is the one most in conformity with the market, the most liberal."[74] The reasons for this, according to Bod, can be traced to Hungary's high level of foreign indebtedness.

Blejer and Coricelli's book is a welcome, if somewhat rare, contribution to the field of comparative political economy of post-communist transformations . The 'shock therapy versus gradualism' controversy generated passionate arguments partly in response to the lack of well-researched analyses on the initial conditions of the respective countries in the region. Once these elements were more fully recognised (an eye-opening account, considered by some as a turning point in the reform debates[75], was Michael Bruno's article in the *IMF Staff Papers*[76]) observers slowly began to eschew labels and renounce simplistic ascriptions which, more often than not, were best left to the disciplines of psychiatry or cosmology. If the authors' findings signify anything, it is the need for specificity and clarity when discussing the 'three zatsias', notably their distinct speeds, as well as an appreciation of political and historical considerations in the conception of reform. Had the views of Yegor Gaidar of Russia or Viktor Pynzenyk of the Ukraine been included in their research, an even more discriminating approach would doubtless be required. When commenting on strategies of transition, "a particular policy should always be evaluated by comparing the phenomena which can be ascribed to it with the phenomena which could have arisen as a [result] of a realistic alternative policy, conducted under similar initial conditions and in similar circumstances."[77] In a country like Hungary, whose 'initial' conditions include 20 years of reform engineering, pre-1989 developments - and their impact on post-communist reform - are all the more significant.

## THE HUNGARIAN ROUTE

Hungary's reforms, for a variety of reasons, some legitimate and others unjustified, are commonly associated with the 'gradualist' school of transformation. Hardly the prototype of a party-state in communist Europe, Hungary began to discard some of the more rigid and centralised aspects of 'real socialism' as far back as the late 1950s. By 1989, the country had developed practices and attitudes conducive to the functioning of markets as a result of increased tourism and trade links with the West. The conventional wisdom was that experience gained from twenty years of 'goulash communism' offered the first post-communist government a head start in the transition as well as certain unique 'assets' which rendered 'shock therapy' unnecessary. That these views have recently been questioned by Hungarian policymakers and academics[78] - primarily on economic as opposed to political grounds - should not disguise their resonance in 1990-1991. The decision to include Hungary in this analysis is in order to investigate the extent to which initial conditions were responsible for the adoption or, more precisely, the continuation of a 'gradualist' reform strategy. Describing this approach as partly originating from "a fear of destroying that which may be worthwhile under future conditions"[79], the OECD's July 1991 *Economic Survey* of Hungary underscores the path dependent character of the country's transformation in which the "cathartic day one of shock therapy"[80] never occurred.

**'Goulash Communism'**

Hungary's cautious and incremental approach to policy-making has its roots in the violent uprising in 1956. As the only country in the former Soviet bloc to mount a full-fledged armed rebellion against foreign occupation, the manner in which János Kádár's Hungarian Socialist Workers Party (MSzMP) 'healed the wounds' of the revolution became paramount. Starting in March 1963 a general amnesty for political prisoners was announced and a softening of the dictatorship - epitomised by Kádár's exhortation "He who is not against us is with us" - was discernable. "An intense desire for peace and calm"[81] led the authorities to favour a pro-consumption policy as a means of restoring a modicum of legitimacy. Following the appointment of Finance Minister Rezső Nyers to the Politburo in 1962, various economic drafts were circulated and in May 1966 a formal decision was taken to launch a 'comprehensive' reform programme. Although limited to the economy, the introduction of the New Economic Mechanism (NEM) on 1 January 1968 had profound implications for the style and substance of Hungarian policymaking.

With its origins in the 'New Course' philosophy of Imre Nagy in the early 1950s, NEM favoured the decentralisation of central planning. By abolishing compulsory directives, the Mechanism ensured substantial enterprise autonomy with regards to resource and commodity distribution. Unlike Włodzimierz Brus's 1957 Theses in Poland in which workers' councils were granted substantial rights, NEM rewarded the managers of enterprises; a crucial distinction for the future course of enterprise reform. Other key ingredients included the first steps in price liberalisation with 58% of producer prices and as much as 21% of consumer prices freed, the elimination of central quotas, differentiated incomes policies and the start of private agriculture.[82] The golden age of 'goulash communism' occurred between 1966 and 1975 with household consumption rising year after year by an average of 5.3%.[83] With production still outpacing consumption, NEM proved fairly successful, earning Hungary the title of 'the happiest barracks in the communist camp'. Indeed it was during these years when many Hungarian families "bought their first refrigerator, their first Trabant car, and later on took their first trip to the West. This was when the public came to associate reform with growing welfare."[84]

Notwithstanding a period of retrenchment in the mid-1970s as a result of bureaucratic recentralisation and external economic adversities, NEM's philosophy, notably its consumption-oriented goals, endured. Falling investment and a drop in exports produced a rise in foreign debt with the country's crucial debt servicing ratio soaring to 85% by 1985.[85] The Kádár regime shrugged off these worries by allocating an increasing share of income towards social expenditures such as pensions and sickness benefits. External finance for these commitments was facilitated by Hungary's early admission to the IMF in 1982 in which, according to one observer, "an extremely effective filtering mechanism"[86] helped conceal the true state of the country's finances. The National Bank emerged as the key institution in dealings with western financial institutions and determined, albeit in a secretive manner, the appropriate means of servicing the country's foreign debt. While Martial Law was in effect in Poland and many other East European states were hostile to reform, the MSzMP forged closer trade links with the European Community underpinned by a unified exchange rate and the legalisation of small private firms.

From 1985 onwards, Hungary engaged in extensive economic liberalisation based on the recommendations of the 'Turning Point' blueprint approved by the party leadership.[87] The chronology of these measures, many of them implemented in full before 1990, is worth mentioning: the setting up of a two-tier banking system; bankruptcy legislation; the introduction of personal income and value-added taxes coupled with substantial price liberalisation; a Company Act allowing enterprises to commercialise themselves and resulting in one of Eastern Europe's most publicised foreign investments: General Electric's $150 million 51% stake in the light bulb manufacturer Tungsram; and the virtual elimination of the remaining restrictions on foreign trade. Between 1986 and 1989, Hungary's CMEA trade grew by 9% while its convertible currency trade surged by almost 40%.[88] Although hardly exhaustive of the measures needed to address Hungary's underlying economic ills, "the magnitude and persistence of these steps were large enough to narrow the spectrum of choice [in the post-communist context]."[89]

The uninspired economic advice of the democratic opposition accentuated (as opposed to defined) the gradual style of reform. With little following amongst the technocratic elites, let alone focused on economic matters, the intellectual circles comprising the opposition pursued cultural and national interests. There were, of course, prominent reform economists such as János Kornai and Tamás Bauer who, especially in the late 1980s, criticised the structures of Hungarian socialism and offered recommendations on how to effect the transition to capitalism.[90] Yet the main source of opposition centred around the populist poets and playwrights, on the one hand, and the Budapest-based intelligentsia movement, on the other; the former played a crucial role in the establishment of the Hungarian Democratic Forum (MDF) in Lakitelek on 27 September 1987, while the latter lent its support to the creation of the Alliance of Free Democrats (SzDSz) on 13 November 1988. Nationalist-minded, religious and socially-conscious, the MDF was concerned with the rights of Hungarian minorities living abroad. The Alliance, for its part, was predominantly secular, urban and economically more liberal. Both of these groups went on to broaden their agendas, yet strong differences between the two persisted and prevented them from forging an alliance against the regime.

In contrast to Poland where fierce anti-communism, together with the moral and political bankruptcy of the Jaruzelski administration, acted as binding agents for the disparate elements within the Solidarity movement, a rather weak, divisive and fragmented opposition entered the 'Triangular' negotiations with the MSzMP and its trade union affiliates in June 1989.[91] Assured that multi-party elections would be held in the near future, the two opposition parties - joined by Viktor Orbán's Federation of Young Democrats (FIDESz) - sought to differentiate their positions. The refusal on the part of the Alliance and FIDESz to sign the final agreement in response to sharp disagreements over the timing of Presidential elections served to accentuate the dominance of politics over economics. The formation of a reconstituted Hungarian Socialist Party (MSzP) in October led by Imre Pozsgay, the dissolution of the National Assembly paving the way for spring elections, and the adoption of numerous constitutional and legal measures overshadowed Hungary's economic troubles; quite mild in comparison to Poland's with the end-year inflation rate standing at 17% and the state budget practically in surplus.[92]

### 'Goulash Post-Communism'[93]

The issue of privatisation proved highly controversial in the run-up to the country's first democratic elections since the war. Miklós Németh's administration, like the last communist government of Mieczysław Rakowski in Poland, capitalised on the opportunities made available by the 1988 Company Act permitting the establishment of joint-stock companies and other forms of 'spontaneous privatisation'. As "the best organised and most powerful social actors in society"[94], managers of state firms were allowed to transfer assets from their enterprises into newly formed joint ventures, thereby saddling parent firms with unproductive operations and increasing their debts. Open to manipulation and easy profit, opposition parties condemned the lack of control and dire consequences for the state budget. As one of its last acts in office, Németh's cabinet adopted a law to protect state holdings by setting up a centrally-managed State Property Agency (SPA) in March 1990 responsible for overseeing the entire privatisation process.

The campaign hardly amounted to a bidding war in radical economic measures and, to the extent that there were differences in policy, these were ones of emphasis as opposed to substance. This was not for want of a lack of advice, domestically or internationally. Kornai's manifesto entitled 'A Passionate Pamphlet in the Cause of Economic Transition in Hungary (this was translated into English under the title 'The Road to a Free Economy')[95] recommended a 'shock' approach to stabilising the economy. Two expert groups associated with the opposition - the IMF-backed Blue Ribbon Commission headed by Sylvia Ostry and Márton Tardos and the more daring Bridge Group composed of prominent Hungarian economists such as Béla Kádár and György Matolcsy - stressed the importance of recognising the window of opportunity for launching comprehensive structural adjustment. Yet the 'no experimentation please' attitude of the main parties, coupled with the longing for normalcy among the public, ensured that, as one observer put it, "no one spoke of blood, sweat and tears."[96] Péter Bod, at the time one of the Forum's economic experts, noted that "a party with a high chance of sharing governmental responsibility, such as the MDF, had to be careful in its [economic] formulations."[97] Rather the aim was to reassure a largely dispirited population of the willingness to continue the welfare-driven policies of the previous administrations. Kornai recalls how he was "left more or less isolated [with] most tone-setting economists "[98] in the opposition rejecting his proposals for fear of provoking an upheaval.

The first round of the parliamentary elections on 25 March 1990 produced a close finish between the Forum, headed by its skilful Christian Democratic leader József Antall, and the Alliance led by János Kis (the MSzP managed to win a respectable 11%). In the ensuing two weeks, political animosities between the two opposition parties escalated with the MDF accusing the SzDSz of dogmatic liberalism and the Alliance criticising the Forum's populist/nationalist wing.[99] The relatively low turnout of 45% in the second round on 8 April was enough to ensure the MDF of a convincing victory, winning almost 43% of the vote compared to the Alliance's 24%. The equally strong showing of József Torgyán's Independent Smallholders' Party (FKgP) - a populist peasant group promising to restore pre-1947 land ownership rights - confirmed the appeal of 'third way' thinking in the right-of-centre parties. Paternalistic instincts and the philosophy of pragmatic 'gradualism' triumphed over the expert opinions of the Alliance: "Whereas the meaning of the first round was an unambiguous mandate for radical [political] change, the message of the second was moderation under the steady hand of Antall."[100] With limited prospects for a 'grand coalition' between the MDF and the SzDSz, a pact was signed on 29 April awarding Kis's party the ceremonial post of President (the well-respected Alliance member Árpád Göncz became Hungary's first post-communist head of state) while allowing Antall to form his own government. Choosing the tiny Christian Democratic Party (KDNP) and Torgyán's Smallholders as his coalition partners, Antall decided on an ideologically homogeneous cabinet stressing the cultural, national and religious values shared by its members. The governing camp controlled 228 out of the 396 seats in the National Assembly.

On 22 May, Antall delivered his maiden speech to the parliament outlining his cabinet's agenda. Short on specifics and reflecting his non-economic priorities, the address failed to indicate a specific reform strategy. Stressing general principles such as freedom, democracy, a social market and European integration, Antall dispensed with the advice offered by the expert commissions and instead relied on the assumption that "the Hungarian economy is in a [much] better position than that of its neighbours [and therefore does not need] to make the irrevocability of the changes [clearly] discernible."[101] Reversing a previous pledge in the campaign to reschedule the country's $21 billion foreign debt, the highest per capita in Eastern Europe, Antall noted that "our [entire] assessment abroad depends on our ability to service our debt"[102] Promising swift legislation granting the National Bank full independence, he noted the importance of creating a strong and stable *forint*. A 'Short-term plan of action' to stabilise the economy was announced in which the government's first 100 days would be devoted to suppressing inflation and initiating bankruptcy proceedings. In addition, a privatisation programme based on efficiency criteria and an injection of foreign capital would be outlined in the coming months; the purchase of land would be subject to restrictions. "Good economic policy", Antall repeatedly stressed, required "good social policy."[103]

The twin goals of European integration and the promotion of a "minorities policy which [pays particular attention to the] one-third of Magyars living outside [Hungary's] borders"[104] provided the bases for foreign policy under the MDF-appointed Géza Jeszenszky. The other key posts in the cabinet went to the Forum, with the Smallholders receiving four (including Agriculture), the KDNP one, and the rest awarded to independents. The economic portfolios went to respected, if somewhat uninspired, candidates: Bod became Industry Minister, Béla Kádár took the post of Minister of International Economic Relations, György Surányi became head of the Central Bank, and Ferenc Rabár assumed the Finance post. The SPA, under its new Director Lajos Csepi, was transferred from parliamentary control and placed under the direct supervision of the government.

For almost four months, the cabinet operated without an economic programme. Csaba notes that the term 'gradualist strategy', contrary to popular opinion, was inapplicable to Hungarian developments in 1990.[105] Instead of adopting a theoretical construct indicating clear priorities for the transition (characteristics commonly associated with the 'gradualist' approach - see previous section), the government simply adapted to the well-established routines of 'slow but steady' change: "There was neither an organisational plan nor a programme to translate objectives into legislative acts; even less was there a [specific] governmental authority who could have been entrusted with - or alternatively blamed for - shaping the course of events."[106] On 25 September, the government unveiled the country's first post-communist economic policy document entitled 'The Programme for National Renewal'. A vague and ill-defined report outlining the cabinet's legislative agenda for the next three years[107], the Programme coincided with the announcement of the SPA's 'First Privatisation Progarmme' targeting 20 healthy large firms to be sold to domestic and foreign investors. The latter forecast that the share of state-owned property should fall below 50% of the value of total assets.[108]

Csepi's Agency had been put in charge of all spheres of privatisation, even that of small shops in the retail and trade sectors. Since managers exercised *de facto* control over state enterprises' assets - the strength of trade unions was considerably weaker than in Poland and the workers' councils were, to all intents and purposes, under the control of management[109] - the SPA's role was to provide effective oversight of management-initiated privatisations. Ostensibly the state was to ensure competitiveness and transparency by hiring consultants to value the assets of the 2000 or so large state enterprises to be privatised. Stark notes that, in this sense, the SPA "was not directly selling enterprises but instead selling the rights to lead and manage their privatisation"; a more critical account accused the government of excessive interference by being "more preoccupied with the question of who would be the seller rather than who should be the new owner."[110] The limited success of the Programme was reflected in the sale of only two of the twenty firms by May 1991: Pannonplast and KUNEP.[111] A tense taxi drivers' strike on 25 October 1990 in response to the first post-communist 'mini bang' *à la Hongroise* with an unannounced increase in gasoline prices by a modest 60% provoked an outpouring of resentment and exposed deep divisions within the cabinet.[112] Two professed 'shock therapists', including Rabár, resigned from the government in November making way for the appointment of Mihály Kupa as Finance Minister, the father of Hungary's tax reforms. Kupa emerged as a forceful advocate of reform and placed privatisation, foreign investment and external liberalisation as the key priorities for the transition.

The record of the Antall administration in 1990 was, ironically, quite encouraging. While real wages in Poland plummeted by almost 30%, the government continued the pro-consumption policies of its predecessors resulting in a cushioned 3% fall in wages.[113] Moreover, GDP dropped by only 3.5%, inflation was under 30%, the budget was in surplus, unemployment was at 2.5%, and foreign investment rose from $187 million in 1989 to $311 million.[114] Access to the international capital markets, underpinned by Surányi's adroitness in managing the country's foreign debt, proved the most significant of policy contrasts between 'gradualist' yet credit-worthy Hungary and 'radical' yet credit-risk Poland. One observer noted how the servicing of Hungary's debt 'raised the morale'[115] of the Antall cabinet whereas the Polish authorities were frowned upon for seeking greater debt forgiveness. Bielecki himself remarked how Japanese banks, in particular, admired Hungary's courageous debt management record while perceiving his country's 'cap-in-hand' approach as "highly dishonourable and almost tantamount to hara-kiri."[116]

The MDF, however, was hardly popular throughout the country and faced mounting criticism from the opposition for its patronage appointments. A 'Second Privatisation Programme' launched in April 1991 - preceded by Kupa's more down-to-earth economic proposals announced the previous month in a document entitled 'Stability and Convertibility' -

was designed to speed up what was widely viewed as an overly ambitious and cumbersome process. This was followed by a 'Self-Privatisation' programme in the autumn targeted at small firms and aimed at decentralising the SPA's activities, as well as a restitution bill sponsored by the FKgP. The basic approach to Hungarian privatisation, however, in contrast to the liquidation routes in Poland and the voucher scheme in the former Czechoslovakia, remained the direct sale of state assets, either via management- or investor-initiated actions.

The collapse of the CMEA trade regime in January 1991 added to Hungary's economic woes, especially in view of the country's dependence on Soviet energy and its pressing need to export its way out of debt (63% of the proceeds from exports were targeted for this purpose alone[117]). Persistently high levels of budgetary redistribution - Hungary had become, in the words of Kornai, 'a premature welfare state'[118] with Swedish-style social transfers way beyond the country's financial capabilities - crowded out much-needed investment and, with none of the parties daring to propose any major budgetary reforms, presaged a balance of payments crisis in the near future. The huge tax burden on companies and individuals amid a steep recession resulted in an increasing share of the economy operating underground and hence lower revenues for the state. The 'fiscal trap' (see Chapter 3) was, in Hungary's case, more damaging in view of the coalition's paternalistic instincts. Despite the passage of an austere bankruptcy law designed to arrest the growth in inter-enterprise debt, the government was fearful to embark on any radical manoeuvres. A legislative impasse in the second-half of 1991 exacerbated political tensions between the MDF and the Alliance. Charges of authoritarianism levelled at the Forum gained currency in August with the revelation of an internal MDF document prepared by Imre Kónya, the Forum's parliamentary leader, indicating a 'party-state' mentality.[119] The year ended with Antall's controversial dismissal of Surányi on 29 November in response to the latter's sympathies towards the opposition-inspired 'Democratic Charter'. Considering Surányi had helped engineer $1.5 billion in foreign investment in 1991 alone, the move was questionable.

The sharp deterioration in the economy in 1991 - a 12% drop in GDP, 18% fall in industrial production and a 4.5% budget deficit[120] - should be placed in the context of the general economic and social malaise affecting the region (see Appendix 14-16 for cross-country comparison). The country's budgetary crisis nevertheless resulted in Hungarian 'gradualism's fall from grace in policymaking circles. Many observers lamented the Antall government's failure to adopt a more resolute approach in its first months in office. Kornai claimed his advice should have been heeded: "I cannot get over the idea that the first democratic Hungarian government missed a historic, unrepeatable opportunity in 1990."[121] His statement implies that there in fact was a window of opportunity in 1989/90 for a (quasi-)'shock therapy' programme. Economically, this is debatable. In political terms there was nothing remotely comparable to the presence of 'extraordinary politics' in Poland where a political elite capitalised on its moral and symbolic authority in order to undertake painful stabilisation.

Deeply-rooted patterns and routines in decision-making dating back to the mid-1960s emphasising a piecemeal approach, pro-consumption priorities, and an aversion to conflict remained central features of Hungary's transformation. Relative continuity in policy extending beyond the political change in 1990 and ending with the dreaded stabilisation programme of Finance Minister Lajos Bokros announced on 'Black Sunday' 12 March 1995[122] is one of the most revealing aspects of Hungary's 'post-communist' transition. The country's main objective of servicing its substantial foreign debt, while criticised by many as imposing too heavy a burden, defined the priorities of the Antall government's economic agenda: a stable currency, receipts from the proceeds of privatisation, and external liberalisation. A radical approach in 1990, it can be argued, could have jeopardised these goals. "Suffice it to say that some of the 'advantages' [in Hungary] were mixed blessings. [But] these 'advantages' were highly publicised both internally and externally, and therefore the 'clean sheet' approach would have required a large amount of pressure to roll back 20 years of reform engineering."[123] A gradual continuation, then, instead of a radical departure.

## GRAY AND SACHS: THE RIVAL MODELS

It should be apparent by now that the 'shock therapy versus gradualism' debate detracts from the diverse assumptions characterising reform agendas. In overemphasising and confusing specific elements of the transition, the controversy leads analysts to treat all policies in homologous terms. While it is inevitable and, to a certain extent, necessary that generalisations on the trajectories of reforms are made, a constant need for clarity is called for. The difficulty, of course, lies in the frame of reference used to assess the progress, challenges, and ultimate goals of the transition. As discussed in Chapter 1, the very notion of 'transition' is problematic. The conceptual interchangeability of the term, "across the region [and] within any given country"[124], with more open-ended issues such as development or institution building (admittedly all three are interrelated), without taking into account the varied historical conditions of respective countries, leads to heated arguments over the appositeness of the neo-liberal design. In two of the most spirited expositions of the competing views on the applicability of radical reform in Eastern Europe, John Gray and Jeffrey Sachs provide much of the intellectual ammunition for the ideological and practical debates surrounding 'shock therapy'. The two works in question are Gray's 'Post-Communist Societies in Transition: A Social Market Perspective' and Sachs's 'Understanding 'Shock Therapy''. Both originate from a lively exchange at a symposium organised by the Social Market Foundation in London on 30 June 1994. It should be stressed that, at the time of the symposium, the record of the post-communist countries was, at best, mixed with an advanced group of Central European nations in the recovery phase and many of the former Soviet states still mired in recession.

**Gray's 'Cultural Determinism'**

Gray challenges what he calls the 'uncritical assumption' that western, specifically Anglo-Saxon, exemplars of market institutions can be replicated in the post-communist region. Reserving his sharpest words for Francis Fukuyama (Sachs hardly escapes unscathed) and his triumphalist declarations contained in his article/book entitled 'The End of History'[125], he turns Fukuyama's premise on its head and suggests that what actually occurred in Eastern Europe in 1989 was not "an ending of history but rather its resumption on decidedly traditional lines - of ethnic and religious conflicts, irredentist claims, strategic calculations, and secret diplomacies."[126] With his eye firmly on parts of the ex-Soviet Union and other nationalist hotbeds such as the former Yugoslavia (this, according to some, limits the scope of his arguments), Gray examines the adverse legacies - communist and pre-communist - of the region in order to illustrate the perils of imposing liberal frameworks in states "which are not only burdened by the ruinous inheritances of central planning but which also lack the legal and institutional [affinities] for the market. Such policies are bound to end in failure and political upheaval."[127]

At the heart of his analysis is the view that uniform blueprints drawn up by western financial institutions lack both the cultural and historical roots to function effectively in the post-communist context. Moreover, the "disintegration, powerlessness, and paralysis"[128] of the West's institutions - his argument is based on the United States' isolationist and protectionist tendencies together with the impracticalities of a federal Europe in a recessionary-plagued EU - precludes their viability as a model for the Eastern countries. If there is a 'model' for the post-communist transition, a suspect proposition in the first place according to Gray, it is to be found in non-western exemplars of capitalism which have often relied on government intervention as well as varying degrees of political authoritarianism.

Dismissing the Anglo-American, Swedish and German models as inappropriate in view of the evolutionary nature of capitalism, the prohibitive welfare costs, and the legal and consensual traditions respectively (the latter, Gray admits, can be drawn on in the Czech Republic), the author sees advantages in the Japanese and Chinese paths of reform. Not so much a convert to these countries' political economies as an admirer of their indigenous forms of capitalism, specifically their rejection of an Anglo-Saxon *laissez faire*, Gray revels in the "social harmony and stable communal life"[129] that, according to him, has been the driving force behind East Asia's economic success. He may now want to revise his arguments in view of the domestic upheavals associated with the region's currency crises in the second-half of 1997; the remedies for which, courtesy of the IMF, are decidedly *laissez faire*.

The 'social market' perspective developed in the remaining pages of his analysis seeks to preserve, if not strengthen, the cultural foundations of institutional change by rejecting programmes "which do not meet standards of legitimacy set by [countries'] underlying cultures."[130] 'Shock therapy', as recommended by Sachs and others, can hardly hope to satisfy these requirements on the basis of its application in Bolivia; a country with pre-existing market institutions at the time of stabilisation. Echoing the views of Kornai and Murrell regarding the misplaced emphasis on privatising the state sector at the expense of the nascent private sector, Gray claims 'shock therapy' is bound to "strangle [the private sector] at birth and, inevitably, result in slump."[131] He ends by claiming that the victory of the ex-communist parties throughout the region stems largely from the failure to "deliver a reasonable degree of economic security to the general population."[132] Ethnic conflicts, nationalist disputes as well as rising levels of organised crime have, if anything, further eroded the legitimacy of market reform.

**Sachs's 'Portable Capitalism'**

With a flair for the rational and the logical, Sachs approaches developments in post-communist Europe from an entirely different perspective. Probably the clearest indication of where he stands was provided at the head-to-head debate with Gray at the Social Market Foundation where he commented that "people say of Russia what they said five years ago about Poland, and five years before that about Bolivia."[133] His role as an advisor to the Russian government, his numerous articles on the subject[134], and his long-held view that the international community (specifically the IMF of which he has been quite critical of late[135]) was unresponsive to Moscow's early pleas for assistance add weight to his rejoinder. 'Understanding 'Shock Therapy'' places the economic and political reforms in Eastern Europe in the context of an ongoing process of globalisation and integration. As far as Sachs is concerned, the 'culturalist' perspective advanced by Gray has little practical validity and, in some cases, constitutes a gross misrepresentation of the underlying motivations in adopting radical reform. Convinced Gray is more concerned with pillorying Fukuyama's arguments than he is offering sensible advice to the post-communist region, Sachs goes to great lengths to refute the charge that 'shock therapy' "is a programme aimed at a utopian *laissez faire*" or "a promise of a miracle cure." Instead, he claims that it is "a set of pragmatic choices deeply grounded in existing western economic institutions."[136]

While Gray sees the unravelling of these institutions as a result of national and cultural differences, Sachs believes the 'power and reach' of these bodies is as significant today than after the Second World War. Adamant that the EU "remains the compelling magnet"[137] for the East and Central European states, Sachs perceives swift integration as the only means of reaping the benefits of globalisation. It is interesting that his views have evolved since the time of writing in response to what he perceives as the excessive social welfare transfers in a number of Central European countries which "now require [these] governments to think anew and resist the temptation to see [the French or German models] as their guide"[138]; low spending/high saving East Asia is, apparently, the preferred 'magnet'. Citing his familiar *repertoire* of rewards such as technological advances, improved trade links, access to the capital markets and a host of other economic and financial gains, Sachs talks of convergence and harmonisation in contrast to Gray's indigenous and market-sceptic approach.

Sachs dismisses the 'culturalist' perspective by returning to his favourite theme that the debate in reform should be about the means of transition and not the ends; he even includes his quotation in *The Economist* (see first section) as a footnote. "Shock therapy", according to him, "does not presume to dictate the specific ways of implementing private property rights, corporate ownership and the social safety net. These areas are, of course, the battleground of politics for the indefinite future."[139] Bold and decisive governments can overcome the adverse legacies of communism by pushing through necessary stabilisation while, at the same time, respecting the nation's cultural heritage; "in this sense", says Sachs, "one can eat one's cake and have it too."[140] One of his much-repeated criticisms of Gray is the latter's failure to distinguish between the 'fast track' candidates to EU membership and the former Soviet Republics (minus the Baltic states) whose cultural legacies may be more inimical to the market. The Czech Republic, Hungary and Poland, together with Slovenia and Estonia it now seems, are all fit for democratic capitalism and do not, according to Sachs, rely on "deep-seated norms of equity and fairness"[141] to underpin their transitions. Furthermore, the case for Chinese 'gradualism' or Japanese-style industrial policy in Eastern Europe, a subject which he has dealt with separately[142], neglects differences in the starting conditions of both regions: predominantly agricultural economies in need of industrialisation versus overly-industrialised countries requiring deindustrialisation.

As for the record of 'shock therapy', Sachs feels he has been vindicated. Five years after Poland launched the Balcerowicz Plan, the 'staying power' of the regime, in his words, is considerable. He notes that Poland witnessed the smallest cumulative drop in GDP throughout the region, that it registered the fastest growth in Europe as early as 1993, and that, contrary to Gray's assertions, the private sector emerged as the very engine of this growth.[143] As far as political instability is concerned, notably in Russia, Sachs claims this is the result of a lack of national consensus on the broad terms of economic management and not, as some argue, the direct consequence of adopting 'shock therapy' (in this he is joined by others who stress that it was "decline which triggered transition and not vice versa, as the new fashion seems to presume"[144]). Contradicting his earlier assertion that issues of fairness do not figure prominently in East European reforms, Sachs, in a subsequent article, claims that it is "the high and escalating social spending, not the cuts, that offers us the [clearest] insight into the political dynamics of the region."[145] Ex-communist parties, notably Gyula Horn's MSzP in Hungary, triumphed at the polls precisely because they were the ones who excelled at the politics of entitlements, notably higher pensions.

### A False Dichotomy

Robert Skidelsky is correct to suggest the Gray-Sachs debate is not just a dispute over priorities, a question of 'shock therapy' or 'gradualism', but a deep division in political economy.[146] Gray, who is primarily concerned with the establishment of civil society in the post-communist countries, raises legitimate and justified arguments concerning the 'market fundamentalist' philosophy at the beginning of the transformation. His focus on the cultural determinants of institutional change, issues overshadowed in the rush to capitalism, is supported by the path dependency works of Douglass North and echoed, to varying degrees, by Stark, Murrell as well as Valerie Bunce. By drawing attention to the uniqueness of each country at the time of the collapse of communism - "the differences in how the pieces fell apart"[147] in the words of Stark - as well as before the imposition of Soviet hegemony, Gray demonstrates the fallacy of any one model for the transition.

Aside from whether or not the Anglo-American exemplar constituted the preferred option for the East European countries in 1989 (Hungary's opposition parties, for instance, relied on German advice), Gray is right to warn of the dangers of 'reform strait-jackets' manufactured in western financial institutions with scant regard for tradition or culture. One of his strongest points concerns the outbreak of nationalist and/or religious feuds throughout the region that augur poorly for the implementation of reform programmes, neo-liberal or otherwise; but are not, as he implies, the direct result of embarking on stabilisation. Indeed it is Gray's failure to differentiate between the various measures in transition programmes, their intended subjects, and their results that serves to weaken his otherwise stimulating analysis. Perhaps if he was able to present a viable alternative to neo-liberalism his arguments might appear more convincing. By overemphasising the ends of transformation and generalising the means, he obscures initial conditions and fails to account for differences in performance.

Sachs, meanwhile, understates the means of transition - which in view of his advice in 1989 can hardly be termed 'pragmatic' - and, in so doing, trivialises the political economy of sustaining 'shock therapy'. Although he claims that the 'staying power' of the regime is what really matters, "one must wonder whether a two- to three-year economic depression [- or longer in the case of other, less fortunate, countries -] can still meaningfully qualify as a 'shock', let alone a 'therapy'."[148] A leading authority in the field of comparative economics, Sachs, like Balcerowicz[149], argues convincingly in favour of a radical approach to eliminating hyperinflation. Yet his professed political neutrality with regard to the structural aspects of reform, notably his innocent-like admission that "the specific contents of property rights and corporate governance are a matter of national provenance"[150], is, to say the least, at odds with his explicit advice on rapid privatisation in 1989/90.

For it was Sachs, lest we forget, who championed the cause of early mass commercialisation in Poland during his stint as advisor to the Mazowiecki government (see Chapter 2). In his Lionel Robbins Memorial Lectures at the London School of Economics in 1993, he strongly criticised the Polish authorities for consenting to a voluntary approach to large-scale privatisation: "a highly unsatisfactory response to [the vested interests of the workers' councils]"[151], in his view. In calling for thousands of state firms to be rid of their self-managed structures, he discarded long-established patterns of enterprise autonomy and viewed the liquidation of the councils as a *sine qua non* of enterprise reform; admittedly he was joined by many other Polish economists. The entire rationale behind his mass privatisation plan, at least in the short term, was to ensure that self-managed firms adopt classical forms of corporate governance which would enable them to be bought and sold as quickly and easily as possible.[152] When mounting delays in commercialisation (and hence privatisation) began to undermine the Balcerowicz Plan, Sachs remained one of the lone voices to argue that Polish 'shock therapy' was proceeding on course.[153] In a similar vein, both the rise in unemployment and the fall in output were, "in true Panglossian style, construed as signs of progress."[154] While Poland eventually recovered from its recession and is now entering its seventh year of sustained growth, the question as to whether 'shock therapy' deserves the credit is debatable (see previous chapter). Sachs's penchant for some of the East Asian variants of capitalism is an indication that he himself now acknowledges that 'shock therapy' was either too ambitious in its goals or perhaps did not achieve the 'national consensus' he claims it did.

The Gray-Sachs debate, like most polemics on the post-communist transition, contains elements of truth on both sides while distorting or neglecting other aspects of reform. What exercises the mind most is the fact that "progress [in the] transition is not rigidly associated with any single opportunity (or handicap) inherited after the collapse of communism."[155] In other words Gray is entirely correct to point out the fallacy of any one 'model', yet Sachs is equally right to feel a sense of vindication that Russia, with lower inflation rates than Poland in late 1997, can, after all, succeed where others felt it could not. While this has not prevented observers from searching for answers on the relationship(s) between different paths of transition and the prevailing conditions at the start of the changes (the greatest consensus concerns swift stabilisation ideally implemented during the window of opportunity), the criteria with which to assess 'success' or 'failure' are a matter for interpretation. In recent years, intermediate positions stressing the importance of early stabilisation but also calling for greater awareness of the institutional, possibly cultural, constraints to neo-liberalism seem to be in the ascendant. The World Bank, for instance, in its 1996 *World Development Report*[156] devoted to the 'transition economies', emphasises non-economic factors such as history, culture and geography as equally relevant to the implementation of reform. Phrases such as "institutional legacies differ from country to country" and "what leaders can and try to accomplish is strongly shaped by the inherited structure of the economy"[157] are a welcome departure from the single-minded *laissez-faire* that characterised the institution's thinking in the early 1990s.

Are we witnessing a more open-ended, path dependent philosophy in the Bank's operations? Is a reorientation occurring away from (early) Sachsian neo-liberalism and towards a more historically aware, indigenous approach as favoured by Gray? Is there a gradual rehabilitation of the state in policy-making which accords greater emphasis to social and educational needs instead of anti-inflationary priorities, corporate governance objectives instead of mass privatisation, or simply quality as opposed to speed? With the passage of the technocratic stabilisation phase and a recognition of the inadequacies of the original blueprints, there is bound to be a reassessment of the goals of the transition. It seems that while the World Bank acknowledges that varied institutional legacies exert considerable influence over its policies, the 'shock therapy versus gradualism' debate (the litmus test as to whether the Bank's thinking has truly evolved), although perhaps not referred to as such, lingers in the minds of its personnel. That the institution still talks of 'two paths' of reform, one based on "an all-out approach" and the other model favouring "piecemeal or phased reforms"[158] is a reflection of the enduring dichotomy which pervades the literature on Eastern Europe's transformations. One wonders if and when such thinking, misconceived and unhelpful as it is, will loose its relevance and be replaced by more inspiring, if equally passionate, debates.

## CONCLUSION

Csaba's professed "battle against the stereotypes that have burdened and distorted"[159] Eastern Europe's reforms is one I fully support. In many ways a product of the perceived contrast between Poland's 'radical' stance in January 1990 and Hungary's 'soft landing' into the transition, the 'shock therapy versus gradualism' controversy posed many of the wrong questions and thus came up with many of the wrong answers. It was only after Bruno published his ground-breaking paper in December 1992[160] that a more discerning approach towards the transition stressing countries' initial conditions was noticeable - at least in the journals of the financial institutions. The "very currency of the discourse"[161], to paraphrase Gray, in 1990-91 encouraged observers to ignore historical processes and perceive reform debates as "extraordinarily compressed in time."[162] This *tabula rasa* approach was, in many ways, the result of a strong desire on the part of 'shock therapists' to dismiss the sequencing debates altogether and view stabilisation and structural adjustment as politically indivisible. 'Gradualists', on the other hand, preferred to disaggregate the respective measures, to 'feel the stones when crossing the river' and, as Bod argued, to demonstrate that comprehensiveness should not be equated with macroeconomics alone; institutional concerns, notably the quality of privatisation, were just as important.

The purpose of this chapter has been to draw attention to these distinctions by offering an insight into Hungarian developments. Whether 'goulash communism' is perceived as an asset or a liability, it nevertheless exerted a strong influence on Hungary's transition. Caution as opposed to haste and continuity instead of wholesale change characterised the country's economic philosophy up until the Bokros Plan in March 1995. Healthy foreign investment figures, however, were enough to illustrate the importance of expectations derived from Hungary's reform past as the rationale on which the Antall cabinet's actions were based. Path dependency of a more fundamental kind was presented by Gray in his denigration of 'shock therapy' at a time when the record of neo-liberalism in Eastern Europe was, at best, mixed. Sachs's speedy rebuttal, while rightly distinguishing between different countries in the region and faulting Gray for not providing a credible alternative to neo-liberalism, failed to prove how its author's advice did not aim to dictate the specifics of structural change, thereby confirming Csaba's fears of a conflict-prone relationship between stabilisation and transformation.[163] The 'shock therapy versus gradualism' controversy, spurious as it is, is the embodiment of this.

## NOTES TO CHAPTER 5

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9.*Letter of Intent* (Warsaw, Council of Ministers, 22 December 1989).

10.Paul Hare and Tamás Révész, 'Hungary's Transition to the Market: The Case Against a Big Bang', *Economic Policy*, 14, April 1992, p.233.

11.László Csaba, *The Capitalist Revolution in Eastern Europe* (Aldershot, Edward Elgar, 1995), p.77.

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# CHAPTER 6 CONCLUSION

The Gray-Sachs debate provides a good illustration of the dichotomous conception of post-communist reform. The two schools outlined in Chapter 1 - the 'transition' philosophy emphasising choice, strategic action and conventional models, and the 'adaptation' perspective stressing constraints, institutional legacies and novel approaches - are identified as much by their theoretical and practical advice as by their efforts to expose the flaws in each other's arguments. In presenting a number of both schools' assumptions, the purpose of this research has been to focus on elements of each in order to demonstrate that, far from being mutually exclusive, the two frameworks derive their analytic strength from different stages and priorities in the reform process - by no means confined to post-communist developments, i.e. pre-1989 factors must be taken into account. I have argued that it is the political and historical dimensions to economic reform, as opposed to the technical aspects, which offer us the clearest insights into both schools' thinking.

Central to the 'transition' philosophy are the defining moments during the launching stage of systemic change; this is especially the case in those countries which chose the 'shock therapy' route. The agenda is dictated by the need to establish credibility in policy-making, to capitalise on the window of opportunity to implement far-reaching changes, and to renounce (or at least to put off) a 'third way' for fear of compromising the reform blueprint. The 'adaptation' perspective, on the other hand, eschews sharp historical demarcations. Emphasising the diverse structural and cultural legacies of the post-communist landscape, the school rejects uniform measures or 'quick fix' solutions. With their adherents in a broad range of disciplines, 'adaptationists' are sceptical of technocratic, neo-liberal designs. Instead they offer ways of bridging the systemic divides by recognising the evolutionary nature of capitalism, the role of indigenous forms of ownership transformation, and the need for negotiation in sustaining the reforms.

The choice of Poland as a case study stemmed from the country's pioneering role in the implementation of radical economic change. The darling of the 'transition' school in late 1989/90, Poland undertook neo-liberal engineering as much in response to the desperate state of its macroeconomy than as a consequence of its (original) reform team's philosophical attraction to an Anglo-Saxon-style market economy. In examining the genesis, application and aftermath of the Balcerowicz Plan, this study addressed three key issues which both schools seized on in order to justify their arguments: the importance of the Solidarity (union) inheritance, in particular the role of the versatile Lech Wałęsa, in explaining both the opening of the Solidarity umbrella over the Plan and the gradual closing of it months later; the legacy of enterprise autonomy with its legal roots in the September 1981 legislation granting workers' councils a strong say in the management of firms' assets - notably the manner in which competing privatisation and/or restructuring strategies addressed this issue; and the evolution of the 'shock therapy' regime following the departure of Balcerowicz from office and the professed 'alternatives' that arose.

In presenting four political variants of Polish neo-liberalism (to be discussed below), this analysis identified the underpinnings of both schools, accentuated by certain policy-makers' perceived attachment to elements of each, in the opportunities and constraints of successive governments. The 1990-1991 years constituted the focal point in the debates surrounding the appositeness of neo-liberalism and, rightly or wrongly, provided the basis for cross-country comparisons. Several important themes in this study originated from the style and substance of policy-making under Balcerowicz. These themes gained new relevance in the 1992-94 phase of the Polish transformation. The six most salient issues were the following:

*i) The Period of 'Extraordinary Politics'.* Described by an IMF official as the "window of opportunity in East European reform *par excellence*"[1] or, according to a less charitable interpretation, the moment when "Sachs 'seduced' the Solidarity movement and Balcerowicz 'hijacked' [it]"[2], the period was remarkable not so much for the opportunities it generated (though these were considerable) but for the manner in which other, less publicised, programmes were shunned or suppressed. The euphoria of the moment can hardly be over-emphasised when accounting for the success of the Balcerowicz Group in setting the political agenda. In almost all areas of reform, the goals were overly ambitious and the expectations enormous. Both of these factors, inevitably, led to disappointment and resentment.

*ii) The Macroeconomic Imperative.* Unlike some other East European countries, Poland embarked on its post-communist reforms with a singular determination to stamp out hyperinflation. While the preoccupation with stabilisation was partly attributable to the leading role of the IMF, "reinforced by advisors who strongly believed in the endemic macroeconomic disequilibria of socialist economies and saw hyperinflation around every corner"[3], the Sachsian case for a 'shock' approach had already been made as early as June-July 1989. Eager to see its 'Washington Consensus' become an East European one, the Fund saw no apparent contradiction - provided institutional measures were quickly implemented - between tight fiscal and monetary policies and the supply response on the part of the state sector. When the 'fiscal trap' in mid-1991 exposed the inadequacies of this approach, the IMF suspended relations with the Polish authorities, leaving the government little choice but to persevere with its reforms. The open question, very much at the centre of Eastern Europe's economic transitions, is whether macroeconomic stabilisation (specifically the conditionality criteria imposed by the IMF) should have been a precondition for structural changes. The arguments are finely balanced.[4]

*iii) State-Driven (yet Insider-Led) Privatisation.* Polish decision-makers approached privatisation in 1989 with three key objectives. The first was that employee ownership or self-management should be resisted at all costs for fear of asset stripping and jeopardising effective corporate governance. Public-stock offerings based on the British model of case-by-case valuations were the preferred option. Secondly, the ground-up development of the private sector favoured by János Kornai and others was believed to be "too weak and too small to exert an independent mechanism on the privatisation process."[5] State-driven, 'top-down' privatisation, it was claimed, would ensure proper control and allow the government to determine the privatisation agenda by reclaiming full rights over 'its' enterprises; hence the early emphasis on mass commercialisation. Thirdly, political and microeconomic objectives of privatisation were subordinate to those of macroeconomic stabilisation. Whilst imposing hard budget constraints, the government hoped to maximise budgetary revenue by selling off healthy firms as part of a general process of establishing the rudiments of a capital market. In short, privatisation was seen as the best industrial policy; "stabilisation was to precede privatisation and privatisation was to precede industrial restructuring."[6] All three assumptions, it turned out, were misconceived and led to profound disagreements over the direction and priorities of ownership transformation. Fortunately, the multi-track nature of Polish privatisation undid some of the damage as the insider-led liquidation routes emerged as the most successful path of ownership transformation. The explosive growth of the nascent private sector, meanwhile, "neutralised the negative impact"[7] of state-driven privatisation.

*iv) Technocracy Versus Negotiation.* The original Balcerowicz Plan renounced measures such as a corporatist-style pact or early mass privatisation on the grounds these would have undermined its macroeconomic agenda. Closely associated with a technocratic style of policy-making, the Balcerowicz Group offended many who expected more inclusive and varied methods of reform. Wałęsa's calls for 'acceleration' opened the floodgates to new proposals for the transition. Janusz Lewandowski and Jan Szomburg's original voucher scheme was resurrected in 1991 as part of a general shift away from equivalent methods of privatisation to non-equivalent ones stressing citizens' ownership and worker/management buy-outs. Jacek Kuroń's Enterprise Pact moved further away from the original conception of the Balcerowicz Plan by placing ownership transformation on a par with labour relations. This innovative attempt at "combining pragmatic liberalism with participatory syndicalism"[8] sat uncomfortably with other pieces of the government's macroeconomic agenda. Grzegorz Kołodko and his team believed they could resolve this dilemma by openly embracing an industrial policy and elevating Kuroń's negotiated framework in policy-making. Presenting his 'Strategy for Poland' as an 'alternative paradigm'[9] to Balcerowiczism, Kołodko was nevertheless unable to convince Ryszard Bugaj's Labour Union (UP) and its self-management allies that any 'social alternative' had emerged.

*v) The Contested Origins of the Recovery.* The four political variants of Polish neo-liberalism, starting with the purest version in January 1990 and ending with the more socially-oriented, *dirigiste* model under Kołodko in June 1994, influenced the debates on the precise origins of the recovery; the tentative signs of which were apparent in spring 1992. Many of the disputes concerning the sustainability of 'shock therapy' stemmed from the philosophically ambiguous 1992-93 period. The following question was often asked: "[Did] the first signs of recovery [imply] that 'shock therapy', though with a lag, finally produced the expected results[?] [Or, alternatively,] could these developments be attributed to the fact that many of the 'shock therapy' policies [were] softened, if not reversed[?]"[10] Leading reform camps associated with Balcerowicz, on the one hand, and Kołodko, on the other, were at pains to provide answers to this question. Both, not surprisingly, referred either to the 1990-91 phase (Balcerowicz)[11] or else the post-September 1993 period (Kołodko)[12] as the key to Poland's recent economic successes. A more discerning approach consisted in examining the intervening months when elements of continuity and change indicated a less clear-cut picture.

*vi) The Importance of Initial Conditions.* The Polish reforms generated intense controversy regarding the pace and content of transition programmes. In the early years (and even to this day) "unhelpful classifications and misleading metaphors"[13] served as much to obscure other countries' reforms as they did to misrepresent Poland's. Interestingly, it was the so-called 'gradualists' such as László Csaba and David Stark who strove to elucidate these misconceptions by calling for greater awareness of states' initial conditions; for clearer distinctions between the different tasks of the transformation; and for a more thorough understanding of the diverse 'paths of extrication' in explaining differences in transition strategies. While it is tempting and, in certain cases, justified to trace these differences to particular philosophies among leading reformers (especially in those countries which opted for radical change such as Poland or Russia), historical and structural factors are equally significant. Studies of the Polish transition, particularly during the Balcerowicz era, need to come to grips with these two perspectives while recognising their mutual inclusiveness. It is the initial conditions which caution against sweeping generalisations and necessitate a degree of circumspection in the final analysis.

## ASSUMPTIONS IN AUTUMN 1989

The genesis of Polish 'shock therapy' was a deeply political affair, strongly influenced by the outbreak of near-hyperinflation in autumn 1989. 'Transitologists' such as Philippe Schmitter and Giuseppe Di Palma no doubt revelled in the tense and uncertain atmosphere following the historic victory of the Solidarity forces in the 4 June elections. Adam Michnik's controversial yet daring proposal of 'Your President-Our Premier' initiated a six-week political roller-coaster in which the courage and tenacity of key individuals (as well as the resignation of others) determined the final outcome. Sachs's arrival in Warsaw in mid-June, if we are to believe him, sharpened the minds of prominent members in the Citizens' Parliamentary Club (OKP) by offering them the programmatic leverage to dictate the terms of reform. His advice for a 'shock' approach, strengthened by his experience in Bolivia which evidently convinced him that "the task ahead was [by no means] as mysterious nor as complex as it [seemed]; [and that ] in many ways it [was] a well-trodden path"[14], was taken up by parliamentarians such as Kuroń with tenuous attachments to neo-liberalism. At the time of Tadeusz Mazowiecki's appointment, inflation had soared and the excessive wage indexation clause agreed on at the Round Table was about to be activated. In a matter of days, Balcerowicz emerged as the country's chief economic strategist.

Engaged in a "war of movement"[15], to paraphrase Schmitter, in which speed, decisiveness and radical options transcended structural constraints, the Balcerowicz Group firmly established themselves in government and took charge of Poland's transition to capitalism.

The period of 'extraordinary politics' repeatedly described by Balcerowicz provided the context for the conception of 'shock therapy'. Comprised of individuals who, not only were not present in the economic working group of the Round Table, but were ill-disposed towards its social democratic agenda, the Balcerowicz Group emerged as a largely independent force within the Polish political establishment. This point can hardly be overemphasised, for the views of several economists allied to the Solidarity leadership (and very present at the Round Table) were, for the most part, dismissed. Tadeusz Kowalik, for one, accused the Mazowiecki government of carrying out "a 180-degree turn"[16] in socio-economic policy. Although he understated the significance of the hyperinflationary environment, he remained one of the lone voices to challenge the prevailing assumption that no established alternatives to the Balcerowicz Plan existed. He also saw through the Sachsian 'strategy of transition'[17] when he stated that "the open question [in the Polish transformation] was whether the anti-inflationary operation [(the means)] was to become part of a [much] larger programme of systemic changes [(the ends)]."[18] Clearly it was, and it did.

David Ost, in a similar vein, was adamant that had it not been for Wałęsa's decision to delegate the tasks of governing to his intellectual advisors - who then delegated authority to the Balcerowicz Group - and allow them to portray radical reform as a Solidarity conception, the union in Gdańsk would have been more insistent on negotiating the terms of the Plan.[19] As "the process of radicalisation gained its own momentum"[20], partly as a result of a muzzling of divisions but largely in response to the deterioration of the economy, the Balcerowicz Group assumed control over the design and tactics of reform. Bold and far-reaching, the Government Economic Programme announced in early October represented the model reform package long sought by the international financial institutions (one observer claimed the cabinet chose the most radical of the three drafts put forward by the IMF mission[21]). Practically all analyses of the Balcerowicz Plan, whether supportive or not, agree that its contents represented a philosophically coherent view of the desired goal: the renunciation of a 'third way' and the emphasis on the market not just as the end goal but as the means of effecting the transformation.

The 'Washington Consensus' was applied almost to the letter in Poland, as Balcerowicz himself proudly confirmed.[22] The highest priority was accorded to macroeconomic stabilisation, strongly influenced by the so-called 'heterodox' approach. By anchoring the Plan to a fixed exchange rate and the freezing of wage controls (in this particular case a punitive tax-based incomes policy known as the *popiwek* was adopted), Polish policy-makers believed they stood a better chance at eliminating hyperinflation once and for all. The two anchors were apparently meant to be lifted as soon as inflation was suppressed "but no dates were given."[23] In addition, huge budgetary and subsidy cuts were announced, positive interest rates were instituted, and almost 90% of domestic prices were freed on 1 January 1990 with the exception of energy and some other sensitive household items. A steep devaluation of the *złoty* and the lifting of the bulk of restrictions on foreign trade were also implemented; import tariffs were set at extremely low levels. With the cooperation of the newly independent Central Bank - an institution with which Balcerowicz's Finance Ministry enjoyed "much greater powers of coordination between monetary and fiscal policy"[24] than would have normally been expected - a $1 billion stabilisation fund was set up and the authorities were promised favourable debt reduction provided the stabilisation programme held in place.

Just as the macroeconomic component of the Plan forecast a moderate output decline and swift recovery within six months to one year, the systemic element hoped to privatise half the state sector within two to three years. Several key assumptions (and omissions) of ownership transformation strongly influenced the course of Polish enterprise reform. The first was that the popular backlash against 'spontaneous privatisation' in the late 1980s required a centralised, hands-on approach. Secondly, the government believed macroeconomic stabilisation alone could provide a sufficient basis for microeconomic restructuring; this was as much a recognition of anti-inflationary priorities as an ideological belief in the self-correcting powers of the market. A common refrain in 1989-90 was 'no restructuring before privatisation'. Thirdly, since the success of stabilisation depended on the speed of the supply response on the part of the state sector, the government felt it had to take a constructivist approach to privatising the state sector. Kornai's notion of a 'dual economy' - slowly auctioning off the state sector while privileging the private sector - was rejected on the grounds this would impose unnecessary delays and compromise the government's radical image.

As Peter Murrell rightly observed, the terms 'privatisation' (of the state sector) and 'creating a private sector' were used interchangeably[25], such was the desire to transfer nominal ownership into private hands. Finally, the government had to address the confused state of property rights whereby the state was in the uncomfortable position of lacking the legal authority to dispose of 'its' assets. The self-governing enterprise model with its roots in the September 1981 legislation was still in place. As the Gdańsk-based research team on enterprise behaviour under Janusz Dąbrowski repeatedly stressed, the workers' councils expected their legal entitlements to congeal into fully-fledged property rights in 1989. The fear on the part of the Balcerowicz Group and their western advisors that effective corporate governance would be sacrificed as a result of shifting and imprecise ownership claims focused their attention on the vexed issue of commercialisation.

The preoccupation with commercialisation stemmed partly from the preferred model of ownership transformation. With a fondness for standard, conventional approaches, Krzysztof Lis's Agency for Property Transformation chose the route "with the aura of normalcy about it"[26]: the British model of Initial Public Offerings (IPOs). The original aim of Polish privatisation was to avoid preferential treatment by hiring western consulting firms to value state enterprises in an objective manner and then to auction them off to domestic and foreign investors. The logistical impracticalities of capital privatisation - shallow markets, scarce domestic capital, and lengthy valuations - strengthened the appeal of voucher-based schemes favouring a free distribution of shares through investment funds. The Mass Privatisation Plan (MPP), however, placed equal emphasis on establishing an effective system of corporate governance that would "prevent both managers and workers from squandering [state firms'] income and assets before full privatisation [took] place."[27]

By abolishing democratically-elected workers' councils and vesting governance in the hands of state-appointed boards of directors, commercialisation, as envisaged in the British model or the MPP, was divorced from long-established patterns of self-management. US-style Employee Stock Ownership Plans (ESOPs), seemingly more suited to Solidarity's powerful self-management wing known as the Network, were rejected by the new reformers on the grounds that their effect was pernicious.[28] Instead, Lis's Agency, following its failed attempts to pass a law on mass commercialisation, "repeatedly soft-pedalled the fact that legally all privatisation plans had to be approved by the councils."[29] At the time of the launch of 'shock therapy', the self-managed enterprise structure had emerged unscathed from the 'process of radicalisation'.

The importance of the period of 'extraordinary politics', aside from its catalysing effect in winning legislative approval for the Plan, lay in its "exaggerated form of political causality"[30] in which key individuals and specific agendas predominated. Wałęsa's decision to 'temporarily retreat' to Gdańsk and, to all intents and purposes, award Mazowiecki's government *carte blanche* to proceed with stabilisation proved as significant as the Balcerowicz Group's monopolisation of the policy process. An entirely discredited PZPR was, if anything, more willing to endorse the Plan in contrast to a number of social democratic and peasant figures in the OKP who, while recognising the need for national unity, objected to the programme's excessively liberal bent. These incipient divisions were suppressed by the government in view of the huge moral and political support for rapid, radical change. Doctrinaire aspirations concerning the envisioned model for the economy acted as a powerful stimulus for reform. In many ways they compensated, possibly substituted, for the fragile coalition agreement engineered by Wałęsa in August 1989. In what can only be described as a paradox in view of its intended effects, 'shock therapy' was portrayed by the Solidarity elites as the quickest and most reliable path to European integration; as the most effective strategy in departing from 'real socialism'; and as proof of a genuine transformation in Poland's political and economic institutions. The emphasis on the irrevocability of the changes was more pronounced than in any other East European country (in particular Hungary) and trust in the authorities was considerable.

## POLITICAL VARIANTS OF NEO-LIBERALISM

The four variants presented in this study sought to come to grips with the constant tensions between macroeconomic stabilisation and the intractabilities of systemic reform, particularly large-scale privatisation. As the transition progressed, the room for manoeuvre increased. The reasons for categorising Polish economic policy in such a manner derived from the philosophical and political foundations of each variant. In the first (possibly the second) and fourth cases, there was an explicit attempt, if not on the part of the practitioners themselves then certainly through their advisors and acolytes in the academic community, to associate the conception of reform with one of the two schools outlined in Chapter 1. As I stressed all along, these descriptions were simply used to elevate (or downgrade) one particular aspect of neo-liberalism, or else to compare its implementation with that in another post-communist country. The enduring legacy of Balcerowiczism nevertheless rendered the categorisation worthwhile, especially in view of the third and fourth variants' attempts to distance themselves from aspects commonly associated with the first variant.

*i) The Mazowiecki/Balcerowicz model.* The exigencies of suppressing hyperinflation, together with Mazowiecki's desire for a peaceful, orderly process of democratisation, combined, rather effectively, to offer the Balcerowicz Group a period of grace in which to stabilise the Polish economy. The three key features of this variant were the elitist, didactic approach to governing; the emphasis on macroeconomic stabilisation as the driving force of economic policy; and the attempted adoption of Stefan Kawalec's British model of privatisation. The shifting alliances among the three 'camps' of the Solidarity movement described by the Polish journalist Piotr Wierzbicki[31] resulted in Mazowiecki's so-called 'Retinue' and Bronisław Geremek's so-called 'Family' emerging as defenders of the status quo bequeathed by the Round Table compromise with the communists. Mazowiecki, in particular, was unwilling to renounce the agreement on the grounds this would have destabilised the reforms and created unnecessary splits within the Solidarity movement. His legalistic approach to governing was criticised by the so-called 'Court' grouped around Wałęsa in Gdańsk which sought to portray the Round Table formula as, at best, a hindrance to Poland's systemic transformation and, at worst, a cloak for the advancement of a 'leftist' agenda. The 'Revolution from Above' or 'Discrete Revolution' described by Jadwiga Staniszkis refined the Court's arguments by suggesting the Mazowiecki/Geremek factions' use of the 'Solidarity Ethos' as a legitimating symbol to carry out the reforms was outdated, counter-productive and an impediment to interest representation.[32] The aloof manner in governing, while ideal for implementing stabilisation, was a contributing factor to the 'war at the top' in spring 1990.

With the assistance of its two 'anchors' of fiscal and monetary policy, the Balcerowicz Plan was successful in eliminating hyperinflation, ending shortages and stabilising the currency. A dramatic drop in domestic demand in the first-half of 1990 with real wages and industrial production plummeting by almost 30% respectively and GDP falling by 15%[33] was counterbalanced by healthy foreign trade figures, a budgetary surplus and a boom in private sector activity. Stanisław Gomułka noted that "the paradoxical feature of the [Plan] was that many of its important assumptions and policy aims were missed by wide margins yet all of its six performance criteria [agreed with the IMF] were comfortably met in 1990."[34] Critics of the programme attributed this to the excessive 'overshooting' in the first-half of the year[35] while others took the view that "overshooting [was] an essential feature of any good stabilisation programme."[36] Clearly the correct mixture of flexibility and stability is debatable given the unprecedented nature of the task. The more general line of criticism was that an overemphasis on macroeconomic measures, partly stemming from the IMF's own theoretical frameworks borrowed from Latin America, resulted in excessive falls in output and production. One of the reasons why such complaints were not as prevalent in 1990 as they were in 1991 was connected with the slow supply response on the part of state sector. The steep initial devaluation of the *złoty*, together with one-off inflationary gains from the early months of stabilisation, postponed the necessary microeconomic restructuring on the part of state firms; indeed enterprises' profitability increased in the first-half of 1990 by almost 30%.[37] While these developments were partly attributable to delays in implementing institutional changes, notably in the banking sector, the absence of a viable large-scale privatisation strategy was equally significant.

Kawalec's November 1988 privatisation blueprint emerged as the preferred method in early 1990. Like the Hungarian reformers in 1990, Lis's Agency placed its faith in market sales. More interested in the quality of privatisation rather than its speed, the Agency discarded the rival Lewandowski and Szomburg/Sachs and Lipton citizens' ownership schemes on the grounds these would have upset the stabilisation regime. Lewandowski himself criticised the government for perceiving privatisation solely as an instrument of stabilisation and commented that "the threat of inflation was the biggest drawback for supporters of voucher privatisation in 1990."[38] The Agency was even less accommodating towards the self-management counter-proposal bill submitted by the 23 deputies in the parliament led by Ryszard Bugaj. Arguing for strong parliamentary oversight of the privatisation process and preferential treatment for employees, the draft law was rejected out of hand by the government. Originally assuming "it had the right to implement whatever solution it saw fit"[39], the Agency was eventually forced to retreat from its plans to commercialise enterprises at will amid accusations of *étatisme* and strong resistance on the part of the workers' councils. As the stabilisation programme progressed, "the councils exercised their rights across a broader range of decisions" and "opposed legislation that would have unilaterally given the state the [power to strip them of their rights]."[40]

While many criticised the July 1990 privatisation law for its failure to clarify property rights and for granting the councils an effective veto on ownership changes[41], the multi-track approach inherent in the law emerged as the Act's strongest asset in view of the poor results associated with the British model. Costly, time-consuming, and ill-suited to the realities of a decentralised enterprise culture, the capital route was declared a failure by the end of 1990 with only five large firms sold through IPOs and the realisation that "the next round would be as hard as the first."[42] 'Bottom-up' privatisations, on the other hand, either through the less-publicised liquidation paths for small- and medium-sized firms or else in the dynamic growth of the new private sector with a 40% increase in the number of individual proprietorships[43], constituted the (surprise) success story of Polish reform. The findings of the Dąbrowski team challenged the Balcerowicz Plan's assumptions on three counts: macroeconomic stabilisation alone was deemed inadequate in assessing firms' true potential, notably in view of the lack of large-scale bankruptcies; self-managed enterprises, at least small- and medium-sized ones, were perfectly capable of engaging in restructuring with the workers' councils themselves often acting as the initiators of ownership changes; and difficulties in legitimating commercialisation and/or privatisation in the large enterprises required unconventional solutions compensating insiders while "taking ownership questions outside of an arena in which only firms and Ministries [participated]."[44]

*ii) The Wałęsa-Initiated Gdańsk Liberals' Variant.* Originating from the 'Court's' fears of a political monopoly on the part of the 'Retinue' and the 'Family', the 'war at the top' in spring 1990 provided impetus to various programmes designed to 'accelerate' Poland's transition. The three key aspects to this variant were Wałęsa's eclectic policy formulations; Lewandowski's 'privatisation offensive'; and the beginnings of an interventionist approach to economic policy. Ost recognised the chameleon-like behaviour of Wałęsa when he suggested that "although [the Solidarity Chairman] appeared to side with workers, he was in fact more closely aligned with a group of Gdańsk Liberals who felt the 'Warsaw-Cracow' circle of liberals in government [under Mazowiecki] was not transforming the economy fast enough."[45] In his attempts to prolong the Janus-like role of his union as a defender of workers' interests and as a political umbrella for the reforms, Wałęsa effectively suppressed the former and hoped to sustain the latter through carefully crafted appeals: "His was a neo-liberal economic programme with strong populist sensibilities attached to sound working class credentials"[46], Ost aptly observed.

Although this did little to address the deep-seated frustrations and confusions inherent in Solidarity's dual functions, it offered the reforms a new lease of life by emphasising themes close to the union's heart such as 'decommunisation', mass privatisation, the abolition of the *popiwek* and, last but not least, Wałęsa as President. It was Jarosław Kaczyński's Centre Alliance party (PC) which emerged as the political exponent of these goals and favoured a more 'radical' liberalism than that articulated by its chief adversary, the Citizens' Movement for Democratic Action (ROAD). Much of the economic advice offered to Wałęsa's campaign stemmed from the mass privatisation recipes advocated by Bielecki's KLD which, for the most part, were presented as "a correction to and bringing to life of the Balcerowicz Plan [rather than] its rejection."[47]

By all accounts 1991 was the year when the Polish private sector performed spectacularly in spite of the anti-inflationary regime and the deepening recession. Industrial production in the private sphere increased by almost 25% (compared to 16% in 1990), employing 55% of the workforce and contributing to 45% of GDP.[48] From the beginning, Bielecki's government signalled its desire to speed up the liquidation routes (referred to as the 'privatisation express'), attract much-needed foreign investment and reform the banking and financial sectors. Lewandowski's appointment as Minister of Ownership Transformation redressed the balance in favour of non-equivalent forms of privatisation. The voucher scheme seemed compelling in view of the economic and political impediments to the British model. Yet because of its new emphasis on improving corporate governance (as opposed to the original 1988 version's focus on the transfer of ownership), "this apparently simple [and attractive] idea proved a logistical nightmare."[49] Unlike the Czech scheme proposed by Klaus, political considerations did not play a part in the MPP's preparation and the government, together with professional economists and academics, remained sceptical of the project. The stumbling block once again was commercialisation; either as a result of the voluntarist nature of enterprise reform or, as was increasingly the case throughout 1991, the new rationale behind commercialisation: an attempt on the part of enterprises to shift responsibility for their poor financial condition onto the state in the hope of winning access to new loans.

Even a member of the Dąbrowski team admitted that "the hopes [we] placed in [mass privatisation] were greatly exaggerated. We also overestimated the speed of privatisation and succumbed to the temptation to resolve it once and for all through stock distributions in 1990."[50] By 31 December 1991, barely 64 out of the proposed 400 firms targeted for mass privatisation had been transformed into joint-stock companies[51]. While the concept of the MPP remained popular - Wałęsa's competitive plan evolved from a 100 million *złoty* credit in 1990 to three times as much in 1992 - the 'Bermuda Triangle' syndrome, or "the unhappy and debilitating cocktail of short-term interests of the unions, workers' councils and managers"[52], impeded plans for privatisation. Yet as the Dąbrowski team reiterated in their 1991 survey, the elimination of the councils did little to improve the atmosphere surrounding enterprises' operations, let alone increase their performance. Instead, the problem lay with delays in institutional reforms.[53]

Bochniarz's appointment as Industry and Trade Minister in July 1991 was the first concrete admission that a more interventionist approach to restructuring industry was needed. The meeting of the minds between extreme liberals and unionist sympathisers for the abolition of the *popiwek*, the forced devaluation of the *złoty*, and the budgetary crisis brought on by the collapse of the CMEA trade regime all suggested that Balcerowicz's anti-inflationary straitjacket was untenable. The special case of 1990 in which the government relied on one-off inflationary gains from state firms masked the structural weaknesses of the Plan. The IMF's role came under intense scrutiny as many questioned (and objected to) the Fund's "catch-phrase that there was no trade-off between stabilisation and growth."[54] A recurring theme in policy circles centred around Balcerowicz's monopolistic role in economic policy. Bochniarz objected to this and sought to shift the centre of gravity of enterprise reform away from the "one-sided monetary and fiscal policies"[55] of 1990 and towards a more varied approach that, for the first time, recognised the need for restructuring (before privatisation) and better monitoring of firms' behaviour. The need to create proper incentives for state enterprises to adjust by disentangling the property rights knot, addressing the issue of non-performing loans in the banking sector, and initiating (selective) industrial policies signified a more pragmatic approach. 'Alternatives' to the Balcerowicz Plan were voiced in various quarters in the run-up to the October 1991 parliamentary elections. By this time the IMF had suspended relations with the government, Lewandowski's 'privatisation offensive' had run out of steam, and Kuroń was admitting that a 'second step' was necessary.

*iii) Kuroń's Negotiated Pact.* The Olszewski government's inability to effect a 'breakthrough' contributed to the outbreak of militant strikes in July/August 1992 modelled on the 21 demands issued by the Solidarity union in August 1980. Eager to prevent the situation from escalating further, Kuroń spearheaded the drive for corporatist-style social pacts as a means of containing the disputes. The two key aspects of this variant were the motivations on the part of Kuroń in proceeding with his initiative and the extent to which the Pact represented a departure from the original Balcerowicz framework. It was perhaps inevitable that Kuroń's easy *rapport* and persuasive manners were called upon by the neo-liberals to help rescue their reforms. Arguably the most intriguing, if somewhat enigmatic, figure in Poland's transformation (not only did he "launch Jeffrey Sachs"[56], in Kowalik's words, as the first international advisor to the Solidarity leadership, he became the personal embodiment of the Sachsian philosophy of separating the means of transition from the ends by putting his social democratic beliefs 'on hold' until after stabilisation was achieved), his innovative and forward-looking strategies won plaudits from all sections of the political establishment.

It was clear that at some time during the implementation of the Balcerowicz Plan - Kuroń claimed it was towards the end of 1990[57] - he realised technocracy alone was insufficient in reforming Poland's institutions. The question as to whether he should (or could) have proposed, possibly insisted on, his social pact at an earlier stage is debatable; given his firm endorsement of 'shock therapy' it seems highly unlikely. The Pact on State Enterprises had as much to do with Kuroń's personal style as it did with substance. That not a single union member could have ever conceived of Balcerowicz entertaining the prospect of negotiation was advantageous for Kuroń. The overriding aim of the project was an attempt to include elements of consultation and choice in the restructuring of industry. Following the limited achievements of the British model and the MPP, the Pact further accentuated the multi-track character of Polish privatisation by according greater weight to the more indigenous liquidation routes and extending the deadline for forced commercialisation. That it distinguished between small and large firms tended to support the Dąbrowski team's findings. Although constrained when devising the Pact, Kuroń attempted to alter the tone of Balcerowiczism by introducing neo-corporatist features into a largely unchanged liberal privatisation regime.

The chief novelties of the Pact were the emphasis on social partnership together with a willingness to place ownership transformation on an equal footing with labour relations. The most enthusiastic supporter of a social contract was Bugaj's Labour Union (UP). Even staunch liberals such as Marek Dąbrowski admitted that "self-management bodies could, to a certain degree, [have become] the allies of market reform; that it [had been] a mistake to wage war against them as this [had] postponed necessary privatisation; in the end, concessions to employees had to be made."[58] The discrepancies in his statement epitomised the somewhat deceitful nature of the Pact. For while the contract awarded preferential treatment to employees by allocating them gratuitous shares in enterprises and broadening the scope of collective bargaining, the provisional system of corporate governance sought by reformers since October 1989 - commercialisation as a prelude to privatisation - endured, at least for the large firms. It was no coincidence that the self-management activists centred around the Network remained deeply sceptical of Kuroń's proposals and realised that the basic aim of eliminating the workers' councils, not even referred to in the Pact, continued to dictate policy.

The unions, meanwhile, aside from being unable to provide the basis for a genuine corporatist arrangement partly as a result of political animosities between Marian Krzaklewski's Solidarity and Ewa Spychalska's OPZZ, posed legitimate questions concerning the state's financial capability to fulfil the social obligations inherent in a corporatist pact; the issue which most felt undermined the contract from the very beginning. Yet as Kuroń stressed in his May 1994 manifesto a year later, the need for a social pact, neo-corporatist or otherwise, in restructuring industry was necessary in sustaining the reforms. His initiative was hardly a renunciation of Balcerowiczism, yet it signified a willingness to approach privatisation in socio-political terms as opposed to the technical considerations that predominated in 1990-91. With the victory of the left in the September 1993 parliamentary elections, these admissions were taken as evidence of the failures of the 'shock therapy' model for the transition.

*iv) Kołodko's 'Social Alternative'.* While many of Balcerowicz's advisors extolled the virtues of his Plan as "a symbol of successful transition, praised by the international financial institutions" and largely attributable to the 1990-91 years as "a period of very fast and comprehensive reforms"[59], the Kołodko Group challenged these assumptions on numerous grounds. The three key features of this variant were Kołodko's *dirigiste* approach to enterprise reform; the negotiated framework reminiscent of Kuroń's Pact; and the deliberate revisionism inherent in the Strategy for Poland. At the time of the Strategy's launch in June 1994, Alice Amsden and her colleagues had just published the first comprehensive anti-'shock therapy' account of Eastern Europe's transformations in which they challenged some of the basic assumptions behind enterprise reform. Referring to the research on Polish enterprise behaviour undertaken by Marek Belka and his colleagues which claimed that while "'shock therapy' can have valuable effects by giving unambiguous signals indicating the government's commitment to hard budgets, it [also] shows that rapid changes in ownership may be unnecessary and that restructuring before privatisation [is] desirable"[60], the Amsden book criticised the 'market fundamentalist' philosophy in the early years of the post-communist transition.[61]

With the backing of Aleksander Kwaśniewski's Democratic Left Alliance (SLD), Kołodko approached privatisation with similar distrust and focused his attention on strengthening corporate governance and improving efficiency in the state sector. Like Belka, he also claimed that the performance of firms had less to do with their form of ownership than with their external environment. As the first medium-term policy document since the Balcerowicz Plan, the Strategy placed central administrative reform and the reassertion of managerial control at the top of its agenda. The belated establishment of the State Treasury as the Ministry responsible for the supervision of state property resulted in a renewed mass commercialisation drive. Highly reminiscent of the attitude taken towards self-management in late 1989, Kołodko's conception of enterprise reform "leaned much more heavily towards tight control by firms' directors than to workers' participation."[62] Many liberals criticised this approach as 'recentralisation for the sake of recentralisation' instead of as a prelude to privatisation. Yet given their own fixation with recentralisation at the height of Polish neo-liberalism and their recognition that the state's weak role as both *de jure* and *de facto* owner of its assets had contributed to a delay in (and compromised the overall quality of) privatisation[63], a touch of hypocrisy could be discerned.

The Strategy's emphasis on social dialogue derived from Jerzy Hausner's academic works. His theoretical analysis contrasting the 'shock therapists'' so-called 'imperative method of transformation' with the more consensual 'interactive' approach appeared in an early 1994 publication[64] co-authored with Kuroń and prefaced by Boni, another veteran of the Labour Ministry (Hausner himself, ironically, entered the Ministry in early 1997 as he took over the pensions portfolio from the late Andrzej Bączkowski). A long-time admirer of Kuroń, Hausner had welcomed the Pact on State Enterprises and, while not perceiving "any fundamental change in the transformation programme", believed "the proposals were not purely tactical in character; and in this sense they [were] important."[65] Central to the 'interactive method' was the view that the didactic policy style associated with stabilisation became divorced from the social and institutional realities of enterprise reform; "no one", in Hausner's view, "had tried to bridge this gap"[66], with the possible exception of Kuroń. The Strategy's abolition of the *popiwek* and its replacement with the corporatist-style Tripartite Commission on wage settlements was among a variety of measures ranging from regional development schemes to 'facilitative' industrial polices aimed at reorienting Poland's transition away from the harsh liberalism of 1990-91. Basic continuity nevertheless prevailed with anti-inflationary priorities still high on the agenda and a near certainty that the workers' councils - now treated with equal disdain in small and large firms - would finally become extinct.

Kołodko repeatedly sought to "dispel the myth that Poland's economic successes were due primarily, or exclusively, to the 'shock therapy' policies [introduced] in January 1990."[67] From the moment he published his Strategy, he promised a more gentle, peaceful transition and went out of his way to convince a sceptical audience that he possessed an alternative to Bacerowiczism combining macroeconomic orthodoxy with a social democratic appeal. His case rested on what he perceived as a turning of the tide in policy circles in 1992-93 when the traditional 'Washington Consensus' was no longer characterised by the unanimity it once claimed. Aside from the works of Amsden and Hausner (the latter had organised a conference in October 1993 in Kraków[68] in which Kołodko, Stark and many others voiced their theoretical and practical displeasures with the neo-liberal design), Kołodko's views were closely aligned with those of his colleague Domenico Nuti. Their paper, aptly entitled 'The Polish Alternative'[69], was nothing short of a point-by-point rebuttal of the 1990-91 years of reform. Interestingly, and perhaps not surprisingly given the difficulties Kołodko faced in fashioning a strategy that was both consistent and distinctively his own, the authors were at pains to stress that their criticisms "not be confused with calls for 'gradualism', [such as] those put forward by the 'social market' supporter John Gray."[70] Not only did this question the legitimacy of Kołodko's 'anti-Balcerowiczism', it suggested that, given that the Strategy's *differentia specifica* lay in the sphere of collective bargaining, the philosophical shift could in fact be traced to Kuroń's Pact.

## THE RELEVANCE OF POLISH REFORM

It was Bielecki who, when reflecting on Poland's systemic transformation, noted that "in many ways our successes and failures stem from being the first [to initiate the transition]."[71] This is why it is problematic to present general lessons of the Polish transition or to single out individuals or policies, let alone contrast these with other countries' experiences. Poland did not have the luxury of being forewarned of post-communism's' 'transformation traps'[72] when it embarked on its reforms; a point which can hardly be overemphasised. Furthermore, the notion of global statements runs contrary to the spirit of this study. For the central theme of this research has been that the dichotomous conception of post-communist transitions inherent in both schools has led to unhelpful stereotyping as a result of insufficient attention paid to the political and historical determinants of economic change. It is the juxtaposition of Poland's radical macroeconomic stance in January 1990 with an indigenous enterprise model based on a history of self-management (and the associated political and economic aspects to these two features) that has served as the battleground for the arguments, and counter-arguments, of both schools.

Transitologists', emboldened by the works of Schmitter and his colleagues on the Southern European and Latin American regime changes, found common ground with economists such as Sachs in suggesting conventional models could (and should) be applied to the post-communist region. 'Adaptationists', meanwhile, often citing the work of North on path dependence, pointed to the institutional, historical, and possibly cultural impediments to neo-liberal designs and called for more discriminating, multidisciplinary approaches. In the early phase, the advice of the former overshadowed the counsel of the latter. When 'shock therapy' failed to live up to expectations, when a "*tabula non rasa*"[73] seemed more appropriate, or even when unforeseen developments compensated for faulty prescriptions (the rapid growth of Poland's private sector is a case in point), the debates sharpened. The dichotomy persisted, however, either in a 'shock therapy versus gradualism' form or else in broader philosophical discussions as Gray and Sachs ensured. With its four variants of neo-liberalism, each approaching the transition with a different perspective, Poland provided sustenance to these debates yet, as I argued, strengthened the case for a multifaceted approach.

The relevance of Polish reform, I believe, lies in the importance of initial conditions in analysing post-communist transformations, specifically the manner in which these conditions are exploited - short-term political factors in a given (yet crucial) time frame versus 'paths of extrication' based on structural legacies - in the reform debates. This view does not preclude generalisations or cross-country comparisons; on the contrary, it encourages them provided they are well-informed, historically aware and precise with regard to the issue(s) under consideration. But it departs emphatically from those all too prevalent analyses in 1989/90 which sought to prescribe "a prototype reform process for a representative East European country"[74] with scant reference to pre-1989 developments. Many might argue that since Poland spearheaded radical economic change, that it is the country, aside from the special case of the former East Germany, most closely associated with the 'shock therapy' route, and that it emerged the quickest from recession with the lowest cumulative drop in output, key lessons can (and should) be drawn from its experience. I would concur provided these 'lessons' are not presented in all-embracing terms (either with respect to the Polish reform process itself or else with regards to other countries' transformations) and are confined to specific elements and stages.

These caveats derive from a belief that misconceptions regarding transition programmes stem partly from insufficient research devoted to indigenous institutions under communism - particularly the forms of governance in state enterprises. Once these factors have been accounted for, then another set of misunderstandings concerning the temporal aspects of post-communist reform measures, notably their qualitatively different political and economic features, require clarification. Both sets of misconceptions have been fuelled by (and have their origins in) 'shock therapists'' willingness to merge stabilisation with structural change. The one author, in my mind, who recognises these analytical abuses is Csaba; Stark is more qualified on the institutional/historical aspects of post-communist privatisation regimes. The fact that Csaba is painted as a 'gradualist'[75] merely serves to accentuate his arguments that East European reforms have, from the outset, been burdened by unhelpful stereotypes and faulty diagnoses. Csaba blames the 'tourist guides', in his words, for "compounding the tasks" of stabilisation and structural adjustment and, on this basis, "attempting to produce an optimal theory of transformation with validity across countries."[76] While many saw merit in such exercises - the two-volume edition by Olivier Jean Blanchard and his colleagues[77] is a case in point - and used Poland as their frame of reference, they failed to integrate their arguments with well-researched historical analyses. In the end, one was left with little insight on why Poland found it difficult to privatise its firms or why Hungary attracted billions in foreign investment - to say nothing of Russia's enduring difficulties with reform.

### A Sense of Vindication?

If initial conditions constitute the most relevant aspect of Poland's post-communist reforms, how have both schools differed in diagnosing these conditions and prescribing potential cures based on their respective assessments? Before commenting on this, one should state unequivocally that the economic transformation of Eastern Europe proved much more difficult and much more costly than most of us expected in 1989 - irrespective of reform strategy. In other words both 'shockers' and 'gradualists' found their plans to be of little help in mitigating the hardships of adjustment. A cursory examination of the Polish transition indicates that "despite the (inevitable) mistakes, a heavily indebted post-communist economy can retreat from the brink of hyperinflation, be reoriented away from trade with its former allies, effect dramatic increases in the private sphere of economic activity, and experience the beginnings of a recovery in two to three years."[78]

Equally significant is the fact that Poland seems to have overcome the perennial instability associated with its 'first phase'[79] of democratisation. Although deep-seated emotional and historical divisions persist, a more mature political establishment, together with strengthened electoral and constitutional frameworks, have considerably reduced the volatility of the 1990-93 years. Membership in the OECD, admission to NATO, and the prospect of swift entry into the European Union by the turn of the century (or shortly thereafter) illustrate the dramatic achievements of the past several years. Poland received $6.6 billion in foreign investment in 1997 alone, the highest yearly amount in the region since 1989; cumulative inflows of foreign investment in the 1989-97 period amount to $20.6 billion which means Poland has now overtaken Hungary as the largest recipient of foreign investment.[80] Other post-communist states have not been as successful in launching the critical mass of economic measures, or else have been bedevilled by national, religious or ethnic disputes. Poland's accomplishments stemmed largely from its political willingness to implement painful stabilisation early on while simultaneously pursuing far-reaching structural changes. The Balcerowicz Plan exerted considerable influence over these developments and left an enduring philosophical legacy.

The strength of Csaba's premise that stabilisation and structural reforms need to be distinguished is perhaps best illustrated by the comment by Lewandowski at the beginning of Chapter 3. It is worth repeating for it encapsulates the intriguing juxtaposition in Polish reform that both schools seized on to justify their arguments: "The most characteristic feature of the Polish economic transition [in 1990-91] was a Thatcherite monetary framework combined with an almost Yugoslav enterprise model."[81] At the risk of exaggeration, I feel it is on this basis that post-mortems of the Balcerowicz Plan need to be conducted for many of the debates surrounding its implementation stem precisely from this apparent contradiction. The two schools derive much of their analytic strength by focusing on the conditions which shaped these two sides to Poland's economic reforms: the 'transitologists' centre almost exclusively on the window of opportunity in late 1989 that resulted in the radical stabilisation regime while the 'adaptationists' point to the significance of the September 1981 legislation which empowered democratically-elected workers' councils and complicated plans for privatisation. This discrepancy over initial conditions, notably the precise time frame under consideration, is, I believe, the most interesting aspect of the reforms. For not only does this go to the heart of the 'transition' versus 'adaptation' controversy, it underscores the need for clear distinctions between the ('extraordinary') politics of stabilisation and that of large-scale privatisation. The diagnoses and prescriptions of both schools have, for the most part, revolved around these two issues.

In the case of the former, the old Chinese proverb that 'in every crisis lies an opportunity' epitomises the success of Polish reformers in launching rapid and comprehensive stabilisation. The Schmitteresque atmosphere in the second-half of 1989, while inseparable from the sudden deterioration of the macroeconomy in August 1989, is rightly perceived as the *differntia specifica* of the Polish transition and, as Kornai noted with regard to Hungary[82], immediately served to differentiate the 'big bang' from other less dramatic transformations. As a result of strong political considerations (spelt out succinctly in Sachs's controversial article published 12 days after the launch of the Balcerowicz Plan[83]), stabilisation was tied to equally 'radical' structural reforms, thereby creating the illusion of a 'jump into the market'. To what extent did the sharp stabilisation approach live up to expectations? Even if one accepts that 1990 was a special case and that a 'stop-go' sequence of macroeconomic management imposed unnecessary costs on the economy, few would dispute the assertion that stabilisation succeeded in its basic aim of restoring stability to public finances in a relatively short period and with the smallest cumulative drop in output.

With the assistance of a disciplined Central Bank, Polish macroeconomic policy has resulted in substantial reductions in foreign debt together with a stable (and newly redenominated) currency. While debates still persist on the changes in living standards in the early years of the transition as well as the precise origins of the output decline (policy-induced or CMEA-driven), Poland, unlike some other East European states, is now in an advanced stage of structural reforms. An issue which has not faded from the policy agenda is the role of the IMF. For just as 'shock therapists' are accused of surreptitiously extending their 'radical' philosophy to institutional measures, the Fund has been criticised, by its own personnel[84], for straying too far outside its area of expertise. While the IMF certainly underestimated the difficulties Polish policy-makers faced with tax, banking and social security reforms, it was joined by the Balcerowicz Group in its erroneous forecasts concerning state-driven privatisation.[85] In this respect, the IMF, according to Bielecki, "completely ignored the role of the nascent private sector as the engine and the most important aspect of the Polish economic transition."[86]

It is in the politics and economics of large-scale privatisation where the Balcerowicz Plan left much to be desired. From the beginning, the Dąbrowski team were among the few who recognised that the problem was not privatisation *per se* but how a weak state with such an ambitious reform agenda would be able to dictate the terms of ownership transformation given the entrenched position of insiders in state enterprises. Commenting on the vexed issue of commercialisation in 1990, the team joined other economists such as Barbara Błaszczyk and Marek Dąbrowski[87] by stressing the particular interpretation of commercialisation in the context of a decentralised enterprise culture: "The stalemate over property rights [could never] be broken by the unilateral reassertion of the state's ownership claims. Politically this invites disaster while economically it is liable to leave the state once again responsible for administering the entire economy."[88] The Dąbrowski group concurred with sociologists such as Stark[89] in stressing that the power of the workers' councils was simply too important (and useful) a legacy to be discarded; in small- and medium-sized firms they acted as "agents of change, forcing management to pursue more dynamic adjustment strategies [and at times] moderating union demands."[90] In the case of large enterprises, the dreaded 'Bermuda Triangle' syndrome often had less to do with the self-managed structure of firms than it did with the state's failure to carry out institutional reforms.

Did Polish reformers (and those in other post-communist states for that matter) underestimate the property rights conundrum in late 1989 as a key factor in the microeconomic response of state firms to stabilisation? Was it sensible to paint the workers' councils as the enemies of privatisation and to view self-management as inimical to market reform? Who best to consult than Balcerowicz who, in what is considered to be his treatise on radical reform entitled 'Common Fallacies in the Debate on the Economic Transition in Central and Eastern Europe'[91], seemed more circumspect on the issue of self-management. The paper itself was written in mid-1993 following the third major attempt at commercialising and privatising Poland's state firms. While he dismissed the Belka team's findings suggesting state firms need not be privatised in order to restructure as a fallacy[92], he questioned his earlier emphasis on commercialisation: "It is true that some important problems related to property rights are not adequately explained in the existing literature. The missing link is the importance of the form of corporate governance. The basic question of whether a shift from self-[managed] enterprises to manager-managed or outsider-supervised enterprises brings about an improvement in overall economic efficiency remains, in my view, unanswered."[93]

This is a particularly candid statement in view of his unequivocal stance on commercialisation in late 1989. Is this an admission on the part of Balcerowicz that too many privatisation eggs were placed in the basket of commercialisation? At the very least, he recognises that unconventional forms based on 'bottom-up' methods achieved far greater success than state-driven privatisation. Yet given his strong endorsement of a liberal privatisation regime based on direct sales *à la Hongroise*, Balcerowicz probably greeted the passage of the August 1996 Law on Commercialisation and Privatisation of State Enterprises with a sigh of relief. For this bill represented the culmination of seven years' efforts on the part of successive Polish governments to undo the legacy of self-management. A product of Kołodko's mass commercialisation drive, the Law reshaped the entire framework for medium- and large-scale privatisation by granting the new State Treasury the power to commercialise and privatise firms at will; enterprises' consent, for the first time since 1981, was no longer required.

This was clearly not the case in 1990-1991 when the two 'top-down' privatisation strategies - the British model and the MPP - foundered on the shoals of commercialisation. The state's institutionally ambitious role as the auctioneer and then the distributor of its assets, barring some unrepresentative capital sales, proved costly in more ways than one. By the end of 1991, ownership transformations had been initiated or completed (invariably the former) in just 15% or 1258 state firms out of a total of 8500 at the start of the 'big bang'. The majority of these privatisations (950) occurred via the liquidation routes for small- and medium-sized enterprises and were generally in the form of leasing arrangements "nursed into the world by the councils; precisely the institution which [the Balcerowicz Group had] regarded as being prejudicial to property reform."[94] Out of the 308 firms commercialised in preparation for privatisation, only 26 had been sold to investors by the end of 1991. It is worth mentioning a recent World Bank survey which underscores the significance of enterprise governance in post-communist privatisation strategies. Hungary, with its strong managers, succeeded in privatising 40% of state assets through direct sales to foreigners; the Czech Republic, with its more centralised structure, was able to proceed swiftly with its voucher-based scheme accounting for 50% of privatisations; finally, Poland, with a decentralised structure, privatised 30% of the state sector through management and/or employee buyouts; a mere 2% of firms were sold via direct sales to foreigners.[95]

If there are lessons to be learnt from Poland's experience with privatisation, these lie in the multi-track approach envisaged, yet understated, in the July 1990 legislative framework. If Stark and the Dąbrowski team were correct in stressing the importance of the workers' councils, then Murrell, together with Kornai, were even more prescient in their view that a vibrant private sector could emerge as the driving force of ownership transformation.[96] Whether the explosive growth of private enterprise, especially in 1991, can be traced to previous legislation enacted under the communists, the liberal foreign trade regime favoured by Balcerowicz, or simply the entrepreneurial instincts of Poles, it is, in the words of Błaszczyk and Dąbrowski, "the unquestionable *differentia specifica* of Polish privatisation."[97] The fact that "there was no special government programme or law for 'small privatisation'"[98] is all the more significant in view of its pivotal role in leading Poland out of recession.

**Time for New 'Tourist Guides'**

The relevance of Polish reform, therefore, lies in these two key aspects of its initial conditions which fuelled the debates on the appositeness of neo-liberalism in Eastern Europe: on the one hand, the legacy of self-management which, as Balcerowicz now admits, is not properly accounted for in the 'economics of transition' literature and questions certain assumptions behind state-driven privatisation; and, on the other, the 'extraordinary politics' in the second-half of 1989 which gave birth to radical stabilisation and provided the political underpinnings of the 'shock therapy' regime. Not without historical irony yet neither by coincidence, Solidarity was the prime instigator in both instances. In the case of the former, it lent its support to technocratic reformers who preached self-management as a means of reducing the power of the nomenklatura; and in the case of the latter, it once again provided backing to (these same) reformers who by then were extolling the virtues of free markets. Although many advocates of employee ownership remained true to their beliefs and criticised their erstwhile allies for advocating Sachsian 'shock therapy', the Balcerowicz Group won 'the war of movement' in autumn 1989 and forged ahead with its neo-liberal agenda.

This study concentrated on Poland's initial conditions in order to illustrate in which reform area(s) and at which point in time both schools are at their most convincing. In so doing, I believe I have achieved two purposes: firstly, to demonstrate that the term 'shock therapy' is nothing more than a set of highly-publicised macroeconomic measures which, as a result of their strong political character at the time of their launch, are packaged as 'institutional reforms'; and secondly to unearth the structural and historical factors which invariably get eclipsed in the euphoria of the moment and yet compel reformers to revise their plans and devise new approaches to the transition. Evidently seduced by its dramatic start, the 'tourist guides' of Poland's economic transition seem to have not fully come to grips with these matters and, as a consequence, have often disappointed the political visitor.

I end with a comment by Sachs which, in many ways, underscores the misconceptions surrounding economic reform: "While shock therapy has won many battles 'on the ground', it has lost in the arena of public relations."[99] Aside from whether he is correct in his first point, it is clear that what is needed above all is clarity with regard to different countries' reform paths and the precise measures under consideration. 'Shock therapy' lost in the arena of public relations partly as a result of a general inattentiveness to these issues in the early years of the post-communist transition. Analysts such as Csaba have called for a "change in the menu of priorities"[100] when analysing East European transformations. I fully agree. As opposed to concentrating on the reforms themselves, we would be better advised to begin our investigations with a clearer understanding of the historical and political determinants of economic change. Given the speed of developments in recent years, particularly in Russia, a 'second generation' perspective on transitions is slowly beginning to emerge; the fact that certain books and articles written as recently as 1993-94 are *passé* is a reflection of this. Clearly the 'tourist guides' have a responsibility to improve our understanding of the region's multifaceted developments. Differences in the 'paths of extrication' from communism need to be more thoroughly examined and a less dichotomous, more inclusive view of reform strategies is required. Perhaps then, 'shock therapy', ideally under a less emotive name and equipped with a more enlightened terminology, will be better received.

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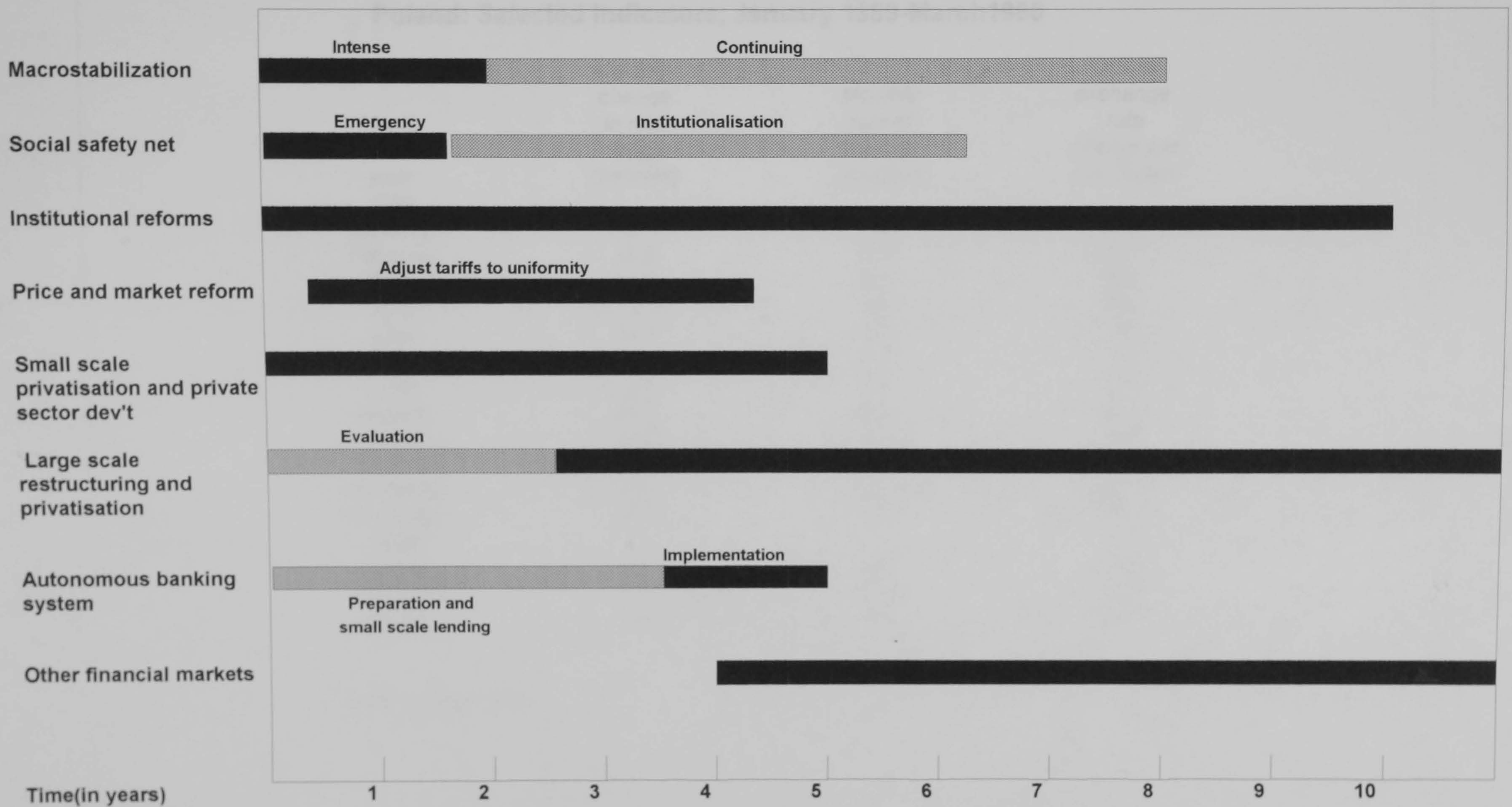
## Phasing of Reform




*Source: World Bank*

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## Poland: Selected Indicators, January 1989-March1990

| *Month and year* | *Monthly change in real wage (percent)* | *Monthly rate of inflation (percent)* | *Official exchange rate (Zlotys per US Dollar)* |
|---|---|---|---|
| *1989* | | | |
| January | -40.1 | 11 | 506 |
| February | 18.2 | 7.9 | 526 |
| March | 24.0 | 8.1 | 566 |
| April | -12.0 | 9.8 | 631 |
| May | -10.9 | 7.2 | 746 |
| June | 8.1 | 6.1 | 849 |
| July | -4.1 | 9.5 | 836 |
| August | 45.2 | 39.5 | 988 |
| September | -24.5 | 34.4 | 1340 |
| October | -18.2 | 54.8 | 1970 |
| November | 1.9 | 22.4 | 3077 |
| December | 25.6 | 17.7 | 5235 |
| *1990* | | | |
| January | -43.2 | 78.6 | 9500 |
| February | -14.9 | 23.9 | 9500 |
| March | 4.3 | 4.7 | 9500 |

*Source: Sachs and Lipton*

3

# *The Mazowiecki Cabinet*

(12 Sept. 1989-14 Dec.1990)

| *Ministry* | *Incumbent* | *Party Affiliation* |
|---|---|---|
| Chairman of the Council of Ministers | Tadeusz Mazowiecki | Independent,Solidarity |
| Deputy Chairman and Minister of Finance | Leszek Balcerowicz | Independent,Solidarity |
| Deputy Chairman and Minister of Agriculture | Czeslaw Janicki | ZSL |
| Deputy Chairman and Minister of Science | Jan Janowski | SD |
| Deputy Chairman and Minister of Interior | Czeslaw Kiszczak* | PZPR |
| Minister of Defence | Florian Siwicki** | PZPR |
| Minister of Labour | Jacek Kuron | Independent,Solidarity |
| Minister of Industry | Tadeusz Syryjczyk | Independent,Solidarity |
| Minister of Foreign Affairs | Krysztof Skubiszewski | Independent |
| Minister of Central Planning | Jerzy Osiatynski | Independent,Solidarity |
| Minister of Owner-ship Transformation | Waldemar Kuczynski (effective Sept.1990) | Independent,Solidarity |

Plenipotentiary for Ministry of Ownership Transformation: Krzysztof Lis

***Replaced by K. Kozlowski**

****Replaced by P.Kolodziejczyk**

## *Stabilisation in Poland:Planned Targets vs. Actual Results*

| Macroeconomic variable | 1990 Targets | 1990 Results | 1991 Targets | 1991 Results |
|---|---|---|---|---|
| GDP | -3.5 | -11.6 | +3.5 | -7.6 |
| Inflation : | | | | |
| CPI whole year* | 95 | 249.3 | 36 | 60.4 |
| Unemployment : | | | | |
| as % | 2.0 | 6.1 | - | 11.8 |
| in'000 | 400 | 1123 | - | 2155 |
| Industrial output | -5.0 | -24.2 | +5.0 | -11.9 |
| Budget balance as % of GDP | -0.5 | 0.7 | -0.5 | -7.0 |
| Trade balance: | | | | |
| in US$ bn. | -0.8 | +3.8 | 0 | -0.6 |
| in TR bn. | +0.5 | +4.4 | 0 | +0.4 |

* December-December

***Source:Economic Transformation in Central Europe, Edition: R.Portes***
*Centre for Economic Policy Research, London, 1993*

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## *Net confidence in institutions*

| | GOVERMENT | SEJM | SOLIDARITY | CHURCH |
|---|---|---|---|---|
| ***1989*** | | | | |
| January | 15* | | | |
| February | 19* | | | |
| March | 11* | | | |
| April | 19* | | 25* | 69* |
| May | 4* | | 45* | 74* |
| June | | | 50* | 69* |
| July | | | | |
| August | | | | |
| September | | | 60* | 71* |
| October | 46* | 57* | 48* | 71* |
| November | 83 | 84 | 78 | 83 |
| December | 58* | 65* | 62* | 74* |
| ***1990*** | | | | |
| January | 63 | 69 | 65 | 78 |
| February | 60 | 60 | 57 | 69 |
| March | 50 | 59 | 47 | 74 |
| April | 45 | 57* | 44 | 70 |
| May | 43 | 44 | 38 | 67 |
| June | 39 | 41 | 30 | 59 |
| July | 28 | 34 | 29 | 62 |
| August | | | | |
| September | 29 | 32 | 24 | 56 |
| October | 30 | 29* | 27 | 54 |
| November | 26 | 21 | 17 | 52 |
| December | | | | |
| ***1991*** | | | | |
| January | 30 | 40 | 34 | 56 |
| February | 26 | -1 | -2 | 41 |
| March | 17 | -15 | -12 | 28 |
| April | 33 | -2 | -1 | 28 |
| May | 7 | -18 | -6 | 23 |
| June | -9 | -8 | 1 | 26 |
| July | -18 | -33 | -11 | 22 |

*Note:* Net confidence is the difference between those who think that the activity of a particular institution serves the society well and is consistent with its interests and those who think it does not and is not.

*Source:* Economic Reforms in New Democracies, Edition: L.Bresser Pereira/J M Maravall/A Przeworski Cambridge University Press, 1993

## *Responses to the Question "Do You Think Government Policy Creates the Possibility of Exiting from the Economic Crisis?" Poland, 1990-91*

(Percent)

| *Month and year* | *Yes* | *No* | *Difficult to say* | *Net approval** |
|---|---|---|---|---|
| 1990 | | | | |
| February | 64 | 17 | 19 | 47 |
| May | 58 | 21 | 21 | 37 |
| June | 58 | 24 | 17 | 34 |
| July | 51 | 30 | 19 | 21 |
| September | 56 | 29 | 15 | 27 |
| October | 48 | 31 | 21 | 17 |
| November | 43 | 38 | 19 | 5 |
| 1991 | | | | |
| January | 43 | 11 | 45 | 32 |
| February | 45 | 23 | 32 | 22 |
| March | 48 | 27 | 25 | 21 |
| April | 67 | 26 | 8 | 41 |
| May | 47 | 39 | 14 | 8 |
| June | 41 | 50 | 9 | -9 |
| July | 38 | 57 | 5 | -19 |
| August | 47 | 50 | 3 | -3 |

*Note:* Percentages do not add up to 100 because people who did not answer were not included.The survey was conducted in March, April, August and December 1990

* Calculated as the percentage answering yes minus the percentage answering no

*Source:* Voting for Reform, Edition:S.Haggard/S.Webb; The World Bank Washington,D.C 1994

**7** ***Evaluation of the Balcerowicz Plan (1989-91)***

| How do you define your attitude towards the Balcerowicz plan | Responses according to survey dates(months) (%) | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | IX.89 | I.90 | III.90 | V.90 | VI.90 | VII.90 | IX.90 | X.90 | XI.90 | I.91 | II.91 | III.91 | IV.91 | V.91 | VI.91 * | VII.91 * |
| I am in favour of it | 37.5 | 44.2 | 35.7 | 32.7 | 37.1 | 26.1 | 34.8 | 34.8 | 30.9 | 30.2 | 19.6 | 31.1 | 37.1 | 21.3 | 24.0 | 22.0 |
| I am not in favour of it | 3.9 | 4.0 | 11.2 | 23.9 | 22.5 | 24.3 | 20.9 | 19.2 | 23.6 | 28.9 | 32.0 | 26.9 | 25.3 | 38.2 | 42.0 | 50.0 |
| I know little about it | 40.1 | 7.3 | 43.2 | 29.4 | 29.6 | 35.1 | 32.8 | 32.3 | 31.5 | 25.8 | 34.2 | 29.5 | 36.0 | 32.3 | 31.0 | 27.0 |
| Difficult to say | 18.5 | 39.4 | 9.1 | 13.5 | 10.7 | 14.4 | 11.4 | 13.3 | 13.3 | 14.9 | 14.2 | 12.5 | 1.5 | 8.1 | 3.0 | 1.0 |
| Net approval | 34.4 | 40.2 | 24.5 | 8.8 | 14.6 | 1.8 | 13.9 | 15.6 | 7.3 | 1.3 | -12 | 4.2 | 11.8 | -17.0 | -18.0 | -28.0 |

*Note: Poll results in months marked * have been rounded to nearest whole number*

**Source:CBOS, July 1990,June-August 1991**

## 8 *The Bielecki Cabinet*

(12 Jan. 1991-5 Dec.1991)

| *Ministry* | *Incumbent* | *Party Affiliation* |
|---|---|---|
| Chairman of the Council of Ministers | Jan Krzysztof Bielecki | KLD |
| Deputy Chairman and Minister of Finance | Leszek Balcerowicz | Independent |
| Minister of Agriculture | Adam Tanski | Independent |
| Minister of Ownership Transformation | Janusz Lewandowski | KLD |
| Minister of Interior | Henryk Majewski | Independent |
| Minister of Defence | Piotr Kolodziejczyk | Independent |
| Minister of Labour and Social Policy | Michal Boni | Independent |
| Minister of Industry | Andrzej Zawislak | KLD |
| Minister of Foreign Affairs | Krzysztof Skubiszewski | Independent |
| Minister of Central Planning | Jerzy Eysymontt | PC |
| Minister of Construction | Adam Glapinski | PC |

9

## Membership of Deputies in Parliamentary Clubs in Poland's Sejm, 1991

| Club | December 31, 1990 Number of Members | December 31, 1990 Percent of Total | February 15, 1991 Number of Members | February 15, 1991 Percent of Total | August 1991 Number of Members* | August 1991 Percent of total |
|---|---|---|---|---|---|---|
| Christian Democrats | 0 | 0.0 | 0 | 0.0 | 2 | 0.4 |
| Christian Social Union | 8 | 1.7 | 8 | 1.7 | 8 | 1.7 |
| Citizens' Parliamentary Club | 155 | 33.7 | 111 | 24.2 | 106 | 23.0 |
| Club of Independent Deputies | 10 | 2.2 | 9 | 2.0 | 9 | 2.0 |
| Club of Military Deputies | 7 | 1.5 | 7 | 1.5 | 7 | 1.5 |
| Democratic Party | 22 | 4.8 | 22 | 4.8 | 21 | 4.6 |
| Democratic Union | 0 | 0.0 | 46 | 10.0 | 46 | 10.0 |
| Ecology Club | 0 | 0.0 | 0 | 0.0 | 5 | 1.1 |
| Parliamentary Club of Democratic Left | 104 | 22.6 | 104 | 22.7 | 104 | 22.6 |
| Parliamentary Club of the Polish Soc. Dem.Union | 41 | 8.9 | 40 | 8.7 | 0 | 0.0 |
| Parliamentary Club of Workers | 0 | 0.0 | 0 | 0.0 | 41 | 8.9 |
| Polish Peasant Party (led by Jan Zych) | 73 | 15.9 | 73 | 15.9 | 72 | 15.7 |
| Polish Peasant Party (led by Tadeusz Kaszubski) | 4 | 0.9 | 4 | 0.9 | 4 | 0.9 |
| Polish Social Catholic Union | 4 | 0.9 | 4 | 0.9 | 5 | 1.1 |
| Solidarity of Workers | 0 | 0.0 | 0 | 0.0 | 6 | 1.3 |
| Union PAX | 10 | 2.2 | 10 | 2.2 | 10 | 2.2 |
| Others not registered | 21 | 4.6 | 21 | 4.6 | 20 | 4.3 |
| | | | | | | |
| Total numbers of club members | 395 | 100.0 | 459 | 100.0 | 466 | 100.0 |
| Total number of seats | 460 | 100.0 | 459 | 100.0 | 460 | 100.0 |

* The number of club members does not add up to 459 because some members belonged to more than one club

## *State Budget of Poland, 1990-91*

(Trillions of Zlotys, rounded to one decimal place)

| *Period* | *Income* | | *Spending* | | *Surplus* | |
|---|---|---|---|---|---|---|
| | *1990* | *1991* | *1990* | *1991* | *1990* | *1991* |
| January | 11.9 | 13.2 | 11.0 | 12.2 | 0.9 | 0.9 |
| January-February | 24.7 | 30.6 | 23.0 | 31.4 | 1.6 | -0.7 |
| January-March | 37.7 | 47.7 | 35.9 | 52.7 | 1.8 | -5.0 |
| January-April | 55.1 | 64.3 | 49.9 | 73.0 | 5.1 | -8.7 |
| January-May | 71.8 | 81.7 | 64.6 | 89.5 | 7.3 | -7.7 |
| January-June | 87.3 | 95.6 | 80.8 | 108.8 | 6.6 | -13.2 |
| January-July | 102.6 | 114.2 | 94.1 | 128.5 | 8.5 | -14.3 |
| January-August | 117.2 | 130.2 | 108.0 | 148.9 | 9.3 | -18.7 |
| January-September | 133.1 | 146.3 | 124.3 | 168.7 | 8.7 | -22.4 |
| January-October | 151.9 | 166.6 | 141.9 | 192.1 | 10.0 | -25.4 |
| January-November | 170.7 | 184.6 | 161.9 | 212.5 | 8.8 | -27.9 |
| January-December | 196.2 | 210.6 | 193.8 | 241.9 | 2.4 | -31.3 |

***Source:*** *Voting for Reform, Ed.: S.Haggard/S.Webb*
*The World Bank, Washington, D.C.,1994*

11

***The course of the privatisation process of state enterprises from 1 August 1990 to 31 December 1991***

| | Grand Total | 1990 (8-12) | 1991 (1-6) | 1991 (7-12) |
|---|---|---|---|---|
| State enterprises qualified for privatisation | **1258** | 130 | 375 | 753 |
| *of which* capital privatisation | **308** | 58 | 104 | 146 |
| *including:* for individual privatisation | **244** | 58 | 104 | 82 |
| *of which:* number of transformations completed | **30** | 6 | 7 | 17 |
| for mass privatisation | **64** | 0 | 0 | 64 |
| by liquidation | **950** | 72 | 271 | 607 |
| *including:* liquidated* | **198** | 0 | 100 | 98 |
| *of which:* on basis of (art.19) law on state enterprises | **534** | 28 | 145 | 361 |
| *including:* liquidated* | **44** | 0 | 21 | 23 |
| on basis of (art.37)law on privatisation of state enterprises | **416** | 44 | 126 | 246 |
| *including:* liquidated* | **154** | 0 | 79 | 75 |

* -deleted from the register of state enterprises

**SOURCE:**

*The Privatisation Process in Poland 1989-1992.B Blaszczyk / M Dabrowski Centre for Research into Communist Economies. London. 1993*

*Evaluation of the importance of privatisation for the economy, (1990-92)*

| For the Polish economy privatisation will be | Responses on survey dates (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | September 1990 | January 1991 | April 1991 | August 1991 | October 1991 | May 1992 | September 1992 | November 1992 |
| advantageous | 44 | 47 | 42 | 26 | 32 | 18 | 24 | 32 |
| just as advantageous as disadvantageous | 24 | 27 | 30 | 26 | 27 | 34 | 28 | 30 |
| disadvantageous | 8 | 5 | 9 | 27 | 30 | 30 | 26 | 19 |
| hard to say | 24 | 21 | 19 | 21 | 11 | 18 | 22 | 19 |

**Source:**
CBOS, October and December, 1992

## *Preferred form of ownership of the enterprise in which respondents presently work (%)*

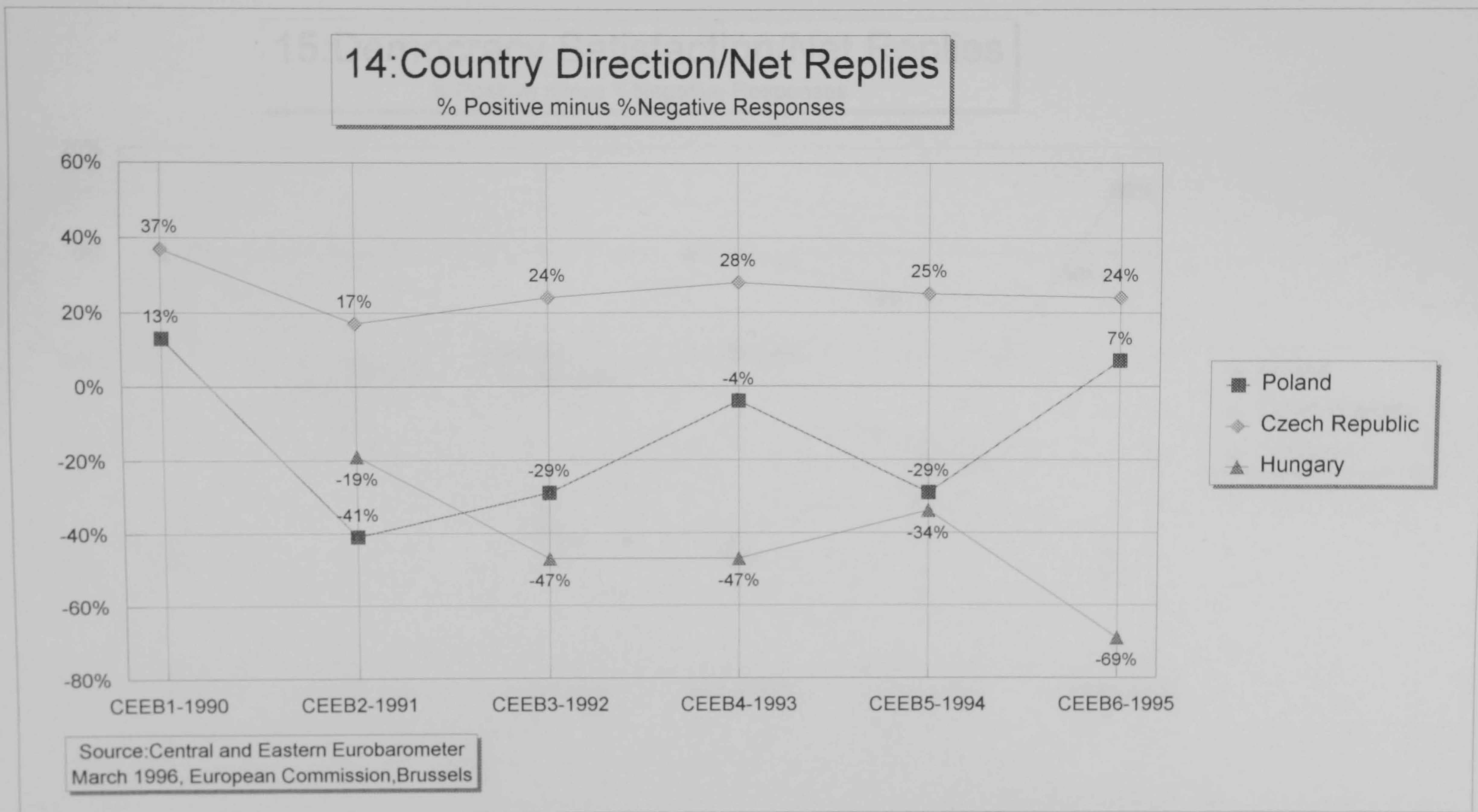
| Do you think the enterprise you presently work for should be : | 1991 | 1992 | 1993 | 1994 | 1994-1991 |
|---|---|---|---|---|---|
| 1. A state enterprise | 27 | 51 | 59 | 50 | +23 |
| 2. The property of Polish or foreign private capital | 23 | 14 | 10 | 11 | -12 |
| 3.The property of all employees, with each of them owning an identical number of shares | 23 | 25 | 21 | 25 | +2 |
| 4. The property of those employees who buy it's stock | 7 | 5 | 8 | 10 | +3 |
| 5. Something else | X | 1 | 1 | 2 | |
| 6. Hard to say | 20 | 4 | 1 | 2 | -18 |

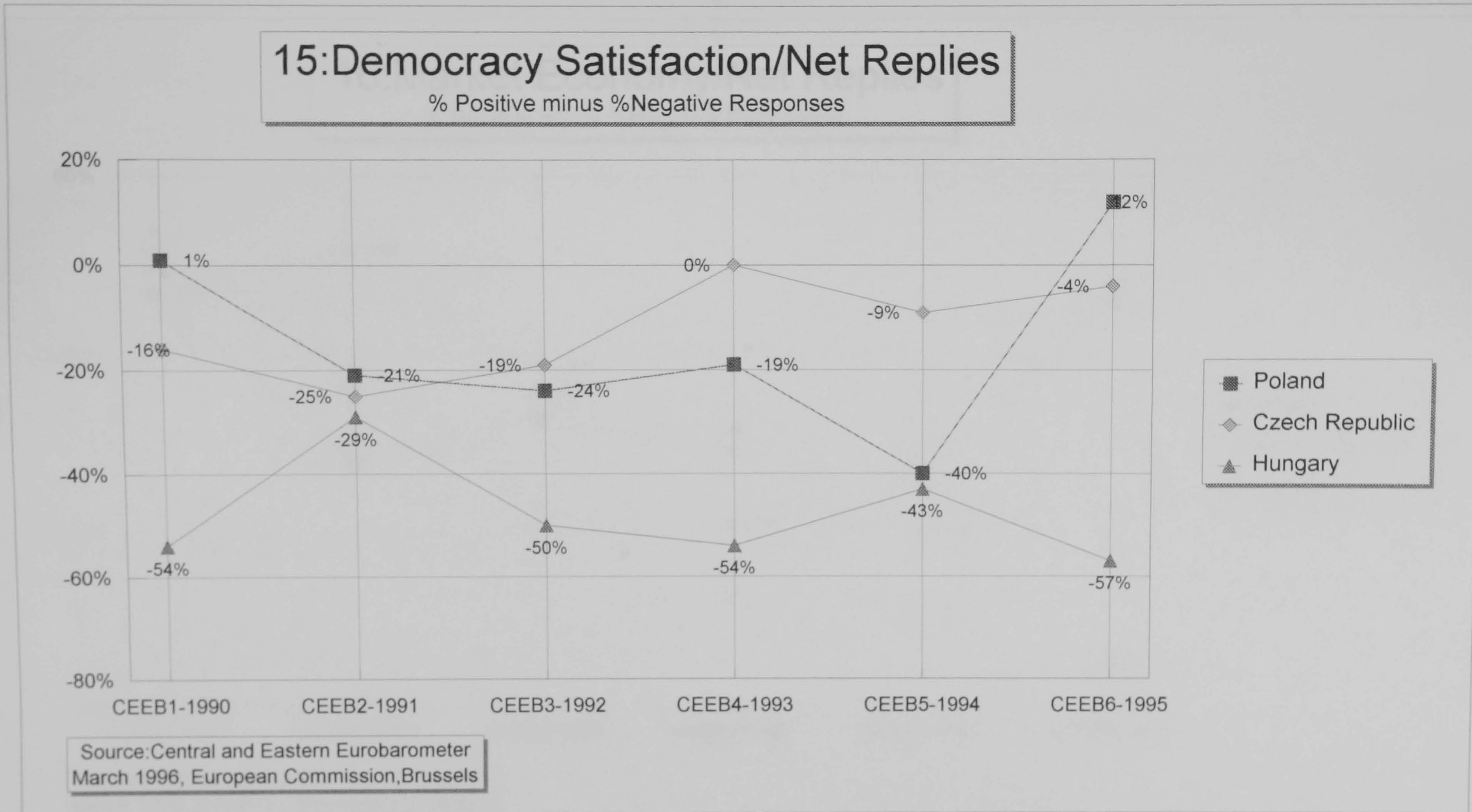
Source: J. Gardawski: 'Poland's Industrial Workers on the Return to Democracy and the Market Economy' Warsaw, Friedrich Ebert Foundation, 1996

## *Preferred form of ownership of possible new place of work(%)*

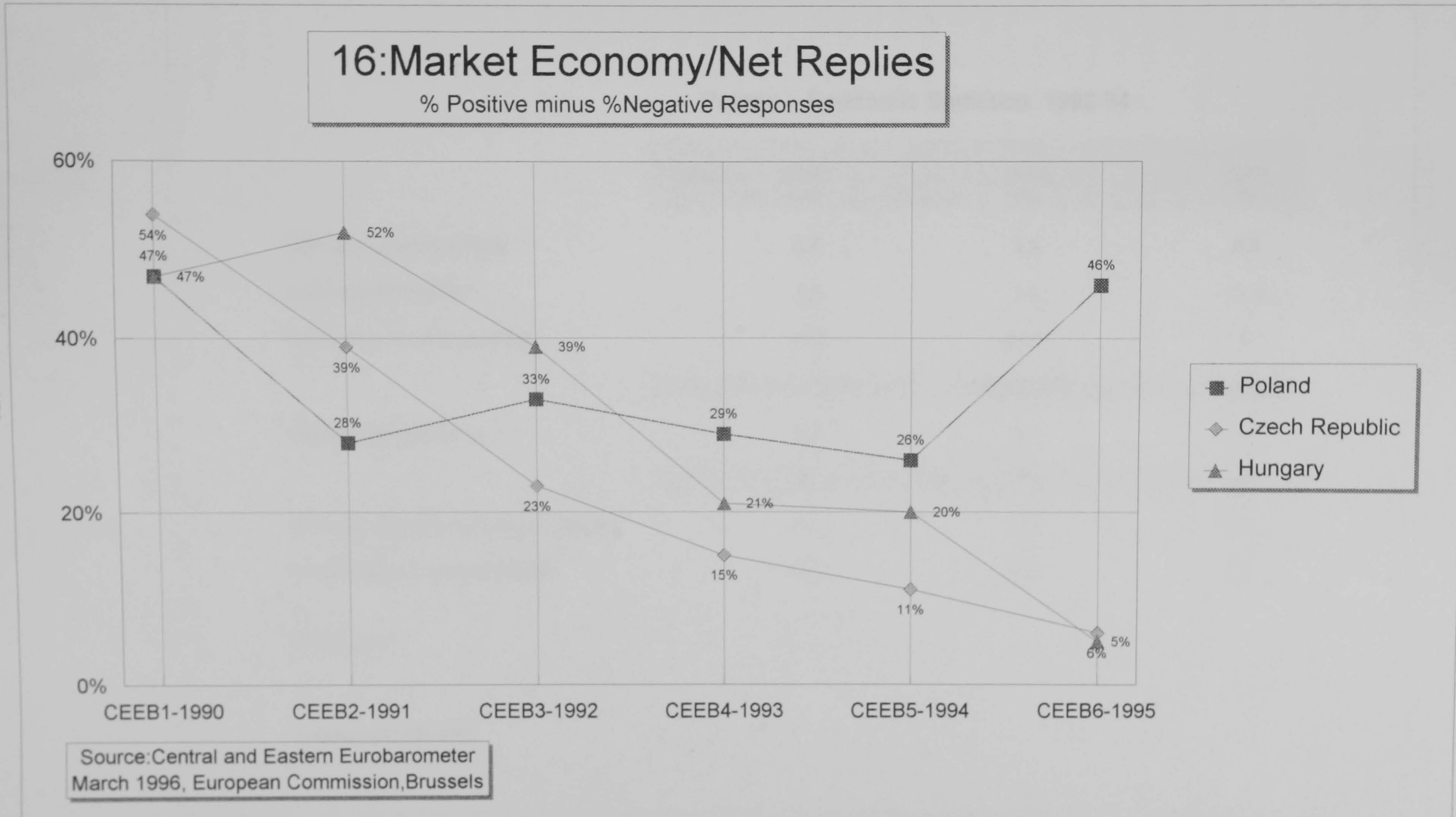
| Please imagine you are free to choose a place of work: Would you choose | 1991 | 1992 | 1993 | 1994 | 1994-1991 |
|---|---|---|---|---|---|
| 1. Staying with the present enterprise | 51 | 61 | 60 | 56 | +4 |
| 2. Working for another state-owned enterprise | 4 | 6 | 5 | 6 | +2 |
| 3.Working for a privately owned firm | 25 | 9 | 6 | 7 | -18 |
| 4. Working in an enterprise owned by it's employees | x | 4 | 3 | 4 | - |
| 5. Working for myself | 17 | 19 | 25 | 26 | +9 |
| 6. Hard to say | 3 | 1 | 1 | 1 | -2 |

Source J. Gardawski: 'Poland's Industrial Workers on the Return to Democracy and the Market Economy' Warsaw, Friedrich Ebert Foundation, 1996


14:Country Direction/Net Replies
% Positive minus %Negative Responses
60%
40%
20%
0%
-20%
-40%
-60%
-80%
37%
17%
24%
28%
25%
24%
13%
-41%
-29%
-4%
-29%
7%
-19%
-47%
-47%
-34%
-69%
CEEB1-1990
CEEB2-1991
CEEB3-1992
CEEB4-1993
CEEB5-1994
CEEB6-1995
Poland
Czech Republic
Hungary
Source:Central and Eastern Eurobarometer
March 1996, European Commission,Brussels



15:Democracy Satisfaction/Net Replies
% Positive minus %Negative Responses
20%
0%
-20%
-40%
-60%
-80%
1%
-16%
-54%
-21%
-25%
-29%
-19%
-24%
-50%
0%
-19%
-54%
-9%
-40%
-43%
12%
-4%
-57%
CEEB1-1990
CEEB2-1991
CEEB3-1992
CEEB4-1993
CEEB5-1994
CEEB6-1995
Poland
Czech Republic
Hungary
Source:Central and Eastern Eurobarometer
March 1996, European Commission,Brussels


16:Market Economy/Net Replies
% Positive minus %Negative Responses
60%
40%
20%
0%
54%
47%
47%
52%
39%
39%
33%
28%
23%
29%
21%
15%
26%
20%
11%
46%
5%
6%
CEEB1-1990
CEEB2-1991
CEEB3-1992
CEEB4-1993
CEEB5-1994
CEEB6-1995
Poland
Czech Republic
Hungary
Source:Central and Eastern Eurobarometer
March 1996, European Commission,Brussels

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## Poland - Economic Statistics 1992-94

| Years | 1992 | 1993 | 1994 |
|---|---|---|---|
| | % | % | % |
| GDP @ constant prices | 2.6 | 3.8 | 5.0 |
| Industrial Production | 3.9 | 5.6 | 13.0 |
| Consumer Prices (end-yr) | 44.4 | 37.6 | 29.5 |
| | % of GDP | % of GDP | % of GDP |
| State budget balance | -6.9 | -3.4 | -3.0 |
| | % | % | % |
| Unemployment (% of labour force)* | 13.6 | 15.7 | 16.0 |
| Private Sector share of GDP | 48.2 | 53.5 | 56.0 |

* End-year

Transition report 1995; ERBD

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INTERVIEWS:

-Leszek Balcerowicz, Finance and Deputy Prime Minister 1990-1991, London, 2 February 1995.

-Jan Krzysztof Bielecki, Prime Minister 1991, London, 2 August 1996 and 31 January 1997.

-Ryszard Bugaj (conducted by Inka Słodkowska on my behalf), Chairman of the *Sejm* Commission on the Economy, Budget and Finance 1990-91, Warsaw, 20 November 1997.

-Marek Dąbrowski, Deputy Finance Minister October 1989-September 1990, Warsaw, 5 March 1997.

-Jerzy Drygalski, Secretary of State in the Ministry of Ownership Transformation 1991-1994, Warsaw, 19 June 1996.

-Jerzy Eysymontt, Head of the Central Planning Office (CUP) 1991-June 1992, Warsaw, 18 June 1996.

-Jerzy Hausner, Chief Advisor to the Finance and Deputy Prime Minister April 1994-February 1997., Warsaw and Kraków, 27 February and 24 May respectively.

-Danuta Hübner, Undersecretary of State in the Ministry of Industry and Chief Negotiator with the OECD, Warsaw, 2 June 1996.

-Stefan Kawalec, Deputy Finance Minister 1990-February 1994, Warsaw, 23 April 1996.

-Tadeusz Kowalik, Institute of Economics, Warsaw, 3 September 1997.

-Waldemar Kuczyński, Economic Advisor to Prime Minister Tadeuz Mazowiecki and Minister of Ownership Transformation August 1989- December 1990, Warsaw, 29 February 1996.

-Markus Rodlauer, Senior Resident Representative IMF, Warsaw, 23 February 1996.

-Tadeusz Syryjczyk, Minister of Industry 1990, Warsaw, 28 March 1996.