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Tadeusz Kowalik

## **Economics – Poland**

*Discussant: Andrzej Wojtyna*

### **Introduction**

The systemic transformation of a centrally directed economy into a market economy poses a number of new, mostly normative questions. Almost all countries started their endeavor of transition at around the same time, and therefore policies were not based upon the experience of others. Also, the key to systemic changes has lain in the polity, which is in the hands of political rulers. Therefore the narrow definition of economics as a science of the best allocation of scarce resources has been of little use. What is really needed is a larger science called political or social economy. This is an unavoidable conclusion derived from the fact that transformation is a simultaneous process of social, political, and economic changes.

This complexity of change means that our task is much broader than just presenting the state and development of economics as usually understood or taught as micro- and macroeconomics. Economic science is to be seen as one of the factors influencing the systemic transformation. Thus, an analysis of economics from this perspective must inevitably be influenced by the evaluation, not only of what economists do, but also of the stabilization and systemic change programs<sup>1</sup>.

In today's Poland, one can hardly find anyone who would share the opinion, still very popular in the West, that "Poland has experienced an unprecedented boom and social progress" ("Time", May 3, 1999). Indeed, one may be impressed by the rather high rate of GDP growth during the last eight to nine years, but I do not see any signs of unprecedented *social* progress. By now it is self-evident that this particular boom went hand in hand with social regression. This is manifested in an exceptionally high rate of unemployment; rapidly increasing poverty and inequalities; reduced real wages for the majority of employees and peasants; a catastrophic situation in housing; and the flouting of social justice in the privatization of the national economy. There are, of course, some winners, but how many of them? Some say about 15%, others even one-third of the population. Even if this is so, the winners' gains do not and cannot balance the sufferings of the much more numerous losers.

During periods of cyclical boom, unemployment may decline slightly, and the number of those who have been marginalized may fall somewhat. But income inequality, mass unemployment, and the marginalization of a large part of the population will probably remain with us for many years as the most characteristic features of the new social order (at least until the next great upheaval). It is increasingly recognized – although perhaps less by economists than by sociologists, social psychologists, and political scientists – that this type of transformation has created an unstable system fraught with deep social conflicts.

In this situation, it seems reasonable not only to describe economics as a discipline in itself (that is, dealing only with the final product of the economists, or even in postulating what should be done), but also to confront their views with the dominant attitudes of society. Hence, we should also be interested in the behavior of economists as a particular professional group, a sub-culture having its own interests, not necessarily compatible with the development of science as such and with society's well being.<sup>2</sup>

## 1. Analysis of the pre-1989 situation

### New tendencies in the 1930s

Until the end of World War I, Poland had been partitioned among the three neighboring empires of Austria, Russia, and Germany. Polish society was deprived of its own government and administration. Thus economists were dispossessed of the most important economic laboratory of monetary and fiscal policy. Only the most liberal among the occupants, the Austrian Empire, permitted Polish politicians and economists to participate in Viennese central power. For example, Leon Biliński became a finance minister and, in this capacity, introduced the so-called Goldkernwährung. Very few Polish universities taught economics, mainly Jagiellonian University in Kraków and Lwów. Among economists, the historical school (or *Kathedersozialisten*) dominated.

In the 1930s, a new group of economists emerged with good mathematical training and knowledge of Anglo-American economics. These were modern neo-classical theorists, mainly with scholarships from the London School of Economics. Oskar Lange was rather an exception. Well prepared in mathematics and statistics, he attempted from the very start to reconcile the most modern neo-classical theory with Marxist economics, which he termed “economic sociology” (Lange, 1935).

At the beginning of the 1930s, Michał Kalecki, the second most eminent Polish economist, started his activity. As a researcher of the Institute of Business Cycles and Prices, he and his close friend Ludwik Landau initiated a systematic investigation of national income (they pioneered it independently from but at the same time as Colin Clark). Between 1936 and 1944, Kalecki lived in England (Cambridge and Oxford), where he was treated as one of Keynes’ disciples. Then he worked for the International Labour Organization, ILO (temporarily located in Montreal) and during the years 1946-54 at the UN (New York).

In 1933, Kalecki published a small book, *Próba teorii koniunktury* (An attempt at a theory of the business cycle), which anticipated “the Keynesian revolution” (according to Lawrence Klein, it contained all of Keynes’ major theses in the *General theory of employment, interest and money*.) Since we now know from a complete edition of Keynes’ *Works* that, around 1933, an extended draft of *General theory* was circulating among Keynes’ collaborators and students, we can be certain that both theories were emerging at exactly the same time. However, Kalecki’s role in the co-authoring of a theory of demand economics was acknowledged much later because, as Mark Blaug noticed, he was not in the right place and wrote in an exotic language.

Much more fortunate was Oskar Lange, who managed to publish in German and in English from the very beginning of his academic carrier. As early as 1937, he started to teach, for almost a decade, at American universities. By 1936-37, he had already become known as a sharp polemicist against Friedrich A. Hayek and Ludwig Mises, arguing in favor of the economic rationality of socialism. In subsequent years, as a professor at Chicago University, Lange established his place in the history of our discipline by his skillful interpretation of Keynes’ theory and its incorporation in the neo-classical framework (he “co-authored” with Hicks and Samuelson the so-called “neo-classical synthesis”). Both these eminent economists returned from the US to Poland (Lange in 1948 and Kalecki in 1955) and had a strong impact on the development of economics in communist Poland.

### Soviet Marxism’s intermezzo and revisionism

World War II and the German occupation decimated the Polish intellectuals; some of them were murdered and others emigrated for good. This made the Sovietization of Polish culture and science easier during the imposition of the Soviet-type regime. In the early 1950s, the Soviet/Marxist monopoly was almost complete. Not only was Western mainstream academic economics barred;

even access to the publications of Western Marxists, such as Maurice Dobb, Paul Sweezy, and Paul Baran was denied.

One of the most paradoxical facts was that an old socialist, Edward Lipiński, was simultaneously editor-in-chief of the quarterly journal *Ekonomista* and dean at Warsaw University's economics faculty, yet was forbidden to teach economics. That is why he shifted to studying remote historical areas of Polish economic thought, starting with Mikołaj Kopernik. Because of his fame, Oskar Lange was nominated for rector of the Main School of Economics in Warsaw (renamed at that time the Main School of Planning and Statistics); however, he did not teach economics, but the more ideologically neutral statistics. Oddly enough, this eminent personality got a chair of economics in his own country only after political liberalization in 1956. It was a year of political liberalization and the return of the idea of the "Polish road to socialism".

- Poland and Hungary were the first communist countries in which some signs of liberalization appeared shortly after Stalin's death. A paradox of the emergence of revisionism is that its intellectual roots were in the last *pronunciamento* of Yosef Stalin's *Economic problems of socialism in the USSR* (1952). To justify the extension of the market, Oskar Lange and Włodzimierz Brus exploited Stalin's great stress on the objective character of socialist economic laws.
- However, the real and rapid process of liberalization in Poland started after the June 1956 revolt of Poznań workers. In economics, the long process of de-Sovietization comprised two different currents. First, there was the absorption of the publications of Western Marxist economists – Dobb, Sweezy, Baran, Bettelheim, and Napoleoni. Their publications were a basis for teaching the political economy of capitalism. For the first time, the works of Rosa Luxemburg, Rudolf Hilferding, Karl Kautsky, Antonio Labriola, and Antonio Gramsci, as well as some forgotten works of old Russian economists, were also published in Polish.
- More complicated was to absorb what was still called "bourgeois economics". Besides Keynes' "General theory", there were translations of several authors of the more or less Keynesian brand, such as Robinson, Galbraith, Káldor, Domar, Myrdal, Leontief, early Schumpeter, and several authors writing on the Third World. Paul Samuelson's neo-classical synthesis was published in (1959). There was complete freedom in studying and publishing econometrics, cybernetics, and programming. Still forbidden, however, were works openly critical of Soviet socialism, along with those generally pro-Soviet historians whose views were not identical to the official Soviet stance on the Soviet economy, such as Carr, Davis, and Alec Nove. Even foreign editions of Trotskyists, like Deutscher, remained illegal. The works of such libertarian thinkers as Hayek, and Milton Friedman, were also banned.

Officially, Marxist economics was supposed to be taught at the universities, but teachers had quite a large margin of choice to teach freely about Western economic debates. Some economists taught Western academic economics, while paying only lip service to Marxist and, even more so, Soviet concepts.

However, we have to remember that, at least till the end of the 1960s, the critical attitude of the main Polish economists (such as Kalecki, Lange, and, in the younger generation, Brus toward the Soviet system, Soviet Marxism, and Soviet economics was somehow combined with a continued belief in the superiority of existing and theoretical socialism to capitalism. They still regarded themselves as Marxists<sup>3</sup>, and sometimes their optimism in this respect was rather desperate. Observing the wrong practice of planners, Kalecki would ask: "What other system could afford such waste?"

The evolution of Oskar Lange's views was more complicated. In 1956, he forbade the publishing in Polish of his classical work on market socialism, because – as he told me – he did not want to support the free-marketers. At the beginning of the 1960s, Lange believed that the socialist economies had a chance to catch up with the most developed economies of the West. Moreover, he even wrote – what today sounds unbelievable – that in the future the United States might find itself a backward country surrounded by a more developed socialist camp. Only a

couple of years later, shortly before his death in 1965, he expressed the opinion that sociological factors had caused the stagnation of the Polish economy, which had entered a lasting period of muddling through. He believed that incentives for a revival might come only from outside of Poland.

Oskar Lange's primary merit at that time was that he undertook the task of creating a broad theoretical framework for including non-Marxist economics in a Marxist framework. Namely, his monograph "Political Economy" (initially planned for three volumes) was to be a great synthesis of Marxist and Western mainstream economics. This synthesis was to be based on two pillars: on Marxist historical materialism and on the (neoclassical) principle of rational behavior. His main idea was very clear: Marxism delivers a broad theory of capitalism's evolution, whereas so-called "bourgeois" economics is occupied mainly with current economic problems and contains rather technical tools for managing the economy. Thus, Lange was defending the idea of one unified political economy based on the Marxist foundations of historical materialism. This was a return to his early idea of the compatibility and complementarity of Marxist and "bourgeois" economics operating on different territories (Lange, 1935).

His death in 1965 at the age of 61 prevented him from accomplishing this ambitious work, but he managed to popularize many Western concepts in his other books, where he treated econometrics, cybernetics, and optimal decisions as an auxiliary to political economy.

This idea of treating the bulk of Western academic economics as a set of technicalities was sometimes extended to the concepts of economic reforms. When one of the eminent reform economists, Czesław Bobrowski, argued for the so-called Polish economic model (more or less similar to the Yugoslav one), he wrote that his model was a *technical* variant of socialism. Underestimating the rulers' vigilance, he was assuming that the rulers would more easily swallow it without fear of having engaged in ideological retreat.

Lively debates marked the second half of the 1950s. Warsaw was the unquestionable center of intellectual life in Central and Eastern Europe. We can discern several schools of thinking, grouped mainly around the aforementioned personalities. Besides the Kalecki and Lange schools, there was also a purely neo-classical school (the so-called "(Aleksy) Wakar school"), which argued for a concept of market socialism based on pure neoclassical (pre-Samuelsonian) foundations. Its main product was Janusz Zieliński's book on *Economic calculus in socialism* (1961). I am sure that, if translated into an international language, it would be regarded as one of the best, if not the best, analyses of the pre-war debate on the rationality of the socialist economy.

This period also saw, unique within the communist camp, the first functioning of a governmental advisory body as a separate organization publishing its own reports and recommendations. The Economic Council was founded in 1957 and included more than thirty academic economists, representatives of the trade unions, and some top government and Party functionaries. The Council's main document elaborated a proposal for economic reform, which was ignored by the government but spurred a lively and long theoretical debate.

The most outstanding product of this debate was Włodzimierz Brus' book *General problems of the functioning of a socialist economy* (1961). It was translated into ten or eleven languages and was long treated in several countries as a bible for socialist reformers. The Hungarian reformers (Ners) openly acknowledged that the intellectual source of their "New Economic Mechanism", implemented in 1968, lay in this seminal work. In China, it was published in the mid-1980s, but the English version was known earlier and is still regarded as reform inspiring. It was ignored by the Polish authorities, however, and served only as an academic book. Needless to say, looked at retrospectively (also by Brus himself), his "model of planning with an incorporated market mechanism" proposed a very limited decentralization of decisions. Highly centralized investment decisions and regulated prices remained. The market was treated as one tool in the hands of planners.

From 1956 on, Poland was relatively open to the West. There was a stream of Western visitors. Several young Polish scholars, financed by various foreign foundations and universities,

got a chance to study at Western universities, mostly in the United States. The center for Third World postgraduate economic studies was founded at the Main School of Economics (then the “Main School of Planning and Statistics”). The governments of Third World countries invited dozens of Polish economists to work as experts or advisors.

All these facts transformed Warsaw into the strongest, most vibrant academic center in economic sciences in the whole Soviet bloc. Warsaw was sometimes called the “socialist Cambridge”. This fact, however, had no impact on economic policy. In the late 1960s, Brus was treated as an enemy and his book as an inspiration for a condemned revisionism. The Polish economy was long the most stagnant in the communist camp, whereas in Hungary we could observe just the opposite situation. The economy of a Kadarist “goulash socialism” was performing quite well, although economic science had not flourished yet. The well-known Sovietologist Alec Nove summed up these different asymmetries: “the worse the state of economics, the better the performance of the economy and *vice versa*”. This was later ironically called “Nove’s law”.

The 1968 wave of anti-Semitism and anti-revisionism (Kalecki called it “Reichskristallnacht for the poor”) caused a dismantling of Kalecki’s school, and many intellectuals, mostly of Jewish origin, emigrated. Lange died in 1965, Kalecki in 1970, and many other economists, among them Brus, emigrated. The Polish economy became mediocre and much worse than Hungary’s, which had started to flourish. Thus, in Poland after 1956, the development of economics and other social sciences were threatened, not so much by Marxism-Leninism, as by the most primitive nationalism.

## 2. Redefinition of the discipline since 1990

### From the Warsaw Consensus to the Washington Consensus

The initial systemic changes in Poland created a model of transformation in two different spheres. First, Poland showed how to abolish the communist political system peacefully, and second, it pioneered a hasty transition from a command to a market economy. Both had a great impact on systemic changes in the other countries of the Soviet bloc and to some extent also in Yugoslavia, becoming a standard recipe for the authorities in almost all of post-communist Europe. Poland’s pioneering experience justifies a more detailed consideration of the role of economists in their conceptualization, support, and criticism of the main lines of socio-economic change.

The organizers of this research program took the year 1989 as the starting point of the process of systemic change. In Poland, however, changes of this type had started almost ten years earlier. The emergence of an independent ten-million-member social movement, in the shape of the Independent Self-Governed Trade Union “Solidarity” based on the Gdańsk agreement between the government and the strikers, shaped the social and political configuration very deeply. It was the first important step along the path of systemic change in a hitherto “monarchic” system. The agreement and the coexistence of such a mass independent social movement and the Communist power initiated something totally unexpected. Namely, this “*contract sociale*” began the process of a peaceful transformation of actually existing socialism into a market economy. Until then, a common belief was that the communists would never peacefully resign from political power – in Władysław Gomułka’s words: “Once we had gained power, we would never give it up.”

A “Solidarity” program of a “Self-Governing Republic” (ratified by its Congress in October 1981) postulated several economic reforms that would remain within the general framework of a labor-market socialist economy, not challenging directly either state property or the domination of the Communist Party in the state structure.

The Round Table negotiations and the final Agreement went much further, unequivocally declaring a “contractual” sharing of political power with the opposition. Also in economic matters,

this Agreement outlined a much more radical “new economic order” than had been set out in previous programs. It is true that, in line with the thinking of old socialist and right-wing communists, the negotiators agreed to strengthen self-management at the factory level. But several other statements were innovative. They declared:

- the abandonment of administrative planning in favor of steering the economy mainly by economic levers, (a crucial feature of the Hungarian reform of 1968),
- a far-reaching liberalization of prices,
- the possibility of privatizing state firms,
- constitutionally guaranteed equal treatment of different forms of ownership, and even
- creation within two years of the Warsaw Stock Exchange.

Thus, we may justly say that the Round Table Agreement (Salomonowicz, 1989) outlined a really new socio-economic order, conceptually not very far from the Swedish model, which was very popular at that time in Poland. By the way, this order was in accordance with the expertise of a group of economists, written after a study visit in Stockholm in January 1989<sup>4</sup>. It is interesting that among the more than forty economists taking part in negotiations, only a handful, mainly businessmen, argued in favor of a free market model.

However, the Round Table Agreements, based on this act of exceptional wisdom, and the June 1989 parliamentary elections were the last deeds of social and economic change based on a broad consensus in Poland. A couple of months after the elections, the Warsaw Consensus (The Round Table Agreement) abruptly made way for the Washington Consensus. The Solidarity-dominated government prepared the neo-liberal program of stabilization and systemic change (usually called the Balcerowicz Plan or “Big Bang”/“shock therapy”). Afterward, parliament ratified it almost unanimously, even although a great majority still belonged to the post-communist parties. It was not negotiated, however, with the trade unions, not even with TU “Solidarity”, which was regarded as the social base of the first post-communist government.

In this respect as well, Poland pioneered and created a model of economic transformation for the other post-communist countries.

Let us come back to the achievements and failures of twelve years of development of the Polish economy, although here is not the proper place for a detailed analysis of this<sup>5</sup>. In the shortest possible form, I see Poland’s economic order and economic situation as follows.

I already mentioned that the high rate of GDP growth in the Polish economy did not bring *trickle-down effects*. On the contrary, many indicators show that the social face of the Polish economy is the ugliest amongst the Central European countries. Let two or three facts suffice: Of the 23.5 million people of employment age, only 15 million are now employed. That means that almost a third of all potential employees are not engaged in economic activity. There are more than three million registered unemployed and about one-third who do not register, i.e., more than 40% youth unemployment, young pensioners, and a very high number of disabled people. Only 1/5 of the registered unemployed receive allowances (the lowest rate in Europe). Peasants’ income has been halved. Many studies (Beskid, 1998) (Golinowska, 1996a, 1996b) (World Bank 1994, 1995) show that, within a couple of years, the number of people living below the poverty line more than doubled. Between 1990-93, “a real revolution in incomes distribution” took place (Bywalec 1995), unprecedented in Polish peacetime history. No more than 5% of the population receive social welfare assistance, although more than 14% of the population is entitled to social assistance because their disposable income is lower than a minimum fixed by law (Leś, 2001). This is the result of a great contradiction between a large and growing number of people eligible for social assistance and the ability of the state to deliver. A deep contradiction is built-in in the gigantic “neo-liberal welfare state”, created under the banner of minimizing the scope of the state.

These facts sufficiently explain why, in Central Europe, Poland has the highest income and earnings Gini coefficient, the highest ratio of the richest to the poorest decil, and the largest margin of people living in poverty. The decisive choices were made in 1989/1990, i.e., during the climax of Reagan’s and Thatcher’s popularity. Presented to the public as a program of fighting inflation

and stabilizing the economy, the Balcerowicz Plan has dramatically impoverished the bulk of the population and shifted incomes from the poor to the new rich.

This form of “primitive accumulation of capital” created the foundations for a new social order. In light of these phenomena, it is fully understandable that, even before the present recession, only 8% of Polish respondents were willing to accept the general direction of the systemic transformation (Czapiński and Panek, 2000: 84).

However, perhaps the greatest illusion, which justified the attempt to jump to a market economy, lay in the conviction that it would lead us to (Western) Europe, which would be worth all the suffering. This illusion was best expressed by one of the most influential politicians of the last twelve years, Bronisław Geremek. He wrote: “I understood the difficulties we faced because of the Balcerowicz Plan, but at the same time I knew that this was the only way to secure for Poland the chance of getting a place in the European economic order. In other words: without renunciation and self-denials, and a very painful renunciation too, we had no chance of overcoming the distance separating us from the threshold of starting the process of integration. I was also aware that we must move very quickly on this, because Europe had frankly no intention of waiting for us” (Geremek, 1992: 121-22).

Of course, the question remains whether “getting a place in the European economic order” requires such sacrifices as mass and long-lasting unemployment and impoverishment for a large part of the society. Perhaps, on the contrary, these sacrifices have separated us from Western (Europe) for many years. It is still not ruled out that Europe will wait for us till we successfully cope with unemployment. It has already created a new *conditionality* for EU accession – the exemption of the Polish labor market from integration in the Union for the next seven years.

But what about social peace and cohesion as preconditions of EU accession? The main social groups now already more or less openly reject the system. Let’s listen to the opinion of two sociologists and one politician. “Blue-collar workers are today the only influential social class which has not yet come to terms with the status which the newly-emerging economic system has to offer. What distinguishes this class from the remaining ones is: (a) strong and still rising aspirations to ‘start a business of their own’, along with even stronger and even more rapidly increasing rejection of the ongoing privatization of state-owned firms; (b) aversion to hired work in private firms and consistent clinging to the public employer whose only acceptable alternative is the model of the employee-owned enterprise or some other form of ownership with significant employee participation” (Adamski, 1999: 181).

In the same collective study, we are told that peasant respondents expressed even sharper criticisms. “Peasants as a group are relatively the least interested in market solutions and most approve of egalitarian ones if we compare them with urban categories of industrial workers (...) They view the process of structural change (...) as something predominantly evil (...) If we consider that the peasants as a social group have always struggled for private ownership, the resentment with which they view privatization comes as something of a surprise (...) they are more attached than any other segment of Polish society to socialist ideas and the social reality of the past. Farmers, as a social group, are also the most pronounced critics of capitalism (...) Even the unemployed differ from the peasants – their appraisals of socialism are less lenient and they are less resentful of capitalism” (Szafraniec and Adamski, 1999: 143-144).

In our last parliamentary elections in Autumn 2001, two of the most important political formations responsible for the conceptualization and implementation of systemic changes, Solidarity Electoral Action (Akcja Wyborcza “Solidarność” - AWS) and the Union of Freedom (Unia Wolności), lost all their seats in parliament. There is no guarantee, however, that a change of power will always take place in a peaceful way.

Up to 1999, employees and peasants acted independently or even in isolation. The first indications of joint action were strikes and road blockades in the first months of 2000. They were organized by the real winner of the parliamentary elections of 2001, “Self-defense” (Samoobrona), which is now the second-largest party in the Sejm. A potential threat for the entire socio-economic



order, a threat of rebellion or at least of constant destabilizing class struggle, stems from the fact that the methods and direction of systemic transformations, including ownership privatization, have been implemented against the will of the two basic social classes – workers and peasants. Jacek Kuroń warned a couple of years ago that “when large social groups feel that they have been pushed outside the framework of society, that they are deprived of the chance to share in a normal life, and that the opportunity to fulfill their aspirations has been taken from them, they begin to rebel against such order and may destroy it” (Kuroń, 1997).

### **The role of economists (economics) in outlining and executing the 1990 program**

A fuller answer to this question will be clearer after presenting a map of economic schools and currents in the 1990s. Here I would like to quote some contradictory opinions. The first is from Andrzej Wojtyna, one of the most knowledgeable contemporary economists, who undertook an analysis of the impact of neo-liberal views on the Balcerowicz Plan. He concludes that this Plan was not so much a theoretical concept as “an example of pragmatism” close to the well-known catalogue of recommendations of the Washington Consensus (Wojtyna, 1994: 51). His whole line of reasoning shows that here pragmatism means realism, if not a high degree of economic rationality.

The opposite opinion is that of Joseph Stiglitz, who summarizes his experience as chief economist for the World Bank in these words: “I have argued that sustainable development, and sustainable reform, are based on changes in ideas, interests, and coalitions. Let me repeat that *such changes cannot be forced*. Changes in ways of thinking often take time. That is why the approach to reform based on *conditionality* has largely failed. ... That is why the Bolshevik approach to changing society – forced changes from a revolutionary vanguard – has failed time and time again. The shock therapy approach to reform was no more successful than the Cultural Revolution (in China – TK) and the Bolshevik Revolution” (Stiglitz, 2001: 30, italics in original text).

We shall leave aside the question of whether Stiglitz would evaluate the Polish case in the same words<sup>6</sup>. What is important here is the general character of Stiglitz’s evaluation of systemic changes (in his terminology: reforms). A professional economist of the highest rank, the Nobel Prize Winner for developing pure theory, stresses the importance, not of theory, but of political and sociological (ideas, interests, coalitions) or socio-technical factors (shock therapy enforced by a revolutionary vanguard). Thus, the economists involved in this revolution from above were acting, first of all, as a part of a revolutionary vanguard. Their economics could contribute no more than one of many elements shaping their “socio-economic imagination”. For Irena Grosfeld (a Polish émigré), it was clear that economic theory has no answer to the problem of transition. Her dictum was “It is a political question” (Grosfeld, 1992: 75-76)<sup>7</sup>.

Political factors played a crucial role, not only in making the most important decisions, but also in the attitude toward the unintended outcome of the shock therapy. Let’s recall that the outcome stood in stark contrast to what had been expected. It was assumed that GDP would drop by 3%, but it declined in two years by about 18%; industrial production was to decline by 5%, but it dropped by 25%; 400 thousand people were to be unemployed, but exceeded two million; and unemployment was promised to be temporary, but it is permanent and on a much higher level now. It was also assumed that inflation would be one-digit by the end of 1990, but it only came down to this level seven years later. This all caused the aforementioned “revolution in income distribution”. These unexpected results were already clear a couple of months after the implementation of the program, but the authorities did not counteract them. Why not? Perhaps because it was in accordance with their belief that also in modern times the “primitive accumulation of capital” is a necessary stage of capitalist development, leading to a typically capitalist social structure. Once again, this belief was more a remnant of an old ideology than a product of economic thinking.

In conclusion, we cannot say that free market economics created a visible, strong rational background for the shock therapy program. More legitimate, then, is the more modest question

whether this current dominated economic thinking in Poland at that time. This problem leads us to the question of a map of research and teaching.

### **3./4. Thematic orientation and funding: organizations, research and teaching**

Passing over to the present-day situation, let's start with a short description of the organizational infrastructure of economic sciences.

According to the latest information (March 2002) from the Ministry of Education, we have seventeen state universities with either one or two economic faculties (economics and management.) In five big cities (Katowice, Krakow, Łódz, Wrocław and Warsaw), there are also so-called Economic Academies, the most famous of which is more than eighty years old (Warsaw): the Main School of Economics. In Lublin, there is a Catholic University with an economics department. Altogether, there are 125 state tertiary schools, teaching about twelve thousand students.

During the last eleven years, 229 private (strictly speaking, non-public) schools on the tertiary level have emerged. All of them together teach slightly less than half a million students. Foundations or private persons created most of them (but cannot own the school). About 50 candidate-schools are waiting for official registration. A majority of them are economics or business schools.

This expansion of the state and non-state schools brought a great jump in the number of students, which more than quadrupled during these years. Only a fraction of these schools, however, already maintain a good academic level. A majority of them have very few staff members, usually poor libraries, and a lack of space and other facilities (Table 1).

Almost one-third of the students belong to what the ISCED UNESCO classifies as business and administration studies; this has been the most rapidly growing group of students.

Almost all older universities are combining teaching with at least some research in economics, management, or demography, whereas in only a very few private schools has research been organized in a systematic way or even started at all. Only recently have these schools been permitted to bid for public research funds on an equal footing with public schools. As far as I know, only the School of Entrepreneurship and Management (Kožmiński's School) has run an interdisciplinary seminar, for a couple of years, on the critical theory of organization, gathering scholars from several schools and universities. Recently, an ambitious research center called TIGER (Transformation, Integration, and Globalization) was created at this school. Since it was created by Grzegorz W. Kołodko, a former deputy prime minister who has a lot of international contacts, this unit has had no problems with funding.

Judged by the publication of research, a few Institutes and Committees of the Polish Academy of Sciences (Polska Akademia Nauk – PAN) play an important role. I shall mention only two:

- In the *Institute of Economic Sciences* (Instytut Nauk Ekonomicznych PAN), the majority of researchers are involved mainly in the investigation of various aspects of transformation. The most representative product of this institute is probably the collective two-volume study *Dynamics of the transformation of the Polish economy* (Belka and Trzeciakowski, 1997). Since 1983, a group of researchers from the Institute of Economic Sciences, in cooperation with the Central Statistical Office, has been investigating the performance and restructuring of the five hundred biggest enterprises. This long-term research has played an important role in pioneering the microeconomics of transformation. The team accumulated rich experience in methods of investigation, which received some foreign acclaim. In recent years, they extended their investigation to SMEs. Several other researchers have studied the international competitiveness of Polish enterprises from the perspective of the European Union accession.
- The *Committee of Futures Studies "Poland 2000 Plus"* (Komitet Prognoz "Polska 2000 Plus") (PAS) organized several research programs combining study of the present and future problems of the Polish economy and society. Two volumes of reports from many experts were

later presented in a synthetic form as the *Strategy for Poland's Development up to the Year 2020* (published in Polish 2000, in English 2001), which involved several debates.

Both these research units employ (or engage in research projects) economists presenting different views and methodological approaches, which is why it cannot be easily included in any school. This group should include the Economic Faculty of Warsaw University, which is strong in teaching and research and employs economists presenting a whole spectrum of views, ranging from the extreme left to the extreme right, from Marxists to Hayekians<sup>8</sup>. But many economists in this group would identify themselves as pragmatists, or simply eclectic.

In the early 1990s, several private research units were created with a clearly neo-liberal profile:

- The Gdańsk group of economists, associated with the Congress of Democratic Liberals, created the dynamic, privately financed Gdańsk Institute for Market Economics (Instytut Badań nad Gospodarką Rynkową - IBnGR), which also has a subsidiary in Warsaw. Their main interest was in privatization, the restructuring of firms, and the functioning of the emerging new system. Recently they have published a collective study on social policy and the pension system (Wójcicka, 1999a; 1999b). The Institute is regarded as a neo-liberal think tank.
- Similar in character is the *Center for Social and Economic Research* (Centrum Analiz Społeczno-Ekonomicznych – CASE), which is as close to politics and politicians as to economic policies (because personalities play an important role.) The views of two persons whose names are closely connected with shock therapy, Leszek Balcerowicz and Marek Dąbrowski, strongly imprint the direction and character of research. The CASE Scientific Council chaired by Balcerowicz includes *inter alia* such eminent personalities as Nicolas Stern, Stanley Fischer, Jeffrey Sachs, and Yegor Gaidar. This already shows that CASE probably enjoys exceptionally high possibilities of fund raising. The present sponsors include the Ford Foundation, Polish and foreign banks, USAID, the Washingtonian Freedom House, the German Marshall Fund, the Warsaw Stock Exchange, Soros Foundations, etc. The Center attracts not only Polish researchers, but also many foreigners and foreign institutions. They are training young economists and giving them scholarships within and outside of the country. CASE has three foreign chapters (in Ukraine, Georgia, and the Kyrgyz Republic). Several affiliated members of CASE are advisors to foreign post-communist governments.
- In 1989, the *Adam Smith Research Center* (Centrum im. Adama Smitha – ASRC) was founded in Warsaw. It identifies itself as “an independent, non-profit, non-partisan institution devoted to the development of a free market economy, a democratic system, and a free and virtuous society”. Gathering about 50 scholars, it covers “most of the social sciences and humanities”, but the majority of its publications and other activities are in economics and economic policy. On the International Advisory Board are such eminent free-marketers as Alchian, Buchanan, Giersch, Sorman, and Welisz. “Toward the minimal state” is the title of one of its most programmatic declarations. This is most probably the closest to the Chicago School and, especially in the early years of transformation, has been as militant as the “Chicago boys”. In 1992, the Center started a press and radio campaign titled *Myths in the Economy*. The Center started its translation activity by editing Friedman’s book *Capitalism and Freedom*. It publishes a semi-annual bulletin, *Koniunktura Gospodarcza Polski* (Economic Situation in Poland). The Center co-authors the *Economic Freedom of the World, Annual Report*.

All three centers (IBnGR, CASE and ASRC) were created with a manifestly clear message of the Big Bang philosophy and the Washington Consensus. Within these boundaries, they are trying to preserve scholarly objectivity in many special studies. After the shock therapy, they worked on the assumption that the general features of the new socio-economic system were given. Different degrees of maturity are a problem, not a choice, among a variety of existing models of the market economy. In this sense, they do not have problems of independence from sponsors, since they share with these sponsors the same social premises.

A couple of years ago, almost all economists active in these three private research centers created the *Society of Polish Economists* (Towarzystwo Ekonomistów Polskich – TEP), which was to be a neo-liberal organization and an intellectual alternative to the old *Polish Economic Society*, (Polskie Towarzystwo Ekonomiczne – PTE), which has about seven thousand members. Apparently, TEP did not attract the younger generation of economists and is unable to expand beyond one hundred (active) or two hundred (formal) members, although it was founded by such distinguished figures as Marek Dąbrowski, Jan Winiecki, Waclaw Wilczyński, and above all Leszek Balcerowicz.

The main research topics for economists in the first years of the Balcerowicz Plan were markets in equilibria, inflation, and the restructuring of enterprises. In the first half of the 1990s, various aspects of transformation and privatization were the main themes of public debate and research. At present, research is overwhelmingly dominated by problems of the Polish economy's international competitiveness and of accession to the European Union. Among the neglected topics I would mention first the lack of research and debate about the general features of the socio-economic system. The great gap between the "actually existing system of capitalism" and the system declared and outlined by the Constitution of the Polish Republic (ratified in 1997 by parliament and in a referendum) has never been publicly discussed. Its statement that our system is to be based on social justice and the principles of a social market economy became empty words. Another badly neglected topic is distributive justice, especially inequalities<sup>9</sup>.

In the light of what has been said, it would be futile to try to discern what paradigm was dominant in theoretical economics. In the whole period of great changes, theory was badly neglected. In my opinion, a combination of some theoretical assumption with practical recommendations played the role of a paradigm, although it would be difficult to reconstruct a consistent structure of notions. In my opinion, the well-known J. Williamson's Catalogue, which generalized the Washington Consensus, played the role of a paradigm. The fully-fledged market was presented as the Promised Land and the state as the demon. The state was identified as "suffocating the market through protection, regulation, public property, fiscal profligacy and an ever-increasing and self-serving bureaucracy. Miscalculation of resources, slow productivity growth, consumer perdition through high prices and poor quality products and services were the results." (Erber, 2001:4) A Brazilian economist wrote these words about Brazilian economic policy. We can easily imagine how modest they sound in Poland, which really experienced unprecedented statism not only in the economic field, but in almost all other spheres of social life. The most extreme American free-marketers have found in Poland the most favorable playground. Even graduate students were coming to my country as self-nominated advisors. This role of foreign advisors is illustrated by the composition of the team working on the program of mass privatization. On the list of 21 experts, there were 19 persons who were either foreigners or Polish emigrants. The Minister of Ownership Transformation proudly recollects that in his ministry English was as frequently spoken as Polish (Kuczyński, 1992), and you may be sure that it was the American brand of English.

There was a change of elites, but it did not mean replacing Marxists-Leninist economists and politicians with liberal ones, but social democrats and social liberals with neo-liberals, i.e., the evolutionists and consensualists with the "jumpists" or "big bangers". There was also a generational division. By and large, the first group represented an older generation, which had already experienced a sort of Big Bang during the imposition of the communist system and who were conscious of "*The unbearable burden of history*" (Jedlicki, 1990). The second group, the middle or young generation, was freer from the burden of history.

Let me quote two examples that show a great change of views within the old ruling establishment. As early as December 1988, still under "communist" rule, the parliament ratified two very liberal acts on general economic activity and foreign companies. Both of them were in full accordance with the Washington Consensus. Second, in June 1989, just after the parliamentary election, the Ministry of Finance of the last communist cabinet presented a purely free-market program of reforms not that different from the future Balcerowicz Plan or of the IMF recipes

(Ministry 1989). This was in several points an explicit departure from the Round Table Agreement, though perhaps not favoring the concept of a jump to a new system.

Complementary to the choice of an imitational model for the Polish systemic transformation, our economics became dominated by Anglo-American, mostly American economics. Many textbooks in economics, business, and management have been translated into Polish, and there was a stream of Western economists visiting Poland in an advisory capacity, but also as teachers. Even the textbooks written by the Polish authors usually restrict themselves to following Western textbooks, illustrating their common wisdom with Polish data or facts.

## 5. The public space: a heterogeneous current

If we assume that the Washington Consensus is the best expression of mainstream economics in Poland's (orthodox) economics, the most articulated alternative and heterogeneous school of economic thinking was presented by the informal club that may be called the "Negotiated Economy Forum". The club gathered political economists, sociologists, and political scientists from the Scandinavian countries along with some Anglo-American economists (political scientist Bob Jessop, U.K, and the economist John Y. Campbell, USA). It also sometimes included German political scientists (Claus Offe, Philippe C. Schmitter, and Walter Streeck). The center of the Club's activity was in the Cracow Academy of Economics and organized personally by Jerzy Hausner. Organizers of conferences, seminars, and the journal mentioned below gathered some two or three dozen scholars who analyzed various economic, social, and political aspects of transformation. Almost all of the aforementioned scholars are members of the European Association of Evolutionary Economics. The first and most programmatic manifestation of their (with some justification I may say – our) general approach was a volume entitled: *Markets, Politics and the Negotiated Economy – Scandinavian and Post-Socialist Perspectives* (Hausner, Jessop and Nielsen, 1991).

For this group of scholars, it was absolutely clear from the very beginning that the economic transformation in post-communist countries involves "the setting up of an *institutional framework* for the market mechanism. The market is more than a mere aggregation of individual exchanges. It is itself a social institution, necessarily supported by a network of other social institutions. This institutional framework includes, among other things, the distribution of property rights; the principles and scope of governmental intervention in economic processes; the extent of local self-management; the creation of organizations which represent the interests of different economic agents and social groups, and procedures to co-ordinate the actions of such organizations ... Marketization of the Eastern European economies requires extensive institutional change over a long period." The second premise of this *plurality of models* of the market economy is that "the market economy is embedded in quite different institutional settings in different Western European countries ... Various Western 'models' seem to offer different solutions to the problems of a post-socialist future. Germany's 'social market economy', Britain's neo-liberal 'Thatcherism' and the Scandinavian model ('negotiated economy') are among those most frequently referred to in current reform discourses in Eastern Europe." (Hausner, Jessop and Nielsen, 1991: 7-8, italics added) Of course, they were not interested in comparative economics *in abstracto*, but unequivocally opted for a *consensual transformation* (based on negotiations and agreements). And this is the third premise of the workshop<sup>10</sup>.

It may sound strange that the only Polish economic journal in English is "*EMERGO, Journal of Transforming Economies and Societies*" and is published, not by the mainstream economists, but the Club described above. Since 1993, the formal publisher of this quarterly journal has been the Cracow University of Economics, on behalf of a non-profit organization called the University Council for Economic and Management Education Transfer (UCEMET). The present editor-in-chief is Victor A. Pestoff, and the Editorial Board is composed of representatives of eight

transforming countries, plus Sweden. The most important feature of this international forum is that it combines economic and social problems.

Another heterogeneous circle is (or was?) the *Carl Menger Research Group*, which issued several studies published by the well-known liberal Friedrich Naumann Stiftung<sup>11</sup>. Originally at least, the founders of this research group were to develop ideas of the Austrian school. The first three studies were devoted to the methodological (Leube, 1993) and historical (Hockuba, 1993, Filar 1994) background of this school. Only the fourth study (Wojtyna, 1994) is devoted to problems of Polish transformation in relation to the neo-liberal current. But the Austrian school has been placed outside of neo-liberalism, and in the whole text, only Hayek is mentioned on matters not necessarily typical of this particular school. Later, only one of the three listed Polish members could be regarded as an adamant Friedrich Hayek follower: Zbigniew Hockuba (1995), a professor at Warsaw University and Director of the Institute of Economic Sciences.

As I said above, the Hausner, Jessop, Nielsen, et al. group was the most articulated heterogeneous current. But in Warsaw and several other cities there were and are many economists who did not accept the Washington Consensus and particularly the concept of “jumping” to a new system, which both Jeffrey Sachs and Stanisław Gomułka brought to Poland. At all congresses and statutory conventions of the Polish Economic Association, starting with the one in Autumn 1989, the dominant attitude towards neo-liberal policy has been highly critical. The Warsaw Main School of Economics (MSE) and Łódź University’s economic faculty (ŁU), apparently dominated by the neo-liberal current, are exceptions. Both serve as the main source for economic rulers (of 9 finance ministers, 5 were from MSE and 3 from ŁU).

This division between small but powerful and well-organized currents of economists belonging to the neo-liberal school, on the one hand, and many more economists with a social democratic orientation and close to traditional (social) liberalism (which stems from the ideas of John Stuart Mill, J. M. Keynes, and his Cambridge followers like Joan Robinson), on the other, explains why the Polish transformation process has engaged so many American economists.

## 6. Views on further development: instead of conclusions

I earlier quoted Stiglitz’s very harsh words on the revolutionary vanguard’s imposition of the new socio-economic system. These are not the surprising words of an embittered person just ousted from the World Bank, but a different expression of his earlier general views on transformation. As early as May 1990, Stiglitz told a Swedish audience: “One of the large costs of the socialist experiment of the past seventy years is that it seemed *to foreclose the exploration of many other roads*. As the former socialist economies set off on this journey, let us hope that they keep in mind not only the narrower set of economic questions that I have raised (...) but the broader set of social ideas that motivated many of the founders of the socialist tradition. Perhaps some of them will *take the less traveled road, and perhaps that will make all the difference, not only for them, but for the rest of us as well.*” (Stiglitz, 1994: 279, italics added)<sup>12</sup>

These words raise the question, pertinent for us, the researchers, of how it happened that, after the painful experience of communist or Soviet uniformity, the societies of Eastern and Central Europe have had to repeat the “large costs” that once again “foreclosed the exploration of many of the other roads”. What role did Polish economists play in this? Or more generally, what was Poland’s pioneering role in this process? Poles were quite proud of this role; do they sound so proud now?

Here I would like to relate my views on (and analysis of) a very stimulating study written by H.-J. Wagener. It opens his seminal volume of comparative study of *Economic Thought in Communist and Post-communist Europe* (1996). In Hans-Jürgen Wagener’s eyes, in the 1960s, the Central and Eastern European “stage was set for gradual system transformation”. At that time “(t)here was reform thinking inside the socialist system (...) which, had it been taken up by politics, might have propelled the system to more efficient regimes, probably ending in a gradual

transition to something very similar to what is now produced by transformation.” (Wagener, 1996: 14-15) I doubt it. Gradual transition would most probably have brought, first of all, a diversification of paths of development and led to a variety of systems as different as the Swedish is from the Anglo-American. The second half of the 20th century was a rich time of systemic innovations: the emergence of the Scandinavian model, of *soziale Marktwirtschaft* in West Germany, of social partnership in Austria, and of very specific models in East Asia. Why should we assume that these types of innovations were foreclosed in Eastern and Central Europe?

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- <sup>1</sup> In the shortest words, I would summarize my attitude in this way. In my early academic career, I experienced (and accepted) the revolutionary imposition of a communist system, an imposition glaringly against the will of a majority of society. There were some by now well-known deficiencies in the concept of a centrally planned economy, but many pathologies stem precisely from the fact that in Poland, as in other countries of the Soviet block, the communist system was imposed against the will of the majority. From this experience, I drew the following conclusion: no more revolutionary minority imposition of any system, even if this system is supposed to be obviously better than the former one. Jacek Kuroń, an important figure in the first non-communist cabinet, presents the same opinion. He writes, “The Solidarity movement was destroyed by government and administration,” and that the ruling elites, “instead of leading a mass movement for social transformation, acted above society. An etatist-technocratic program was implemented over the head of society, and this pushed the majority to the left, all the more radically the more acutely they felt the cost of the fall of Communism.” (Kuroń, 1994) Cf also an opinion of the former chief economist of the World Bank Joseph Stiglitz that shock therapy is as successful a way of reforming as the Chinese “Cultural Revolution” or the Bolshevik revolution (2001: 30).
- <sup>2</sup> In the book *Economics, Culture of a controversial science*, Melvin W. Reder writes: “Like members of other scientific cultures, economists pursue fame and fortune by seeking recognition of their contributions to the ideas that characterize their subject. Therefore I shall assume that economists behave as if the well-being of the ordinary people were a by-product of a quest for the acclaim of their disciplinary peers (...) Once past their dissertations, many – possibly most – economists are intellectual freelancers, available for work on whatever problem offers the best prospect for pecuniary reward. Hope of making an ‘important contribution to the field’ – if ever it existed – diminishes to the vanishing point. As is generally recognized, research effort follows the funds available for its support. Consequently, in its choice of subject matter, the bulk of economic writing closely follows popular interest” (2000: X).
- <sup>3</sup> A good example was Włodzimierz Brus, who decided in 1968 to leave the Communist Party and severely criticized the politics and economic policy of the authorities. This was not because he stopped believing in socialism and Marxism, but on the contrary, because he accused the authorities of acting against essential principles of socialism and Marxism.
- <sup>4</sup> This was a team of nine academic economists sent to Sweden by the governmental Council of Economic Advice. The team wrote, “One can see a far-reaching analogy between the values to which the economic policy of the Swedish Social Democrats is subordinated and the values we are trying to implement in Poland: full employment, wages dependent on work, social security. This is why the Swedish experiences should be studied and some of them may be directly followed in a reforming process and current policy.” (Model Szwedzki, 1989: 5)
- <sup>5</sup> Those interested in my view on this will find it in an essay recently published in English (Kowalik 2001a) or, for this point of view confronted with prevailing opinions of officialdom, see: (Belka, 2001 and Kowalik, 2001b).
- <sup>6</sup> He seems to think that Polish shock therapy was more successful (or less unsuccessful) than other post-communist countries (Stiglitz, 2000). But this opinion may stem from his limited knowledge of Polish realities.
- <sup>7</sup> As an economist, Grosfeld accepted property rights theory, but as an advisor at the Polish Ministry of Privatization, she was an ardent proponent of *kuponovka*, which contradicts this theory.
- <sup>8</sup> Within this Faculty, Stanisław Wellisz (emeritus of Columbia University) created a neo-liberal think tank called the Polish Policy Research Group, gathering some young researchers unified by the same general approach. It has its own logo and research funding, and has published more than a dozen studies analyzing various aspects of transformation.
- <sup>9</sup> Amartya K. Sen said recently: “I believe that virtually all the problems in the world come from inequality of one kind or another (...) We have to see how we can make it more equitable.” (Sen, 2001)

- <sup>10</sup> The Wagener book (1996) mentions neither EMERGO, nor the group (not even one name from it), nor the quoted collective works, nor the three other related English volumes (Hausner and Mosur, 1993; Campbell and Owsiak, 1994; Pestoff, 1995), nor the three volumes in Polish strongly related to this Club (Hausner, 1992; Hausner and Marciniak, 1994; Hausner 1995). It is interesting that Hausner's radically anti-neo-liberal views, presented above, did not prevent him from becoming a secretary of state (1996-7) responsible for the implementation of the World Bank-supported semi-Chilean-style pension reform. Now he serves as a minister of labor carrying out an austerity program accepted by the employer's associations and rejected by the two biggest trade unions.
- <sup>11</sup> This Foundation itself did not support the Washington Consensus recipe for Central and Eastern Europe. For example, it published a programmatic collection of essays titled *Alternative models of market economy for countries in a process of economic transformation* (Fleck and Ławniczak, 1993), which was either explicitly or implicitly highly critical of the strategy of transformation chosen in Poland. Fleck (1996) treats neo-liberalism as very harmful to continental, modern European liberalism.
- <sup>12</sup> Wilkin (1993) addressed these words to the Congress of Polish Economists. He took them from Stiglitz's Wicksell Lectures manuscript (1990: 70), which was later extended into a book (1994). Later, Wilkin published a rare book (1995) considering what sort of capitalism should be built in Poland.

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Table 1 Tertiary education in 1989-2000

Items / years	1988/89	2000/2001
Number of students (thous.)	356	1585
in economics and management	34.9	436.7
Number of univ. and schools	92	310
non-public	0.0	229
Number of teachers (thous.)	59.0	79.9
Numb. of students / one teacher	6.0	9.8
in economics and management	12.5	50.9

Source: Statistical Yearbooks 1999, 2000