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Why Poland?

By most observers' reckoning, Poland during the 1990s was the poster child for a successful transition from a country with a one-party Communist authoritarian government and a centrally planned command economy to one with a relatively stable multiparty democracy with a thriving market economy. In the same time span that the United States measures a two-term presidency, Poland went from a period in which the main economic issue was no longer a shortage of goods but rather a proper distribution of access to the abundance of goods in the stores. The questions about whether a private market could take root and survive had been replaced by concerns that the growth of this private market may have outpaced the public sector's ability to provide the social services deemed to be necessary in a capitalistic society. Muted objections to a one-party state and the minimal likelihood of an alternative developed into open debates about whether there are too many parties. In the bigger picture, these concerns, as real as they are, provide an accurate barometer of the distance Polish economic, political, and social institutions have come since the 1980s. We document these changes in detail, analyze how they have contributed to the Polish success, and make some inferences about what elements contribute to successful and simultaneous economic and political transitions. This chapter places the Polish transition in the context of transitions in a set of Central and Eastern European countries, including the Czech Republic, Hungary, the Baltic states, Russia, and Ukraine.

POLAND'S EXPERIENCE IN A COMPARATIVE CONTEXT

A number of economic and social indicators can be used to assess the direction and speed of transitions, such as GDP, unemployment, personal income, life expectancy, mortality rates, and trust in social and political

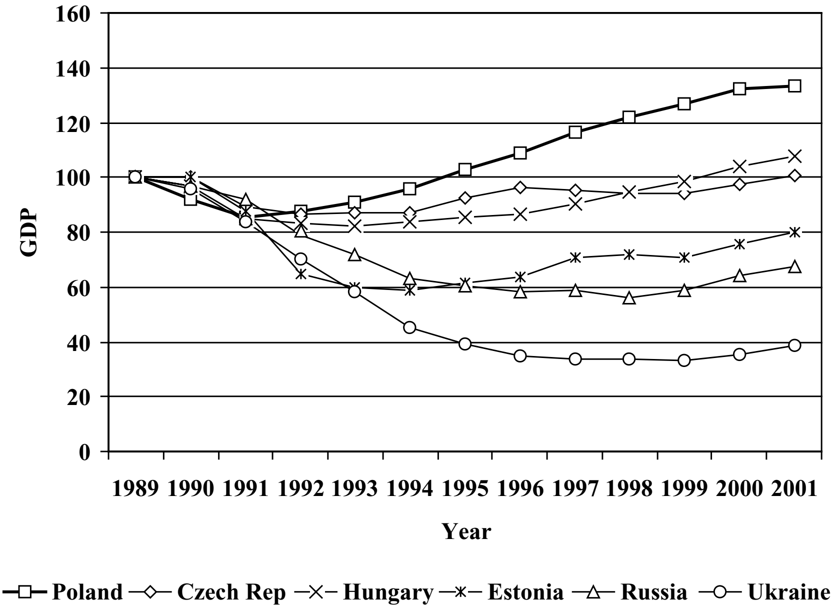

Figure 1.1. Real GDP (1989 = 100)

organizations. We present comparative data on GDP, life expectancy, and political confidence in this chapter and present extensive analyses of unemployment and income in Poland in later chapters. Real GDP, a frequently cited indicator, is shown in Figure 1.1 for a number of transition countries, standardized so that 1989 = 100. These data show that Poland had one of the fastest-growing economies in Europe during the 1990s. Despite a recent slowdown, annual real GDP growth averaged more than 4 percent since 1991 and about 6.5 percent since 1994. Per capita income rose about 4 percent annually between 1994 to 1999.

Poland's economy offers an important contrast with some of the other transitional countries. Polish GDP declined more in the early years of the transition than in the other countries, but its recovery was greater and faster. Economic problems in Russia and Ukrainie are well known, although the Russian economy has rebounded since the 1998 crisis, helped considerably by the rise in oil prices. The surprising case may be the Czech Republic. It was offered as the model in the early period, particularly with its successful mass privatization program and low unemployment. As can be seen in Figure 1.1, Czech GDP did not fall as quickly or as much as in Poland and Hungary, but since 1992–93 GDP has been relatively flat. Hungary's GDP growth surpassed that of the Czech

Cambridge University Press
0521838959 - The Political Economy of Poland's Transition: New Firms and Reform Governments
Edited by John E. Jackson, Jacek Klich and Krystyna Poznanska
Excerpt
More information

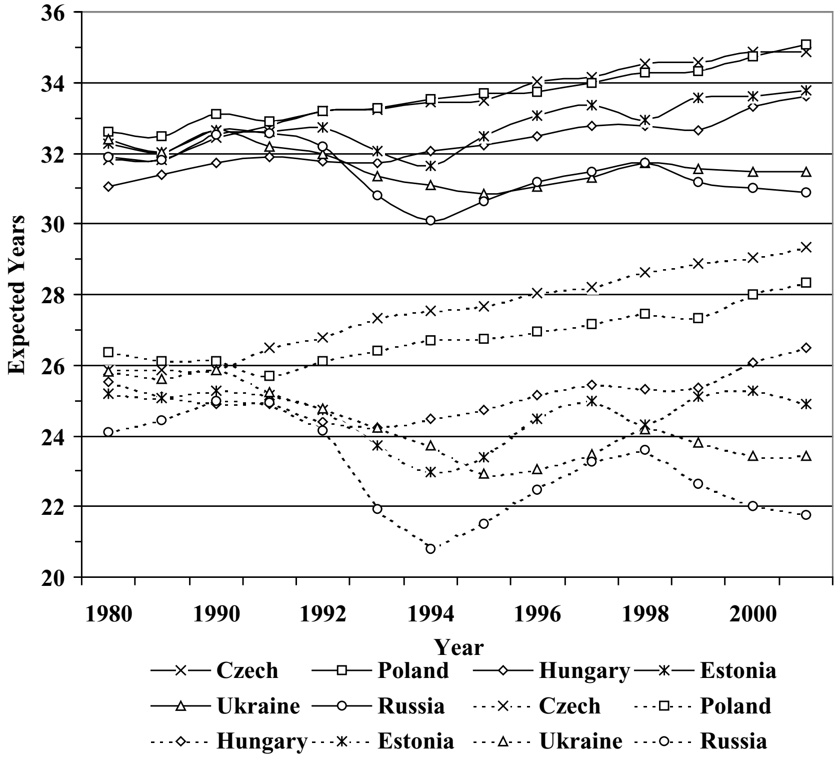

Figure 1.2. Life Expectancy at Age Forty-five for Males (*dotted line*) and Females (*solid line*)

Republic and since 1996 has exhibited a more promising trajectory. These differences in economic performance may be related to differences in the transition strategies in each country.

The indicators of Polish success go beyond the economic, however. A second frequently used set of measures relates to the public health and vital statistics, such as life expectancy among certain age and gender groups, and how they change over time. The decline in life expectancy, particularly among working-age males, in areas such as Russia and some of the states of the former Soviet Union is often cited as an indicator of the stress and social costs brought on by the efforts at economic transformation. Figure 1.2 depicts the life expectancy at age forty-five for males and females for the period 1980 to 2001. This age group, particularly for males, is thought to be the hardest hit by the economic transition. Life expectancy in Poland declined during the 1980s, a period that began with an economic crisis and martial law and is associated with serious economic decline and the continuing struggle to end the Communist government. Life expectancy continued to decline until 1991, when it began an improvement that continued through the rest of the decade. These movements closely correspond to the changes in the economy. What is particularly striking is that the life expectancy for males declined more than for females during the period 1980 to 1990 and then recovered more after 1990.

Life expectancy in the Czech Republic rose the most throughout the transition period, also following a slight decline during the 1980s. The other countries all experienced a significant decline in male life expectancy following the start of the transition. Both Hungary and Estonia, however, have had rising life expectancy after 1993 or 1994, roughly the same time their GDP began to increase, as seen in Figure 1.1. Russia and Ukraine, by contrast, have experienced periods of substantially decreased life expectancy, particularly among males. These declines occurred right after the transition began in 1991 and again after the economic collapse in 1998. These declines are far more pronounced for males than females. As occurred in Poland, in the Czech Republic life expectancy among males increased more than among females between 1990 and 2001. In Hungary and Estonia male life expectancy between 1990 and 2001 did not increase as much as female life expectancy due to a much larger decrease during the first several years of the transition. After reaching a minimum level around 1994, the life expectancy of males in these two countries has increased faster than that of females. These comparisons suggest that it is not the transition to a market economy but the inability to make that transition that is associated with decreased life expectancy. Poland and the Czech Republic, which adapted quickly, saw the most rapid and consistent increases in life expectancy, particularly among males. Hungary and Estonia also experienced increases in life expectancy once their economies began recovering.

A third comparison between changes in Polish and other transitional countries comes from the Central and East European Barometer, a survey of mass opinions in transitional countries. One question asked throughout this period is, "On the whole, are you very satisfied, fairly satisfied, not very satisfied, or not at all satisfied with the way democracy is developing in [your country]?" These responses are coded from 0 to 3, with 3 being very satisfied. Figure 1.3 shows the mean satisfaction among those expressing an opinion for selected transitional countries. Also included are responses from the Polish General Social Survey (PGSS) to a question asking people how much confidence they have in the Sejm, the lower house

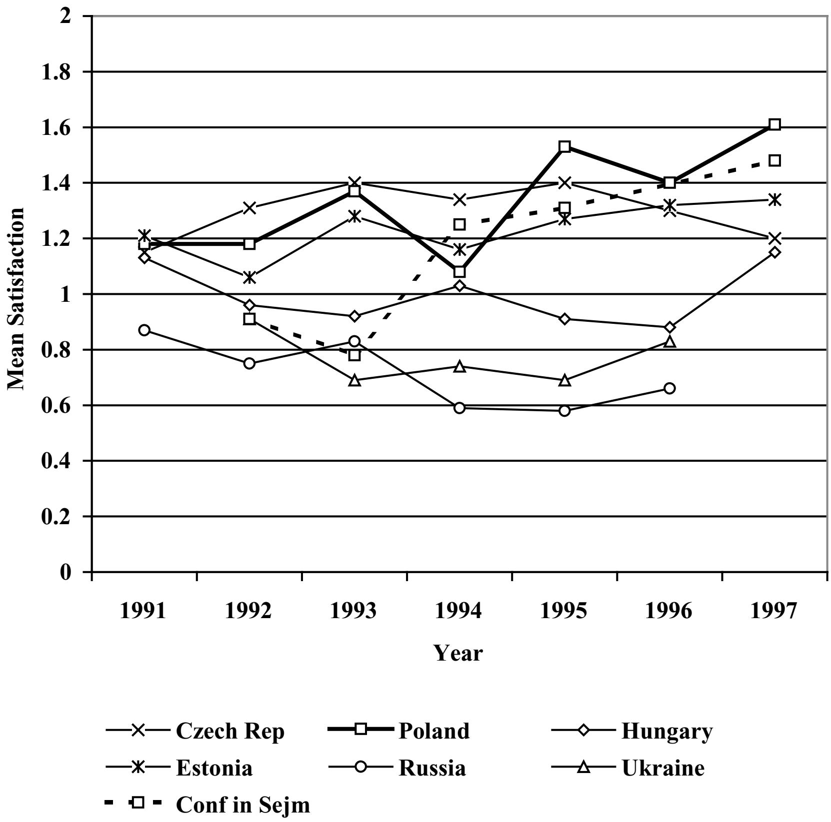

Figure 1.3. Satisfaction with Democracy

in Poland's parliament, coded on a similar 0–3 scale.[1] Overall, despite fluctuations in 1994 and 1995 Poles' satisfaction with democracy increased throughout the 1990s. The data on the Sejm reinforce the observation that Poles are becoming more confident in their political institutions and the emerging democracy during the transition. By 1996 and 1997 Poles expressed more satisfaction with democracy than respondents in the other countries.

Overall, however, respondents are not satisfied with the progress of democracy in their country. Mean satisfaction is consistently about 1,

1 Responses are coded as 3 equals a great deal of confidence, 2 is only some confidence, and 0 is hardly any confidence at all. This is the best match between the PGSS question with three categories of the Euro-Barometer question with four categories. Other coding schemes yielded the same basic plot.

which is not very satisfied, and rises above 1.5 (the midpoint between being satisfied and not satisfied) only for Poland in 1995 and 1997. A comparison of the transition countries shows that levels of satisfaction in the three Central European countries and Estonia are essentially equal in 1991 and generally increased after the mid-1990s except for the Czech Republic, where satisfaction declined in 1996 and 1997. In Hungary and Estonia satisfaction started increasing by the late 1990s after falling during the early stages of the transition. Russia and Ukraine stand in marked contrast to the other four countries. Satisfaction in these two countries was significantly lower and declined over time, although it increased in both places in 1996.[2] On this indicator, Poland again looks like a successful transitional country, although events after 1997 and particularly in 2002–3, as well as recent opinion polls, suggest that Poland's confidence in democracy has declined since these data were collected.

Our last indicator of social health and achievement is the stability and behavior of the governmental system through several different elections. This behavior at the elite level provides insight into the institutional development in Poland and the other transitional countries. Individual government administrations have come and gone, and come back again, but the way this has been done is, to us, a sign of success. Poland experienced repeated major changes in governmental control. In 1991 the reformers first gained a tenuous majority of the seats in the parliament.[3] In 1993 the former Communists won a substantial plurality of the votes and an overwhelming majority of the parliamentary seats. In 1997 a coalition of post-Solidarity parties won a plurality of the votes and seats. Most recently, in 2001, the primary post–Communist Party, the SLD, won nearly a majority of the parliamentary seats. In all four instances the transition from one governing party coalition to the next was far more characteristic of a mature parliamentary system than a country experiencing democratic regime change for the first time in more than half a century. Through different coalition governments each side has moved into and out of control, with an accompanying change in policies but with no threat to the rules of the system and with appropriate respect for the role of the opposition. The whole apparatus seems to have the characteristics of a stable multiparty

2 Russia and Ukraine were dropped from the Central and Eastern Euro-Barometer after 1996.
3 The reformers won a majority of the votes in the 1989 elections, but because of the rules in place for that election, they did not have a majority of the seats in the Sejm, the Polish parliament.

Table 1.1. *Vote Divisions for Reform and Opposition Parties (%)*

Country/Year	Reform Parties	Opposition Parties
Poland		
1991	42.3	20.7
1993	31.3	35.8
1997	47.2	39.4
2001	30.9	50.0
Hungary		
1990	55.1	10.9
1994	18.8	52.7
1998	44.9	42.4
2002: 1st round	41.1	42.1
2002: 2nd round	50.0	45.8
Czech Republic		
1990	53.2	13.5
1992	46.5	27.1
1996	44.1	41.6
2002	24.5	48.7
Russian Duma		
1993	58.5	12.4
1995	28.2	22.3
1999	47.3	24.3

parliamentary system in which governments can lose votes of confidence and subsequently lose power but where the basic responsibilities of governing continue.[4]

This pattern had been replicated in many of the transitional countries, with reform governments being replaced by coalitions headed by parties organized by Socialists or former Communist Party officials, often to be replaced by a continuing cycle of reformers or post-Communists. Table 1.1 shows the broad vote divisions between the different countries' reform and opposition parties in elections held during the 1990s and early 2000s.[5]

4 We want to make clear that we are referring to the transitions from one government to another in Poland, not to the stability of the individual parties and their leadership. Other than the post-Communist parties, party structures and leadership have been quite unstable, with a succession of parties and coalitions, particularly on the right.

5 Very broad categorizations are used in defining reform and opposition parties for this discussion. In many instances, the so-called reform parties have quite different views about economic policy, but they have the common orientation to having opposed the previous Communist regimes, hence the title reform. The opposition parties are so defined because they have their origins in the party organizations of the previous regimes.

Hungary's experiences, for example, closely parallel Poland's. The first reform government, the Hungarian Democratic Forum, was replaced by the Hungarian Socialist Party (MSzP) in 1994, which was replaced by an alliance of reformers, the Fidesz, in 1998 which was itself replaced by the Socialists in 2002. As in Poland, despite the recycling of parties, the economic plans remained quite liberal in content and consequences. And, as seen in Figure 1.1, Hungary's economy has performed very well since the mid-1990s.

The Czech Republic followed a different path, but one that led to a similar result. The reform parties easily won the election in 1990 and again in 1992. But, as the economic growth declined, as seen in Figure 1.1, the Socialists won a substantial share of the votes in 1996 and joined the government at that point. An important contrast between the Czech Republic and Poland and Hungary is that here the former Communists remained committed to their previous ideology and did not attempt to become a more centrist party as did the SLD in Poland and the MSzP in Hungary. Nor has the Czech Communist Party had the electoral success of the latter two parties. These patterns in the Central European countries contrast sharply with those in the former Soviet republics. There, the former Communists have remained committed to the communist ideologies and have campaigned actively to replace the reforms with a more traditional set of social, economic, and political policies. Zimmerman (2002) has analyzed the presidential votes in Russia as a contest between these two quite different views of the direction Russia should take.

The patterns in the three Central European countries all reflect well-entrenched and stable democracies, if measured by the ability of the contending parties to manage easily the transfer of authority from one government coalition to the next, and back again. In these three countries the basic direction of the transitional economic policies, even though a major issue in the campaigns, has remained fairly consistent and the commitments to basic democratic principles has been very clear and strong. In the former Soviet states this has not been uniformly true. Actions to promote strong market economies have been weak in many countries, such as Ukraine and Belarus, and many continue to subject the media to continued state control.

POLITICAL AND ECONOMIC REFORM

The overwhelming evidence is that Poland, Hungary, the Czech Republic, and the Baltic states, among others, are succeeding in making the transition simultaneously to a market economy and to an open democratic political structure. Early writers and advisers feared that such simultaneous transitions were unlikely. The basic reasoning is that because economic reforms impose very high costs on existing, politically powerful sectors, such groups will oppose and possibly interfere with the reforms even in stable systems. This process is more fragile if the country is simultaneously trying to create and consolidate legitimate democratic institutions. The democratic dilemma is that the more open the political process, a major aim of democratic reforms, the more susceptible the process is to the claims and demands of those organized sectors that stand to lose economically and possibly politically as a result of the economic reforms. (Elster, 1993, argues that these goals are incompatible, but also see Chan, 1995; Nelson, 1993; and Sachs, 1992.) This pessimistic picture has led some writers to suggest that for economic reforms to be successful there must be either a relatively authoritarian political system or political leaders who occupy offices with a substantial degree of autonomy, such as that found in many central banks (see citations in Hellman, 1998, n. 2). One prescription is to delay political reforms while the economy is being reformed and then democratize, as was done in parts of Asia. Transitional countries, then, are left with the unattractive choice of foregoing or delaying either economic or democratic reforms.

Hellman offers a different but still pessimistic picture of the political economy of transitions. He agrees there are cases where those bearing the costs of the transition have not mobilized to elect parties that will reverse the reforms. But he points to cases where those advantaged in the short run by the reforms mobilize to block or at least slow down a continuation of the reform process. These partial reforms are no more successful at stimulating long-term economic growth and a democratic political system than a policy of very slow or no reforms. According to his argument, the initial stages of the economic transition usually involve the privatization of state-owned enterprises. Given the slowness with which the entire economy can adapt to the transition, these partial reforms create significant rents for the owners of the newly privatized enterprises, who enjoy the monopoly position of the former state enterprises but are not forced to share their rents with the government. In theory, these rents should only be short-term as the economy continues its adjustment and as additional domestic or foreign firms enter and reduce those rents. Hellman's argument is that these short-term winners, most of whom are former managers in the old state enterprises, can use their rents and political access to restrict or even to halt the reforms, thus maintaining both their control and their rents (Hellman, 1998, pp. 221–22, and Sachs and Pistor, 1997). This group of winners does not want to reverse the reform process, as the previous model predicts for the unemployed or others suffering from the initial changes do, but it wants to arrest its progress to maintain what they have gained from the partial reform.

As compelling as these two arguments are, examples where both reforms are succeeding suggest that the logic behind these arguments is too narrow. Obviously, there are forces at work in this process that support the reforms and that, at a minimum, are able to oppose those who wish to stop and even undo the reforms. The core of our analysis is that the creation of new economic entities, not just the restructuring of existing enterprises, is the key to successful economic and political transformations. (On this point, see Kornai, 1990, and Murrell, 1992.) If the reforms are successful, much of the growth in income will come from these previously nonexistent firms, the workers they employ, and their impact on the economies where they are located. This de novo firm creation adds to the constituency for continued reform, counterbalancing opposing forces. In addition to its size, the ability of this constituency to continue the pressure for reforms is then a function of the political institutions that determine the influence of constituencies of different sizes and geographic locations.

Creative Destruction in Poland and East-Central Europe

A brief description of the economic transformation in Poland shows that the creation of new enterprises is critical to the success of the transition. As was expected, employment decreases in state-owned enterprises at the beginning of the transformation were more dramatic than even the most pro-reform advisers had envisioned. In a very short period of time, these enterprises lost close to 3 million jobs. Furthermore, even the firms that were privatized or restructured in some way, which would have included the strongest of these firms, lost between a third and a half their work force. Large, privately owned firms that existed in the previous economic regime did even worse.[6] Although this group represented only about 800 firms, employment in these enterprises declined by

6 We define large as firms employing more than 100 workers in 1990, which does not match the Polish definition for large firms, which since 1997 has been firms employing more than 250 persons. Our data also have a category for firms with more than 500 employees. Firms with 101 to 500 employees declined somewhat more than those with more than 500 employees, 76 percent compared with 68 percent.