

# Economic Crisis as a Factor of the Neoliberal Policy in Poland<sup>1</sup>

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The aim of the article is to present how three main economic crises (the 1989 transition-related crisis, the 1997 Asian crisis and the 2008 financial crises) had an impact on the consolidation of neoliberal policy in Poland. The reader will be acquainted with the political context of the introduction of free market reforms from the early days of liberal democracy. Moreover, the main arguments of the liberal elite, who remain the main supporters of analyzed hegemony,

will be presented. The article provides also information on alternative scenarios of socio-economical development in Poland after the collapse of the system of real socialism. These considerations may constitute a starting point for further discussion on the popularity of illiberal parties in Poland and Central Europe.

**Key words:** neoliberalism, capitalism, democracy, crisis

<sup>1</sup> The key concept for this paper is that of neoliberalism. As all concepts in social sciences it has many definitions. For the purposes of this article I will define it as follows: "Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee, for example, the quality and integrity of money. It must also set up those military, defense, police, and legal structures and functions required to secure private property rights and to guarantee, by force if need be, the proper functioning of markets. Furthermore, if markets do not exist (in areas such as land, water, education, health care, social security or environmental pollution) then they must be created, by state action if necessary. But beyond these tasks the state should not venture. State interventions in markets (once created) must be kept to a bare minimum because, according to the theory, the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit" David Harvey, *A brief history of neoliberalism* (Oxford–New York, 2005), 2.

The aim of this article is to discuss the ways in which social and economic crises occurring since 1989 have acted as a decisive factor in consolidating the neoliberal form of capitalism in Poland. Attention will also be given to the undemocratic way in which this form of capitalism was established, to its anti-social consequences and the fact that both in 1989 and today there were and are alternatives to the socio-economic policies pursued by successive Polish governments. Such an analysis could also be crucial for a better understanding of the illiberal shift that is being observed in Poland and other countries in Central Europe and which can be recognized as a response to a scrutinized process.

The main research methods used in this article are comparative and historical methods which are applied for the analysis of the material documenting the discussed crises. The qualitative discourse analysis has been used to research the arguments used by neoliberal-minded economists, politicians and intellectuals. The same method was applied to prove existence of alternative scenarios.

This article may serve as a case study of the analysis of certain global phenomena that have been taking place in Central Europe since the collapse of the Eastern Block at the turn of the 1990s. The victory of liberal democracy with free-market capitalism over the authoritarian real socialism system, which was based on planned economy, became the basis of the liberation rhetoric in the countries of the region. The Polish, but also Czech, Slovakian and Hungarian, way to NATO and the European Union was in a sense a jump into the “kingdom of freedom”, which, besides an affiliation with the exclusive group of “developed” countries, was accompanied by a number of negative social consequences. The discussed aspect of neoliberal politics proves therefore that the narration of a democratic and fully free Poland can be regarded as false. The lack of economic freedom for millions of unemployed, thrown into the margins of society as well as the working poor and pensioners receiving beggarly support can surely be regarded as a proof of the infirmity

of the socio-economic system in the countries of the Visegrád Group.

## Starting point

On November 15<sup>th</sup> 1989, Lech Wałęsa, the legendary leader of Solidarity, used the following words when addressing the joint Houses of the U.S. Congress: “I, a shipyard worker from Gdansk, who has devoted his entire life – alongside other members of the Solidarity movement – to the service of this idea: ‘government of the people, by the people, for the people.’”<sup>2</sup> It was a statement of a democratic faith by a man regarded as an icon of liberation both in Poland and throughout Central and Eastern Europe. In late 1989 and early 1990, Poland saw its political system change from real socialism, based on a planned economy, to capitalism, associated with the principle of liberal democracy. Poland’s economic situation at the time was dire, with inflation rising to the staggering 685%.<sup>3</sup> Once the economy ‘opened up’ to the idea of a free market, unemployment increased drastically and continued to rise even more rapidly in the following years.<sup>4</sup> The situation in the labor market was compounded by the emergence of structural unemployment. Many state-run industrial enterprises were liquidated (frequently as a result of privatization), which had a direct impact on the unemployment rate.

The following question arises: why was a policy that carried such enormous social costs introduced in Poland immediately after the democratic breakthrough of 1989? Why did it happen right after

<sup>2</sup> *Lech Walesa – Legendary 1989 Speech in U.S. Congress*, <https://youtu.be/7X5nCOXbQOo> (accessed: January 23, 2017).

<sup>3</sup> *Annual consumer prices index 1950–2012*, [http://www.stat.gov.pl/gus/5840\\_1634\\_PLK\\_HTML.htm](http://www.stat.gov.pl/gus/5840_1634_PLK_HTML.htm) (accessed: January 23, 2017).

<sup>4</sup> *Unemployment in 1990–2016 (registered unemployment)*, <http://stat.gov.pl/obszary-tematyczne/rynek-pracy/bezrobocie-rejestrowane/stopa-bezrobocia-w-latach-1990-2016,4,1.html> (accessed: January 23, 2017).

the heyday of Solidarity, which, after all, did not flaunt the banner of double-digit unemployment?<sup>5</sup> As noted by Naomi Klein, a significant role was played by the international context in which the first sovereign government of the Republic of Poland was looking for a way out of the economic deadlock: “Now in the grips of Chicago School economist, The IMF and the U.S. Treasury saw Poland’s problems through the prism of the shock doctrine. An economic meltdown and a heavy debt load, compounded by the disorientation of rapid regime change, meant that Poland was in the perfect weakened position to accept a radical shock therapy program... It was in this context that Jeffrey Sachs, then thirty-four, started working as an adviser to Solidarity... Though he was a free agent, not on the payroll of either the IMF or the U.S. government, Sachs, in the eyes of many of Solidarity’s top officials, possessed almost messianic powers. With his high-level contact in Washington and legendary reputation, he seemed to hold the key to unlocking the aid and debt relief that was the new government’s only chance... That help, however, came at a price: for Solidarity to get access to Sachs’s connections and powers of persuasion, the government first needed to adopt what became known in the Polish press as ‘the Sachs Plan’ or ‘shock therapy.’”<sup>6</sup> The person responsible for imple-

<sup>5</sup> It is worth noting that at the time of its inception, the Independent Self-Governing Trade Union „Solidarity” did not seek to dismantle the system of real socialism, but rather to reform it. In their “21 demands”, the members of Solidarity demanded, among other things: “the right to establish independent trade unions, a guarantee of the right to strike, social participation in the making of decisions of national importance, pay raises, reduction of the retirement age, adequate medical care for working people, establishment of paid maternity leaves, providing sufficient openings in nurseries and preschools, making Saturdays a day off from work”. Cf. *21 postulatów z 17 sierpnia 1980 roku* [21 Demands of 17 August 1980], <http://www.solidarnosc.org.pl/21-postulatow> (accessed: January 23, 2017). One of Solidarity’s leaders and the originator of its name, Karol Modzelewski, thus voiced his dissatisfaction at the neoliberal reforms: “I wouldn’t have spent a week nor a month, let alone eight and a half years, in jail for capitalism!” Cf. Naomi Klein, *The shock doctrine* (New York, 2008), 242.

<sup>6</sup> Cf. *ibid.*, 221–223.

menting this policy was Leszek Balcerowicz, a supporter of the idea of neoliberal economics and the minister of finance in the first non-communist government formed by Tadeusz Mazowiecki, who proposed a series of free-market reforms including the abolition of the guarantee of existence for state-owned enterprises, a ban on the financing of the budget deficit by the central bank, the abolition of preferential loans for public business entities, the exemption of foreign companies from paying certain taxes and allowing them to repatriate earnings generated in Poland to other countries. This policy was neither a subject to an open democratic process, nor was it consulted with the general public. It had not been included in the provisions of the Round Table Agreement between the communist government and the representatives of Solidarity. “The Balcerowicz-Sachs Plan” produced adverse effects very quickly – the decline in industrial production was already five times higher than expected by 1990.<sup>7</sup> The reformers’ assumptions regarding unemployment also proved to be far off the mark. Unemployment was supposed to be a temporary problem affecting 400,000 people<sup>8</sup> (Jeffrey Sachs estimated the scale of unemployment at “between one and two hundred thousand people”).<sup>9</sup> The facts, however, were quite different. In 1991, unemployment reached 11.4% (over one million people), in 1992 it rose to 13.6% (over two million people), and in 1993 it hit 16.4% (three million people).<sup>10</sup> Such disastrous results had a direct impact on the public mood. The numerous Solidarity activists who actively contributed to the downfall of real socialism did not expect such an unfortunate turn of events. Even though people seemed to believe that neoliberal changes made sense at the outset of the Polish transformation, they became disil-

<sup>7</sup> Cf. Tadeusz Kowalik, *www.POLSKATRANSFORMACJA.pl* [www.POLISHTRANSFORMATION.pl] (Warsaw, 2009), 100.

<sup>8</sup> Cf. *ibid.*

<sup>9</sup> Cf. Władysław Baka, *Zmagania o reformę: z dziennika politycznego 1980–1990* [A Struggle for a Reform: a 1980–1990 Political Diary] (Warsaw, 2007), 275.

<sup>10</sup> Cf. *Unemployment in 1990–2013 (registered unemployment)*, see note 4 above.

lusioned a few years later. This was reflected, for instance, by the number of strikes per year. As many as 250 strikes were held throughout Poland in 1990 and a year later this figure increased to 305. Importantly, the years 1992 and 1993 were marked by a dramatic rise in the number of strikes which amounted to 6,362 and 7,443, respectively.<sup>11</sup> Participation in strikes at the workplace also became more popular. In 1990, only 29.7% of the workforce joined strikes at their workplace, but in 1991 the figure rose to 41.4% and in 1992 to 43.4%. In 1993, more than one half of the workforce participated in strikes (55.2%).<sup>12</sup> This shows that the Polish society, and in particular the members of trade unions, did not remain passive and did not accept the considerable deterioration in living and social conditions at the beginning of Poland's road to capitalism. In addition to dry macroeconomic data, we should also take account of a whole range of adverse changes that were associated with the collapse of Polish industries.<sup>13</sup> At the times of real socialism, large workplaces had a very well developed social infrastructure. This included workplace nurseries, preschools, health-care centers, housing cooperatives, local heating systems, power plants, bakeries and institutions of vocational education. Thus, closing down of an industrial plant entailed also a degradation or complete elimination

<sup>11</sup> Own elaboration of data from The Central Statistical Office of Poland.

<sup>12</sup> Ibid.

<sup>13</sup> In addition to the fact that the paradigm through which enterprises were assessed changed from an ideological one (enterprises had to maintained regardless of their financial performance) to a market-based one, the deteriorating economic situation was heavily impacted by a radical opening up of the Polish market to foreign capital. As noted by Tadeusz Kowalik: "Trade barriers were reduced to such an extent that Poland was referred to as the world's second most *laissez-faire* (free-trade) country after Hong Kong. Competition from abroad had two distinct effects: it forced stronger domestic companies to restructure and drove weaker ones into bankruptcy. But it also contributed to a rise in unemployment with a deluge of cheap products imported without customs duties and tax liabilities, and – in most cases – even without paying rent for commercial premises. Token customs duties and an inefficient tax administration, which was unwilling or unable to collect taxes, combined with a fascination with foreign products, created a true paradise for the unfettered private sector." Kowalik, 102

of all the links in its social chain. Inevitably, Polish transformation led to a dismantling of the socialist welfare state, leaving behind a fragmented and selective social policy model that was unlike any other system existing in Europe.<sup>14</sup>

## **Second wave of crisis**

The 1989 crisis had, and continues to have, a decisive impact on the perception of neoliberalism in Poland. After a transitional period of social-democratic governments (1993–1997) came a second massive wave of neoliberal changes triggered by another crisis, which lasted from 1997 to 2001. The two main external factors that led to the radical deterioration in macroeconomic conditions were the Asian crisis (1997) and the Russian crisis (1998) which – in simplified terms – were brought about by strong speculative attacks on the currencies of Russia and various Asian states and by the collapse of banking systems in those countries. Both these aspects drove individual countries in the region to the brink of bankruptcy, creating financial and economic turmoil on a global scale. Poland's Ministry of Finance was headed once again by Leszek Balcerowicz, who coordinated the state's financial policy. Apart from his plans for further privatization of state-run enterprises, which had been partially blocked by previous social-democratic governments, Balcerowicz introduced a whole range of neoliberal changes.

Neoliberal thinking is characterized by the conviction that during an economic downturn measures should be taken to deliberately reduce public spending, in order to avoid a dramatic deficit increase. This policy is commonly referred to as “cooling down the economy”. According to the policy authors, cuts in public spending are supposed to lead to a better budget management and enable the state to strike the right balance between inflows and outflows. As

<sup>14</sup> The author is invoking the following social policy models existing in Europe: the Nordic, the Continental, the Anglo-Saxon, and the Mediterranean model.

was the case with the first stage of the Polish transformation here too the tenets of the macroeconomic policy proved to be wrong. The annual GDP growth began to slow down, from 7.1% in 1997 to 1.1% in 2001.<sup>15</sup> On top, the unemployment rate soared: In 1998, there were 1.83 million people without a job, four years later – approximately 1.3 million more.<sup>16</sup> The implementation of specific economic and financial policies was accompanied by a number of state reforms which *de facto* provided for the decentralization or outsourcing of the state’s social obligations to its citizens.<sup>17</sup> Here I am referring specifically to the health service reform and the pension reform.

The establishment of the so-called “patients’ funds” within the Polish health-care system provided for a departure from a centrally financed health-care system; in its wake a mixed insurance scheme was created based on a combination of public and private sources. At the same time, the law on the establishment of non-public health-care facilities was liberalized, and a principle was introduced whereby, under the new scheme, money was to “follow the patient”. In lieu of one centralized health care financing system, 16 regional (provincial) branches were established, plus one dedicated to uniformed services. The “patients’ funds”, as they were called, got also tasked with signing contracts with public and non-public health-care providers regarding the so-called limits on medical procedures and admissions, aimed at preventing waste of money and health-care resources. This system continues to function in Poland until today, albeit in a slightly reformed shape. As a result, hospitals are

<sup>15</sup> Cf. Grzegorz W. Kołodko, *Sukces na dwie trzecie. Polska transformacja ustrojowa i lekcje na przyszłość* [A Two-thirds Rate of Success. Polish Transformation and Economic Development], [http://www.tiger.edu.pl/aktualnosci/gwk\\_Sukces\\_na\\_dwie\\_trzecie.pdf](http://www.tiger.edu.pl/aktualnosci/gwk_Sukces_na_dwie_trzecie.pdf), 14 (accessed: January 23, 2017).

<sup>16</sup> Cf. *Unemployment*, see note 4 above.

<sup>17</sup> I am referring here to the so-called “Four reforms program” introduced by Jerzy Buzek’s government which instituted significant changes in education, pensions, health care and the administrative division of the country. These reforms came into effect in 1999.

chronically insolvent, while doctors and other medical personnel are forced to deal with highly inadequate pay levels.

The key objective of the 1999 pension reform was to move away from a system based on intergenerational solidarity and from a central public institution acting as a guarantor of retirement benefits towards the so-called pillar system, popularly known as the Chilean pension system. In accordance with the objectives of the Polish reform, the first pillar – based on the Social Security Institution (ZUS) – receives a portion of contributions which are subject to indexation by the state, the second pillar – based on the private Open-End Pension Funds (the so-called OFE) – is tasked with investing contributions and accumulating them in individual accounts, and the third, non-compulsory pillar serves as a record of voluntary contributions deposited with banks or invested in funds or securities. Despite the intentions of its authors, the reform has failed. Not only has the second pillar failed to increase the savings of future pensioners, but they actually began to generate significant losses.<sup>18</sup> Furthermore, the OFE, which have the status of semi-public funds, are taken into account in the calculation of the government budget deficit. Thus, from the very outset of the reform, they inflated figures. In 1999, National Public Debt including the OFE amounted to 41.1% of GDP (40.7% excluding the OFE), in 2007 it represented 44.8% of GDP (33.4% excluding the OFE), and in 2011 it reached a record high of 53.4 % of GDP (36.3% excluding the OFE).<sup>19</sup> At present, the Polish government intends to nationalize

<sup>18</sup> A portion of the OFE capital was invested in very risky or even “toxic” assets, which simply disappeared from the market once the global economic and financial crisis broke out. In 2008 alone, up to PLN 30 billion may have been lost due to such investments. Cf. Leokadia Oręziak (in a conversation with Paweł Dybicz), *Koniec OFE?* [The end of the OFE?], <https://www.tygodnikprzeglad.pl/koniec-ofe-rozмова-prof-leokadia-oreziak/> (accessed: January 23, 2017).

<sup>19</sup> Cf. *Bezpieczeństwo dzięki zrównoważeniu. Synteza przeglądu funkcjonowania systemu emerytalnego* [Security through balance. A synthetic review of the pension system], 18, [http://www.mf.gov.pl/documents/764034/1159300/20130626\\_streszczenie.pdf](http://www.mf.gov.pl/documents/764034/1159300/20130626_streszczenie.pdf) (accessed: January 23, 2017).

a part of the capital accumulated by the OFE in order to reduce the budget deficit and to increase the security of future pension payments.

### **Island without a crisis?**

May 1<sup>st</sup> 2004 was a date of paramount importance for the Polish transformation. It was then that Poland joined the European Union, following many years of political, social, and economic reforms. In addition to geopolitical stability, Poland gained access to a sustainable system which allowed it to finance public tasks through EU funds. Many improvements were made, notably in the areas of infrastructure, agriculture and human capital investment. After 15 difficult years of its social, political, and economic transformation, Poland achieved one of the key goals of its foreign policy and entered the elite group of developed European countries. It looked as though the period of financial turmoil marked by the social costs of the transformation would give way to an era of rapid economic growth and significant improvements in the Human Development Index (HDI). Unfortunately, this was not to be the case. Another economic and financial crisis – this time initiated by the collapse of Lehman Brothers on September 15<sup>th</sup> 2008 – swept through the world and further consolidated the neoliberal political system in Poland.

While it is true that Poland is one of the few European Union countries that has not experienced a negative real GDP growth rate<sup>20</sup> during the current crisis, its social and political landscape is being affected by further neoliberal reforms under the banner of “austerity measures”. Since 2008, significant changes have been introduced in higher education and the pension system. They were

<sup>20</sup> In 2009, only two EU countries recorded economic growth: Poland (1.6%) and Romania (7.7%). Cf. *Real GDP growth rate – volume*, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115> (accessed: January 23, 2017).

motivated by the necessity to find budget savings and implement a “cost-effective state” policy.

As noted by Michał Syska, since 1989, Polish education has become an area of social life “where everything is determined through economic calculation.”<sup>21</sup> This is the most evident in a specific type of discourse that is used by schools<sup>22</sup> and that stresses the superiority of economic considerations<sup>23</sup> over the social role of educational institutions<sup>24</sup>. One effect of this change is that students are divided according to their ability, family background, financial situation or place of residence (city residents versus those commuting from farther away). This phenomenon, known as inter-school segregation<sup>25</sup>, is a peculiar type of socio-economical ghettoization that is taking place in the Polish education system. Other changes of a neoliberal nature occurring in the university system should be considered as a component of the overall education reform.<sup>26</sup>

In 2011, a bill was passed to reform the existing framework in which Polish universities had been operating. The main guidelines for

<sup>21</sup> Michał Syska, “Wstęp” [Introduction], in: Michał Syska (ed.), *Komercjalizacja edukacji. Konsekwencje i nowe zagrożenia* [Commercializing Education. Consequences and New Risks] (Wrocław–Warsaw, 2010), 8.

<sup>22</sup> Here I am referring especially to the inflated use of the term “human and social capital”.

<sup>23</sup> Competing for students, balancing budgets, rivalry within the school and between schools.

<sup>24</sup> Socialization, egalitarianism, social inclusion.

<sup>25</sup> Cf. Przemysław Sadura, *Raport Fundacji Amicus Europae. Szkoła i nierówności społeczne* [Report by the Amicus Europae Foundation. Schools and Social Inequalities] (Warsaw, 2012), 15–23.

<sup>26</sup> I am referring to the overlapping of two processes that have liberalized and commercialized Polish education: The introduction of a system comprising six years of elementary school, three years of middle school and three years of highschool, supplemented by a Bologna Process system consisting of a three-year cycle leading to Bachelor and a two-year cycle leading to a Master’s degree, followed by a third cycle (of three years) leading to a PhD qualification. The effects of these changes include competition among schools for students and a system of rankings and ratings of educational institutions, which are increasingly being likened to companies, while pupils/students are being treated as customers/buyers of knowledge, certificates, and diplomas. Cf. Sławimir Broniarz, “Zagrożenia wynikające z polityki edukacyjnej rządu z punktu widzenia związków zawodowych” [Risks arising from the Government’s education policy from the point of view of trade unions], in: Syska, 29–30.

those changes were laid down in *Strategia rozwoju szkolnictwa wyższego w Polsce do 2020 roku – drugi wariant* [A strategy for the development of higher education in Poland by 2020 – the second option]<sup>27</sup> prepared by Ernst & Young Business Advisory and Instytut Badań nad Gospodarką Rynkową [The Institute for Market Research].<sup>28</sup> Both the report and the ensuing changes reshaped the logic of the Polish academia. Currently, the main emphasis is on the need to obtain external funding for university research. This means raising funds and research grants from private sources. According to the lawmakers, this will prove the resourcefulness and effectiveness of young, independent researchers. Furthermore, universities will have to ensure that students are adequately prepared for the realities of the job market. The view of the legislators is that effective managers, as well as engineers, are more desirable as a product of education than graduates with degrees in humanities or social sciences who are capable of critical thinking.<sup>29</sup> The economization of the results of higher education, currently being witnessed in Poland, does not merely affect students. It also has an impact on faculty members. One example is the official encouragement from the Ministry of Science and Higher Education for researchers to develop spin-offs in order to commercialize research results.<sup>30</sup> The changes also affect the

<sup>27</sup> [http://www.nauka.gov.pl/g2/oryginal/2013\\_05/59579f9e6efaec82014d6d5be081ca23.pdf](http://www.nauka.gov.pl/g2/oryginal/2013_05/59579f9e6efaec82014d6d5be081ca23.pdf) (accessed: January 23, 2017).

<sup>28</sup> It seems quite symptomatic that the main objectives of the reform were developed by a transnational corporation and a pro-free market think tank.

<sup>29</sup> Even the Polish Prime Minister Donald Tusk expressed his approval of this strategy. In rather blunt terms he stated: “We have numerous political scientists, but there are no jobs for them. But we have far too few welders. It is better to be a well-remunerated welder than an unemployed social science graduate, even if some would not take as much pride in it.” Cf. “Tusk: Lepiej być pracującym spawaczem, niż politologiem bez pracy” [Tusk: It is better to be a well-remunerated welder than an unemployed social science graduate], [http://wiadomosci.gazeta.pl/wiadomosci/1,114873,12667925,Tusk\\_\\_Lepiej\\_byc\\_pracujacym\\_spawaczem\\_\\_niz\\_politologiem.html](http://wiadomosci.gazeta.pl/wiadomosci/1,114873,12667925,Tusk__Lepiej_byc_pracujacym_spawaczem__niz_politologiem.html) (accessed: January 23, 2017).

<sup>30</sup> Cf. *Reforma szkolnictwa wyższego* [Higher Education Reform], [http://www.nauka.gov.pl/g2/oryginal/2013\\_05/c206c1142bb1abce72e45bb9a3a3929e.pdf](http://www.nauka.gov.pl/g2/oryginal/2013_05/c206c1142bb1abce72e45bb9a3a3929e.pdf) (accessed: January 23, 2017).

very philosophy behind the functioning of universities. Values such as flexibility, competition and a project-based approach<sup>31</sup> are being extolled and seem to be replacing the chief functions of the university, i.e. the pursuit of truth, the fostering of critical thinking and the equalization of opportunities. This is an almost textbook example of how the principles of community and accessibility of public goods are being eroded by the neoliberal ideology.

Returning to the subject of pension laws, May 11<sup>th</sup> 2012 was a noteworthy date. It was then that the Polish Parliament passed a law which not only raised the retirement age to 67 but also made it equal for men and women. Aside from an economic motif, i.e. the need to reduce the state's social liabilities to its citizens, legislators argued that raising retirement age would enable people to work longer, that it would contribute to sustainable economic development and help everyone obtain higher pension benefits.<sup>32</sup> The alternative solution, namely an increase in taxes and pension contributions, was equated by the Prime Minister's Office with slower economic growth, higher labor costs, fewer jobs and lower wages.<sup>33</sup> Thus, one can see that even official state documents use the blunt arguments of neoliberal economics claiming that there is a simple relationship between low taxes and an alleged economic recovery.<sup>34</sup> Another

<sup>31</sup> Cf. Krzysztof Gubanski, "Reformy szkolnictwa wyższego – rewolucja czy zmiana fasadowa?" [Higher Education Reforms – A Revolution or a Superficial Change?], <http://krytyka.org/reformy-szkolnictwa-wyzszego-rewolucja-czy-zmiana-fasadowa/> (accessed: January 23, 2017).

<sup>32</sup> Cf. *Zrównanie i podniesienie wieku emerytalnego. Materiał informacyjny – rozszerzony i uzupełniony* [Equalisation and Raising of the Retirement Age. Information Material – Extended and Supplemented] <http://emerytura.gov.pl/upload/emerytury-prezentacja-2012-02-23.pdf> (accessed: January 23, 2017).

<sup>33</sup> Cf. *ibid.*

<sup>34</sup> This line of thinking has no basis in reality. In their studies, Jon Bakija and Joel Slemrod have shown that in numerous cases high taxes did not translate into slower GDP growth or lower productivity. Cf. Jon Bakija and Joel Slemrod, "Podatki a dobrobyt" [Taxes versus prosperity] in: *Podatki. Przewodnik Krytyki Poitycznej*, [Taxes. A Guide by Krytyka Polityczna] (Warsaw, 2011), 30–75.

important issue was the attitude displayed by the government and the parliamentary majority towards the trade unions, which objected to the aforementioned changes for obvious reasons. When Solidarity's proposal to hold a nationwide referendum on the increase in the retirement age<sup>35</sup> was rejected by the Parliament, Prime Minister Tusk uttered the following words to Solidarity's Chairman, Piotr Duda, during a parliamentary discussion: "To be honest, if I were you, I would be ashamed to undertake such trivial tasks. I don't think that you were elected the leader of Solidarity to take on tasks that could actually be done by a schoolboy, as they are the easiest thing that can be done."<sup>36</sup> It is thus evident that the discourse used by Polish politicians is symbolically hostile towards the representatives of the working people, while the activity of trade unions is considered to be something unnecessary, inhibitory to the „natural” development of free-market politics.

### **There Was No Alternative?**

Thus, the question that should be asked is whether the reforms, which provoked and perpetuated three socio-economic crises, were worth it. Was there really no alternative, as Margaret Thatcher would have put it, to the neoliberal socio-economic reforms? Did Poland's economic policy after 1989 really contribute to the growth of the country's economy? The above-mentioned reforms should also be viewed in the context of global changes in economic ideas and the intellectual fashion that prevailed worldwide prior to the 2008 crisis.

The economic and political transformation in Central and Eastern European countries, including Poland, coincided with a specific

<sup>35</sup> The proposal had the support of one million Poles.

<sup>36</sup> *Sprawozdanie Stenograficzne z 11. posiedzenia Sejmu Rzeczypospolitej Polskiej w dniu 30 marca 2012 r. (trzeci dzień obrad)* [Shorthand Minutes of the 11<sup>th</sup> Session of the Lower House of the Polish Parliament of 30 March 2012 (Day Three of the Session)], [http://orka2.sejm.gov.pl/StenoInter7.nsf/0/BE813182C6BC905EC12579D1007C1A79/%24File/11\\_c\\_ksiazka.pdf](http://orka2.sejm.gov.pl/StenoInter7.nsf/0/BE813182C6BC905EC12579D1007C1A79/%24File/11_c_ksiazka.pdf) (accessed: January 23, 2017).

period in the world's history. After the 1973 oil crisis, the broadly defined tradition of Keynesian economics, of state interventionism and the welfare state started to lose its appeal. Most democratic countries began to pin their hopes on neoliberal economists, even though their recipes had previously borne all the hallmarks of economic theories that could be taught at universities rather than discussed as viable action plans in the offices of policy-makers. The ideology behind free-market reforms harmonized with anti-socialist sentiments in Western countries.<sup>37</sup> This trend became much more prominent when Ronald Reagan and Margaret Thatcher came to power in the USA and the UK. Thus, in a symbolic, political, and economic sense, Poland's Solidarity revolution, which was not originally intended as an anti-socialist movement, gave in to the influence of the neoliberal revolution in the United States and the United Kingdom<sup>38</sup>. Not only did the collapse of real socialism in Eastern and Central Europe become a symbolic victory of the right-wing neoliberal forces over an avowedly leftist regime but, more importantly, it created ideal conditions for neoliberal capitalism to spread to countries which had never experienced the radical practices of a free market.<sup>39</sup> Thus, one can see that the major global trends in political and economic thinking were supportive of the neoliberal strategy, while alternative scenarios were perceived as not very serious, untested, or politically naive.

<sup>37</sup> For instance, the book *Free to Choose* co-authored by Milton Friedman, the 1976 Nobel Prize Laureate in economics, became a flagship title combining these two elements. Cf. Milton Friedman and Rose Friedman, *Free to Choose: A Personal Statement* (New York-London, 1980).

<sup>38</sup> Even today for many Poles these two politicians are icons of freedom and allies of the democratic movement in Poland and other Central and Eastern European countries. The Ronald Reagan Monument in Warsaw and plans to name a roundabout in the center of Warsaw after Margaret Thatcher are but two examples of this prevailing opinion.

<sup>39</sup> It is worth noting that the inter-war period was characterized by a significant economic role of the Polish state, which pursued a policy of state interventionism and of large-scale social investments. Examples of this include the construction of the port in Gdynia and the Central Industrial District in the Świętokrzyskie, Podkarpackie, Lubelskie, Małopolskie and – partly – Mazowieckie provinces.

Poland's political and academic circles did, however, offer certain alternatives to the post-1989 changes. In particular, one should mention Tadeusz Kowalik, an implacable opponent of neoliberal changes. His main objections, which expose the realities of post-transformation Poland, are worth looking at: "We simply could not conceal 'the ugly face of the Polish transformation' any longer and keep on ignoring the question: who are the beneficiaries of this growth? They are certainly in a minority. Only half of the working-age population is employed. Only one-in-eight people registered as unemployed are claiming unemployment benefits. Prior to the exodus to the West, over 40% of young people were out of work. There was and still is no cheap housing for them. Half of the unemployed have been jobless for longer than a year. Trade unions have been eliminated from 75% of the economy and have been almost completely eradicated in the private sector, with the passive complicity of the authorities. No wonder then that over a half of the surveyed companies fell behind on the payment of wages, often for several months – a practice referred to by the Polish pope as 'an outrageous sin'. For ten years now, the number of people living in extreme poverty (below or close to the minimum subsistence level, sometimes referred to as the biological minimum) has been growing at an unprecedented pace. Between 1996 and 2005, their number almost tripled (from 4.3% to 12.3%). Nearly 2/3 of our society lives at or close to poverty line. All this coincides with a 1/3 increase in the GDP. Between one and two million children are undernourished or starving."<sup>40</sup>

Tadeusz Kowalik acknowledges that the changes introduced in Poland were highly innovative and could not be based on pre-existing models or patterns. He points out, however, that some post-communist countries chose a different path of reforms, facing not only the collapse of the socialist system but also of their statehood.

<sup>40</sup> Tadeusz Kowalik, "Transformation in Poland and Liberal Orientations", *Ekonomista*, 6 (2007), 784.

He was referring especially to Slovenia, which – in his view – resisted the “shock operation”<sup>41</sup> and opted for a different approach to reforms. In addition, Kowalik accused the authors of “The Balcerowicz Plan” of not having had the expertise necessary to predict its consequences: “I also object to the claim that the costs were underestimated because of the pioneering nature [of the reforms] (“This is inevitable when you take a road that has never been travelled before”). Indeed, it is inevitable, but what I mean is the sheer extent of that underestimation. If it amounts to several hundred percent, it puts into question the professionalism of the authors of the plan, especially when compared with the famous three-year plan of Czesław Bobrowski, who also walked an untraveled path, and yet managed to create the most accurately executed plan in the history of the People’s Republic of Poland.”<sup>42</sup>

Alternative solutions are not the exclusive domain of Polish economists. As early as in 1990, Joseph E. Stiglitz, a Nobel Prize Laureate in economics, saw an opportunity to create a system of “egalitarian ownership” in the post-communist countries. He noted that the rejection of real socialism was not based merely on the economic inefficiency of the planned economy, but, above all, on the lack of political acceptance for a system that was alien and imposed by a foreign power.<sup>43</sup> Stiglitz warned against a total rejection of socialist ideas, pointing to a “third way” between neoliberal capitalism and the authoritarian, centrally-planned socialist model, i.e. the idea of market socialism,<sup>44</sup> even though he stated that “democratic market socialism has never really been tried.”<sup>45</sup>

<sup>41</sup> Cf. Kowalik, 789.

<sup>42</sup> Ibid.

<sup>43</sup> Cf. Joseph E. Stiglitz, *Whither Socialism* (Cambridge–Massachusetts–London, 1994), 3.

<sup>44</sup> Cf. Stiglitz, 2. Stiglitz ironically remarks: „Indeed not all of the former socialist countries are fully committed to having market economies. Some are discussing a third way, but critics dismiss it as impossible – as the matter is commonly put, you can’t be a little bit pregnant.” Ibid.

<sup>45</sup> Ibid.

Stiglitz noted that the popularity of neoliberal concepts might have been based on the experience of Marxism–Leninism. He stated that “both are driven by religious fervor, not rational analysis”<sup>46</sup> and that Milton Friedman’s books and articles were received with great enthusiasm in the collapsing Soviet Union even before anyone had actually read them<sup>47</sup>.

Let me focus on the concept of market socialism, pioneered by the Czech economist Ota Šik and the Polish politician and professor of economics Oskar Lange. Stiglitz describes it as a system that is primarily based on state ownership, but with prices determined by the market. Being the main determinant of a company’s economic growth, profit has to be maximized regardless of the form of ownership. In other words, managers in state-owned companies engage in competition to improve the situation of their enterprise. Thus, in what way is market socialism different from a market economy? According to Stiglitz, the main difference lies in the way the companies’ net profits are distributed: “The fact that capital is owned by the government means that rather than shareholders receiving dividend checks (representing the ‘profits’ of the firm), the dividends are sent to the government.”<sup>48</sup>

Kowalik, saw yet another path for an alternative economic transformation. I am referring here to the so-called “Swedish Report” prepared by the Consultative Economic Council (an official advisory body to the Council of Ministers) at the beginning of 1989, i.e. at the outset of the Polish transformation. A research group was tasked with preparing a special report evaluating the possibility of implementing the Scandinavian capitalist model. It should be noted, firstly, that “the Swedish economy operates under stringent efficiency requirements imposed by the international market”<sup>49</sup> and, secondly, that “enormous restructuring programs, such as the liqui-

<sup>46</sup> Ibid., 3.

<sup>47</sup> Cf. *ibid.*

<sup>48</sup> Ibid., 9.

<sup>49</sup> Kowalik, 110.

dation of virtually the entire shipbuilding industry... are being implemented there without social unrest, despite the fact that trade unions are still quite powerful.”<sup>50</sup> According to the report, the cooperation of the Swedish government and trade unions made it possible to develop the so-called active employment policy, ensuring permanent assistance in job-seeking for those who lost their jobs as a result of the liquidation of various sectors of the Swedish industry. Thus, the painful reforms that awaited the Polish economy in 1989 could have drawn on the experience of the Swedish combination of economic radicalism and social solidarity.<sup>51</sup> In his account of the Scandinavian program of economic reforms, Kowalik described another wasted opportunity for the Polish transformation – one that almost brought about its collapse as a result of the neoliberal reforms: “Paying particular attention to industrial policy, and especially to the restructuring of old industries, the authors developed special annexes devoted to the consensual restructuring of two industries: steel and shipbuilding. Thus, one can argue that they maintained a reasonable balance between describing the political principles of the Swedish economy and addressing the burning, pragmatic issues that, nonetheless, stemmed from systemic circumstances.”<sup>52</sup>

Apart from the above-mentioned concept of market socialism and the Swedish transformation model, there were also other models that could have been used as an alternative to the Polish transformation after 1989. An accurate recapitulation of the main principles of such models is certainly beyond the scope of this article, but mention should be made to two very important titles referenced by Kowalik, i.e. *The Road to a Free Economy*<sup>53</sup> by the Hungarian economist Janos Kornai and *From Marx to the Market* by Włodzimierz

<sup>50</sup> Ibid.

<sup>51</sup> Cf. Kowalik, 111.

<sup>52</sup> Ibid., 111–112.

<sup>53</sup> Cf. Janos Kornai, *Druga do wolnej gospodarki* [The Road to a Free Economy] (Warsaw, 1991).

Brus and Kazimierz Łaski<sup>54</sup>. Even though the views presented in those books are not identical, as they come from two completely different perspectives (Hungarian and Polish), both works focus on the ownership aspects of transformation in post-socialist countries.<sup>55</sup> Both Kornai and Brus-Łaski opposed radical privatization and the sell-off of state-owned companies, while advocating gradual, evolutionary changes that would determine the shape of the mixed economy depending on both external factors and internal macroeconomic circumstances.<sup>56</sup> It should be noted that both works, whose first editions were published in 1989, have been completely ignored by the authors of the neoliberal economic transformation in Poland.

### **Neoliberal post-scriptum**

In an attempt to conclude this article, I would like to note that the future of neoliberal politics in Poland is not fully known. Science does not deal with predicting the future. If anything, it can make conjectures about plausible solutions and scenarios. In this context, an open question could be asked about a certain historical analogy with the 1989 breakthrough. Today, 25 years after those events, global public opinion and the elite are showing bitter resentment against the intellectual hegemony of neoliberal ideas. It seems rather symbolic that the co-author of radical market reforms in Poland, Jeffrey Sachs, has now become an implacable opponent of neoliberal globalization and officially supports the alter-globalist “Occupy” movement. Likewise, the creators of rea-

<sup>54</sup> Cf. Włodzimierz Brus and Kazimierz Łaski, *Od Marksza do rynku* [From Marx to the Market] (Warsaw, 1992).

<sup>55</sup> The authors of both works championed the concept of mixed economy and the opening up of markets after 1989, but were almost completely against the practice of introducing reforms on a no-holds-barred basis, which Grzegorz W. Kołodko referred to as “shock without therapy”.

<sup>56</sup> Cf. Kowalik, 114–115.

ganomics<sup>57</sup> are now asserting that the economic solution which they used to promote produced lamentable results. Paul Craig Roberts, one of its architects, has stated: “I feel ashamed about neoliberalism. This incredibly pathological cult of the free market took Western economies, including the USA, down a path of self-destruction.”<sup>58</sup> Roberts believes that the fall of the Soviet Union, and the ensuing explosion of globalization, as well as the ability to allocate capital and jobs in a quick and cost-effective manner, triggered a downward spiral, which “reached the very bottom” in terms of the quality of work, wages and the extent of outsourcing.<sup>59</sup> He also claims that neoliberalism helped to ideologize and corrupt the science of economics. This is how Roberts describes this process: “Big capital simply bought the American economist class. It turned economists into its lobbyists. It created a network of research grants, think tanks. Some economists simply walked into business, joining the boards of finance companies. In the 1990s and early 2000s, economics stopped being a science. It became propaganda.”<sup>60</sup>

The collapse of neoliberal capitalism in 2008 also left its mark on the Polish champions of privatization who had been extolling the free market. It is widely known that neoliberal ideas were particularly popular with the anti-communist opposition. It seemed only natural to treat anything that stood in direct opposition to the ideas of Marxism-Leninism as something not only desirable, but also useful. People like Leszek Balcerowicz, already mentioned in this article, but also Prime Ministers Jan Krzysztof Bielecki and Donald Tusk were staunch advocates of putting Hayek’s or Friedman’s ideas

<sup>57</sup> A term used for the neoliberal supply-side policy practiced during Ronald Reagan’s presidency.

<sup>58</sup> Paul Craig Roberts (in a conversation with Rafał Woś), *Neoliberalizm wprowadził zachodnie gospodarki na ścieżkę samozniszczenia* [Neoliberalism Took Western Economies Down a Path of Self-Destruction] <http://forsal.pl/artykuly/774500,paul-craig-roberts-neoliberalizm-wprowadzil-zachodnie-gospodarki-na-sciezke-samozniszczenia.html> (accessed: January 23, 2017).

<sup>59</sup> Cf. *ibid.*

<sup>60</sup> *Ibid.*

into practice. Their beliefs were reinforced by certain intellectuals associated with Solidarity who urged the political elite of the main democratic force in Poland and in Central and Eastern Europe to adopt neoliberal ideas as their political agenda. One of them was Marcin Król, a historian of ideas, who recently gave a very sincere and surprising interview. In it, he stated: “We were stupid. In the 1980s, we enthusiastically embraced the neoliberal ideology. Indeed, I played a part in this, I preached it to Tusk, Bielecki, the whole Gdańsk circle. I would tirelessly shove Hayek’s essays at them... I realized that liberalism was starting to be dominated by an element of individualism that was gradually supplanting other important values and killing the sense of community. This is actually easy to explain. Individualism is strongly backed by free-market forces that make their money by following an individualistic model of life. In contrast, social and civic values, solidarity and co-operation, cannot rely on such support. They are ‘inefficient’ from the point of view of economics.”<sup>61</sup> This confession is quite symptomatic, seeing as it was delivered in 2014, almost six years after the fall of Lehmann Brothers. Thus, we can see that our intellectual elite, who previously advocated deregulation, privatization, and social cuts, are taking more time to admit that they were wrong thanks to their counterparts in the United States – the cradle of free-market solutions. In conclusion, it is worth asking whether more such confessions will be made in the coming years, and if the intellectual fashion for self-accusation and repentance will have a measurable impact on our socio-economic policies. If the answer is “yes”, then John Maynard Keynes was right to claim that “the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than it is commonly understood.”<sup>62</sup>

<sup>61</sup> Marcin Król (in a conversation with Grzegorz Sroczyński), *Byliśmy głupi* [We Were Stupid], [http://wyborcza.pl/magazyn/1,136528,15414610,Bylismy\\_glupi.html](http://wyborcza.pl/magazyn/1,136528,15414610,Bylismy_glupi.html) (accessed: January 23, 2017).

<sup>62</sup> John Maynard Keynes, *The General Theory of Employment, Interest and Money* (New York, 1936), 383.

The analyzed phenomenon of ideology-driven reforms, which has a serious impact on the Polish labor market, had also an important political implication. The march of populist parties since the very beginning of the transition was associated not only with the rejection of the radical vision of a free market policy, but also with undermining many of the fundamental principles of liberal democracy. Disagreement on constitutional separation of powers, independence of the judiciary and the public media, using state institutions as a tool of the political struggle – these are all examples of illiberal trends that we are now witnessing in Poland and other Central European states. It is worth remembering the source of these alarming trends, because as shown by recent events history could repeat itself.

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## Streszczenie

### **Kryzys ekonomiczny jako czynnik utrwalający politykę neoliberalną w Polsce**

Celem artykułu jest ukazanie, w jakim stopniu trzy główne kryzysy ekonomiczne (transformacyjny 1989 roku, azjatycki (1997)/rosyjski (1998) oraz finansowy 2008 roku) wpływały na utrwalanie neoliberalnej polityki w Polsce. Autor zarysowuje polityczny kontekst wolnorynkowych reform w Polsce, argumentację używaną przez liberalne elity, które po dziś dzień są głównymi zwolennikami analizowanej hegemonii. W artykule znajdują się także alternatywne scenariusze rozwoju społeczno-ekonomicznego w Polsce po upadku socjalizmu. Całość rozważań może stanowić podstawę do dalszych dyskusji nad źródłem popularności ugrupowań nieliberalnych w Polsce i Europie Środkowej.

Słowa kluczowe: neoliberalizm, kapitalizm, demokracja, kryzys