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A CENTURY OF POLISH ECONOMIC POLICY

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Abstract

The economic policy of Polish governments changed but can be broadly divided into two groups. The first encompassed periods when Polish policy belonged to a widely-defined world mainstream. The second – those when Polish governments attempted alternatives to the mainstream, looking for various ways of “taking a shortcut”. In general, the first group helped economic development, the second hindered it, isolating the country from the world economy. The first group included the entire interwar period, when autarchic tendencies were mainstream, as well as the years 1944–1947 and 1989–2015.

Keywords: the Second Polish Republic, the Polish People’s Republic, the Third Polish Republic, economic policy, economics

1. The times of the Second Polish Republic

The challenges facing the authorities at the threshold of independence were serious. We shared some of them: inflation, war destruction and war losses, pauperization of the society with other countries of Europe. Others were specific to Poland. One of the latter resulted from the unification of several economic regions hitherto operating in a different economic environment. Another stemmed from the decapitalization of the Polish economy. What constituted an additional difficulty in coping with these challenges was the fact that until the end of 1920 Poland had been fighting a war and was unable to commence reconstruction until 1921. Yet, the war was only a temporary problem. In later years the economic policy of the government had to face a few challenges: unification, macroeconomic stabilization, capital rebuilding

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and conquering new markets, expanding simultaneously the domestic market. The later was linked to the agrarian reform. There was an evident need to modernize the country, understood as its industrialization. We are going to discuss them all in turn.

Unification was simple and obvious in some areas. It was necessary to integrate the transportation network, build the missing fragments of railway lines, make the rail tracks spread uniform, introduce right-hand traffic (in Galicia it was left-hand sided), etc. These were the simplest tasks. The more difficult, yet inevitable and urgent included, for instance, the unification of the currency. It was conducted on the basis of the Polish mark, issued by the Polish National Loan Bank. In its assumption it was meant to be temporary because already in February 1919 a decision was made that in the future the issuing institution would bear the name of the Polish Bank and the future currency – the zloty. The subtlety and sensitivity of the currency unification issues stemmed from the fact that unification had to take into account the interests of the population of the regions which had hitherto used another currency so that they would not feel discriminated against. The Polish state succeeded in this task. The unification of law, including such sensitive areas as, for instance, social legislation, was by far the most difficult. Here, the successes were fragmentary and spread in time. The principal difficulty had its roots in the fact that individual partition sectors had their own systems of privileges, often costly for the budget. People treated them as their vested rights and would consider their cancellation discriminative. On the other hand, were those privileges to be extended to cover the whole country, it would ruin public finances. Socially painless unification would have had to be based on making the clause of the highest privilege common which would have been beyond the country's means. In that situation, the most reasonable solution was to delay the operation until later.

The years 1926–1929 were most favourable for unification processes. In the interwar period, those were the years of the best market situation accompanied by the post-May political stabilization, while the changes made to the constitution in summer 1926, which gave the president the right to issue decrees with the power of a law, simplified the legislative process. Those years witnessed the unification of bank law, law on joint stock companies, industrial law, insurance law, labour law, the rules of the operation of rural chambers or industrial-trade chambers, etc. The action lost its momentum in spring 1929 when its main animator, Treasury Minister Gabriel Czechowicz was called to the State Tribunal with the accusation of having used public money for party purposes. He was not convicted but he did not return to his post. The crisis, which broke out immediately afterwards, did not favour any core reforms. What was not completed, among others, were advanced preparations for the unification of taxation rules. The unification process was also subject to political limitations. Under the Geneva convention of 1922, the Silesian voivodeship had legal separateness guaranteed for 15 years. The unification was not treated as a superior and indisputable goal which was to be implemented irrespective of costs. Consequently, it proceeded gradually in a reasonable way.

Macroeconomic stabilization in the first years required, first and foremost, recovery from inflation. Władysław Grabski's attempts in the first half of 1920 failed because of the escalation of the war. Another serious attempt at stabilization was undertaken by Jerzy Michalski, Treasury Minister from September 1921 to June 1922. He succeeded in freezing inflation for almost a year. Yet, the final success of stabilization depended on the PPS support and socialists still found inflation a lesser problem than the post-stabilization crisis. At the beginning of 1922, Grabski was appointed Treasury Minister for the second time with a programme of restoring budget balance to be followed by a currency reform. Budget equilibrium was to be based on property tax, the valorisation of the existing taxes to the Swiss franc exchange rate and budget economies, in particular in the railroad sector. The establishment of the Chjeno-Piast government in spring 1923 delayed the implementation of those plans. In autumn 1923 Poland plunged in hyperinflation. In December 1923 Grabski became for the third time Treasury Minister, and simultaneously head of the government. The reforms[1] carried out in spring 1924 restored budget equilibrium and a solid monetary system. Unlike other stabilization reforms made at that time, the Polish reforms were carried out solely and exclusively on the basis of domestic resources, without foreign aid. This was dictated by the political situation. In the period prior to the conference in Locarno, Europe had been seeking understanding with Germany, even at the cost of a revision of borders. There was a serious danger that financial assistance to Poland would at that time have border revision as its condition.

Stabilization was accompanied by an inevitable post-stabilization crisis. Its impact was further aggravated by the Polish-German customs war which broke out in 1925. It brought about a collapse of the zloty, a banking crisis and the so-called second inflation. In view of those developments, the government of Grabski stepped down. New stabilization was authored by the government of Aleksander Skrzyński.[2] The advantages resulting from the improvement of market conditions, which took place at the beginning of 1926, benefited also the 'Sanation' (Polish political movement in the interwar period) which undersigned also the so-called second stabilization phase approved and initiated in autumn 1927. This time, in a different political situation,

1 Cf. Classic monograph: J. Tomaszewski, *Stabilizacja waluty w Polsce. Zbadań nad polityką gospodarczą rządu polskiego przed zamachem majowym,* Książka i Wiedza, Warszawa 1961.

2 The second inflation and its consequences is the topic of the study: W. Morawski, *Polityka gospodarcza rządu Aleksandra Skrzyńskiego,* PWN, Warszawa 1990.

Poland received substantial financial assistance from Great Britain and the United States of America. The years 1926–1929 were a period of better economic conditions in the history of the Second Polish Republic.[3]

The great crisis of the 1930s undermined the great stabilization effort. Overcautious and fearing a recurrence of inflation, the Polish authorities pursued a conservative fiscal and monetary policy.[4] Hence, among others, Poland's participation in the gold bloc – a grouping of countries headed by France, which did not suspend the convertibility of their currencies to gold during the crisis and did not devalue them. This did not change also after 1935, in the period of state interventionism. The construction of the Central Industrial Region was not accompanied by budget deficits. Monetary policy was relaxed only in the first months of 1939 in the direct threat of war and had no time to produce inflationary phenomena.

Reconstruction of capital became a priority after WWI. The war, the Russian revolution and then inflation brought about deep decapitalization of the economy. Initially, some hope was linked to the possible flow to the Polish market of French capital which seemed to follow political involvement. Soon, however, those hopes proved vain due to the internal problems experienced by France. Nonetheless, the attraction of foreign capital was perceived as the only solution. Grabski believed that foreign banks serving short-term credit could become an instrument of attracting foreign capital to Poland with public banking seeing to the reconstruction of long-term credit. That is why he organized public banking basing it on three pillars: on the one hand, Pocztowa Kasa Oszczędności (the Post Office Savings Bank), collecting deposits from the population, and, on the other, Państwowy Bank Rolny (the National Agricultural Bank) and Bank Gospodarstwa Krajowego (the National Economy Bank), providing the economy with long-term credit. Meanwhile, in September 1925 commercial banks experienced the shock of the post-stabilization crisis but later regained their good condition and in the second half of the 1920s began to play the role of a channel for the flow of foreign capital. In order to lure the capital, the Polish government tended to give excessive privileges. Political diversification of the attitude to the capital constituted another problem. Capital from friendly countries was welcome, while German capital viewed with reluctance. This led to a situation in which German capital tried to enter Poland under another flag. In the political situation of those days this must have been inevitable but generated pathological situations.

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[3] The economic policy in the first years of the 'Sanation' government is discussed in two classic positions: Z. Landau, *Plan stabilizacyjny 1927–1930. Geneza, założenia, wyniki,* Książa i Wiedza, Warszawa 1963 and M. Łapa, *Modernizacja państwa, Polska polityka gospodarcza 1926–1929,* Ibidem, Łódź 2002.

[4] Z. Knakiewicz, *Deflacja polska 1930–1935,* PWE, Warszawa 1967.

The shortage of capital entailed high interest rates. After the currency stabilization, the government fought with the so-called ‘too high cost of capital’. Hence, the interest rate controls and the anti-usurious legislation. There were, however, obvious negative consequences. Firstly, it made it more difficult to attract foreign capital. Secondly, the distribution of credit was made according to non-economic criteria because interest rates failed to balance the demand for and the supply with credit. Inevitably, this favoured the proliferation of broadly understood corruption.

The great crisis brought about tremendous regression in international capital markets. Although it is commonly believed that capital has no homeland but is governed by the optimization of risk and profit, it was nevertheless noted that in difficult times capital tends to repatriate, i.e. to return to the country of origin. What it meant for Poland was a massive outflow of the capital the country had succeeded to attract in the years prior to the great crisis. This could only deepen the crisis in the Polish economy. As there was practically no Polish capital, the only solution was state support for the threatened firms. That, in turn, led to a natural massive growth of the public sector. A large public comglomerate BGK began to grow around Bank Gospodarstwa Krajowego (the National Economy Bank).

This gave rise to a conservative monetary policy.[5] In the crisis years it was meant to convince foreign capital that the Polish economy was reliable and in good shape. For sure, it failed to make this impression. In the second half of the 1930s, its purpose changed a little. Now, the aim was to perpetuate the confidence of the Polish society to the zloty and to hush fears of a return of inflation. It was intended to overcome the tendency toward hoarding and accumulation. The population was believed to have substantial capital resources which while hoarded, remained outside of the flow of economic life. The increase of confidence was to break the trends and persuade people to deposit their funds in banks. Those were the factors which determined the result of the stormy discussion which took place in Poland in the spring of 1936 after the collapse of the gold bloc. Col, Adam Koc, President of Bank Polski (the Polish Bank) believed that Poland should devalue its currency, suspend the convertibility to gold and join the sterling bloc headed by Great Britain. Eugeniusz Kwiatkowski, Minister of Treasury and the Deputy Prime Minister, believed that the zloty should not be devalued and that it was enough to introduce foreign currency rationing. Kwiatkowski won the controversy and to the end the zloty remained one of the strongest European currencies. Positive consequences of those decisions were

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[5] C. Leszczyńska, *Polska polityka pieniężna i walutowa w latach 1924–1936,* Wydawnictwo UW, Warszawa 2013.

clearly visible in the late 1930s[6]. Simultaneously, the growth of the public sector, initially natural and spontaneous, began to gain more and more adherents and become a dominant view with the passage of time.

Search for new markets. The new shape of Polish borders demanded market reorientation. In some sectors the process of losing the markets of invader countries had already begun before 1914. In the 1990s of the 19th century, Łódź began to face the competition of the Moscow textile industry and lose eastern markets. The oil industry of Galicia had its best years in the first decade of the 20th century. Yet, sometimes, the rupture of trade ties generated serious perturbations. The strong agriculture of the Prussian partition sector producing for the German market was not only cut off from it but forced to face the competition of other regions of Poland which, while less efficient, produced at much lower costs. The mining and steel production of Upper Silesia was cut off from German markets – after 1922 mildly and in 1925 radically. In that situation, finding alternative markets was the matter of life or death. Polish coal found new markets in Scandinavia owing to the strike of British miners in 1926. The good market conditions in the textile industry did not return but inroads were made into a few very exotic markets such as China, India or the Republic of South Africa. In 1927, a new idea was born to create a grain bloc and to restore the traditional division of Europe into the industrial west and the agricultural east, which could mean a chance of produce export. Finally, however, the proposal was rejected both on the European level (the conference in Geneva) and on the domestic level. Poland decided to industrialize the country rather than to strengthen its agricultural character. In the years of the great crisis, export was promoted at all costs, resorting, among others, to dumping. In spite of all the efforts, the volume of exports shrank steadily. Foreign exchange rationing proved favourable, in particular in the trade with Germany. Nevertheless, in the second half of the 1930s, in view of growing autarkic tendencies, the importance of the domestic market increased. The latter grew, among others, owing to the intensive promotion of motorization. The agrarian reform could also contribute to the expansion of the domestic markets but the determinants and conditions in this respect were much more complex.

The problem of the agrarian reform was crucial in a number of aspects. On the one hand, there were large landholdings and, on the other, the overpopulated rural areas with hidden unemployment. A significant part of the society viewed the reform as a manifestation of social justice. The increase in farmers' wealth would favour the expansion of the domestic market and stabilize market conditions. On the other hand,

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6 Comp. J. Skiba, *Reglamentacja dewizowa w Polsce w latach 1936–1939,* unpublished PhD thesis in the library of SGH Warsaw School of Ecomomics, Warszawa 2016.

opponents of the reform argued that large farms were more productive. What made the matter yet more complex was the social and national structure in the Eastern Borderlands, where a radical reform would inevitably narrow the Polish holdings. On the threshold of independence, in 1919, the Sejm signalled the intention to carry out the reform. It took the form of a resolution and thus the act was not legally binding. In 1920, in the face of the Soviet invasion, the resolution of the year before was put in force becoming a law and thus the reform became effective. When it turned out that Poland not only did not lose the war but in addition captured the Eastern Borderlands, the regulation was complemented with a law on soldier settlements. In accordance with it, priority in the allotment of land was given not so much to local farmers as to merited military men. In the intention of the authors, it was meant to ease ethnic consequences of ownership changes, yet in reality, it became a source of tensions and conflicts.

The law of 1920 foresaw a 50% compensation for disowned landowners. In 1921, a constitution was passed which provided for the inviolability of ownership and for 100% compensation in necessary cases. In this situation, the law on the agrarian reform became ineffective as non-compliant with the constitution. The subject was reverted to in 1923 when the PSL 'Piast' (the Polish Farmers' Party in the interwar Poland), entering into a coalition with the right-wing, negotiated the rules of a very moderate reform. It was to be gradual, voluntary and implemented with full compensation. It was on these rules that the law of 1925 was based. After the May coup Piłsudski sought compromise with the conservatives, with a desire to use them to take the electorate away from the ND (a right-wing political party in the interwar Poland). The thing that was the element of compromise was reluctance to the implementation of the reform. The failure to implement the reform can be discussed as yet another of the lost chances of the Second Polish Republic.

The authorities realized the overpopulation of the countryside and the hidden unemployment there. They attempted to cope with it in two ways: by supporting all and any forms of emigration and by putting forward modernization projects, which were to generate, among others, acceleration of urbanization projects.

Modernization projects were linked to the concept of the industrialization of the country. The principal decision as regards the priority of industry over agriculture was made in the second half of the 1920s. The projects focused on the development of several entirely new domains of economy: the arms industry, aviation industry, automotive industry, electrical industry, radio-engineering industry, chemical industry or, broadly understood, maritime economy. In most cases, these industries were also fledgling in other countries, which created a chance of keeping pace with the most developed countries. Fairly numerous enclaves of modernity played a large propaganda role. Unlike in the Polish People's Republic, Poland's backwardness did not take the form of a technological gap but rather of a weakness of the industrial potential. In the 1920s, the great modernization achievement was the construction of the port in Gdynia, in the mid-1930s – the Central Industrial District. Both ventures were closely linked to the figure of Eugeniusz Kwiatkowski.

The economic policy of the Second Polish Republic developed in response to current challenges, both external and internal. It can be said that it was reactive. In this respect, it was a success. What constituted the greatest challenge was a lack of capital, the final response to it was the growth of the public sector. It was justified in terms of modernization plans, which, however, collided with a conservative social policy, determined by the ethnic structure.

2. The mirage of the great acceleration

The first post-war years in the whole developed world were characterized by the spread of Keynesian economics, common war regulation of the economy and growth of the popularity of socio-democratic concepts, including nationalization. It was commonly believed that after the end of the war the world economy would again face challenges which surfaced in the 1930s and the autarkic tendencies would continue. In that situation, the Soviet model seemed an attractive alternative to the market economy. Over a few years it turned out, however, that market economy had a future in conditions of expanding cooperation and the socialist countries, which followed a different road giving in to Soviet pressure, went astray. From the point of view of the economic policy, the years 1945–1956 fall into two periods separated by the conference in Szklarska Poręba in 1947. The first period witnessed pluralism in seeking national roads to socialism, while the second was dominated solely by the Soviet model.

2.1. First years: around the Polish road to socialism

The economic concepts of the Polish emigration government during the war were prepared first and foremost by activists related to the Polish Socialist Party. They were leftist in character but did not depart from what the British government prepared for the post-war period. In turn, the tendencies towards the expansion of the public sector, not necessarily with left-wing political roots, were present in the economic policy of the 1930s. From this point of view the Polish economic policy of the first post-war years did not differ in any significant way from what was going on throughout Europe. The continuity of tradition between the Second Polish Republic and the first years of the People's Republic of Poland[7] was also ensured by statists, strong in the state administration in both periods. The history of the very Eugeniusz Kwiatkowski can be seen as symbolic. He returned to Poland after the war and till 1948 directed maritime policy.

After the war Poland found itself in the Russian sphere of interest which had a direct influence on the political system, the scope of civic freedoms or attitude to war combatants. However, in the economic field a large part of power fell in the hands of the PPS (Polish Socialist Party) allied with communists. Socialists made an attempt to implement their own concepts. They assumed broad nationalization, planned economy and a tri-sector ownership model. There was to be room for the state sector but also for the cooperative and private sectors. The agrarian reform was carried out during the war, in autumn 1944, in a radical and brutal way. Socialists, who became a factor co-deciding about economic policy only later, treated the agrarian reform as a permanent solution, rejecting the suspicions of the intention to carry out collectivization. The post-war reconstruction was directed by the Central Planning Office headed by Czesław Bobrowski, who implemented the Three-Year Plan[8] on the basis of assumptions close to those developed by the London government. That period was, however, soon over.

2.2. The economic policy of Stalinism

In summer 1947, the countries of Eastern Europe, under the Soviet Union's pressure, rejected the Marshall Plan. The roads of the development of the two parts of the European continent began to depart. Stalin decided to consolidate the Soviet sphere of influence through party and ideological channels. Since then, only one model of socialism was to be effective – the Soviet one. Both in terms of policy and economy.

The Soviet economic system, also referred to as Socialist industrialization, developed in the second half of the 1920s. What was then attempted was the creation of a model of 'taking shortcuts', which would make it possible to catch up with and outpace the most developed countries. The extraordinary acceleration of development was to be achieved through temporary reversal of the traditional course of

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7 Formally, PRL (the People's Republic of Poland) was established as late as in 1952, after the Constitution became effective. However, colloquially, PRL has come to denote the whole 1944–1989 period and it is in this sense that we use the name.

8 For more information see: J. Kaliński, *Plan for economic reconstruction 1947–1949*, Książka i Wiedza, Warszawa 1977.

industrialization. It was to be driven by the heavy industry and not, as it traditionally used to be, by light industry. The economy was to operate in conditions of autarky, cut off from impulses coming from the world economy and aim at self-sufficiency. The market mechanism in the sense of prices freely shaped by supply and demand was to be entirely eliminated. Its place was taken by state-administered prices. When this state had already been reached, the price scissors were opened to the disadvantage of agriculture, generating an effect of cheap food and very low cost of living, with wages decreased accordingly. It was thus the very cheap labour force that became the source of accumulation in socialism. This happened at the cost of agriculture, which was to be subjected to recapitalization. In order to overcome the resistance which the country had to face to such a policy, collectivization was carried out and farmers were terrorized.

In Poland the Stalinist economy model took the form of the Six-Year Plan,[9] the implementation of which was directed by the State Commission for Economic Planning with Hilary Minc at the head. Heavy industry was developed, in particular, steelworks and machine work, with a significant share of the arms industry. It provided for carrying out the collectivization of agriculture. Even communists themselves had doubts in this regard, Wladyslaw Gomulka, as a result of resistance to this measure, lost power and became imprisoned. Stalin's cohort implemented collectivization but did it without conviction. The Gryfice affair of 1951 was a clear signal for the local authorities that it was not advisable to be overeager in the matter.

In 1950 the Korean war broke out. The economic plans of socialist countries were directed towards the war economy. The militarization of economy and the preparation of the country for war posed challenges which the Soviet economic model coped with relatively best. However, in 1953, Stalin died and relaxation in international relations followed. The new Soviet leaders concluded that with the prospect of thermonuclear arms a war could not actually be fought and what they should prepare for was competition with capitalism under peaceful coexistence. In 1954, an attempt was made to reduce armaments and switch to civil production. The Stalinist management model did not cope with that task equally efficiently. With time tensions appeared resulting from the excessive expansion of investment. The plan, under which the labour force used to be mobilized with terror with a simultaneous omnipresence of propaganda, was completed in the atmosphere of widespread disappointment and failure.

[9] Comp. Idem. *Polityka gospodaarcza Polski w latach 1948–1956,* Książka i Wiedza, Warszawa 1987

3. Three decades of reforming socialism

In 1956, the bankruptcy of communism was already so deep that in normal conditions a change of the system should follow. Due to dependence on the USSR, the ruthlessness of which was confirmed in Hungary, it was not possible. These circumstances triggered a long process of attempts at reforming socialism, so that it could be lived in, which lasted three long decades in Polish history.

3.1. Dilemmas of Władysław Gomułka

At the time of the October breakthrough the inefficiency of the traditional, Stalinist economic model was obvious also for the party leaders. While the basic principles of the system were not questioned, the militarized management system was believed to be of no use in conditions of peace. What was criticized first of all was its excessive centralization, which opened a certain margin for freedom of discussion on an economic reform. The Yugoslav model seemed attractive. Having broken off with the USSR, the Yugoslavs built a system based on a strong workers' self-government. In Poland, Workers' Councils emerged spontaneously at the time of the breakthrough and for some time a possibility of their institutionalization was considered. Finally, however, Władysław Gomułka, afraid that the authentic workers' self-government might get out of his control, incapacitated it in 1958, squeezing it into the framework of facade Conferences of Working Class Self-Government (KRS). In order to meet social expectations, shifts of resources were made to the production of consumer goods but pressure for investments returned as early as in 1958.

Yet, some changes remained permanent. The authorities withdrew from collectivization, liberalized foreign exchange law and rules governing contacts with foreign countries. The fourteen years' long period of Gomułka rule was not uniform from the economic point of view. Janusz Kaliński[10] divided it into three phases: a period of limited structural reforms (1956–1958), a period of perpetuation of structural defects (1959–1965) and a period of a failed turnaround in structural policy (1966–1970). The turnaround in economic policy came in 1958. Again, it was concluded that investments should be increased at the cost of consumption. This time it was not metallurgy that was to be the carrier of modernity but the chemical and machine industry. The aim was to make Poland gain the position of an exporter in both domains and so as to achieve this target investments had to be made and new technologies

[10] J. Kaliński, *Gospodarka Polski w latach 1944–1989. Przemiany strukturalne,* PWE, Warszawa 1995.

purchased. To obtain funds for these purposes it was necessary to increase the export of raw materials. In turn, for this to be possible, large outlays had to be made for the raw material base. Thus, the circle closed. The aim was to change the role of Poland in the international division of labour. But to obtain the funds it was necessary to invest in the extraction of raw materials. There was another dilemma involved. On the one hand, investment was to become the grounds for modern development and export, on the other, it was to give employment to several million young people entering the labour market. There was an irreconcilable contradiction between the two goals. Modern workplaces required large capital outlays but relatively small labour force resources. And where the creation of a large number of workplaces could be expected, it was hard to speak about modernity. What seemed to emerge more and more clearly was the prospect of Polish economy being split into two sectors: the modern, automated, export-oriented one, on the one hand, and the labour-consuming, raw material, domestic-needs satisfaction-oriented one, on the other. The Gomułka administration had nothing against this division. The only problem was that the replacement of the raw materials sector with the advanced technology sector in exports still remained a long way off.

After 1965, the CMEA did make attempts at correcting the Szklarska Poręba mistake and overcome autarkic tendencies. What Chruszczow imposed on socialist countries was specialization. He forced them to replace domestic constructions with Soviet licenses, difficult to reject if only because they were offered free of charge. Yet, partners perceived it as a limitation of sovereignty and produced even greater resistance as it was not the effect of market competition but of ruthlessly forced political decisions. After the fall of Chruszczow, the USSR began to think about improving economic management by making it scientific with the use of mathematical methods. Those reforms, associated with the name of Prime Minister Aleksiej Kosygin, were abandoned after the intervention in Czechoslovakia in 1968. They found some response in Poland, where they changed the language of economists from ideological to a model-mathematical one.

In the second half of the 1960s, clear signs appeared of the socialist economy losing in competition with the capitalist economy. The differences in the standard of living between the West and the East kept deepening instead of levelling. It was also becoming clearly evident that while economic integration with the EEC was working, the CMEA cultivated strong autarkic tendencies which failed to be overcome by the declarations of the political will to integrate recurring from time to time. A prospect of economic disintegration of the CMEA began to emerge. The West was becoming a priority export market for socialist countries. If something could not be sold in the West, attempts were made at selling it to partners from the CMEA. It was more than obvious that the CMEA was becoming a second-category market. While it was beyond Polish possibilities to reform the CMEA as a whole, there was nothing that Poland could afford to neglect in order to rationalize the Polish economic system. It is from these assumptions that the last phase of Polish economic policy, associated with the name of Bogusław Jaszczuk, evolved. The latter believed autarkic tendencies of socialist economy to be harmful and intended to fight against them through the policy of 'selective development'. Poland should focus on certain industries while liquidating others. The diagnosis was right, but the recipe was wrong. The problem was that selection was to be forced with administrative methods. The industries to be dissolved included the aviation industry but the shipbuilding industry was also mentioned in this context. This was accompanied by moves of definitely a social character: new, productivity-related system of pay (so-called incentives) and price rise. As a result, in December 1970, a revolt broke out which overthrew the Gomułka administration.

3.2. The epoch of Edward Gierek

The new administration, with Edward Gierek at the head, condemned the use of force to stifle strikes and announced a change to the economic policy. The concept of selective development was replaced with a new concept of harmonious development. The decisions concerning liquidation of selected economic branches were cancelled. From then on economic growth was to be concurrent with the growth of consumption. Gierek could benefit in this process from a substantial reserve inherited from the previous administration – foreign credit. Thanks to credits and purchase of licenses Polish economy was to modernize at a fast rate and then repay the debts with the export of modern products. The early 1970s seemed to confirm the advisability of the concept. The country was developing at a fast rate, this being matched by a rise in the standard of living. The symbols of the new level of consumption included mass motorization and greater than ever before ease in travelling abroad. Modest attempts at decentralization could be seen in the form of the creation of the so-called WOGs (Big Economic Organizations).

However, in the mid-1970s, the official optimism-driven economy practically got out of control. Individual local or branch authorities coerced the central authorities to make further investments and the central authorities did not have sufficient political power or resoluteness to resist the pressures. Moreover, the global market conditions worsened with the outbreak of the first oil crisis and inflationary tensions on the domestic market increased. With prices frozen it was hidden inflation that afflicted the country. Meanwhile, in an attempt to maintain the profitability of agricultural production, the government increased purchase prices. Food consumption was thus becoming more and more heavily subsidized.

In June 1976, the authorities finally decided to raise prices. In response, strikes broke out in the face of which the authorities withdrew from their decision. The June events not only initiated the action of organized opposition but also revealed the bankruptcy of the economic concepts of Gierek's administration. The second oil crisis only made things worse. Gierek's administration was losing power faced with widespread shortages and enormous foreign debt. In his book *Po wielkim skoku*, published for the first time in 1979 outside censorship, Waldemar Kuczyński summed up the decade which was drawing to an end in the following way: 'What has been going on in our economy for some time now can be described as a hard landing after a big leap while the economic history of the decade […] can well be reflected in the following parable. At the beginning of the seventies our economic vessel was sailing on a wide swath of water. Its captains had fair freedom of choice. They chose a certain course. […] After a few years Polish economy is in a canyon, where the current is swift, the walls on both sides threaten with a collision, and the crew is in a situation of incomparably poorer, more limited room for manoeuvre than before. The walls of the canyon are the problems of the domestic market and the problem of the balance of payments with the developed countries. In both of these domains we suffer from profound imbalance […]. The date usually assumed as the date of entering the narrow pass referred to above is the year 1975, the last year of the policy of fast growth and, simultaneously, the first year of the first yet modest attempts at restoring economic equilibrium. A year later that policy came to be referred to as a manoeuvre. A name, let us add, not quite adequate, because a manoeuvre is a move made by somebody who has a real choice while the decisions thus called were imposed by the development of the situation: they had to be made and should better have been called a 'retreat'.[11]

3.3. The last decade of the PRL

Following the August 1980 agreements, the Independent Self-Governing Trade Union 'NSZZ Solidarność' was established. The fast aggravating economic crisis was accompanied by a discussion on economic reform. Both parties to the conflict agreed as to the need for decentralization. Differences arose over who was to have the decisive voice in independent enterprises. Solidarność wanted it to be the workers' self-government (the Yugoslav model), the authorities would rather give power to managers

[11] W. Kuczyński, *Po wielkim skoku,* PWE, Warszawa 1981, pp. 9–11.

(the Hungarian model). In December 1981, the martial law was announced. The majority of the laws making up the economic reform were introduced in the first months of 1982. Prices which still remained controlled, rose by over 100%. In the sphere of declarations, the reform comprised the right principles. The state-of-war authorities declared their determination to implement the reform and yet the decentralizing character of the reform remained in basic contradiction with both the logic of the state of war and the way of thinking typical of the army in which discipline and control were of key importance. In the eyes of the public opinion, the reform meant mainly a price rise. In later years, the relative improvement in market conditions was accompanied by stagnation. Economic problems were further aggravated by sanctions imposed by Western countries in response to the martial law. Poland was not able to cope with the foreign debt service. On the domestic market, widespread rationing could not cover general shortages.

A new impulse came in 1985 when Michaił Gorbaczow came to power in the USSR. In 1986, a draft of the second stage of the reform appeared. In November 1987, it was put to a referendum which did not give a non-ambiguous result. In spite of it, in February 1988, another price rise was made. In response, the country was hit by a wave of strikes stopped only by the declaration of August 1988 at the *Roundtable Talks* to be held with the opposition.

In September 1988, the government of Mieczysław Rakowski was formed. A private entrepreneur, Mieczysław Wilczek was appointed the Minister of Industry. In December 1988, in the Sejm the government passed several economic laws of essential importance. Guild compulsion was dissolved, and freedom of economic activity introduced. In March 1989, foreign exchange law was changed and trade in foreign currencies allowed. Concurrently, the Round Table talks were in progress which led to the June 4, 1989 elections lost by the PZPR (Polish United Workers' Party). In summer, inflation became so rampant that Rakowski decided to freeze prices and wages till the end of July 1989. At the end of that period, in a gesture which cannot be denied heroism, the government decided to free food prices and abandon rationing.[12] In the course of a few weeks the shortages on the food market finished but the zloty found itself on the verge of hyperinflation. That was the problem to be faced by the first non-communist premier of the post-war Poland, Tadeusz Mazowiecki.

[12] Ration cards for August had already been distributed to the population but proved unnecessary. They remained but souvenirs.

4. Return to the market

4.1. Transformation

The fall of communism made it possible to rebuild the market economy in Poland. The process, most commonly referred to as transformation, covered the years 1989–2004.[13] The date of Poland's accession to the European Union can be considered the symbolic date of the completion of the transformation period.

In September 1989, the first non-communist government with Tadeusz Mazowiecki at the head was established, with Leszek Balcerowicz as the Deputy Prime Minister and Minister of Finance. The task faced by the new administration was unprecedented. Nobody had yet made a transition from a socialist economy to market economy. The task was compared to restoring eggs from scrambled eggs or an aquarium from a fish soup. An additional difficulty to be faced was inflation, gaining momentum from month to month and reaching a hyperinflation level. In the last days of December, the Sejm adopted in a very fast course a dozen of laws introducing a new economic order as of 1 January 1990. The reforms enjoyed the support of international institutions, in particular, of the International Monetary Fund.

The Balcerowicz plan[14] foresaw the introduction of internal convertibility of the zloty at a uniform exchange rate, budget equilibrium (including a ban on the financing of budget deficit by the central bank), freeing of the majority of prices, liquidation of subsidies to enterprises, liquidation of subsidies to prices of farm products and resignation from minimum purchase prices, liberalization of foreign trade, liberalization of labour law, reconstruction of the real estate market, demonopolization, making the interest rates real and, with time, also reconstruction of council property and privatisation of state enterprises. In conditions of economic freedom, the growth of prices should ultimately hit the barrier of demand and this should hamper inflation. Yet, nobody could predict in advance when and at what level it would happen. The anchors which were expected to stop inflation, included the rigid exchange rate of the zloty (9,500 zloty to 1 US dollar) and tax on the over-standard growth of wages, commonly called 'popiwek' (small beer) which was to oblige public enterprises. Indexation of wages was also withdrawn from.

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[13] There is ample literature on the subject of the Polish transformation. The most complete historical work is the study written by J. Kaliński, *Transformacja gospodarki polskiej w latach 1989–2004,* SGH Warsaw School of Economics, Warszawa 2009 and there one can find detailed bibliography of the subject.

[14] Cf.L. Balcerowicz, *800 dni. Szok kontrolowany,* BGW, Warszawa 1992.

The market shock worked but the social costs were high. Farmers began to demand a return to minimum purchase prices. Enterprises began to go bankrupt and for the first time in decades unemployment appeared. Enterprises which still kept afloat began to demand abolition of 'popiwek' ever more loudly. The charismatic labour and social welfare minister, Jacek Kuroń tried to ease the social problems generated by the transformation. Inflation decreased gradually, performing yet for some time the adjusting function, that is making the level of prices and wages in Poland closer to that characteristic of the developed countries. The freedom of economic activity and the belief in the success of the reforms freed in a significant part of the society the hitherto stifled resources of entrepreneurship and resourcefulness. In July 1990, the reform gained yet another important element –privatisation of public enterprises.

Currency stabilization always entails worsening of market conditions and temporary growth of unemployment. The improvement came in 1992. The decline in unemployment took longer and appeared only in 1993, while a clear growth of real wages was noted in 1994. The positive trends triggered by market reforms could be felt ever more clearly and allowed maintaining a high rate of growth as long as till 1997. Subsequent ministers of finance: Karol Lutkowski, Andrzej Olechowski and Jerzy Osiatyński continued pursuing the policy of macroeconomic equilibrium.

In the years 1993–1997, the dominant figure in the economic policy of left-wing governments was Grzegorz Kołodko. Kołodko expressed his views in a programme entitled 'Strategy for Poland'. In fact, the SLD (Left-Wing Democratic Alliance) and Kołodko made good use of the growth dynamics triggered by the reforms of Balcerowicz. However, deeper reforms were abandoned, which was well received by the society. Kołodko gladly lowered tax burdens and was repeatedly in conflict with the President of the NBP (National Bank of Poland), Hanna Gronkiewicz-Waltz, over interest rates. The NBP President defended a more restrained monetary policy, warning about the threat of the return of inflation but her position suffered due to her rash decision to run in the presidential elections in 1995. What appeared to be the crowning of the successes of the transformation from the psychological point of view was the denomination of the zloty, commenced on 1 January 1995. For two years, the old and the new zlotys were to remain in circulation, their mutual ratio having been set at 10,000:1.

After the 1997 election, the function of the Deputy Prime Minister and Minister of Finance was again taken by Leszek Balcerowicz, who began his term in office with declaring the 'cooling' of the economy, which became 'overheated' under Kołodko. Meanwhile market conditions deteriorated. In 1997, a crisis broke out in Asian countries and in 1998 in Russia. Poland escaped economic collapse, which confirmed the rightness of 'cooling the economy'. The government of Jerzy Buzek implemented four great reforms: of administration, restoring counties (powiat), of healthcare, creating healthcare funds, of pensions, creating Open Pension Funds (OFE) and of education, introducing *gimnazjum* (a secondary school in a three-level system, instead of a two-level system). No matter how the reforms were to be assessed in terms of substance, they did not generate fast growth of budget revenue, but they did generate expenses. In that situation the government resorted to accelerated privatisation. While in the years 1991–1998 income from privatisation amounted to a total of 20 billion PLN, in 1999 it reached 13 bn. PLN and in 2000–27 bn. PLN.

In the years 1997 and 1998, the Asian crisis and then the Russian crisis were prevented from spreading globally, primarily thanks to the fact that the crisis did not spread to the American economy. The attacks at the World Trade Centre on 11 September 2001 made the whole world face a serious political crisis and also had an adverse effect on market conditions. That was the atmosphere of the last days of Jerzy Buzek's government. However, earlier, Leszek Balcerowicz had replaced Hanna Gronkiewicz-Waltz as President of NBP. The new minister of finance, Jarosław Bauc, announced a 30 billion PLN deficit in public finance and a number of draconian austerity measures. In such a situation the September 2001 elections were won by the SLD (Left-Wing Democratic Alliance). The right-wing minority in the parliament was represented by two completely new groupings: Platforma Obywatelska (Civic Platform) of Donald Tusk and Prawo i Sprawiedliwość (Law and Justice) of Jarosław Kaczyński. The fact that 'Samoobrona' (Self-Defence) of Andrzej Lepper found its way to the Sejm was meaningful.

After the elections, the government was formed by the SLD-PSL coalition headed by Leszek Miller. The function of the deputy Prime Minister and the Minister of Finance was taken once again by Marek Belka, who was replaced by Grzegorz Kołodko in July 2002. The competences of Kołodko were, however, not as broad as before. In the government he had a counterbalance in the figure of the Minister of Labour and Social Welfare, Jerzy Hausner, who was in addition appointed the Minister of Economy in January 2003. In June 2003, Kołodko stepped down. In January 2004, Hausner[15] presented to the government a plan for remedying public finances, called after him. The plan covered the years 2004–2007. It provided for reduction of expenses and restructuring of the economy, including a KRUS (Farmers' Social Insurance Fund) reform. The plan was implemented but partially.

[15] Cf. J. Hausner, *Pętle rozwoju. O polityce gospodarczej lat 2001–2005,* Wydawnictwo Naukowe Scholar, Warszawa 2007.

At the same time, negotiations[16] were in progress on Poland's accession to the European Union, which finally took place in April 2004 and opened a new epoch in the economic history of Poland. On the part of the European Union the negotiations were led by Gunther Verheugen, Commissioner for EU Enlargement, and on the part of Poland by Jan Kułakowski and Jan Truszczyński. The key issues, on which compromise had to be sought, covered additional payments for farmers and transition periods as regards the undertaking of work by Poles in the EU and the purchase of real estate by foreigners in Poland. The negotiations terminated with Poland's accession to the European Union in May 2004.

4.2. The first years in the European Union

The first year in the European Union fell on the final period of the SLD government when Marek Belka was the Prime Minister. The immediate goals he set for his government included a fight with unemployment, management of EU aid, reform of the management of state property and restoration of control over the healthcare system. As the government was fast losing authority, the goals were hard to achieve.

In the years 2005–2007, the Law and Justice Party was in power in Poland. At the very beginning of the period, Prime Minister Marcinkiewicz succeeded in securing enormous sums in the EU budget for the years 2007–2013. Poland was to receive 65 bn € net. This ensured fast economic growth in the years which followed (6.8% GDP in 2007). The government slightly increased social benefits ('becikowe' – an allowance on child birth) and, in general, pursued a stable and liberal monetary policy. This was guaranteed by the presence in the government of Zyta Gilowska from the Civic Platform Party as Minister of Finance. In order to ensure Poland's energy security, the government undertook (generally ineffective) actions aimed at making Poland independent of import from the USSR. The plan to build a 'musketeer pact" within the European Union or to establish direct trade contacts with Azerbaijan and Central Asia failed and the acquisition of the Latvian refinery in Możejki proved a business failure. The decision made in 2006 to build a gas terminal in Świnoujście, opened in 2015, had more long-term consequences. Polish-Russian relations deteriorated following the Orange Revolution in Ukraine. In 2005 Russia announced an embargo on the import of Polish meat. The mechanisms of EU solidarity worked because in May 2007 Chancellor Angela Merkel negotiated its cancellation during the German-Russian summit in Samara. At the turn of 2006 and 2007, Balcerowicz

[16] Cf L. Miller, *Tak było,* Zapol, Warszawa 2009 and M. Orzechowski, G. Verheugen, *Projekt Rozszerzenie. Jak Polska wchodziła do Unii. Nieznane kulisy rozszerzenia,* Bellona, Warszawa 2009.

was replaced on the post of the NBP President by the Law and Justice Party designated Sławomir Skrzypek.

4.3. Eight years of the Civic Platform Party government

The Law and Justice Party lost the 2007 elections, paying the price for the destabilization of the state. Simultaneously, however, it left behind it a very good economic situation, thanks primarily to the aid flowing from the EU. The government of Donald Tusk announced a reduction of expenses (‘cheap state’) and taxes as well as the growth of wages. Till 2010, the Law and Justice Party maintained some impact on the economic policy. Skrzypek was still the NBP President and the president always had a possibility of convening a cabinet council. In economic matters they intervened twice: after Tusk’s announcement of 2008 that Poland would adopt the euro by 2011 and after the outbreak of the global crisis.

While their predecessors benefited from the good global economic conditions, the Civic Platform had to face the consequences of the global economic crisis already in 2008. Mainly thanks to EU funds, Poland passed the first phase of the crisis in a relatively painless way. Although the GDP growth fell to 1.9% in 2009, we were still the only EU country to record growth. It was at that time that the largely propaganda-devalued term ‘green island’ was coined. The credit for maintaining macroeconomic stability can be equally shared by Minister of Finance Jacek Rostowski and NBP President Sławomir Skrzypek.

Discussions with the European Union revolved around: the climate package, which undermined the dominant role of coal mining in Poland, energy security related to the construction of the northern pipeline (Nordstream) on the bottom of the Baltic and Poland’s involvement, together with Sweden, in cooperation with eastern neighbours (the Eastern Partnership).

The fear of the return to power of the Law and Justice Party made the Civic Platform approach any deeper reforms with extreme caution. What was emphasized was the role of stability and security as symbolized by the slogan ‘warm water in the tap’. An enormous positive breakthrough was made in the field of infrastructure – motorways and fast trains finally became a fact. The growth of prosperity affected a significant though limited part of the society. The proliferation of junk contracts, emigration in search of better earnings, the concentration of prosperity in a few large towns were manifestations of a mounting social crisis. The feeling of exclusion kept growing. The slogans of a cheap state and fight with bureaucracy were in practice accompanied by ‘legislative diarrhoea’, justified, which is worse, in terms of EU requirements.

The second term in office of the Civic Platform (2011–2015) proved more difficult. In the years 2012–2013 Europe was hit by the second phase of the crisis. This time its epicentre was in Greece, where public finances collapsed. Polish finances also reached constitutional limits, which caused heavy austerity actions. The tax on capital gains was solidified (Belka tax), VAT was raised but, what is most important, Open Pension Funds (OFE) were limited. The government found itself in conflict with part of the liberals, which resulted in the emergence of a competitive party 'Nowoczesna' (Modern). The popularity of the ruling party began to tumble when the pension age was raised. The economically justified reform was carried out without due attention being given to convince the public opinion. When in January 2012 the government tried to introduce the Internet freedom limiting the ACTA agreement, mass protests forced it to retreat. Later, however, they failed to exhibit the same flexibility as regards the pension age and the idea of sending six-year-old children to school. In effect, in 2015 the ruling camp lost both the presidential and the parliamentary elections.

4.4. Under the rule of the Law and Justice Party

The election victory of the Law and Justice Party was a reaction to social frustration and tensions. What won electorate votes for the party was no doubt the announcement of the 500+ programme (a 500 PLN+ allowance for a child, after the elections it turned out that only for the second and subsequent children). The more controversial promise regarding the lowering of the retirement age was kept. However, the plan announced by Deputy Prime Minister Mateusz Morawiecki for 'escaping the trap of medium growth' was already based on the concepts of isolation and closure of the economy well known from the past so as to 'take shortcuts'. The European Union was then having problems linked to the immigration crisis and Brexit. However, the hopes of the Polish authorities that this would weaken integration tendencies and cause a return to the 'Europe of homelands' model proved unrealistic after the election victory of Emanuel Macron in France. The opening of numerous conflict areas with the EU led to the isolation of the country, which, along with the attack at the independent judiciary, undermined investors' confidence. In mid-2017, clouds gathered over Poland's economic growth prospects in spite of continued economic growth.

Conclusion

The economic policy of the Polish governments passed through different phases which can, however, be divided into two groups. The first embraced those in which Polish policy fit within the mainstream of world transformations, while the second – those in which Polish authorities relied on solutions alternative to the mainstream, giving in to the temptation of 'taking shortcuts'. In general, the former can be said to have contributed to the country's economic growth, while the latter led its development astray, isolating the country from the world economy. The first group is where the whole interwar period belongs, including the 1930s when autarkic tendencies were mainstream, along with the years 1944–47 and the years 1989–2015.

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