

No. 17-38
Summer 2017

MERCATUS GRADUATE POLICY ESSAY

MARKETS AREN'T BUILT IN A DAY

by Patrick Higgins



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Abstract

The catastrophic collapse of the Soviet bloc nations was one of the most significant political economic events of the past several hundred years. This paper examines the role of markets as sticky institutions in resisting Soviet occupation and then facilitating the transition to “Neoliberal” political economy in Poland. It finds that in the context of post-Soviet Poland, pre-existing social frameworks could be built upon and tweaked. Furthermore, while some market changes resulted from decisions of the elite ruling class, this paper argues that the collapse of the Soviet bloc was as much the result of decades of everyday entrepreneurship, resistance, or complete disregard for local regimes and authority.

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“The essence of democracy is institutions, effectively representing the public interest, and elections are the main vehicle in their construction” (Aslund 2002: 363).

Centuries of resistance against foreign domination left marks on the Polish psyche that thirty-five years of Communist indoctrination did little to eradicate. Whether one chooses to call it attachment to freedom, rugged individualism, lack of discipline, or simply proclivity to anarchy, the Polish people have steadfastly refused to accept the Communist system as legitimate. [...]

As a result, all illegal economic activities have been viewed by many as representing a form of resistance against the Communist system; therefore, they carried no stigma and were socially acceptable “[...] the common practice of stealing, cheating, and supplementing one’s income by illegal means is not frowned upon: stealing from the ‘system’ is seen as stealing from oneself and hence fully justified. Everyone is doing it” (Korbonski 1981:8-9).

I. Introduction

The twentieth century was unquestionably one of the most turbulent series of political and economic events in the history of the West. Indeed, the meteoric rise and fall of multiple empires, two devastating global conflicts, and several severe economic collapses produced magnificent and rapid changes in human life rivalled perhaps only by the Napoleonic Era and the death of Rome. By the time the Iron Curtain fell, about one out of every eight persons had lived under its shadow; over 20 new nations were either liberated or made in just the period of a few years. Many of these nations, in under a century, had been transformed from agrarian and peasant societies to industrial giants after great human and social cost of forced industrialization after Soviet rule.

The economic, social, and political history of the Eastern bloc nations remains one of the great puzzles in contemporary social science. What were the causes of the collapse of communism? Why have some nations successfully transitioned over to liberalism and capitalism, while others instituted authoritarianism or oligarchic states? What lessons can be generalized from the Eastern bloc experience, and can these insights contribute to policy debates in development economics?

Broadly speaking, there are two main sides to the debate: those who are skeptical or opposed to the transformation process, who largely argue that the “market” has become too free at the detriment of society, and those who contend that political and economic liberalization are connected and contributory to the improvement of society. While the nuances within these blocs will be explored in greater depth later, suffice it to say that this paper will fall into the latter camp, albeit with a slight twist. While discussions of the conversion of the bloc countries often focus on formal institutions,¹ policies, and political events, this paper will attempt to capture the profound though subtle role of informal structures, e.g. culture, markets, property rights, and the role of the Church.

Even within the extraordinary events of the Soviet bloc, the case of Poland stands unique. During the last decade of the 18th century Poland was broken up and divided amongst the Russian Empire, the Habsburg Austria, and the Kingdom of Prussia. From 1795 to 1918 Poland essentially did not exist as a nation, despite the continuation of Polish nationalism and struggle against successive oppressive regimes. After the First World War, Poland briefly emerged as a nation that embraced some democratic constitutional and capitalist institutions, before collapsing into an authoritarian presidency at the eve of World War II, where it was again divided by Germany and the Soviet Union, before completely falling under the Iron Curtain after the end of the war. During

¹ Institutions, for the purpose of this paper, will be used in a broader sense, i.e. starting with North’s conception of them as “rules of the game” for society, but more than North’s understanding of them as legal/formal vs norms. In this sense, they can thus mean rules as constraints that help govern and shape a variety of social interactions and behaviors, not simply those that are formal (Hodgson 2006); indeed, as shall be demonstrated later, this paper contends that informal social rules and processes may be more important than formalized structures.

It should be noted here that institutions are also ideas, so the distinction between ideas, ideology, and institutions is not clear cut. An important figure in reviving the importance of ideas is Deidre McCloskey, who argues that it was the ethics and values, particularly the *dignity* of the bourgeoisie and merchant class that facilitated economic growth. For more on the debate between market skeptics and market advocates, see Boudreaux (2014).

this time, Poland was known for its independent streak within the Soviet bloc, experimenting with private property, entrepreneurship, market socialism, relative openness with the West, and a strong, autonomous Catholic Church.

When the Soviet Union finally unraveled, Poland transformed to free and fair democratic elections and accepted relatively radical market and political liberalization reforms. Despite the economic and social costs of the adjustment, the Poles remained strong supporters of the reform effort, with Poland becoming a member of NATO and the EU. While Poland is one of the most studied post-Soviet nations, analysis of the conversion process often remains at the formal level (e.g. policy, parties, or politics) rather than deeper historical mechanisms. This paper seeks to expand on the latter part of the literature by emphasizing how Poland's unique historical situation produced an institutional core that facilitated both resistance to Soviet rule *and* the successful transformation to a liberal political economy. Rather than looking at Poland as a model for engineering social change, it is important to note that much of what made it so successful was contextual and historical, and thus non-transferrable, and should be evidence for skepticism against a general theory of political economic construction, rather than as evidence for any particular project.

This argument will proceed in four sections. Section II will look at the broad literature of the free market, neoliberal transformation process and produce a theoretical model accounting for Poland's accomplishment. Section III will take a deeper look at the historical situation of Poland and trace the arc of these institutions. Section IV will explore the reforms that have taken place, and the durability of the conversion. Section V will conclude by answering the general question, "So what?" and suggest what policymakers and developmental economists can learn by looking at the Polish case.

II. Literature Review, Theory, and Presentation of the Model

Broadly speaking, there are generally two broad reactions against the political economic reform process in the Eastern bloc: those in favor of the changes see a positive link between liberalizing society and the market, and those who are skeptical of markets and capitalism generally. In the latter category, there are those on the extreme who remain apologists for communism, sometimes the Soviet Union, and in rare cases, even the Stalinist model itself. While several of the post-Soviet satellite nations have retained or returned to authoritarian political systems accompanied by various attempts at centrally planned economies (e.g. Russia, Eastern Ukraine, Tajikistan), Aslund (2002; 2007), Norgaard (2000), Zubek and Goetz (2010), Bernhard (2014), Skórzński (2015), and Wróbel (2015) argue that there was never really a debate about whether to adopt free market reforms in much of Eastern Europe, with many of these countries automatically moving toward democracy and free market capitalism. The debate was largely what kind of transition and how fast it should proceed.

While the literature on neoliberalism is too large to be addressed exhaustively here, it is important to touch upon it briefly. For the purpose of this paper, Neoliberalism is loosely defined as the ascendance of capitalism, particularly the Anglo-American tradition of smaller governments, greater individual freedom, and liberal movement of labor, capital, and markets. Unfortunately, the vagueness of the term leaves it with a variety of meanings, nearly all of them ideologically charged and used in a polemical fashion, with neoliberalism too often used simply to smear one's opponents, though virtually no one claims the term to define their own views today.²

² In a stinging rebuke of those who critique neoliberalism for polemical reasons, Hartwich (2009: 3-4) notes:

One of the most common critiques of neoliberalism comes from Gramscian-inspired Marxists and/or critical theorists who contend that it is an ideological/cultural hegemon³ that oppressively shapes political economic discourse, normalizing values of individualism, patriarchy, social Darwinism, racism, and neocolonialism.⁴

The main drawbacks of this approach are: 1) that it is totalizing, i.e. one is either for or against the hegemonic system, and leaves little room for alternative forms of capitalism or mixed economy,⁵ and 2) that in order to establish a broad system, there must be idealized simplifications

In present-day debates around neoliberalism, on the other hand, most accused of holding 'neoliberal' views would not accept being called 'neoliberal.' Either they would insist on being something else (whether it is 'liberal,' 'classical liberal,' or 'libertarian'), or they would simply claim to be misunderstood by their opponents. In any case, scarcely anybody wants to be a 'neoliberal' any more [...] These are strange debates indeed when the enemy you are fighting claims he does not exist.

Maybe this is not so strange after all. If neoliberalism is hardly ever defined, if it can mean anything you wish to disagree with, then it is understandable that it results not from an attempt to gain theoretical knowledge but from the desire to defame your political opponents. In this way, the neoliberal label has become part of political rhetoric, albeit as an almost meaningless insult.

³ For more on neoliberalism as a hegemonic system, see: Bonasso (1992), McSherry (1992), Epple (1990), Hunt (1990), Rupert (1990), Mohanty (1989), Pijl (1989), Tavares (1985), Streeck and Schmitter (1985), and Hernandez (1979).

⁴ For a fuller, though certainly not exhaustive, appreciation of the breadth of critical theory literature, see: Guberman (1986), Sachs (1988), Dyson (1993), Platt (1995), Buchbinder and Rojagopal (1996), Gillborn (1997), Mittal and Krishnan (1997), Olsen (1997), Hicks (1999), Aoki (1998), Marshall (1998), and Grosfoguel (1999).

⁵ Van den Berg uses the political economic history of Japan to illustrate how the totalizing inherent in assuming a hegemonic system impoverishes discourse. The economic success of Japan has occurred not in a free market order, but a series of complex relationships between government and corporate bureaucrats. This unique model is explained from the history of Japanese society, and does not fit in the general narrative concerning the ascendance of neoliberalism particularly because of this unique history: how can Japan be *neoliberal* if it never passed through *liberalism* to begin with? Thus, whether to evaluate Japan per neoliberal orthodoxy is simply asking the wrong question. Van den Berg (1995: 391) continues:

The present 'glasnost' of Japan's political culture, providing lip service to both political as well as economic reforms, may very well indicate the erosion of the [political economic] system. Nevertheless, to assume that, because of this, Japan's political economy has no alternative left than to embrace the neo-liberal project, dismisses the historical logic of current developments.

In light of its historical roots, the regionalization Japan's state and society may challenge visions of an emerging global liberal order. The recognition of this 'Japan Problem' may serve as an antidote to IPE [International Political Economy] theories that fail to address differentiated

of social mechanisms across cultural, political, and historical spaces in order to simplify down for easier comparisons. This simplification and idealization is not unique to Marxist or critical theory critiques of the transition, nor to only critics of the transition. Indeed, it is tempting for development and new institutional economists to look for specific policies or even models that can be transplanted to other parts of the developing world. While this temptation is somewhat inevitable and even implicit within this analysis, it will be embraced minimally and skeptically, as shall be addressed below.

Rather than as a hegemonic system or end product of a historical teleology, the free market transformation requires an understanding of specific and localized conditions, i.e. a *historical and institutional contextualism*. Aligica and Evans (2009) contend that while neoliberalism has been regarded as external, hostile, or unnatural to the political economy of Eastern Europe, it should instead be viewed as something that may have evolved alongside with it, even before the final crisis point of 1989. They neatly sidestep much of the critics of the transformation by pointing out that criticizing the transformation simultaneously requires an assumption of the feasibility of better alternatives:

A significant part of the literature dealing with the ‘neoliberal revolution’ in Eastern Europe has been pervaded by discussions that fail to mention what kind of ideas were embraced before ‘neoliberalism’ and with what results. That overlook *creates the impression that ‘neoliberalism’ was either an intruder or something of a usurper and that better alternatives were somehow sidestepped by the march of ‘market fundamentalism’*. And thus, the dialectics between the dominant paradigm before the 1989 transformations and what comes after is entirely overlooked although it may explain better the success of pro-market ideas in Eastern Europe than the speculative argument that make tabula rasa of 50 years of experimentation with socialist ideas in that part of the world. (Aligica and Evans 2009: 9; italics added)

processes of capitalist development in different sites of global transformation.

Diversity in Advocating for the Reforms

After the collapse of communism, there was a consensus that the post-Eastern bloc nations wanted to move toward normalcy, i.e. democracy and free markets and reconnecting with the West. Instead, the main debate has not been to significantly change the liberal institutions built during the transition, but rather specific policies, kinds of reforms, and at what speed (Norgaard 2000; Aslund 2002; Aslund 2007). For those in favor of the metamorphosis, neoliberalism is generally associated with a small group of political and economic elites interested in dismantling much of the state, and rapidly liberating markets—especially liberating the flow of international capital—regardless of social cost. Though there are other more gradual and moderate approaches that disagree with these radical changes, or “shock therapy.”⁶

Advocates of shock therapy claim that the price system was completely incompatible with any elements of central command and would only be distorted by it; thus, the whole system had to start over from scratch (Marangos 2003). Another important argument was that a gradual series of reforms would ultimately allow existing elites to build the political, constitutional, and economic orders around their own rent-seeking efforts; thus, political and constitutional construction and economic reforms were needed quickly (Aslund 2002; Aslund 2007; Schleifer 1997; Murphy, Schleifer, and Vishny 1992). The debate has largely focused on the differences, similarities, and relative successes of Poland and Hungary, the two greatest success stories of the transformation, with Poland and Hungary representing the “shock” and “gradual” varieties respectively (Smith

⁶ In the case of Poland, the Catholic Church was long a critic of communist and socialist ideology, particularly because of their opposition to religion. However, the Church has also been a strong critic of unrestricted markets and capitalism, opposing a culture that it views as centered on materialism and accumulation. Thus, Pope John Paul II, who played a strong role in Poland resisting and then overcoming socialist rule, is also a critic of some elements of the transition that do not align with Catholic social teaching (Kowalik 1989). In the case of Poland, then, “neoliberalism” means those who are more extreme, whereas in other circumstances “neoliberalism” may be more synonymous with markets more generally.

1994). Both sides have claimed victory: Aslund (2002) has made the case that even “gradual” transformations were still radically different from the communist system, while Marangos (2003) and Hall and Elliot (1999) contend that radical “shock” therapy was not possible due to political, structural, and macroeconomic constraints, and that the reforms were actually gradual by necessity. That is, as the markets developed, the mechanisms and structures that corresponded to them also developed, and was a piecemeal process overall.

Aslund believes that long-run culture and historical mechanisms are not significant to the success of the transition, but instead are significant to the prioritization of political reforms (2002). Curiously, Aslund notes that one of the spiritual leaders of those who advocated for prioritizing institutional reform was Austrian economist F.A. Hayek, without addressing that one of Hayek’s key contributions to economics was a model that stressed that while it was important to understand the role of social structures in the process of history, those same structures *cannot* be designed.^{7,8} Norgaard is more sympathetic to the role that long-term phenomena, such as culture, play in reform, especially the formation of a national consciousness (2000: 212-214). But he also gives priority to politics, especially political contestation of formal mechanisms.

While Norgaard admits that economic structures provide incentives that shape human behavior, he asserts that politics is the mechanism that facilitates the emergence of these phenomena in the first place, which contradicts his own admission that Poland had a long history

⁷ Hayek made this point in his article “The Use of Knowledge in Society” (Hayek 1945), arguing that the function of the market was, in fact, to coordinate the plans of all the individuals engaged in the marketplace. In other words, the market is an information dispersing mechanism, rather than a theoretical construct or set mechanism. This insight would continue throughout his work, where he was largely suspicious of centralized planning, especially policies of redistribution and price controls, eventually leading Hayek to embrace a more evolutionary model of economic and social change (Norgaard 2000; Hodgson 1993).

⁸ That institutions cannot be designed is, of course, not a uniquely Hayekian concept, but rather is one of the main tenants of the Austrian school of economics. For more, see Boettke (2008).

of experimentation with markets. Finally, although Norgaard (2000) and Aslund (2002; 2007) admit to the role that social, economic, and political mechanisms created during the Soviet era played in hampering reform efforts (what Aslund refers to as “poison pills”), neither seem to extend that logic to the potential that pre-Soviet structures hampered the formation of Soviet rule in the first place. While both Aslund and Norgaard acknowledge that Poland and many other Eastern bloc nations had histories of affinity for free markets and rebellion against communist rule, neither of them make the step to ask the pertinent question: Where did the markets go when the Soviets took over? What happened to the constellation of market-facilitating and market-facilitated institutions?

Perhaps the most common answer, that the Soviets successfully dismantled the private sector and all traces of liberal political economy, puts too much faith in the success the Soviets had in destroying the markets and market-facilitating social elements under communism, and essentially takes the communists at their word—but is this true? There has been much literature on the relative inefficiency of communist regimes, particularly in the case of Poland (Korbonski 1981), so it seems unlikely that they were able to completely dismantle the old ways. A more accurate answer, then, is that many markets simply continued as they were, but had to now spend considerable time and resources evading the regime; for example, the illegal black market, or the informal “second economy.” Korbonski (1981: 9) notes that:

The second economy was obviously part of the latter and since the ‘established’ system was generally perceived as illegitimate, this, in a sense, endowed the parallel market with a certain degree of legitimacy. As a result, all illegal economic activities have been viewed by many as representing a form of resistance against the Communist system; therefore, they carried no stigma and were socially acceptable” [...] the common practice of stealing, cheating, and supplementing one’s income by illegal means is not frowned upon: stealing from the ‘system’ is seen as stealing from oneself and hence fully justified. Everyone is doing it.

Beaudry and Duhamel (1984) acknowledge that the black market not only served as a mechanism to overcome the distributional problems of communism, but also that the social inequality and differentiation still existed within the order. They note:

These foundations [of the black market] are generated by the social relations characteristic of the Soviet Union, which are conditioned by social struggles. These develop on the basis of the relations of production and the state of development of the productive forces under historic conditions determined by the state of social practices and representations to which various social groups are subjected. These conditions result from past and present economic, political and ideological struggles. Transformations and initiatives take place within this socio-political and historical context. (Beaudry and Duhamel 1984: 84)

Korbonski (1981: 8) describes Poland's long history of political and economic resistance as an important contributor to the historical reality of the nation, even during the Soviet regime:

As is the case with other countries around the world, the mass political culture in Poland has been shaped by many historical events and experiences, which, in particular, affected the popular attitudes toward authority. The fact that Poland disappeared from the map of Europe for 123 years (1795-1918) meant that the only authority several generations of Poles have known was imposed from the outside and was therefore viewed as illegitimate. Hence disobedience of authority—whether in the form of active or passive resistance or all kinds of illegal activities—was considered not only proper but also praiseworthy.”

The question of where the markets went has been answered, but now a second question appears: *why* did the black markets continue? Boettke and Storr (2008) and Storr (2008) refute the notion from economic sociologist Granovetter and others that the market strictly emerges, that is, is embedded, from social structures, and rather assert that the political, the social, and the economic are all spheres that are co-embedded in the greater constellation of civilization. Storr (ibid) explicitly counters the natural antinomy between social and market spaces presented in much anthropological, economic, and sociological literature, and instead contends that the market itself may be a socially constructive space:

The market, however, is more than a social structure or a particular kind of extended

discourse. The market is also a social space. [...] It is also a space where social relations (beyond commercial relations) develop. The market is both a conversation and an arena where meaningful conversations can occur. It is a scene where noncommercial and commercial relationships develop. (Storr 2008: 137)

Storr does not simply believe that the market is purely a space, however, which is simply the site of economic activity. Rather, the market is also the facilitator of social relationships, both directly and indirectly. He points out how the division of labor in modern society allows for persons of diverse social and cultural backgrounds to come together, even in an environment as simple as a corporate setting, and form friendships and communicate ideas that would not have been possible in the past. He also points out the phenomena of office romance, which brings individuals together in a direct way. Another way in which the market is socially constructed is that it is simply the basis for more interaction- that more material wealth allows for more leisure, discourse, and social co-production.

He concludes:

A complete concept of the market, in my view, requires that we appreciate that the market is a social space where both economic and extraeconomic relationships are developed and maintained. Markets are not only embedded in the community but can also promote and sustain the community. (Storr 2008: 143)

Sticky Institutions and the Polish Transition

If it is admitted that long-run social structures and mechanisms themselves—including the market as a socially productive space—play an important role in shaping socio-historical change,⁹ a theory is thus needed to understand *how* history matters. Boettke, Coyne, and Leeson (2008) supply this

⁹ It should be noted here that the point is not being made that *only* long-run social mechanisms and rules are important, and that the process of political transition itself plays no role. Further, it is not being claimed that long-run social mechanisms and rules are more important versus short-term events; instead, the only attempt here is to weigh in on the importance of these more implicit and more difficult to account for processes. Even should formal mechanisms be demonstrably more important, they would still have to be contextualized in these longer-term systems of change.

answer with their theory of “institutional stickiness” and what they refer to as the “new institutional economics.”

We aim to provide the missing “how” in these closely related streams of research. We contend that institutional “stickiness”—the ability or inability of new institutional arrangements to take hold where they are transplanted—is central to understanding how history matters for institutions. Furthermore, it is central to understanding how the relationship between history and institutions matters for development economics.

We provide a framework for understanding stickiness based on the regression theorem. The regression theorem maintains that the stickiness, and therefore likely success, of any proposed institutional change is a function of that institution’s status in relation to indigenous agents in the previous time period. This framework for analyzing institutional stickiness is at the core of what call the New Development Economics. (Boettke, Coyne, and Leeson 2008: 332-333)

Boettke, Coyne, and Leeson reach many of the same conclusions as other advocates of the Eastern European reforms, specifically noting how much of the success of Poland in particular should be attributed to the new economic laws in the late 1980s that legalized entrepreneurship and private business ownership (2008: 351-353). There is a significant twist, however, because of the importance of endogeneity of these processes, there are necessarily limitations imposed upon successful reforms, particularly those imposed externally. Just as the Soviet structures were seen as illegitimate and were undermined by generations moving within the black or informal market, pro-market structural adjustments will also fail if they are viewed as illegitimate.

The authors cite the metamorphoses of American occupied Germany and Japan as evidence of successful institutional design, with some important caveats. Despite the military and economic devastation of Germany and Japan, their social structures and culture were left relatively intact (whereas the Soviet Union purposely took great pains to destroy and rebuild Eastern European societies as communists, though with mixed success as shall be demonstrated hereafter). Secondly,

the Germans and Japanese had some say in tweaking the constitutions given to them by the United States, and were nominally passed by domestic legislatures. Finally, many of the Allied occupiers responsible for crafting the new German government were experts on German history, so the new laws and constitutions started off with needing relatively fewer tweaks than one-size-fits-all policies of structural adjustment by the World Bank, IMF, or other developmental agencies. Social and constitutional design is therefore possible, but must be narrowly and contextually constructed.

This analysis will follow in the new development economics path and combine insights from Storr (2008), Boettke, Coyne, and Leeson (2008), and Aligica and Evans (2009) into a hypothesis—the regression theorem states that successful institutional changes are built upon prior sociohistorical constellations, hence there should be some shared core that can be traced back historically (shown in Table 1). In the case of Poland, the successful transition can be explained by the relative robustness of a free-market facilitating institutional core that the Soviets were unable to stamp out, which simultaneously preserved long-term Polish social, legal, and cultural phenomena, as well as facilitated resistance against the Soviet regime.

Finally, this core can be traced backwards throughout Polish economic and political history. The historical arc of this core was broad convergence with the West (democracy and capitalism), which then prevented the Soviets from establishing full-fledged communism, demonstrated by Poland’s resistance to Soviet rule and experimentation with market socialism. When communism finally collapsed, this core continued and Poland was able to quickly reconverge with the West again. This hypothesis is visualized in Figure 1.

	Support for Eastern European Free Market Transition	Faith in Institutional Design	Vehicles of Economic Change
“Neoliberals”	In Favor	High	Policy, Political Solutions
Development Economics	Depends	Medium-High	Mix of Policy and Endogenous Institutions
New Development Economics	Nearly Always	Skeptical-Medium	Mostly Endogenous Institutions, Some Marginal Policy Tweaks
(Democratic) Market Socialists	Opposed-Skeptical	Medium-High	Policy, Political Solutions
Gramscians, Critical Theorists, Marxists	Opposed	Opposed	Exogenous-Coercion, or Endogenous-Liberation

Table 1

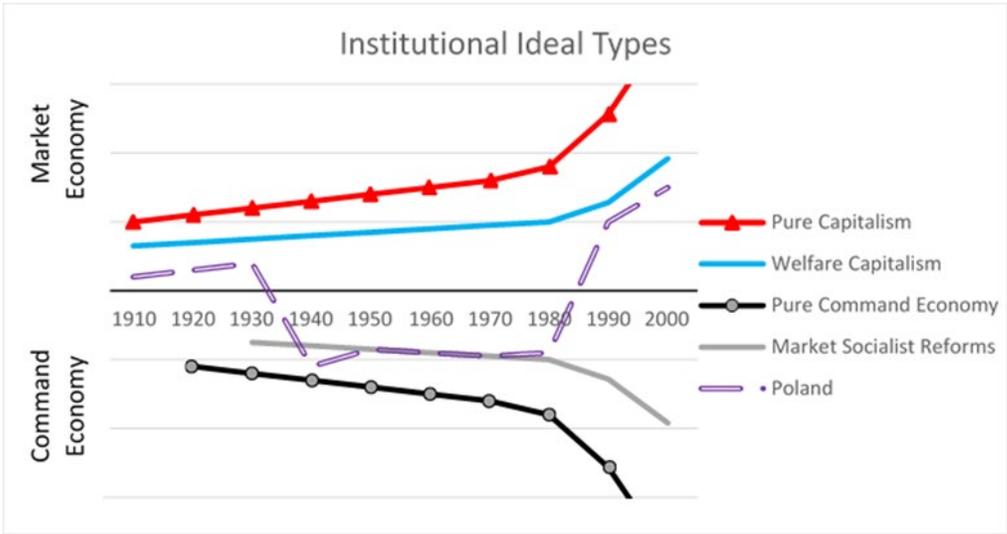


Figure 1

III. The Uniqueness of Polish History

The origins of democracy in Poland run deep. During its “Golden Age” from 1450 to 1648 there was a gradual limitation of powers of the monarchy, and an official equality of Catholicism and Protestantism. The large Jewish community was granted rights and treated relatively well. The cultural and political pluralism only further expanded when Poland was unified with the Grand Duchy of Lithuania. While this version of democracy was reserved only for the nobles, they largely checked each other and the king’s power. This democracy was relatively liberal compared to the rest of Continental Europe, which saw the consolidation of empires and centralization by enlightened autocrats (Biskupi, Pula, and Wrobel 2015). A defining feature of this system was its “liberum veto,” where only a dissenting noble voice was required to prevent any legislation or policy (Amsden, Kochanowicz, and Taylor 1994: 188).

Unfortunately, this only strengthened the divisions in society and made ruling ineffective. Eventually, Poland lost a series of conflicts with its historic enemies: Austria (predecessor of Austria-Hungary), Prussia, and Russia, who divided Poland among themselves. From 1795 to 1918, Poland ceased to exist as an independent nation in Europe. The fate of Polish intellectuals abroad became a complicated political question, with Napoleon promising to restore the nation, but with the eventual result being that the powers in Europe played a dangerous balancing act—autonomy was given to the Poles to stave off full-fledged revolutionary movements, but central Europeans and Russians both wanted historical Polish lands to be a buffer between them. While the Poles occasionally revolted, there was no full reestablishment of a nation state until after World War I.

Over time, the economy in what was once Poland became one of the strongest in Eastern Europe. After the abolition of serfdom by the Tsars, over 200 peasant-driven movements

developed across Polish regions; peasants soon became vested land owners, and a strong middle class was developing. The Russian and Prussian Polish areas became particularly developed (Stanislaus 2015). Pramzowska (2004: 145) states:

Economic development was encouraged by means direct and indirect. The abolition of tariff barriers, and the Crimean War, stimulated the development of a capitalist development in Congress Poland. Polish entrepreneurs, bankers, and industrialists benefited from the opening up of the Russian markets. Rail links with St. Petersburg and Vienna were built. Agriculture advanced, with the production of grain increasing most dramatically.

The division of the Poles created a unique situation where they were almost forced to adapt to a pluralist system, which is still characteristic of Polish democracy, even today;¹⁰ indeed, this theme of relative decentralization and local independence was a theme from the Golden Age, which was only reinforced overtime. This suspicion of and alienation from formal, national state institutions and reliance on local phenomena (e.g. culture, markets, and a loose sense of nationalism, etc.) certainly would have been mutually reinforcing.¹¹ Warsaw and the surrounding area was not only the most economically sophisticated and modernized, but was also the intellectual center. A unique political philosophy of positivism developed, synthesizing the ideas of Mill, Herbert, Spencer, and Darwin. The economic and political modernity combined in an environment that was bourgeois, nationalistic, supported civic equality for Jews, and emancipation

¹⁰ Seleny (1999: 99) classifies contemporary Poland as a “confrontational-pluralist” model, stressing that Poland uniquely has a very high level of political mobilization. Further, politics is often based on loyalty to the person or leader of the movement, rather than to even the party or the broader notion of the “state.”

Norgaard contends that “pluralism, democracy, and anti-system mobilization” were the keys to transcending the formal mechanisms and bringing about true social, political, and economic change (2000: 135).

¹¹ A similar process likely occurred in the formation of the Hanseatic League, where local governance structures, markets, and the Church often overlapped in a complex set of jurisdictions. These social constellations allowed for the emergence of a modern economy to develop because no one state or social or political unit could effectively monopolize the markets and resources (Finke 2012).

of women and their integration into social and political life (Stanislaus 2015; Davies 2005).

These positivists' ideas often were opposed to the more conservative elements such as the Catholic Church, but they were pragmatic and interested in working within the system, rather than outright revolution. They generally advocated both liberalism and capitalism, and their main opponents were the socialists who wanted a transnational working class movement, rather than Polish nationalism (Stanislaus 2015; Davies 2005). In Prussia and Austria-Hungary, Poles were allowed some degree of autonomy and occasionally given the right to vote, run campaigns, participate in the parliament, manage the affairs of the state, etc. (Biskupi, Pula, and Wrobel 2015).

Yet despite all this complex history, the desire for a state of their own remained:

Independence was an aspiration nursed by all Poles and that objective continued to be the main and eventual aim of political activities. In spite of living areas which were ruled very differently, Poles everywhere were acutely aware that they had a language in common, and could refer to a recent past when there had been a Polish kingdom. Frontiers between the empires were porous, and literature, newspapers, and politicians were able to travel between the three. Whereas political experiences divided Poles in the three occupation zones, a strong sense of national identity continued and indeed grew with time. (Pramzowska 2004: 156)

The revival of Poland would have to wait until one of the most catastrophic events of the 20th century, the First World War.

Rebirth and Second Death

At the close of the First World War, the area that was historic Poland was almost completely occupied by Germany, whose army pushed deep into Russia territory on the Eastern front. What was unique about the birth of Poland was that it was completely unplanned—there was no formal independence movement or treaty. During the war, Józef Piłsudski, a long-time Polish nationalist

revolutionary, paramilitary leader, union leader, and politician, played Russia, German, and Austria-Hungary against each other. While he was in Russian Poland that was now occupied by the Germans he led a Polish force that was technically under the banner of Austria, but spent more time building a Polish government and trying to unite and organize Polish villages (Davies 2005) than supporting the Central Powers against Russia.

The end of World War I brought about a completely unexpected new political reality to Europe—in a cataclysmic course of events, Austria-Hungary, Russia, and Germany collapsed, nearly simultaneously. The three empires who had partitioned Poland and squashed any attempts at reunification, simply no longer existed. Piłsudski effectively found himself the last man standing at the head of an army in traditional Poland. He had been the founder and leader of both the Polish Socialist Party and Polish Military organization, which allowed him to gain support from the multiple squabbling political factions (Davies 2005: 81). During the next few turbulent years, he tried to guide the reconstruction of the Polish state. While there was very little violence within the nation, which enjoyed generally high legitimacy with Poles, the army engaged in six separate wars with Ukraine, the Soviet Union, Lithuania, Germany, and Czechoslovakia over territory (Aldcroft and Morewood 1995). Poland, which had been a site of much of the fighting during the war, also had extreme difficulty rebuilding its economy (*ibid.*). The integration was complex, as there were six currencies in use, and five regions that had been part of three empires. Only about 70 percent of the population was ethnically Polish, so national identity became an important political question. Further, 70 percent of the population was rural peasantry, so land reform was the main political issue at the time.

The 17 March 1921 constitution established a parliamentary system, based on the French Third Republic, but the politics at the time was highly unstable, swinging from one radical reform

to another. Piłsudski, who effectively had dictatorial powers, chose to relinquish his rule, though he retained sole control of the military. Unfortunately for Poland, the political factions were unable to stabilize into a functioning government for long, with over five separate governments forming between 1923 and 1926. The new constitution was debated over one hundred times (Bernhard 2014). Finally, Poland had a series of severe economic crises, including failed land reform, starvation, hyperinflation (Aldcroft and Morewood 1995). By 1926, Piłsudski had had enough, so he staged a coup and installed himself as a dictator, though he preferred to rule by prolonging the “pseudo-parliamentary charade” than direct rule (Davies 2005: 312). He slowly consolidated a military ruling coalition around himself that emphasized nationalism and a command economy (Pramzowska 2004; Aldcroft and Morewood 1995). By the time of his death in 1935, and with the Second World War rapidly approaching, Poland was a war economy governed by military elites, though none had the same charisma or competence as Piłsudski had.

By fall of 1939, Poland had been invaded by Nazi Germany, followed by the Soviet Union, who both had agreed to divide the territory between themselves. Though France and the United Kingdom nominally supported the Poles, and though they put up a stronger resistance than history gives them credit for (Davies 2005), the Allies put up no real support. Poland had again ceased to exist.

Resistance and Re-Rebirth

Poles participated in highly active resistance against both the Nazis as well as the Soviets. The underground movement essentially attempted to keep the Second Polish Republic alive, and was a highly pluralistic system with nationalists, socialists, liberals, and conservatives aligned with the Church all working together, though in a manner that was often fragmented and disorganized

(Davies 2005; Biskupi, Pula, and Wrobel 2015; Friske 2015). The reform movement was pragmatic, however, and emphasized resistance and eventual independence over common political values.

Friske (2015) acknowledges the intellectual division within the movement:

The principles of a free market economy and inviolable property were not questioned. It can be said that during this time the principles of political liberalism were separated from the principles of economic liberalism.

As the tides of the war began to turn against the Nazis and the Soviets joined the Allies, the Poles were again effectively abandoned. The Poles were encouraged to coordinate their resistance efforts with the Soviet Union, but a main problem was that the Soviets only recognized socialist or communist organizations as legitimate and persecuted others—the liberal, conservative, and nationalist parts of the resistance that still wanted an independent Poland were caught between a rock and a hard place. Even the socialists suffered a poor fate, as the history of socialism in Poland was long and complex, creating their own flavor and interpretation. The Polish socialist parties that were part of the resistance movement were more interested in becoming labor or socialist parties within a greater parliamentary system, as was the case in Western Europe (Pramzowska 2004; Davies 2005; Stanislaus 2015). After the war, the Allies essentially sold the fate of Eastern Europe to the Soviets to prevent Stalin's advance into Western Europe, and the Polish communist party was co-opted by Stalinists. In an ironic twist of fate, Davies accounts how a party that historically saw itself as anti-authoritarian and often pro-nationalist had been co-opted into a puppet regime for a foreign totalitarian (2005: 412).

Under the Stalinist model, Poland was forced to centralize and industrialize rapidly. While the industrialization was generally successful in Poland, albeit at great social and human cost,

urban jobs could not be created at the same pace as the decline in traditional trades and agriculture as more and more people moved to the city. After Stalin's death, the process to force industrialization effectively ground to a halt. In 1956 Khrushchev announced that there were multiple roads to communism, and there began serious economic experimentation in Hungary, with some mild experimentation in Poland, which was much more difficult because so much of the population was still rural and economic development could be done by simply encouraging urbanization, rather than real reform (Aldcroft and Morewood 1995; Zubek and Gentleman 1994).

There was still a vibrant capitalist economy within Poland, which resurged. In addition to the peasants holding much of their own land, there were also vibrant "urban petty-entrepreneurs" (Zubek and Gentleman 1994). There was also a strong Catholic church, which not only supported civil groups openly opposed to communism, but that even under Stalinism the church monastic orders were permitted to keep their lands, including orchards and gardens, and even ran repair shops and bakeries (Korbonski 1981: 2-3). There was also a healthy industry of handicrafts and traditional craftsmanship, so much so that the Polish leader Władysław Gomułka, First Secretary of the Polish United Worker's Party, declared at the Congress of the Democratic Party that "handicrafts have a permanent place in the socialist economy" (Anders 1984: 430-431).

Resistance and Transformation

The seeds of both political and economic liberalism slowly began to sprout in Poland almost the moment Stalin died. After the invasion of Poland by Germany and the Soviet Union, the government fled to exile in London. This government was not purely symbolic, but kept up its own elections and government posts (including cabinet members of non-existent departments), and continued in exile until the collapse of communism in the 1990s (Davies 2005; Biskupi, Pula,

and Wrobel 2015).

Political leader Gomulka’s effort to create a “second (private) economy” was a resounding success, and was divided into officially recognized portions as well as the black market. Nearly a quarter of the Polish population worked in the second sector, with many persons moonlighting in addition to their regular jobs, and this is simply an underestimate (Korbonski 1981). It is estimated that wages in the second economy were at minimum twice that of regular employment. The lack of internal discipline in the command economy, even during Stalinist times, meant that the black market was abundant. From 1955 to 1982 the non-agricultural private sector, that is the official, legal private economy excluding the “second economy,” had expanded its labor force from 220,500 to 698,500 (Anders 1984). This story is given below in Figure 2.¹²

NON-AGRICULTURAL PRIVATE EMPLOYMENT 1949–1981						
Year	Total	(Thousands)				
		Industry	Handicrafts	Trade ^(a)	Transport ^(b)	Others ^(c)
1949	483	85	199	126	19	54
1955	221	11	112	19	22	57
1958	343	30	184	40	35	54
1963	334	21	184	25	36	68
1969	445	31	272	27	45	70
1971	423	28	244	27	51	73
1982	699	—	478	56	102	63

Note: Employment includes self-employed, assisting family-members and employees, while apprentices and leaseholders are excluded. Employment at the end of each year for all branches except industry 1949–1971, and for handicrafts all the time; annual average for industry and for all branches except handicrafts in 1982. The selected years constitute maxima and minima.

^a Including catering.

^b Including community services.

^c Including mainly church employment, some services, free professions, social organisations, but also some inconsistency.

Figure 2

¹² Source: Aslund (1984: 429).

While exact numbers are unclear, Hungary, which was also experimenting with private markets, had an estimated 70 percent of its population working in the second economy (often as second jobs) (Smith 1985), so it is likely Poland would have a similarly vibrant sector as well. This success of the private sector, somewhat tolerated by the regime, continued to erode the legitimacy of the state, especially as the state began to lean more and more on the private sector for its support.

There were also political challenges to the regime. The constitution that had been created during the Stalinist era preached both the scientific superiority of socialism as well as invoked specific economic goals, but it did not stress the importance of rights or enumerated powers, which had been present in Poland's older constitution. By the 1960s, there were protests in Hungary, Czechoslovakia, and Poland all demanding for constitutional rights to protect individuals. In 1976 there began a movement for a "surreal" interpretation of the constitutions, rather than the "real" interpretation of Stalinism, "in which the sovereignty, independence, and the democratic and rights-based dimensions of socialist constitutionalism were taken seriously" (Blokker 2015).

During the late 1970s, Poland was suffering through severe economic depression. The regime had begun a period of forced industrialization by borrowing money and purchasing capital and technology from the industrialized West. These economic reforms failed to produce the expected growth, and only led to debt. Further, shifting resources away from the agricultural and other sectors into industry caused great dislocations in the economy, including food shortages. It was only private entrepreneurs and the free market that staved off total disaster, including starvation (Korbonski 1981), which further delegitimized both the regime and the command economy (Zubek and Gentleman 1994). This proved to be too much for many of the population, and an independent labor union, Solidarity, rose demanding more freedom of property, markets democracy and a constitution that protected individuals' rights against the regime. Though the

regime under dictator Wojciech Jaruzelski crushed Solidarity, making it illegal, persecuting and imprisoning many of its members, and declaring martial law, the regime also passed provisions specifically protecting private property in its constitution in 1983 (Smith 1985). The rest of the 1980s saw a gradual collapse of communism in Poland with a series of devastating strikes and economic crises, as well as the final death throes of communism throughout the Soviet bloc as Gorbachev and other reforms tried to save the failing system.

Seeing the inevitable, after the fall of the Berlin Wall the regime began negotiations for transition to democracy with Solidarity, the Catholic Church, and other pro-democracy groups at the end of the 1980s. An agreement was struck for parliamentary elections by popular vote, though Solidarity was allowed no more than 1/3 of the seats. An alliance of communist shell parties would take the other 2/3, with Jaruzelski remaining president and retaining control over the military (Bernhard 2014; Aslund 2002). However, once Solidarity gained its seats, rather than simply remain part of a show democracy, it led more and more protests and political movements that rebelled against the system. By December of 1990, Jaruzelski agreed to step down and helped arrange completely free and democratic elections.

Turbulent Reforms and Stabilization

The liberals (neoliberals) took over the economic reform policy, advocating for radical liberalization and breakup of the state that became known as shock therapy. At the same time, free market coalitions initially ruled the government, which immediately began rewriting the laws of the land via constitutional courts (Blokker 2015). During this time there was extreme economic destabilization, with hyperinflation in the early 1990s, as well as rapidly rising unemployment—something which was unheard of after generations of communism. There were high expectations

for the reform process. The public wanted both the boons of a capitalist market economy, as well as the same social protections that had existed under communism. When these tasks proved impossible, there was much disorganization in the political sphere as Solidarity began to break up into numerous social and liberal factions, while post-communist parties had adopted to the political economic reality and moderated themselves. The critics of the market reform¹³ seemed to have been vindicated—the economic and social costs of the transformation had been so great that the post-communist parties returned to power in the 1993 election (Wróbel 2015).

The judgments for the death knell of Polish economic and political reforms turn out to have been overstated. Even when in power, the post-communist parties did not dare return to a command economy, though it was often due to the independence and professionalization of finance ministers and other economists in the government (Norgaard 2000). In their work, Amsden, Kachonowicz, and Taylor (1994) cite qualitative work Amsden from 1992, which was just after the height of the hyperinflation period and right before the defeat of the pro-market policies in 1993. Had they published their book four years later, the story would have been quite different: by 1997 the pro-market reform coalition had returned to power, the economy had stabilized, unemployment and inflation were low. Indeed, though there was hyperinflation from 1990 to 1992, from 1990 to 1994 Poland saw an average yearly economic growth of 4.4 percent, the highest in Central Europe (Wróbel 2015). The economic history detailing Poland's growth is given in Figure 3¹⁴ and Figure 4.¹⁵

¹³ E.g. Amsden, Kochanowicz, and Taylor (1994); Slay (1993).

¹⁴ Source: Aslund (2002:115). It should also be noted that Poland was the *only* country of the former Soviet bloc countries that exhibited positive economic growth in 1992, though from its severe dip in 1990 and 1992 the full recovery would not have taken place until the mid-1990s.

¹⁵ Source: Aslund (2002: 201).

Table 4.1. GDP at Constant Prices, 1990–2000 (Annual percentage change)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 (prel.)
<i>Central Europe</i>											
Poland	-11.6	-7.0	2.6	3.8	5.2	7.0	6.1	6.9	4.8	4.1	4.1
Czech Republic	-1.2	-11.6	-0.5	0.1	2.2	5.9	4.8	-1.0	-2.2	-0.2	3.1
Slovakia	-2.5	-14.6	-6.5	-3.7	4.9	6.7	6.2	6.2	4.1	1.9	2.2
Hungary	-3.5	-11.9	-3.1	-0.6	2.9	1.5	1.3	4.6	4.9	4.5	5.2
<i>South-East Europe</i>											
Romania	-5.6	-12.9	-8.8	1.5	3.9	7.1	3.9	-6.1	-5.4	-3.2	1.6
Bulgaria	-9.1	-11.7	-7.3	-1.5	1.8	2.1	-10.9	-6.9	3.5	2.4	5.0
<i>Baltics</i>											
Estonia	-6.5	-13.6	-14.2	-9.0	-2.0	4.3	3.9	10.6	4.7	-1.1	6.4
Latvia	2.9	-10.4	-34.9	-14.9	0.6	-0.8	3.3	8.6	3.9	0.1	6.6
Lithuania	-5.0	-5.7	-21.3	-16.2	-9.8	3.3	4.7	7.3	5.1	-4.2	2.9
<i>CIS</i>											
Russia	-4.0	-5.0	-14.5	-8.7	-12.7	-4.1	-3.5	0.8	-4.6	3.2	7.7
Belarus	-3.0	-1.2	-9.6	-7.6	-12.6	-10.4	2.8	11.4	8.3	3.4	5.8
Ukraine	-3.4	-11.6	-13.7	-14.2	-23.0	-12.2	-10.0	-3.0	-1.9	-0.4	6.0
Moldova	-2.4	-17.5	-29.1	-1.2	-31.2	-1.4	-7.8	1.3	-8.6	-4.4	0.0
Armenia	-7.4	-11.7	-41.8	-8.8	5.4	6.9	5.9	3.3	7.2	3.3	6.0
Azerbaijan	-11.7	-0.7	-22.6	-23.1	-19.7	-11.8	1.3	5.8	10.0	7.4	10.5
Georgia	-12.4	-20.6	-44.8	-25.4	-11.4	2.4	10.5	10.8	2.9	3.0	2.0
Kazakhstan	-0.4	-13.0	-2.9	-9.2	-12.6	-8.2	0.5	1.7	-1.9	1.7	9.6
Kyrgyzstan	3.0	-5.0	-19.0	-16.0	-20.1	-5.4	7.1	9.9	2.1	3.6	5.1
Tajikistan	-1.6	-7.1	-29.0	-11.0	-18.9	-12.5	-4.4	1.7	5.3	3.7	8.3
Turkmenistan	2.0	-4.7	-5.3	-10.0	-17.3	-7.2	-6.7	-11.3	5.0	16.0	17.6
Uzbekistan	1.6	-0.5	-11.1	-2.3	-4.2	-0.9	1.6	2.5	4.4	4.1	1.5

Source: EBRD (2000a, p. 65); EBRD Press Release, April 22, 2001.

Figure 3

Table 6.1. Inflation, 1989–2000 (Change in year-end retail/consumer price level, %)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 (prel.)
<i>Central Europe</i>												
Poland	639.5	249.0	60.4	44.3	37.6	29.5	21.6	18.5	13.2	8.6	9.8	8.5
Czech Republic	1.5	9.6	56.6	12.7	18.2	9.7	7.9	8.6	10.0	6.8	2.5	4.0
Slovakia	1.5	18.4	58.3	9.1	25.1	11.7	7.2	5.4	6.4	5.6	14.0	8.4
Hungary	18.1	33.4	32.2	21.6	21.1	21.2	28.3	19.8	18.4	10.3	11.2	10.1
<i>South-East Europe</i>												
Romania	0.6	37.7	222.8	199.2	295.5	61.7	27.8	56.9	151.4	40.6	54.8	40.7
Bulgaria	10.0	72.5	338.9	79.2	63.9	121.9	32.9	310.8	578.6	1.0	6.2	11.4
<i>Baltics</i>												
Estonia	..	..	303.8	953.5	35.6	41.7	28.9	14.8	12.5	4.4	3.9	5.0
Latvia	..	..	262.4	958.6	34.9	26.3	23.1	13.1	7.0	2.8	3.2	2.6
Lithuania	..	..	345.0	1,161.0	188.8	45.0	35.7	13.1	8.4	2.4	0.3	1.4
<i>CIS</i>												
Russia	..	..	161	2,506	840	204.4	128.6	21.8	10.9	84.5	36.8	20.2
Belarus	..	..	93	1,559	1,996	1,960	244	39.3	63.4	181.7	251.3	..
Ukraine	..	..	161	2,730	10,155	401	181.7	39.7	10.1	20.0	19.2	25.8
Moldova	..	..	151	2,198	837	116.1	23.8	15.1	11.1	18.2	43.8	..
Armenia	..	..	25	1,341	10,896	1,885	31.9	5.8	21.8	-1.3	2.0	..
Azerbaijan	..	..	126	1,395	1,294	1,788	84.5	6.5	0.4	-7.6	-0.5	..
Georgia	..	..	131	1,177	7,488	6,474	57.4	13.7	7.3	7.2	10.9	..
Kazakhstan	..	..	136.8	2,984	2,169	1,158	60.4	28.6	11.3	1.9	18.1	9.8
Kyrgyzstan	..	..	170	1,259	1,363	95.7	32.3	34.9	14.7	18.4	39.9	..
Tajikistan	..	..	204	1,364	7,344	1.1	2,133	40.5	163.6	2.7	31.3	..
Turkmenistan	..	..	155	644	9,750	1,328	1,262	445.8	21.5	19.8	21.2	..
Uzbekistan	..	..	169	910	885	1,281	116.9	64.3	27.6	26.1	25.2	..

Sources: EBRD (1999, p. 76; 2000b, p. 9); for 2000, compiled official announcements.

Figure 4

Another way to understand the political and economic situation in Poland was that it was simply the growing pains of a liberal democracy and capitalist system. By their own admission,

Amsden, Kachonowicz, and Taylor (1994) acknowledge that Solidarity was more of a nexus of resistance currents that opposed the system, rather than necessarily a coherent ideological or political movement. Thus, it seems only natural that it would break up once the main force that held it together—the dictatorial communist regime supported by the Soviet Union’s military strength—was no longer on the scene. Indeed, Davies (2005) points out that the political scene in Poland has crystalized into a more traditional “right” vs “left” political spectrum, with some members of Solidarity joining the post-communists and socialists, and others joining the more conservative and nationalist elements historically aligned with the Church.

Finally, Amsden, Kachonowicz, and Taylor (1994: 79) claim that “[f]ree market forces cannot be relied upon to restructure post-socialist industry,” but *why should they be?* If the true essence of a capitalist system is decentralization and exchange, then why should the market be expected to build any one specific institution in the first place? If anything, it seems more logical to simply conclude that a constellation of social forces that developed part and parcel with a market system should facilitate that same system, and it seems odd to think that *any* system should facilitate elements alien to it. This position seems to display a naivety toward institutions that has been critiqued throughout this paper. If free market and political liberalization arose largely spontaneously, connected with deeper roots, then they should not be expected to follow any particular design *a priori* designated, nor criticized by any failure to reach some systemic outcome, when these events were not designed in the *first place*. Similarly, the time horizon to declare the collapse or success of a political economy given by its critics seems to be woefully adequate. If the Soviet Union and its puppet states were only able to facilitate industrialization and economic development with great human and social cost over a turbulent half century, then why are its reforms expected to have not only corrected for the errors of the previous system, but also then

design and implement their own policies and reforms within the space of just five years?

IV. The Success and Permanence of the Reforms

If the transition is to be judged at all, it can only be done so by what it *has* produced, rather than what observers think it *should* have produced, especially *without regard* for idealized conceptions of design and policy implementation. In nearly every measure, Poland ranks higher in economic growth, structural adjustment, liberalization, and real wage growth than the majority of its post-Soviet brethren, and lower in corruption.

Perhaps one of the most obvious and non-contested areas of its growth has been the marked increase of its private sector, which steadily increased throughout the 1990s. It is interesting to note that, although Poland is seen as one of the most radical reformers, and Hungary as one of the “gradual reformers,” Hungary has actually surpassed Poland in privatization, as Figure 5 demonstrates.¹⁶

¹⁶ Source: Aslund (2002: 279).

Table 7.2. Private Sector as Share of GDP, 1991–2000 (EBRD estimates, midyear, percentage of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 (prel.)
<i>Central Europe</i>										
Poland	40	45	50	55	60	60	65	65	65	70
Czech Republic	15	30	45	65	70	75	75	75	80	80
Slovakia	15	30	45	55	60	70	75	75	75	75
Hungary	30	40	50	55	60	70	75	85	80	80
<i>South-East Europe</i>										
Romania	25	25	35	40	45	55	60	60	60	60
Bulgaria	20	25	35	40	50	55	60	65	70	70
<i>Baltics</i>										
Estonia	10	25	40	55	65	70	70	70	75	75
Latvia	10	25	30	40	55	60	60	65	65	65
Lithuania	10	20	35	60	65	70	70	70	70	70
<i>CIS</i>										
Russia	5	25	40	50	55	60	70	70	70	70
Belarus	5	10	10	15	15	15	20	20	20	20
Ukraine	10	10	15	40	45	50	55	55	55	60
Moldova	10	10	15	20	30	40	45	50	45	50
Armenia	30	35	40	40	45	50	55	60	60	60
Azerbaijan	10	10	10	20	25	25	40	45	45	45
Georgia	15	15	20	20	30	50	55	60	60	60
Kazakhstan	5	10	10	20	25	40	55	55	60	60
Kyrgyzstan	15	20	25	30	40	50	60	60	60	60
Tajikistan	10	10	10	15	15	20	20	30	30	40
Turkmenistan	10	10	10	15	15	20	25	25	25	25
Uzbekistan	10	10	15	20	30	40	45	45	45	45

Source: EBRD (2000a).

Figure 5

Another important indicator that the transition to a liberal political economy has been a success, is that corruption has gone down, as the private sector and the size of the GDP has gone up. Furthermore, Poland has seen decreases in state intervention as well as *lower* bribes paid. If it were the case that capitalism and freer markets themselves were generators of crime, than this relationship would not hold. As such, any superficial arguments against the immorality of capitalism do not seem to be empirically supported, as Figures 6 and 7 indicate. Instead, what seems to be the case is that freer markets and a regime of good behaviors are connected, perhaps both being influenced by increases in the rule of law, respect for private property, etc.

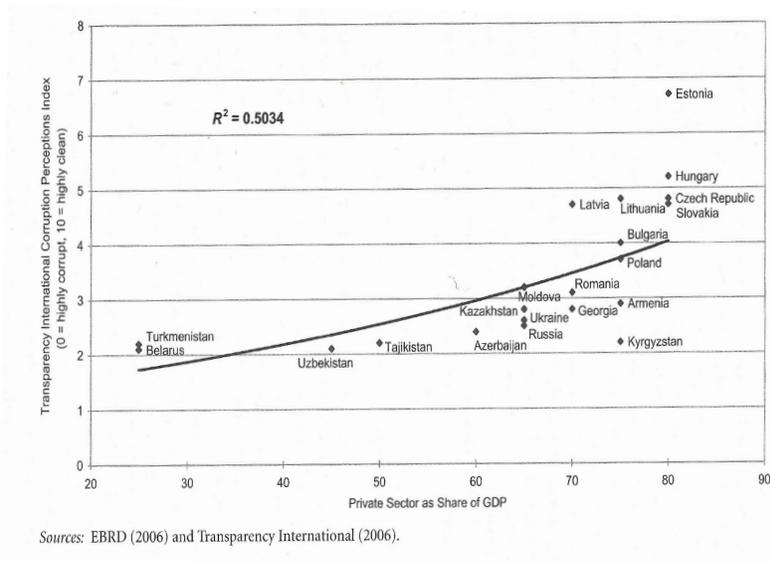


Figure 6

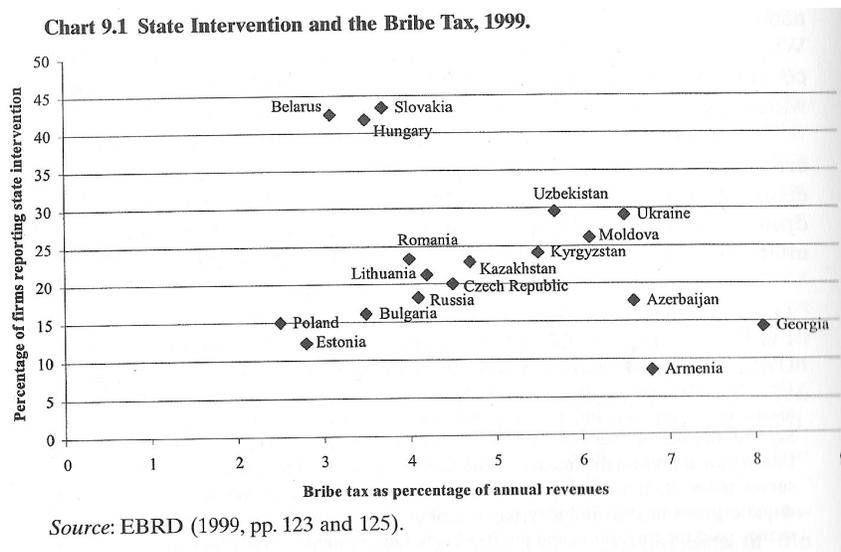


Figure 7

In the case of Poland, there is a strong correlation between free markets and the growth of democracy. Figure 8 demonstrates this relationship plainly, with Poland scoring very highly in both structural reform, as well as political and civil liberties. Figure 9 demonstrates the overall

relationship between economic reforms in a society.

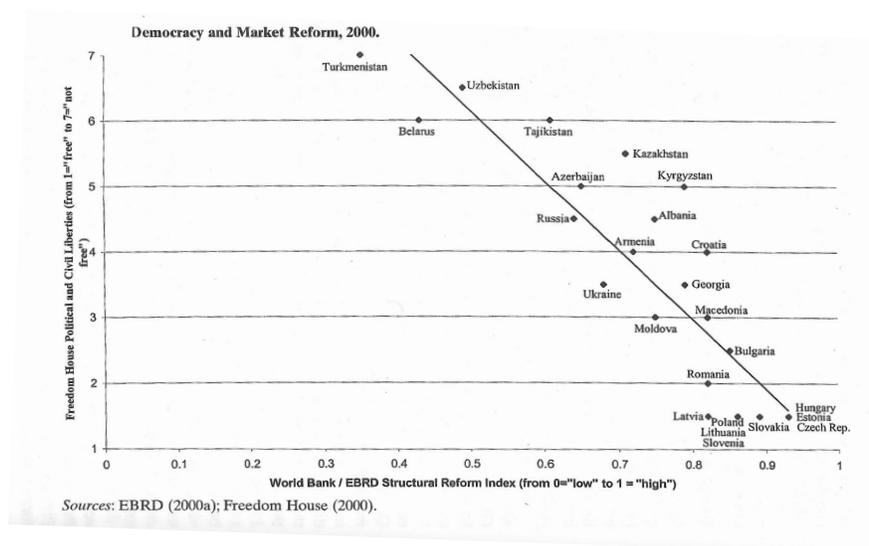


Figure 8

	Baltics	CE	SEE	CIS-9	CIS-3
Market economy ¹	Yes	Yes	Yes	Yes	No
Private share,% of GDP ²	75	79	73	64	32
Democracy ³	Free	Free	Free	Partially free	Not free
Corruption ⁴	5	4	4	3	2
Inflation ⁵	4	3	7	7	9
Unemployment rate,%	8	12	9	7 ⁶	NA
Average GDP growth,%, 2001–5	8	4	5	9	8
Public expenditures,% of GDP, 2004	35	46	42	27	35
EU membership	Yes	Yes	Soon	No	No

1. At least 0.70 on the structural reforms index 2005 (see Figure C.1).
 2. European Bank of Reconstruction and Development (EBRD 2005) assessment.
 3. Freedom House (2006) assessment.
 4. Transparency International (2005) (from 0 = highly corrupt to 10 = highly clean).
 5. Average consumer price index, year end.
 6. CIS-9 countries with plausible statistics (Armenia, Kazakhstan, Moldova, Russia, and Ukraine).
- Sources: EBRD (2005), Freedom House (2006), Transparency International (2005), United Nations Economic Commission for Europe (2006), and World Bank (2006).

Figure 9

Permanence of the Reforms

What is most striking is the relative permanence of these reforms. Not only has Poland made these complete reforms, but support for markets has remained relatively high as time has passed. Figures 10,¹⁷ 11,¹⁸ and 12,¹⁹ demonstrate that not only has Poland retained relatively high support for market reform, but that these reforms have remained stable since the time of the transition.

The dynamics of market support in 15 countries (per cent support).

Country	Support 1991	Support 1992	Support 1993	Support 1994	Support 1995	Support 1996	Support 1997	Average Support
Albania	67.5	73.4	70	67.6	78.7	75.9		72.2
Belarus		33.8	30.5	28.3	32.8	35.1		32.1
Bulgaria	61.8	56.3	52.1	39.7	40.3	45.8	52.3	49.8
Czech Rep.	61	55.4	51.8	48.6	43.7	44.9	29.8	47.9
Estonia	59	49.7	53.6	48.9	56	57	55.6	54.3
Hungary	65.1	55.6	46.2	44.1	40.3	38.6	37.8	46.8
Kazakhstan				28.2	32.1	33.2		31.2
Latvia	57.4	39.5	44.7	39.8	43.4	44.7	47.5	45.3
Lithuania	74.8	65.8	61.1	50.4	49.6	40.8	50.3	56.1
Poland	56	55.7	57.3	51.6	64.2	63.4	66.3	59.2
Romania	35.3	66.1	51.1	71.9	71.5	80.3	69.1	63.6
Russia	46.7	40.6	30.7	23.2	19.9	24.6		31.0
Slovakia	61	51.3	42.1	43.6	39.8	42.4	36	45.2
Slovenia		66.2	44.5	51.3	46.1	46.5	46.4	50.2
Ukraine		38.7	30.8	30	22.9	25.5		29.6

Source: EastEurobarometer, subsequent years.

Figure 10

¹⁷ Source: Aslund (2002: 279).

¹⁸ Source: Aslund (2002: 102).

¹⁹ Source: Norgaard (2000: 173).

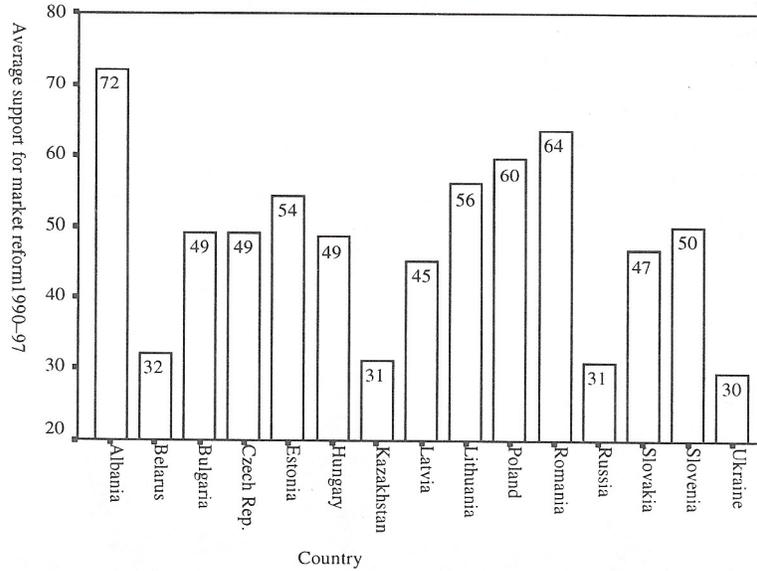
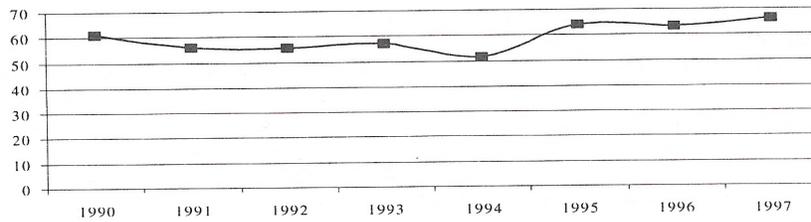


Figure 11



Source: EastEurobarometer. Successive years.

Support for economic reforms in Poland 1991–1997 (per cent support).

Figure 12

Last but not least, surveys have demonstrated that Poles retain a relatively low level of support for economic egalitarianism, compared with other post- Eastern bloc states, as Figure 13 indicates.²⁰

²⁰ Source: Norgaard (2000: 101).

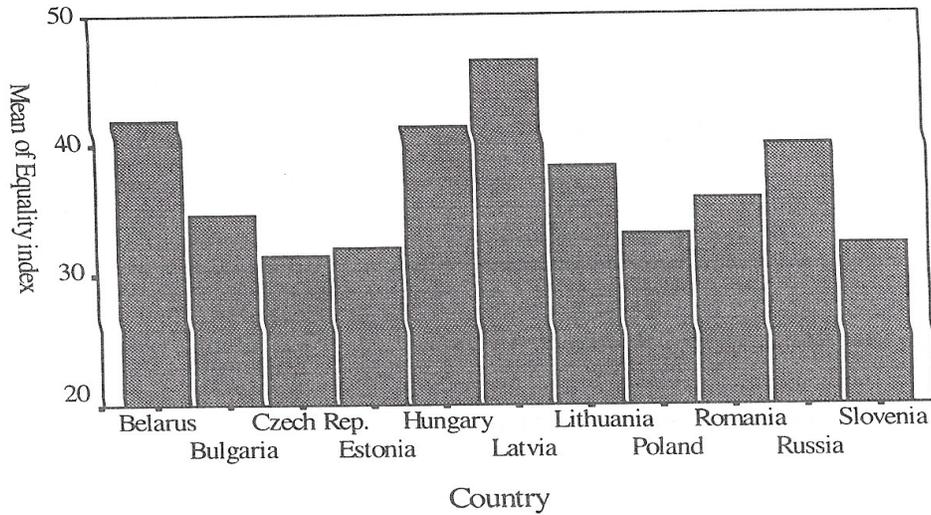


Figure 13

In summary, the long-lasting support for markets and democratic reforms, even among periods of great social and economic turbulence, indicates the stickiness of these institutions. The relatively low support for economic egalitarianism, especially after half a century of Soviet ideological indoctrination, gives the impression that the success of Poland’s transition was not accidental, but was deeply connected to longer-term sociological historical trends within society that were simply waiting for a foreign, external power to disappear.

V. Policy Conclusions

Nobel Prize-winning economist F.A. Hayek once quipped that “the curious task of economics is to demonstrate to men how little they understand about what they imagine they can design” (Hayek 1988: 76). If anything, the role of markets and market-facilitating phenomena in the long and complicated political, social, and economic history of Poland and the other Eastern bloc nations demonstrates how little we still understand about sociohistorical change.

Opponents of the free market changes conceive of the transition as external and coercive, but ignore that Soviet puppet regimes were viewed as illegitimate and that popular support for free markets remained high during the transition, despite profound social and economic dislocation. Proponents of the transition often debate policy specifics or speak of how to build institutions to curb elite predation and support democracy, but often miss how the collapse of the Soviet bloc was as much the result of decades of everyday entrepreneurship, resistance, or complete disregard for local regimes and authority as much as any elite compromise or externally directed adjustment package. Both those who supported the reforms as well as advocates of market socialism often share a common naivety about the ease of social engineering, as well as a bias toward the twilight of communism and the transition itself, both environments where design was openly discussed. Market socialists claim that the errors of the socialized economy were of degree, not substance: that there were insufficient mechanisms to restrain the private and black market, that there were inefficient systems of distribution, that ideological rigidity made planning inflexible, etc. Those in favor of the transition debate specific policies and formal political structure, trying to create a blueprint of a successful society, yet the markets that sustained many Poles during the ills of social planning were not of human design, nor were the strikes or protests.

The policy conclusions of new development economics share market socialists' skepticism of exogenously driven changes by international development agencies, while at the same time argue that market and political liberalization was largely successful. This circle is squared in the case of Poland and Eastern Europe because the processes of change were endogenously driven, both in the sense that they aligned with deeper institutional trajectories, and because of the relative openness of the Polish society to free market and liberal ideas. Even under the aegis of communism, Polish and outside experts were able to combine their knowledge in a relatively

productive manner, whereas in Russia and other Eastern bloc states these reforms and policies, as exogenous, simply did not stick. Unfortunately, this importance of context limits the transferability of any policy conclusions from Eastern Europe to other developing nations. Perhaps the lessons learned can extend to other societies and nations that had similar experiences of pluralism, private property, and relatively autonomous vehicles of social change such as churches, but the model is certainly not generalizable as part of some grand unified theory of development economics.

A second-best solution is simply to follow out the pattern that Boettke, Coyne, and Leeson (2008) have already described in the cases of Japan and Germany. Policy should be crafted by individuals generally familiar with the political, social, and economic history of the endogenous population and then made flexible enough that the local governance structures can tweak and adapt these policies. Further, it is important that these local governance structures are invested as supporters of these changes, in order to confer upon them as much legitimacy and acceptance as possible. Even if markets and stable political systems cannot themselves be built in short windows of time, deeper, pre-existing social frameworks can be built upon and tweaked, if only on the margins.

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