“Economic Transformation and the Future of Capitalism: Lessons Learned from Poland’s Success in Economically Turbulent Times” was sponsored and organized by the CSIS Europe Program, the World Bank, the Institute of International Finance, and the Polish-American Freedom Foundation, in association with the Embassy of the Republic of Poland and held at the World Bank on November 3, 2009. The conference underscored the remarkable success of the Polish economic transition at the end of the Cold War and its resilience over the past 20 years. Many of the participants highlighted the fact that Poland was the only economy in Europe experiencing economic growth in 2009 despite the global financial crisis. Credit for Poland’s economic success today was due to the foresight of Poland’s economic team 20 years ago to put into place sound institutional and policy mechanisms to allow the Polish economy to prosper. Many of the speakers also noted the fact that the Polish experience can be a powerful example for developing countries and provide useful lessons for economies in transition.

The Global Economy in Turbulent Times

Michael Krupinski, alternate executive director at the World Bank, welcomed participants and guests to the conference and provided brief remarks highlighting the fact that Central Europe, as an economic bloc, is as large as the economy of India.

Zbigniew Brzezinski, CSIS counselor and former national security adviser to the U.S. president, opened the proceedings and placed the conference’s rationale in historical context. Twenty years of significant political and economic reforms have not only transformed Poland as a country, but have demonstrated the remarkable success of the reform agenda undertaken with limited experience transitioning Communist-led economies to market capitalism. Despite the fact that universal faith in capitalism has recently faltered, the malaise of communism, which caused severe political problems, has not returned to fashion. Dr. Brzezinski remarked that the central theme of the conference, the lessons learned from two decades of reforms, can be applied on a global and national scale. He welcomed the guest speakers to provide their thoughts on these important lessons and their application to other transitional economies.

Dr. Brzezinski concluded his remarks by noting two particularly remarkable individuals for their prominent role in Poland’s transformation: Robert Zoellick, president of the World Bank, and Leszek Balcerowicz, architect of Poland’s economic transformation. Despite receiving little credit or public acknowledgement, Mr. Zoellick shaped the U.S. response to German reunification, as well as U.S. assistance to Central and Eastern Europe following the political and economic upheaval stemming from the fall of communism. Dr. Balcerowicz pushed through a bold and visionary economic plan, and Poland’s political leadership had the foresight to follow his course. The resilience of the Polish economy during the current global recession is a testament to Dr. Balcerowicz’s daring vision. Finally, Dr. Brzezinski commended each of the panelists on the direct role they played in the Polish reform process.

In his keynote address, Robert Zoellick remarked that we must not forget the role the people of Eastern Europe and Poland played in the transformation. Describing a recent visit to Warsaw, he was reminded that Poland is a nation—not a state—that possesses a tremendous sense of communal brotherhood. Looking back at how U.S. policy sought to support Central and Eastern Europe’s transformation, Mr. Zoellick noted how amazed he was at the time at the extent of pressure on and criticism of Poland and its leadership during the first years of its liberation from communism and then again during Poland’s application process to join NATO.

He commented that fundamentally it was up to the Polish people to establish a market economy as a foundation of their democracy. Poland’s leadership needed courage, persistence, and policy consistency to push through such dramatic reforms as different politicians and political parties moved in and out of office. Some critics may argue that economic reforms and global economic integration increased Central and Eastern Europe’s exposure to the current financial crisis, but he disagreed. And, he noted that it would be unwise historically for Western Europe to ignore the plight of its eastern neighbors.

In describing Poland’s situation during the current economic crisis, Mr. Zoellick explained that there were 12 major European banks in the region in danger of failing. However, due to the efforts of the World Bank, the European Bank for
Reconstruction and Development (EBRD), and the International Finance Corporation (IFC), the banks have remained solvent. The current recession continues to show the benefits of European solidarity, as those countries within the European Union have weathered the crisis better than those outside, such as Ukraine. He reiterated that Poland was the European Union’s best performer, with no negative growth, flexible exchange rates, and macroeconomic stability.

Finally, he noted that the World Bank was now in discussions with Polish authorities in an effort to continue its economic progress, particularly in infrastructure, energy efficiency, mitigating disasters, and medium-size business loans. In the future, the World Bank could switch to a fee-based approach instead of lending, which indicates Poland’s successful navigation through challenging economic waters.

Relevance of the Polish Experience for State-dominated Economies in the World

David Lipton, assistant to the U.S. president for international finance, provided opening remarks, suggesting that in retrospect one thinks of Poland’s transformation as easy and predictable. It was not. It is important to remember that there were no examples to follow in transforming a Communist political and economic system to a democratic, free market society. Basic knowledge and principles had to be learned and understood, such as common economic principles of ownership and supply and demand. He recalled that when Leszek Balcerowicz, as Polish finance minister, announced his plan of economic “shock therapy,” his vision was met with great skepticism from Polish opposition parties and the International Monetary Fund (IMF) alike. Now, his early work has spawned an entire subdiscipline of economics, known as transition economics.

Mr. Lipton went on to note that while Poland is an interesting case study during the current global economic crisis, it has enjoyed special circumstances that must be taken into account. Poland was insulated from the most painful effects of the global crisis because the pace of its financial sector reform has been slower than and not as open to foreign investment as in the United States and Western Europe. Poland must continue the reform process by finishing its privatization, reducing its budget deficit, and improving infrastructure.

However, Mr. Lipton noted that an important lesson to be learned from Poland is that it is possible for one country to succeed dramatically; therefore, it should be a powerful example to developing countries.

Panel Discussion: Lessons Learned for Reform and Sustainable Growth

Marek Belka, director of the European Department at the IMF and former prime minister of Poland, prefaced his remarks by saying that, as the only Pole on the panel, he was going to be very simplistic, biased, and emotional. It was his opinion that the past 20 years have been the best in the history of Poland. He posed several questions, however: Has Poland built a modern state and changed the old geopolitical structure? Has Poland built a modern society? Has Poland built a modern economy?

In an attempt to answer these questions, Dr. Belka noted that Poland’s membership in the European Union and NATO had created the best geopolitical situation for the nation in 400 years. Yet, Poland is still struggling to adapt to these new conditions. Poland has never had a more successful, efficient state—one so capable of meeting challenges. Poland is a modern society where its citizens are living longer and the population is progressively becoming healthier. However, Poland has not been as successful economically or geopolitically. Poland lacks social capital and a robust civil society, which likely stems from fear of socialism and central planning. Finally, while the Polish economy might not be as successful as the Polish people would like, it is a functioning market economy, backed by solid institutions and driven by a modern entrepreneurial spirit. In the future, Poland’s largest concern is the population’s inclination for early retirement and the economic need to extend the retirement age.

Dr. Belka concluded his remarks by noting that Poland has weathered the current crisis better than most due to its strong domestic financial markets, which reduced the need to seek financing from abroad. Poland’s banking supervision is strong, and its policy has been to reduce or limit imbalances. These efforts have created confidence and belief in the zloty, confidence that had previously never existed. While Poland’s macroeconomic policies are not perfect, they are far superior to those of other nations in the region.

Heinrich Bortis, professor at the Université de Fribourg, discussed his paper entitled, “From Neo-liberal Capitalism to Social Liberalism on the basis of Classical-Keynesian Political Economy.” In his presentation, Professor Bortis first dealt with some of the basic features of classical-Keynesian political economy, which he described as the social liberal alternative to neoclassical economics. He then discussed its general policy consequences and, specifically, the policy implications it would have for Poland and other transition economies.1

Yegor Gaidar, director of the Institute for the Economy in Transition, former Russian prime minister, and former Russian minister of finance,2 recalled that many had doubted Poland’s ambitious reforms at the time the Balcerowicz Plan was adopted in 1989. These critics, however, are now silent. Russians believe the Polish example of economic

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1 For more information, please find Professor Bortis’s presentation at http://www.unifr.ch/withe/assets/files/Publikationen/From_neo-liberal_Capitalism_to_Socia_Liberalism.pdf.
2 Yegor Gaidar died in Moscow, Russia, on December 16, 2009, at the age of 53. Participation in this conference was his last public appearance. The event organizers and participants pay tribute to Mr. Gaidar.
transformation to be the correct model, and they have attempted to follow Poland’s lead to achieve financial stability. Unfortunately, these reforms were much harder to implement in Russia, as there were few surviving institutions after the fall of communism. No police, no army, no customs, and no control over monetary supply policies.

Mr. Gaidar noted that there were several reasons that led to Poland’s success and Russia’s struggles economically. Because the reign of socialism was shorter in Poland and older generations remembered the market economy, structural disturbances were smaller, and Poland’s economy was less reliant on the military-industrial complex. Russia also had to deal with the dissolution of a vast empire and all the complications that went along with the breakup of the Soviet Union. Therefore, Russia followed Poland’s lead, erroneously believing that, after three years of hardship, the benefits of reform would emerge as they did in Poland. When this did not occur, Russia paid a severe political price for taking this reform path. Despite the failure in Russia, he argued that Poland’s model was correct.

Jacob Frenkel, vice chairman of AIG and former governor of the Bank of Israel, spoke of the lessons that all nations can learn from Poland’s economic transformation in today’s world. He noted that stimulus plans and increasing public debt require foresight as to how to exit from these policies; whether by cutting spending, raising revenues, or raising growth, long-term vision is needed. Without it, there can be no short-term success. Therefore, successful reform demands credible political leadership that publicly articulates a vision of the future. Poland’s leaders earned valuable public credibility by being both transparent and honest with the Polish people.

Dr. Frenkel noted that a successful free market economy demands monetary stability to promote investment and public confidence. Monetary stability requires a long-term perspective because it is a long, painful process. Markets need to be open and exposed to competition in order to improve efficiency and discipline. This process is quite challenging.

Jan Švejnar, professor at the University of Michigan, proclaimed that his remarks were in tribute to those Poles who drove change and to the absolute vision, courage, and scale of the reforms. He described Poland as the first post-Soviet country to open itself to globalization, which had a greater global impact than people initially realized. Poland was the first post-Soviet country to overcome the 1990s recession and was the region’s fastest growing economy. While others made excuses as to why they could not undertake this process, Poland excelled economically. One particular area where Poland performed well was in the area of legal reform, which further accelerated the transition process.

Professor Švejnar congratulated Poland on its vision in joining the European Union and NATO and added that Poland has been an excellent and active EU member, rather than a passive member. He suggested that Poland’s engagement within the European Union is an outstanding example for other countries in the region, and its EU integration increased the speed by which Poland opened itself to international trade and investment. This openness allowed vast foreign direct investment (FDI) and rapid technology transfer. Poland’s example extends past Eastern Europe to Europe as a whole.

Question and Answer

In the question-and-answer session, Poland’s business model was praised as having been validated by the current crisis. Poland did not heavily concentrate in real estate and financial services. Rather, policymakers focused on the country’s comparative advantage. It was noted that Poland will need to address its aging population and declining labor force.

In response to a question about why Poland was not in the G-20, as it is the world’s 19th-largest economy, panelists remarked that the G-20 provides informal governance with the goal of having broad regional representation, not just the 20 largest economies. South Africa was listed as a good example, as it is not in the group due to its economic size but a result of being a representative for Africa. It was noted that Poland is represented by both the European Council and the European Commission.

In response to a question about how the European Union might play a role in future Polish economic progress, panelists pointed to past EU funds that have aided Poland’s advancement. A follow-up questioned whether EU funds were an anesthetic for future reforms. It was noted that Poland’s last big reform was that of its pension fund, which has made little progress. The panelists noted that if anyone were to doubt Poland’s decision to integrate into the European Union then they should examine the situation in Ukraine and see that European integration was Poland’s destiny. For the future, Poland must realize it can play an important and active role in the European Union. The dynamism of its economy is Poland’s comparative advantage and its opportunity to have an impact on the European Union. One panelist asked, if we do not want European integration, what is it that we do want?

Dinner Keynote Speeches: The Future of Capitalism

In opening the dinner portion of the event, Sławomir Stanisław Skrzypek, president of the National Bank of Poland, reflected on the implementation of a bold plan for transforming Poland’s economy from a Soviet-type to a market-driven economy that would serve as a model for other governments in the post-Soviet world. He suggested that the two most fascinating subjects of the night, lessons from the post-Communist

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1 Slawomir Stanislaw Skrzypek died in Smolensk, Russia, on April 10, 2010, at the age of 47. He was one of the 96 victims of the plane crash that killed President Lech Kaczynski of the Republic of Poland and a number of other Polish notables. The event organizers and participants pay the tribute to Mr. Skrzypek.
transition and the pressing issues of the ongoing global crisis, were best discussed together, inasmuch as the Polish economic success of the last 20 years provides some clear hints as to how a sustainable, market-oriented capitalist system is to be built.

Mr. Skrzypek cited the IMF’s most recent Regional Economic Outlook for Europe, which points out that the continent has been significantly affected by recent developments. Notwithstanding, Poland’s gross domestic product (GDP) was expected to grow by 1 percent in 2009, while the whole of Europe was projected to decline by 4.7 percent. If this trend were to continue, Poland’s economy could emerge as one of Europe’s strongest. There are some key factors in this success: the country’s flexible inflation targeting under a floating exchange rate to build credibility; a low-inflation environment to avoid large-scale “liability dollarization”; the smaller scale of imbalances before the onset of the crisis and the important role of domestic demand. Another major factor was the existence of a banking system with sound regulatory foundations, which limited the influence of global events on the Polish economy.

Mr. Skrzypek later suggested that the attitude to be adopted in Poland toward economic reforms should be one of cautious pragmatism to avoid the risk of basing a system on a fixed and academic style of thinking—an attitude that works well with capitalism’s evolutionary and adaptive nature, which should be strongly stressed. A framework is needed that would enable the elimination of global imbalances on the one hand with the ability to manage the financial system so it does not become too big to fail or too expensive to save on the other. Capitalism’s “learning-by-doing” mechanism is an attribute worth cherishing as it allows all investors—whether wrong or right, rational or irrational—to compete in a discovery process, as we learn what does and does not work.

Leszek Balcerowicz, former deputy prime minister, minister of finance, and president of the National Bank of Poland, made three observations from history that we cannot ignore.

1. There is little trade-off between liberty and prosperity. Taking away liberty robs the people of prosperity, and this is why socialism cannot succeed. Throughout history, capitalism has succeeded and socialism has failed. However, some varieties of capitalism are not homogenous and require certain features, such as stable monetary and fiscal policies, protection of property rights, and competition.

2. The protection of property rights is essential. High taxation and corruption can produce poverty.

3. We must identify those public policy failures that led to the current economic crisis. Monetary policy should have been more restrictive while fiscal policy needed to remain conservative and not short sighted.

Dr. Balcerowicz remarked that, 300 years ago, all societies were poor as they were constrained by bad institutional systems that limited their economic freedom and fragmented their markets. Adam Smith’s economic philosophy changed the status quo and created a productive system originating in Britain before spreading around the world. There are good and bad types of capitalism, while socialism is always bad in its effects. Poland can be a positive example to all struggling countries that a transition from socialism to good capitalism is possible.

John Lipsky, the first deputy managing director of the IMF, congratulated Leszek Balcerowicz on the success of the Polish economy. Poland undertook the first comprehensive and most successful reforms in the former Soviet Bloc. In doing so, Poland taught other countries some key lessons about successful transition, including the need to stabilize the macroeconomy, liberalize prices, and privatize state assets as appropriate.

Dr. Lipsky noted that the sound policies and strong institutions first put in place 20 years ago had been instrumental in helping Poland weather the current economic crisis. In fact, Poland was one of only a few European countries to avoid a technical recession in 2009. The IMF played an important role in supporting Poland during the crisis, by providing access to large preemptive and precautionary financing under the fund’s new Flexible Credit Line (FCL). This contingent financing provided an important buffer against the severe downturn in much of Central and Eastern Europe.

Dr. Lipsky noted that, somewhat in contrast to Poland’s successful move to a market-based economy, some in the advanced economies were now questioning whether global capitalism needed to be fixed in some fundamental sense. He noted, however, that dynamic emerging markets appear more committed than ever to open, market-based economies and that protectionism had largely been kept in check during the crisis. Nevertheless, the postcrisis period will present major challenges to governments across the world, including with respect to the need to regain control over rising sovereign debts and to reduce risk in the financial sector.

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