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HOW TO ATTAIN THE GOLDEN AGE – THE ROLE OF THE BALCEROWICZ PLAN IN THE SUCCESSFUL TRANSFORMATION OF POLAND IN THE 1990S*

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ABSTRACT

In the early 1990s Poland went through a major political transformation that completely reshaped the country. One of the key pillars of these changes was the so-called 'Balcerowicz Plan' - an ambitious process that enabled a significant shift in the economic and social landscape through the introduction of fundamental changes in the Polish legal system. The thesis advanced in this paper is that the successful transformation of the state's system of government in post-Soviet countries depended not only on democratization and political changes but also required an effective program of economic reforms. This will be demonstrated by reference to the 'Balcerowicz Plan.' The first part discusses the transition from the former economic order in Poland to the free market order by means of the new legal norms, describing briefly the eleven legislative acts which brought wide-ranging and fundamental changes to the Polish legal system. The second part explains the impact that these reforms had on Polish society both in the short and long-term. Despite the initial problems associated with the change of the economic system, they eventually brought significant improvements to the quality of individuals' lives. The conclusion reiterates the thesis that the successful transformation of the state's regime in post-Soviet countries depended not only on political changes, but also on effective economic reforms.

KEYWORDS

- *transformation in Poland*
- *Balcerowicz Plan*
- *economic reforms*
- *Poland*
- *centrally planned economy*
- *democracy*
- *free market*

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Introduction

In the early 1990s, Poland went through a major political transformation that completely reshaped the country. One of the key pillars of these changes was the 'Balcerowicz Plan' (named after the Polish Minister of Finance at the time; also referred to as 'Shock Therapy'), an ambitious set of reforms that enabled a significant shift in the economic and social landscape of the country and introduced fundamental changes into the Polish legal system. A set of eleven new legislative acts concerning social and economic issues came into force, reforming employment, economic activity, banking law, the functioning of state-owned enterprises and the shape of the central bank of Poland. All of them were significant, as they related to fields which were previously strictly controlled by the state, and were simultaneously vital for the establishment of a free market economy.

The thesis advanced in this paper is that the successful transformation of the state's regime in post-Soviet countries (that is, one that culminates in the complete change of an inefficient market model, without a reappearance of the previous system) depended not only on democratization and political changes but also required an effective program of economic reforms aimed at increasing its efficiency. Thus, the Balcerowicz Plan was the indispensable element of Polish transformation in the 1990s. Without it, the good intentions of the political powers would have been insufficient to introduce and maintain democracy in Poland. The changes stipulated in legislation implemented under the Balcerowicz Plan enabled not only the liberalization of the Polish economy and its transition to a free market model (by allowing free business activity, the growth of salaries and elimination of supply shortages) but also initiated an enormous social shift in the livelihood and prosperity of Polish citizens in the long term. The Plan laid the foundation for the modern state upon which the successful transformation of Poland has been built, irrespective of political changes in subsequent years. This thesis will be illustrated by reference to statutes introduced under the Balcerowicz Plan in three areas: state-owned enterprises, employment, and the banking system; the implications of these statutes; and economic data, all of which are crucial for understanding the Polish economy of that time.

The first part of the article discusses the initial stage of the transition from the former economic order in Poland to the free market by means of new legislative norms, with a brief examination of the above mentioned eleven pieces of legislation. The second part explains the impact that the reforms introduced by these acts had on Polish society and its economy in both the short and long-term. Despite the initial problems associated with the change in the economic system and criticisms expressed by some Polish economists, the reforms brought about significant improvement in the quality of people's lives and Poland's position in Europe.

Brief Introduction to the Economic and Social System of the Polish People's Republic

The end of the Second World War did not bring freedom to Poland. As a result of the geopolitical division after the war, Poland found itself in the Soviet sphere of influence, which meant not only limited sovereignty, but also an arbitrary imposition of a socio-economic model of a Soviet country. In 1947, the Constitutional Act, which set out the structure and scope of activity of the highest Polish authorities, was adopted. It established a model of functioning of the state similar to a parliamentarycabinet one, which in reality focused all the power strictly in the hands of the Polish United Workers' Party, subordinated to Soviet directives (Garlicki: 2007, p. 13). Nothing changed even after the 1952 Constitution was enacted[1], and Poland's political and economic system remained subjected to the ideology set by Moscow for almost forty more years.

The political, economic, and social system in the Polish People's Republic (PPR) was socialism, also referred to as 'People's Democracy' (art. 1 (1) of the Polish Constitution of 1952), with an extended apparatus of social assistance towards citizens on the one hand (including the creation of work posts in numbers vastly exceeding the real needs for employees), but with a non-democratic political regime on the other. The power in the country was said to be held by 'working people of the town and country' (art. 1 (2) of the 1952 Constitution). However, in reality power over the state was not held by the parliament or any other democratic institution, but rather the Polish United Workers' Party. In practice, it was the only active political party in the country which 'won' every election with an overwhelming majority. It was also a 'mass party' with 4.5 million[2] members throughout its existence.

The two most important features of the constitutional order in Poland at that time were: 'the class character of the state' (Wyrzykowski: 1992, p. 25) and the principle of 'unity of powers' based on the assumption that power derives from the 'people' and is exercised by the Parliament. However, the principle of 'unity of powers' only strengthened the position of the leading party (Wyrzykowski: 1992, p. 25).

The ownership system in Poland was highly influenced by Marxist theory, according to which unjust distribution of the fruits of production can be fixed by the model of socialist property (Reich: 2004-5005, p. 592). Thus, economic units of the state, such as state-owned enterprises, managed the property that officially belonged only to the state. Private property was allowed only in reference to the individual and family belongings (Reich: 2004-5005, p. 592).

As for the economic system in the PPR, it was subordinated to the political goals and followed the model of the USSR, which was described as a centrally planned economy[3].The reason for this economic model was to 'facilitate central control rather than to instill any spirit of competition' (Lipton, Sachs: 1990, p. 49). The main characteristics were: extreme concentration of means of production, strong monopolization, command system, and the administrative mode of the determination of prices (Piątek: 2006, pp. 44-45). Since the social and economic system of the PPR was based on 'socialized means of production, trade, communications and credit' (art. 7 (1) of the 1952 Constitution), the state exercised a monopoly over all business activity and foreign trade. The domestic market was closed to any supplies from Western Europe; foreign exchange was subjected to strict rules; imports had to be centrally approved; and state-owned enterprises were isolated from prospective foreign business partners (Lipton, Sachs: 1990, pp. 49-50). Thus, the Polish United Workers' Party had unlimited tools to manipulate the Polish economy (Opolska: 2010, p. 126).

1 Text of the 1952 Constitution of the People's Republic of Poland [Obwieszczenie Przewodniczącego Rady Państwa z dnia 16 lutego 1976 r. w sprawie ogłoszenia jednolitego tekstu Konstytucji Polskiej Rzeczypospolitej Ludowej uchwalonej przez Sejm Ustawodawczy w dniu 22 lipca 1952 r., Dz.U. 1976 nr 7 poz. 36]; English version:http://libr.sejm.gov.pl/tek01/txt/kpol/e1952a-spis.html; (hereinafter: 1952 Constitution).

2 Encyclopedia entry on the Polish United Workers' Party, http://encyklopedia.pwn.pl/haslo/Polska-Zjednoczona-Partia-Robotnicza;3959795.html.

3 Encyclopedia entry on the Poland's Economy, http://encyklopedia.pwn.pl/haslo/4575023/polska-gospodarka.html.

The state's control over society had an additional dimension. The 1952 Constitution in art. 71 (1) stated that: 'The Polish People's Republic guarantees its citizens freedom of speech, [and] of the press', but, contrary to the constitution, this freedom too was tightly controlled and restricted by the state. In 1946, a central office was created to control the press, publications and performances[4]. In essence, censorship was imposed on freedom of speech in any form. Apart from restrictions placed on the entertainment industry, citizens were forbidden from publicly criticizing state authorities, including criticism of the law and the economy.

Taking this into account, it is evident that the state controlled almost every aspect of everyday life in Poland. Moreover, economic projections were not subjected to the needs of society but rather to the military goals of the Warsaw Pact (Opolska: 2010, p. 126). This not only caused a serious suppression of personal freedoms of citizens, but it had a dramatic impact on the economy. It ruined public finances in the long-term. The government did not regulate the market rationally. Decisions were politicized, adjusted according to the objectives of the ruling party and the geo-political reality of Soviet influence, as well as the economic needs of the former Eastern Bloc (e.g. participation in Comecon, an organization of countries with neither meaningful exchange rates nor market economies (Bideleux, Jeffries: 1998, p. 537)).

Before the transition process of the Central European economies of the 1990s commenced, governments of these region had attempted to transform their centrally planned economies into free market models. For example, some of the Central European countries (assuming that this term covers inter alia Poland, Czech Republic, Slovakia and Hungary) undertook the first trials of reforms already in 1960s (Mádl: 1998, p. 568). These however resulted only in a considerable deterioration of those states' financial position (Lipton, Sachs: 1990, p. 47). The situation of Poland and other states which started their transition process in 1990 could therefore be described as privileged. Not only could the governments draw on previous experiences but they could introduce their reforms with the support of society, unencumbered by the ideological influence of the Soviet Union (Lipton, Sachs: 1990, p. 47).

No less important was the economic model adopted by Poland, Hungary and Czechoslovakia, since these states 'explicitly rejected the idea of experimenting with a "third way" between capitalism and state socialism, aiming instead to replicate the economic institutions of Western Europe' (Lipton, Sachs: 1990, p. 47). The goals of the transformation were defined by the US Secretary of State of that time, James Baker: 'Real change must come from within the political and economic systems of Central and Eastern Europe and the Soviet Union, from the sweeping away of barriers to economic activity, from the development and codification of a framework for private business, and from the implementation of sound macroeconomic policies that are essential to economic growth'[5].

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4 Decree of 5 July 1946 on creating the Central Office of the Control of the Press, Publications and Performances [Dekret z dnia 5 lipca 1946 r. o utworzeniu Głównego Urzędu Kontroli Prasy, Publikacji i Widowisk, Dz.U. 1946 nr 34 poz. 210].

5 Economic Transition in Central and Eastern Europe. Excerpts from remarks before a session of the Council of Ministers' meeting of the Conference on Security and Cooperation in Europe (CSCE), Berlin, Germany, June 19, 1991, Department of State Dispatch 1991, p. 465 (hereinafter: Excerpts from remarks before a session of the Council of Ministers' meeting).

Reasons for Introducing the Balcerowicz Plan

The existing economic system proved to be extremely inefficient, causing not only severe market imbalance, but also steadily increasing debt. Systematically growing social discontent and the collapse of the inefficient economy led to the creation of a social movement bringing together representatives of all social groups in the country under the name 'Solidarity.' By the end of the 1980s, the Socialist government, forced by the growing strength of the opposition, began Round Table negotiations with Solidarity, opening the prospect of political change in Poland. Agreement was reached to revise the constitution, to restore the office of President, and the upper chamber of Parliament's, the Senate (Senat) (Garlicki: 2007, p. 13). A new electoral law was passed, under which, on 4 June 1989, partially free elections to the lower chamber of the Polish Parliament (Sejm) and totally free elections to the Senate took place[6].

Consequently, Poland established its first non-communist government. Once Poland became free and fully independent, it could finally start the economic transformation and abandon the centrally planned economy, which by that time was in total decay. The essence of the Polish transformation was to change the institutional system, by introducing a new legal and organizational infrastructure, both in the political as well as in the economic system of the country.

The Polish economy of the 1980s was in a miserable state. In the first years of postwar socialism in the PPR, a significant wave of artificial, politically-driven promotions of people loyal to the authorities, both educational as well as material, among certain social groups such as rural population and industrial workers, created the need for increased social spending[7]. What is more, the state carried out a model of care to ensure economic security for workers, but at the same time restricted individual initiatives not only in the nationalized industries, but also in privately-run sectors of agriculture, handicrafts, and services. It also introduced social security systems including pension insurance, for groups not already covered , such as farmers (Syryjczyk: 2002).

All these measures were undertaken without adequate financing, making it necessary to seek external support. Systematically contracted foreign loans created an external balance of trade deficit which contributed to the collapse of the centrally planned economy (Kaliński: 2011, p. 57). In 1989, foreign debt amounted to 42.3 billion USD (Szpringer: 2012, p. 7), making Poland the fourth largest debtor in the world at that time, after Brazil, Mexico, and Argentina (Jachowicz: 2011, p. 98). Furthermore, the final period of Socialist rule witnessed increasing inflation, unresolved problems of market balance and continued economic shortcomings. The Polish economy at that time could be characterized by low competitiveness, a culture of poor management, and labor productivity reaching 20% of that of the US (Syryjczyk: 2002). The large economic gap with Western Europe was historically unprecedented (Syryjczyk: 2002). Consequently, the Polish economic collapse in 1989 was the culmination of all the economic problems of the 1980s (Szpringer: 2012, p. 7).

While the Polish authorities had undertaken some reforms before 1989 to improve the dramatic economic situation, these were artificial, and partially for political propaganda purposes (Opolska: 2010, p. 126). Furthermore, their effect was even more damaging: the remaining capacities of enterprises were limited, the public administra-

6 Act of 7 April 1989 on Electoral Law to the Senate of the Polish People's Republic [Ustawa z dnia 7 kwietnia 1989 r. Ordynacja wyborcza do Senatu Polskiej Rzeczypospolitej Ludowej (Dz. U. z 1989 r. Nr 19, poz. 103)].

7 Syryjczyk T., Polityka i gospodarka po 1989 r. [Politics and economy after 1989], Speech at the Ośrodek Myśli Politycznej, 21.03.2002; www.syryjczyk.krakow.pl/Polityka%20i%20gospodarka_T.htm.

tion system grew more complicated, and the economy was steered by chance rather than by rules (Habuda: 2007, pp. 62-63). Despite existing censorship, Polish society in the 1980s was already aware of the economic situation and the need for change. According to a public opinion poll conducted in 1985, the respondents affirmed that economic reforms should lead to the introduction of competitiveness between enterprises, passing responsibility to self-government created by employees as regards the most important decisions in workplaces; they also observed the need of the dismissal of all unnecessary employees (Szymanderski: 2011, p. 164).

Only a radical change of the economic system would ensure sustainable transformation and improvement of the standard of living. There were few individuals in 1989 ready to take responsibility for transforming and stabilizing the economy in such conditions and circumstances. Dr Leszek Balcerowicz[8], together with his team from the Warsaw School of Economics, had already carried out research on reforms, and therefore capable and eager to contribute to the changes underway in the early 1990s. In September 1989, Balcerowicz was appointed vice Prime Minister and Minister of Finance[9], which gave him the necessary authority to carry out reforms. He designed an economic transformation program, officially titled 'The Governmental Program of Economic Stabilization,' known thereafter as 'the Balcerowicz Plan' after its architect.

A key advisor to Balcerowicz team was Jeffrey Sachs, a supporter of strong economic activity in the spirit of the Washington Consensus, a set of specific economic policy prescriptions that constituted an aid package for developing countries undergoing economic crisis, created principally for Latin American countries[10], and then introduced in post-Soviet European economies. The Balcerowicz plan aimed to implement most of those reforms, mainly in the area of privatization, liberalization and macroeconomic stability (Aggestam, Falck: 2000, p. 1).

Reforms Introduced by the Balcerowicz Plan

According to D. Lipton and J. Sachs, the program of transition for the Polish economy consisted of the following steps: ending the budget deficit and easy credit policies, releasing prices and eliminating subsidies, establishing a free trade regime with the Western countries, eliminating the restrictions on the private sector, and rapid privatization (Lipton, Sachs: 1990, p. 55).

Professor Stanisław Gomułka divides reforms adopted under the Balcerowicz Plan into two stages. The first one, the so called 'Balcerowicz Plan Mark I,' embraced reforms which will be discussed below. Mark II addressed three further goals – structural reform, tax reform, and government reform (Gomułka: 1998, p. 164, 170) - which were introduced a few years later.

This paper aims to examine the reforms introduced by 'Mark I'. This first stage consisted of eleven statutes, which were submitted to the lower chamber of the Polish parliament in the second half of December 1989 and passed, thanks to intensive efforts from the members of Parliament, on 27 December. They came into force on 1 January 1990 (Dudek: 1992, pp. 91-92).

The program of reforms focused on three main areas: reform of public fi-

8 L. Balcerowicz was granted 'professor' title in 1992.

9 Resolution of 12 September 1989 on appointment of the Council of Ministers [Uchwała Sejmu Polskiej Rzeczypospolitej Ludowej z dnia 12 września 1989 r. w sprawie powołania Rady Ministrów, M.P. 1989 nr 32 poz. 243].

10 Williamson J. (2000), What Washington Means by Policy Reforms, Peterson Institute for International Economics, Washington DC, http://www.iie.com/publications/papers/paper.cfm?researchid=486.

nances, the introduction of free market mechanisms and change to the structure of ownership in the Polish economy (Dudek: 1992, p. 89). These changes affected such areas of the Polish economy as: state-owned enterprises, the banking law, the National Bank of Poland (NBP), salaries, taxes, business activities of foreign entities, foreign exchange law, customs law, employment and termination of employment contracts. The following sections will focus on three key fields, namely the banking law and issues relating to the NBP, employment, and the situation of state-owned enterprises.

State-owned Enterprises

Until 1989, much of the state's power was focused in state-owned enterprises. They were considered 'the basic organizational entity of the national economy' (art. 1 (1) of the Act on the State-Owned Enterprises)[11]. They could be created by public central bodies, local government bodies or the National Bank of Poland and other public banks (art. 9). Among their many prerogatives, the most significant were that their financial status was not subject to market regulation; and they could be liquidated only in a limited number of cases (in fact, it was only the founding organ which could start the liquidation procedure; no specific rules of action and circumstances were detailed). Additionally, the vast majority of the income earned by these enterprises was transferred to the State Treasury. Such a distribution of revenue was characteristic of centrally governed economies – state-owned enterprises had to meet their expenditure from their revenue and transfer the profit to the Treasury (Grabowski: 2013, p. 6).

The first step in changing the exceptional status of state-owned enterprises was to [revise]the Act on Financial Economy of State-Owned Enterprises.[12] It cautiously introduced changes aimed at making these entities more responsive to market flows. These rearrangements affected the way in which enterprises were founded and the system of financial reporting (inter alia art. 1 points 1-7). However, significant changes were introduced only in March 1990, this time through a revision of the Act on State-Owned Enterprises.[13] The revised statute of 9 March 1990 first and foremost introduced provisions allowing liquidation of enterprises on additional grounds appropriate to a free market system: financial difficulty; a court order to cease trading; or a claim submitted by a special commission created to restructure the enterprise. The statute not only provided for the possibility of closing state-owned enterprises but also set out the full procedure. In the case of financial difficulty, a restructuring procedure could be started. This was no mere formality; if restructuring was not completed successfully, the enterprise could still be dissolved.

Employment

Article 14 of the 1952 Constitution stated that 'Work is the right, the duty and a matter of honor for every citizen,' establishing a right to employment as one of the chief principles of the political and economic system in Poland (Dral: 2009, p. 53). Moreover, art. 58 of the 1952 Constitution in paragraph 1 ensured that 'Citizens of the Polish People's Republic have the right to work, that is, the right to employment

11 Act of 25 September 1981 on the State-owned Enterpries [Obwieszczenie przewodniczącego Komisji Planowania przy Radzie Ministrów z dnia 7 listopada 1987 r. w sprawie ogłoszenia jednolitego tekstu ustawy z dnia 25 września 1981 r. o przedsiębiorstwach państwowych., Dz.U. 1987 nr 35 poz. 201].

12 Act of 27 December 1989 changing the Act on Financial Economy of State-owned Enterprises [Ustawa z dnia 27 grudnia 1989 r. o zmianie ustawy o gospodarce finansowej przedsiębiorstw państwowych, Dz.U. 1989 nr 74 poz. 437].

13 Act of 9 March 1990 changing the Act on State-owned Enterprises [Ustawa z dnia 9 marca 1990 r. o zmianie ustawy o przedsiębiorstwach państwowych].

paid in accordance with the quantity and quality of work done'. Thus, one can say that the 1952 Constitution related to the right to employment on two levels: substantive (providing citizens' rights), and procedural (indicating how these rights can be realized) (Dral: 2009, p. 54).These constitutional provisions were cited as the foundation for the policy of 'full employment', known also as 'social employment', namely creating as many job vacancies as people were able to fill, regardless of the actual need of the labor market. The goal of this policy was to ensure a minimum livelihood for all citizens who were able to work, as well as for their families (Dral: 2009, p. 54). This policy also had a propagandist effect, creating the image of a protective state and a prosperous economy. The other aspect of the policy was the special protection of the stable relationship between employer and employee (Dral: 2009, pp. 53-54).

Nevertheless, from an economic standpoint, the policy of full employment was not justifiable (Dral: 2009, p. 53). First, no labor market existed, but in order to ensure work posts for all citizens, employment was also centrally planned (Soboń, Rogozińska-Mitrut: 2007, p. 124). Secondly, the salary did not depend on productivity but on time spent in the workplace. It contributed to the phenomenon of so-called 'hidden unemployment.' Such an approach towards the right to employment and employment relations in general was characteristic of the Socialist system and could not survive the free- market rules of the new system established in 1989. Thus, this policy needed legal revision.

These changes were introduced by the Act on Employment.[14] The goal of this Act was to regulate the actions undertaken by the state in relation to employment (art. 1(1)). Article 2, which contained definitions of concepts included in the Act, such as the term 'unemployment'. Thus, the Act assumed the possibility of unemployment . The following articles of the Act stipulated the organs responsible for the realization of tasks established by the statute (art. 3-7), state employment agencies (art. 8-14), rules concerning unemployment benefit (art. 15-18) and the Employment Fund (art. 34-39).

In sum, the Act on Employment recognized the phenomenon of unemployment, unthinkable under the previous order, and set out different tools to deal with it – advising and supporting the unemployed, as well as identifying organs responsible for reducing unemployment. Moreover, the Act established an unemployment register, . the creation of which made it impossible to conceal not only the very existence of unemployment in Poland but also the scale of the problem. The Act granted the right to claim unemployment benefit after seven days following the day of registration, if no work offer, comparable to the previous work post held by an unemployed, was available (art. 15). The statute guaranteed the minimum amount of benefit (art. 15 (3)). However, the Act also stipulated the circumstances when the right to the right to benefits could be lost, such as refusal to undertake employment in cases when there were offers matching the worker's qualifications (art. 16 (1)).

Another statute relating to employment issues enacted under the Balcerowicz Plan was the Act on Special Rules Concerning the Termination of the Employment Relationship with Employees Due to Reasons connected with the Workplace[15]. Ac-

14 Act of 29 December 1989 on Employment [Ustawa z dnia 29 grudnia 1989 r. o zatrudnieniu, Dz.U. 1989 nr 75 poz. 446].

15 Act of 28 December 1989 on Special Rules Concerning the Termination of the Employment Relationship with Employees Because of Reasons connected with the Workplace [Ustawa z dnia 28 grudnia 1989 r. o szczególnych zasadach rozwiązywania z pracownikami stosunków pracy z przyczyn dotyczących zakładu pracy oraz o zmianie niektórych ustaw, Dz.U. 1990 nr 4 poz. 19].

cording to art. 1, the statute would apply in situations where the labor force was reduced for economic reasons or organizational, production or technological changes. Thus, the manager should inform the union organization about the changes no later than 45 days before the termination of the employment relationship (art. 2 paragraph 1). The employee dismissed on such grounds would be entitled to gratuity and compensatory payment (art. 8 paragraph 1).

The National Polish Bank and the Banking System

As the PPR's economy was not subject to free market rules, the central state organs had to create tools to regulate the economy. This it did thanks, among other things, to the banking system it set up and the National Bank of Poland.

The principles underlying the establishment of the NBP after the Second World War were designed to incorporate this institution into the Socialist economy (Leszczyńska: 2010, p. 42). Gradually, by enacting new versions of regulations concerning the NBP, its power was extended so that it encompassed all important functions connected with public finances (Leszczyńska: 2010, pp. 42-43). The 1958 Act on the National Bank of Poland, in Article 1, called the NBP the 'state's emissive bank' and 'central credit, checking and exchange institution'[16]. Only the NPB could issue Polish currency (art. 10 (1)), grant credits to public entities (art. 14) and operate their bank accounts (art. 18). In essence, this meant that the NBP was used to finance the budgetary deficit (Kapica, Piotrowski: 2004, p. 217). In addition, the NBP organized foreign currency trade (art. 24).

The NBP was entirely subordinate to the Minister of Finance (Leszczyńska: 2010, p. 47). The President of the NBP governed the Bank according to directives from the Minister. He was elected by the Council of Ministers, upon the motion of the Prime Minister (art. 6 (1), (4)). In addition, all NBP tasks related to the issue of currency were of a purely technical character since the NBP had to conform to financial plans set centrally (Leszczyńska: 2010, pp. 47-48).

As for the banking system, the first Polish Act on Banking Law was issued in 1960[17]. The Polish banking system consisted of the NBP, the Investment Bank, the Agricultural Bank and a few other entities, none of them private. Changes, such as closing the Investment Bank and passing its functions to other entities of the system, only served to centralize banking in the PPR. In the 1980s the NBP was called the 'monobank', (Leszczyńska: 2010, pp. 45-46) taking into account the scope of its functions and its status.

The plan to transform Poland's socialist economy into a free market one invoked the need for an independent central bank, able to manage effectively the monetary market in Poland (Kapica, Piotrowski: 2004, p. 217). This could only happen by simultaneously undertaking two separate steps. The first step was to split the functions of the central bank from the tasks of commercial banks. The new banking law set the basis for creating nine state commercial credit banks. Separating the tasks of the central bank from those of commercial banks grounded the Polish banking system in the free market economy (Paprotny: 2007, p. 364). Ultimately, all these changes contributed to the creation of the modern banking system in Poland; the NBP as the central bank, the banking sector (including commercial banks), the Commission of Banking

16 Act of 2 December 1958 on National Polish Bank [Ustawa z dnia 2 grudnia 1958 r. o Narodowym Banku Polskim, Dz.U. 1958 nr 72 poz. 356].

17 Act of 13 April 1960 on Banking Law [Ustawa z dnia 13 kwietnia 1960 r. o prawie bankowym, Dz.U. 1960 nr 20 poz. 121].

Supervision and the Bank Guarantee Fund (Hofman: 2007, p. 229).

The second step involved changes in the NBP itself. The Act Changing Banking Law and the Act on the National Bank of Poland made the NBP[18] less subordinate to government control. Apart from strengthening its position in general terms, for example, waiving the obligation to report to the government, it changed the way the President of the NBP was elected. Art. 2 point 17 of this Act provided for the selection of the NBP President by the Sejm. While only the first stage in creating an independent central bank, it was a very important. This process was finalized by the new Constitution of 1997 and the new Act on the National Bank of Poland of 1997, which remains in force to this day.

Reforms in Central Europe

Czechoslovakia

In Czechoslovakia, the first attempts of the reforms were undertaken in years 1967-1968 but they were blocked by the Soviet invasion of 1968 (Mádl: 1998, p. 568). Thus, the major path of changes was introduced only in September 1990, when the Czechoslovakian Parliament enacted program of reforms. The main goals of these ones were: privatization, release of prices, liberalization of foreign trade, tax reforms and budget reforms (Kápl, Sojka, Tepper: 1991, p. 199).

When it comes to the privatization, the process was divided into two stages: small-scale and the large-scale privatization. It consisted of two rounds of public auctions (Kápl, Sojka, Tepper: 1991, p. 205). On the first stage, 1,800 state owned enterprises were selected and obliged to submit their projects on privatization. The next step consisted of the auction, in the course of which 1,000-1,500 enterprises was expected to be sold out to the public, in exchange of the investment vouchers, offered to Czechoslovakian residents (Sacklén: 1991, p. 38).

What is more, in 1990, the Czechoslovak Enterprise with Foreign Property Participation Act was enacted. It recognized different forms of business activity, such as the joint stock company, the limited company, and the partnership. However, the most widely used form of business association became the joint stock company, in details regulated by the Czechoslovak Joint Stock Companies Act of 1990 (Sacklén: 1991, p. 35).

Additionally, the Czechoslovak Act on Out-of-Court Rehabilitations of 1991 was enacted in order to restitute and compensate for the lost property in the period from 1948 to 1990, so the entitled persons could have claimed either for the restitution of the property or the financial compensation (Sacklén: 1991, p. 38).

The most important political part of the reforms in Czechoslovakia was introduced by the Act on the Lawlessness of the Communist Regime (Cepl: 2000, p. 28). It held inter alia that, 'the Communist Party of Czechoslovakia was a criminal and contemptible organization, and so were other organizations based on its ideology which aimed to suppress human rights and the democratic system through their activities'[19].

In terms of reforms of law, the great debate took place between the left wing, opting for the legal continuity of the system of law of the socialist Czechoslovakia, and the right wing, composed of economists, who barely cared for the shape of the legal system (Cepl: 2000, p. 25). Ultimately, both camps came to the conclusion that

18 Act of 28 December 1989 changing Banking Law and the Act on the National Polish Bank [Ustawa z dnia 28 grudnia 1989 r. o zmianie ustaw Prawo Bankowe i o Narodowym Banku Polskim, Dz.U. nr 74, poz. 439].

19 http://ec.europa.eu/europeaid/political-freedoms-and-democratically-elected-institutions-czech-republic_en.

the reform of law could not be the obstacle in the state's transition (Cepl: 2000, p. 25). Nevertheless, this thesis was based on the rather erroneous grounds that teaching society practical skills could ensure the proper functioning of the legal system, e.g. teaching citizens how to run the business in managerial terms could guarantee the observance of the commercial law (Cepl: 2000, pp. 25-26).

Hungary

Hungary undertook the first reforms in 1968 under the title 'The New Economic Mechanism' (Mádl: 1998, p. 568). Changes introduced then were quiet radical, but this way was not continued in the course of the transformation of 1990. Thus, the reforms introduced in Hungary differed from the transition process undertaken in other Central European countries –most post-socialist states decided to undergo the 'shock therapy', as the rapidness and radicalism of the reforms can be named. In contrast, Hungary decided to transfer their economy gradually (Mádl: 1998, p. 580). The reasons of choosing this option were various – 'by Hungary's earlier experience during the "liberal-communist" reform era, by the overwhelming example of the social market economies of the European Union; by the ambition for integration into the world economy (…); by reluctance to force high social costs on the people; and by the "political creed and hope" of the ruling parties that this was a viable way of serving the country' (Mádl: 1998, p. 580).

The key point of the Hungarian transformation was the year 1989 when the constitutional amendments and the Act on the Constitutional Court were enacted (Pogany: 1993, p. 338). After the introduction of these changes, the preamble of the revised constitution referred to the transition to the free market economy.

To give an example of reforms introduced in Hungary, the privatization process can be described briefly. It was proceeded by the two state agencies: the State Property Agency and the State Property Holding Agency (Bocskor: 1992-1993, p. 8). The latter was held responsible for the privatization of the state owned enterprises, where the government decided to retain at least 49% of the shares, however, offering the controlling stake to private companies that would decide to invest in the former state property. This provision referred mainly to the key sectors of the economy like the transportation (Bocskor: 1992-1993, p. 8).

Implications of the Balcerowicz Plan

Due to the scope and essence of the changes, the Balcerowicz Plan is often referred to as 'Shock Therapy' or the 'leap to a market economy' (Lipton, Sachs: 1990, p. 48). It did not take full effect immediately, but in the short term it plunged the country into a deep economic recession.

First, the inhibition of inflation took longer and at a much higher price than anticipated. Inflation was not expected to exceed 75% for the first quarter of 1990, 95%, for the whole year, whereas the actual annual rate was 132%[20]. Additionally, subsidies from the state budget to food products decreased significantly from 38% to 14% (Opolska: 2010, p. 131). The government unfroze the prices of products and services, leaving charges connected with inter alia energy, coal and transport by public railways under its control. However, prices in those few sectors were still raised by about 400%.

20 Gola M., Transformacja Gospodarcza w Polsce i Czechach w latach 1989-1998 w perspektywie członkostwa w Unii Europejskiej [Economic transformation in Poland and Czech Republic in years 1989-1998 from the perspective of the EU membership], www.exporter.pl/zarzadzanie/ue/1po89.html.

Tax relief was waived and currency exchange offices were taxed (Opolska: 2010, p. 131).

The reforms contributed to a significant decline in the real income of the population. Real wages and salaries in June 1990 fell by approximately 38% compared to December 1989 (Opolska: 2010, p. 131). In addition, there was a significant decline in real output in the socialized sector; by the end of 1990, unemployment had risen to 6.5%, and by 1993 to 16.4%[21]. The Balcerowicz Plan was also criticized for contributing to severe decline in the standard of living for numerous people in certain social groups, principally the employees of unprofitable state-owned enterprises and state farms, and for creating areas of poverty and structural unemployment (Rolski: 2013, pp. 88-90). The reforms provoked industrial action from rail workers and farmers (Dudek: 1992, pp. 93-95). In addition, the Balcerowicz Plan was criticized for the inadequate protection of the internal market during the transition, which caused a collapse of entire economic sectors due to the lack of governmental policies on their structure (e.g. mining or metallurgy). By 1992, 93% of Polish society felt that it had no influence over the country's affairs (Szymanderski: 2011, p. 172).

The reform plan was also criticized by a group of economists, with Grzegorz Kołodko probably the leading opponent. Kołodko considered that the reformers were wrong in their assumption that their program was the only correct way for the transition of the Polish economy and condemned them for ignoring the opinions of other economists (Rolski: 2013, p. 89). What is more, in Kołodko's view, the Balcerowicz Plan was created for propagandist effect, and caused serious harm to Polish economic interests (Rolski: 2013, p. 89). This negative standpoint was also shared by Tadeusz Kowalik, who claimed that the plan was too radical and that transition could have been completed without such a deep recession (Rolski: 2013, p. 94). In particular, Kowalik highlighted the warnings from economists before the plan was passed by the Polish parliament, which depicted the planned reforms as too aggressive. On the other hand, another economist, Rafał Krawczyk, considered that most of the goals set in the Balcerowicz Plan were not fulfilled at all, nor even partially (Blok:2006, p. 214). These voices, which exemplify criticisms of the plan, could be viewed as fully justified taking into account the initial impact of the plan..

However, in the long term, the reforms resulted in unprecedented growth and helped to develop the country in many ways, including social development. The period of stabilization began in the years 1992-1993 (Opolska: 2010, p. 130). Thanks to a thoroughly prepared plan, consistent policy and an entrepreneurial society, Poland has achieved significant success. It eliminated all the typical problems of socialism caused by low prices, a scarcity of retail goods, and long queues for supplies that for years had been the symbol of a deteriorating Socialist economy. The variety and quality of products increased and the black market was eliminated. It all contributed to the rise of prosperity, improved living standards, and the acceleration of social change. The key factor that created an adequate environment for change and determined the road to success was the introduction of a free market economy, the main result of all the reforms under the Balcerowicz Plan. Market efficiency recovered and an effective distribution of wealth was achieved, positively affecting the well-being of both the country as well as its entire society.

With regard to the three fields of reforms described above, it is worth noting

21 Główny Urząd Statystyczny, Stopa bezrobocia w latach 1990-2015 [Unemployment rate in years 1990-2015], http://stat.gov.pl/obszary-tematyczne/rynek-pracy/bezrobocie-rejestrowane/stopa-bezrobocia-w-latach-1990-2015,4,1.html.

that although all the measures described were merely the first steps in the transition of the respective sectors, they constituted a solid foundation for the legal, social and economic systems that operate within Polish society to this day. Moreover, they are strengthened nowadays by the commitments undertaken by Poland through the ratification of international legal acts, including human rights treaties.

When it comes to the right to employment, contemporary constitutional provisions do not formulate the state's obligations in such a restrictive way as the previous Constitution. Firstly, they do not grant all citizens the right to be employed. Rather, art. 65 of the 1997 Constitution[22], ensures the right to freely choose one's workplace and to exercise one's profession. It means that the state no longer ensures the policy of full employment. Greater emphasis is placed on problem of employment of minors and safety rules (Gronowska: 2006, pp. 195-196). In addition, it is no longer the stability of the employment relationship that is protected so strongly today, but rather the rights of employees in cases of termination of employment (e.g. by the Act on the Specific Rules of Termination of Employment for Reasons not Concerning the Employees).

In the field of state-owned enterprises, the most important step was their privatization. The main challenge for this process in Poland was that in 1990 there were over 7000 state-owned enterprises (Lipton, Sachs: 1990, p. 61). That is why, the privatization was an integral and essential part in the transformation process. Leszek Balcerowicz argued that three main aspects of privatization were often forgotten: it is indispensable for development, it is necessary for preserving democracy and it ensures a minimum level of the rule of law[23]. The most significant changes concerning state-owned enterprises in these terms were introduced by the Act on the Commercialization and Privatization of the State-owned Enterprises[24]. It defines the process of the transformation of state-owned enterprises into enterprises subject to free market rules. Thus, the first step is commercialization, by which the enterprise is converted into a company (art. 1 (1) of the Act). The second step, privatization, means that shares of the company, previously owned by the State Treasury, are transferred to other entities (art. 1(2). Today, there are only twenty state-owned enterprises[25]. Separate statutes were enacted to commercialize and privatize the most important Polish state-owned enterprises, such as the Polish State Railways. However, there was also the other aspect of this phenomenon, the so-called 'small privatization,' which consisted of private citizens taking over the provision of services (Opolska: 2010, p. 133). This part of the transition process resulted in the creation of nearly 18000 companies and thousands of other forms of private business activities (Opolska: 2010, p. 133).

In general, the Balcerowicz Plan provided for a variety of methods and procedures of privatization which enabled the flexible and effective implementation of privatization policy, controlling the rate of the process, adjusting respective tools to individual cases, and increasing the involvement of employees in the privatization process (Lipton, Sachs: 1990, p. 61). What was characteristic of Poland is that privatization was perceived not only as a tool to change the ownership structure, but also as a key

22 Text of the 1997 Constitution of the Republic of Poland [Konstytucja Rzeczypospolitej Polskiej z dnia 2 kwietnia 1997 r., Dz.U. 1997 nr 78 poz. 483]; English version: http://www.sejm.gov.pl/prawo/konst/angielski/konse.htm.

23 Stryjek J., Polski model prywatyzacji [Polish model of privatization], http://prywatyzacja.edu.pl/files/07.pdf, p. 1.

24 Act of 30 August 1996 on Commercialization and Privatization [Ustawa z dnia 30 sierpnia 1996 r. o komercjalizacji i prywatyzacji przedsiębiorstw państwowych, Dz.U. 1996 nr 118 poz. 561].

25 List of state-owned enterprises, http://nadzor.msp.gov.pl/nad/import/11,Wykaz-przedsiebiorstw-panstwowych.html

mechanism for restructuring both companies and whole sectors. Furthermore, it was strongly connected to the creation of the Polish capital market which today remains one of the largest in Central and Eastern Europe, with the capitalization of the Warsaw Stock Exchange reaching 618 trillion USD and 471 listed companies[26].

As expected, the Balcerowicz Plan dramatically changed also the landscape of the banking system in Poland. The scale of reforms was impressive, especially taking into account the fact that many regulations had to be drawn up from the very beginning. It led to a significant increase of the number of financial institutions and at the same time gave an impulse to the further development of the banking sector (Kostrzewa: 2001, p. 15). In terms of monetary policy, administrative methods were replaced by economic tools (such as interest rates, exchange rates, required reserves, open market operations, bills of exchange) and the central bank became responsible for the supervision of commercial banks[27]. All these actions contributed to opening avenues for foreign investment in sectors which helped to create a modern and diverse financial sector in Poland. Today, there are 640 entities engaged in banking services including 41 commercial banks (Kotowicz: 2001, p. 21).

All these reforms contributed to a rapid development of the country. Its progress can be reflected through numerous statistics referring both to the wealth of the society as well as the competitiveness of the economy. For example the Human Development Index increased by more than 17% (from 0,714 in 1990 to 0,834 in 2013)[28] and the Education Index by 23% (from 0,667 in 1990 to 0,825 in 2013)[29]. From a state of censorship in the late 1980s, Poland ranked 19th in the World Press Freedom Index for 2014[30]. According to the World Bank, per capita Gross Domestic Product alone, based on Purchasing Power Parity, has increased by almost 400%, from 6,003 USD in 1990 to 23,690 USD in 2014[31]. Over the last 25 years, exports increased 20-fold to over 200 bln USD, and inflation decreased to only 1% in 2013. The level of Polish GDP per capita has also increased significantly compared to Western Europe (Euro-area 17), from 30% in 1989 to 62% in 2013 (Piątkowski: 2013, p. 2). The Gini index for Poland amounted to 32.8 in 2011, placing Poland in fourteenth place in terms of the equality of distribution of income between individuals and households[32]. What is more, in a 2013 survey , 40.8 % of Polish respondents stated that their life was successful, 33.9 % that it was successful enough, and only 1% declared that their life was miserable or terrible (Czapiński, Panek: 2014, p. 180).

Conclusions

The Balcerowicz Plan was a key element of Poland's democratic transforma-

26 Warsaw Stock Exchange, Analysis and Statistics, http://www.gpw.pl/analizy_i_statystyki_en.

27 System bankowy w Polsce w latach dziewięćdziesiątych [Banking system in Poland in 1990s], Narodowy Bank Polski, Warszawa 2001, https://www.nbp.pl/publikacje/system_bankowy/system_bankowy.pdf.

28 United Nations Development Programme, Human Development Reports,http://hdr.undp.org/en/content/table-2-human-development-index-trends-1980-2013.

29 United Nations Development Programme, Education Index, http://hdr.undp.org/en/content/education-index.

30 Reporters Without Borders, 2015 World Press Freedom Index – Poland http://index.rsf.org/#!/index-details/POL.

31 The World Bank, GDP per capita, http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?page=4.

32 GINI index (World Bank estimate), http://data.worldbank.org/indicator/SI.POV.GINI?order=wbapi_data_value_2011+wbapi_data_value&sort=asc.

tion in the 1990s. Through carefully planned reforms, effective implementation, and consistent market-oriented policies, it largely contributed to a complete change of landscape of contemporary Poland. Not only was it the first economic reform of that scale in a former Socialist country in Central and Eastern Europe, but it also proved to be the most successful. For example, the transition from the Socialist economy in the Czech Republic and in Hungary caused 'instability and stagflation phenomenon' (Gomułka: 1998, p. 163) which was avoided in Poland. Despite the criticisms, the general balance sheet of the transformation is perceived as clearly beneficial[33]. As Professor Anders Aslund underlined, the key pillars for the unprecedented growth in the past 25 years have endured thanks to the reforms of years 1989-1991. Therefore Poland, with its effective implementation of the 'shock therapy', has been boldly described by Professor Witold Orłowski as the wonder child of the Washington Consensus (Gomułka: 1998, p. 163).

Poland is currently the largest economy among the post-Socialist EU member states and the sixth largest economy in the European Union based on purchasing power parity,, and has probably just witnessed the best twenty years in its troubled history (Piątkowski: 2013, p. 2). As a result, in 2013, Poland achieved an uprecedented level of development both in terms of income and quality of life, as well as prosperity (Piątkowski: 2013, p. 2). Poland has also reached the highest level in its history as regards quality of life, well-being and happiness: the ultimate objectives of economic growth and public policy. Rising income, open borders, access to free media and new technologies, as well as accession to the European Union have allowed Poland to participate in global economic, social, cultural, and technological progress to an extent never before experienced (Piątkowski: 2013, p. 2). This has happened within twenty-five years of the post-1989 transformation and the introduction of the Balcerowicz Plan. Yes, there are still areas which need further improvement and reforms, but in terms of general wealth, macroeconomic indicators and geopolitical situation, Poland was able during this 25-year period to catch up 400 years of economic decline and to reach an income level not seen since the Golden Age of Polish history which dates back to the 16th century.

The economic reforms also had one further important consequence - they strengthened political reform, making it impossible, or at least much more difficult, to reverse the achievements of the Round Table negotiations of 1989 or to restore the previous political system. As demonstrated above, the previous political regime was tightly connected to the Polish economy, enabling the governing powers to control this domain and exploit the economic gains, indispensable for the maintenance of the whole state apparatus. The organization of the Polish economy was designed in such a manner that it constituted a crucial part of centralized policies. That is why both political and economic changes were needed to permanently rebuild the landscape of Poland and put it on the right track to freedom, democracy, and prosperity. Once the Balcerowicz Plan was accepted by the Polish parliament, it meant not only the great success of Poland's rising democracy but also took changes in Poland to such a point that reversal was impossible. Thus, as shown in this paper, political changes require dramatic economic reforms to embed them strongly in society. Furthermore, economic reforms could only be guaranteed through legislative means, starting with the eleven statutes passed in December 1989. The Balcerowicz Plan is probably one of the best examples on a global scale of how legislation can influence the life of mil-

33 Ramotowski W., After a successful transformation Poland begins to drift, 6.10.2014, http://www.obserwatorfinansowy.pl/tematyka/in-english/after-a-successful-transformation-poland-begins-to-drift/.

lions in a positive way. The change is even more spectacular if one takes into account that in the Polish People's Republic, legislation and statutes were not tools to improve the standard of living for citizens or to protect human rights but a mean to govern the country in line with the policy formulated by the Polish United Workers' Party or from beyond the eastern border. Citizens had no influence over law via elections, as they were not democratic.

Thus, statutes introduced by the Balcerowicz Plan were the first signs of new standards in these terms. First, they were passed by the first freely chosen parliament, and second, they expressed concerns not only about the Polish political system, but also about the livelihood of Polish citizens. Prima facie, some of the enacted legislation, such as the acts addressing the National Bank of Poland or foreign currency trading, did not directly affect the situation of ordinary people. However, in the long term, they did change the economic system of the country, enabling further development of the free market economy and leading to greater prosperity of the country as well as individual citizens. This reform laid a solid foundation upon which successive governments were able to build and further develop the prosperity, economic competitiveness, and geopolitical importance of the country.

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