

That is how we did it in Poland – a tale on entrepreneurship

By Marcin Senderski

Introduction

The collapse of communism initiated many changes, too many to be covered in a short essay and sometimes too fresh to be assessed even from 20 years perspective. We experienced a number of transformations throughout the last two decades: constitutional, political, social or legal. However, presumably the most important one took place in the field of economy. We cannot undervalue such achievements as freedom of speech, freedom of religion, political pluralism or other civil liberties. But what every society in the world really pursues is economic welfare. What is crucial for the bright future of the next generations of Poles is not necessarily political stability or visa-free international traffic, but economic factors. One way or another, there is evidence that capitalism and democracy cannot exist one without another. Therefore, I would like to draft a very brief, but fully authentic story on Polish entrepreneurship.

How to murder the free market

There can be no economy where there is no efficiency, Benjamin Disraeli said. Nevertheless, efficiency was not the biggest virtue of centrally-planned economy. The scale of economic nonsense before 1989 is hard to imagine even for the young generation of people living in Poland. Needless to say, a Western European reader may feel a bit dismayed while obtaining this knowledge.

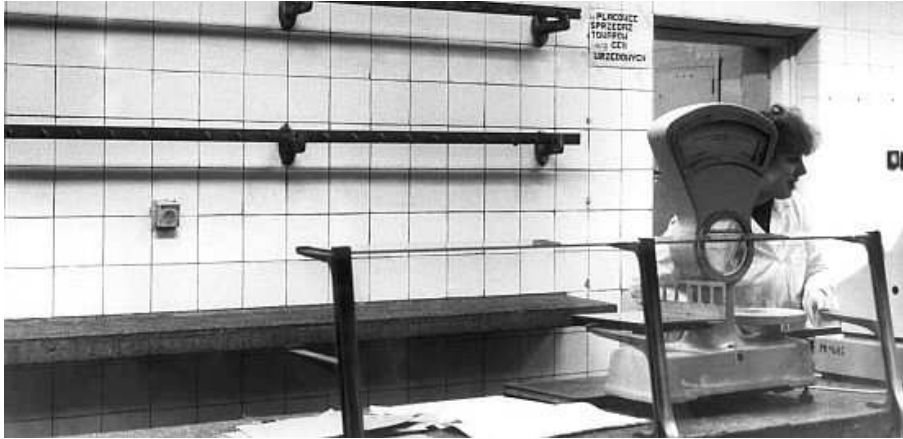
The spirit of entrepreneurship was successfully killed after World War II. Private ownership in national economy was forbidden. Through the decades, an economic policy based on central planning has ruined the country. We end up with an ineffective system and



The PRL¹ authorities were constantly fighting against ineffective workers, however fruitlessly, while the whole system was sick. The inscription means: *Shirker is a deserter from a front of struggle for the peace and the powerful Poland.*

¹ PRL is an acronym for *Polska Rzeczpospolita Ludowa*, which means The People's Republic of Poland. It was an official name of the country between 1944 and 1989.

with a huge foreign indebtedness, as a result of loans, irresponsibly incurred by the successive governments trying to save the situation. Workers did not respect their jobs, they did not notice the relation between how well they work and how well they are paid. Another problem was the lack of any knowledge on how free market mechanisms should work.



Polish groceries did not belong to ones with a broad merchandise. Except for so called shops 'behind yellow curtain' designated for PZPR² officials. Those lucky who had Western currencies, might supply themselves with luxury, otherwise unobtainable goods in shops named *Pewex* or *Baltona*.



A delivery? It was not unusual to spend up to 6 hours a day in a queue. Waste of resources and waste of time can be considered as major plagues of the system. Queues became a national symbol of questionable value, staying in them constituted a grievous part of culture.



Who managed to buy a toilet paper in the 1980s soon became a hero among the family. OK, foreign currencies were inconvertible, there were ration stamps for petrol, butter, meat or sweets. But shortages in toilet paper or sanitary towels were not only economic, but also hygienic and humanitarian grief.

² PZPR is an acronym for *Polska Zjednoczona Partia Robotnicza*, which means Polish United Workers' Party. It was exercising power in Poland between 1948 and 1989.

Shortage economy³ had its consequences. People had much money, but the shelves were empty and no goods could be bought. So they basically obtained everything that was accessible at a given moment. No matter if these were T-shirts with Scooby-Doo, shoelaces or screwdrivers. It caused a radical bloom of a barter trade. Poland in the 1980s, sadly, returned to the pre-money age.

What is not prohibited, is allowed – economic miracle made in Poland

On 23rd December 1988 the last communist government passed a bill, later christened as Wilczek's bill after the name of its author, Mieczyslaw Wilczek, Minister of Industry in the cabinet of Mieczyslaw Rakowski. It was one of the most liberal laws in the post-war history of Poland, thus often called 'the constitution of Polish entrepreneurship'. Its first article said:

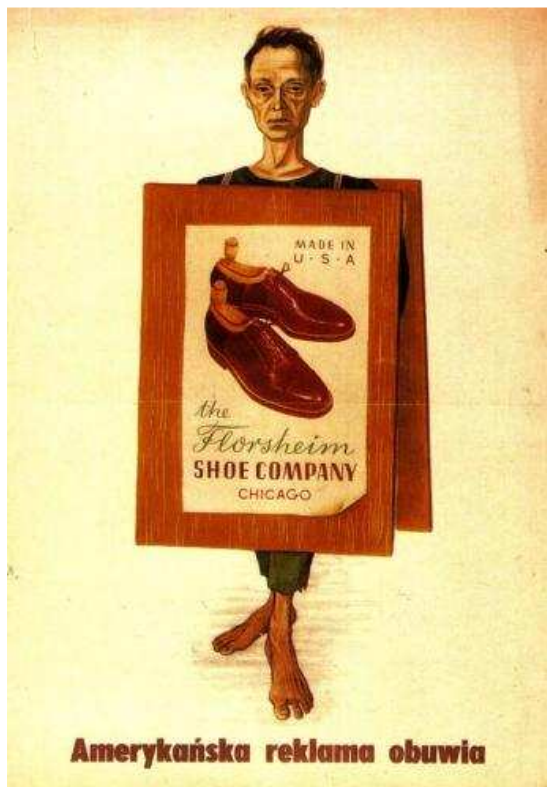
Undertaking and performing business activity is free and allowed to everyone under the same terms, respecting the general regulations established by the law.

While the fourth article said explicitly:

Enterprises, in the framework of their activity, can undertake all steps that are not prohibited by the law.

It was almost unbelievable how such a document might see the light of day under the rule of communists. Every single paragraph was shattering the most precious communistic doctrines. Every word directly contradicted the hitherto prevailing cornerstones of Soviet policies, so cruelly inculcated in people's minds during the previous 45 years. Yet during communism, private owners were derided and despised.

Never before, and never after, economic activity was so easy. The bill had only 54 paragraphs and every one could read it in just few hours. It was



Communist propaganda has been trying to make capitalism odious. The poster presents, allegedly, a shoe advertisement in the USA. However, after the opening of borders in 1989, Poles noticed that they were being deceived throughout many years and America is much different than what they read in 'The Grapes of Wrath'.

³ A pejorative term invented by Hungarian economist, János Kornai, to describe the economic system implemented in the USSR and Soviet satellite states. The aim of it was to express criticism of chronic shortages in supply occurring predominantly in the 1980s.

true revolution. 2,5 million private enterprises were set up in the first 12 months after the bill came into force. During the following 7 years, small and medium-sized enterprises have created 6 million jobs and constituted for two thirds of Polish GDP!

The bill turned out to be revolutionary in the Eastern Bloc. Although it was enacted by communist authorities, it won wide acceptance among society, by literally freeing their potential to be independent, entrepreneurial and to make money. People, previously limited by constraints of centrally-planned economy, surprisingly fast started to change their attitude. Entrepreneurial fever came true. Every one with a good idea, with a passion and determination to work, might get rich very quickly.

Wilczek's bill has paved the road to capitalism. It let people work as much as they wanted and earn as much as they were able to. This was the golden age for enterprising people.

These positive changes were later supported by institutional reforms, introduced by so called 'Balcerowicz Plan', named after its author, Minister of Finance in the first non-communist government, Leszek Balcerowicz. The scheme helped to overcome a number of weak points that arose after transition. Hyperinflation reaching 600% has been put under control, internal debt has been drastically cut and obsolete state-owned monopolies have been largely abolished. Finally, prices for most products have been released. The economy, at last, became a resultant of supply and demand.

While he was announcing his plan to the Parliament, memorable words were spoken:

We have to put an end to this illusion and hypocrisy, in which people pretend to work and the government pretends to pay them.



Leszek Balcerowicz was concurrently glorified and criticized for his 'shock therapy'. However, the facts do not lie. Poland's annual growth rate between 1989 and 2000 was the highest of all post-communist economies.

Free market damaged again

Unfortunately, good times may not last forever. While Wilczek's bill indicated only 11 sectors that had to be covered with licenses or permits issued by supervising bodies, until 2004 this number increased to 240. Consecutive changes in law hampered the life of entrepreneurs.

It was in the middle of 1990s when the circumstances for Polish business gradually deteriorated. Less favorable and more complicated tax system, excessive fiscalism, bureaucracy, more powerful civil servants, who more often disturbed than facilitated the job of businessmen. Wilczek's bill was literally maltreated.

Instead of improving control regulations in order to limit the number of shady transactions, that inevitably were taking place under Wilczek's bill, governments limited the economic freedom. It was surely a blind alley. Nowadays, it is very hard to liberate us from mutually contradictory, chaotic regulations. None of Poles is now able to encompass the whole legal output being currently in force. The entrepreneurial spirit was killed again.

According to the Index of Economic Freedom, published annually by the Heritage Foundation and Wall Street Journal, in 2009 Poland ranks 82nd and is classified on the boundary between 'moderately free' and 'mostly unfree'. It means that such countries as Albania, Uganda, Mongolia or Kyrgyz Republic were assessed as more economically free which naturally constitutes a cause for shame rather than pride.

Social problems

The legacy of communism is insidious. It involves not only immense debts, lack of political culture and economic backwardness. We need approximately 20-30 years more to reach the standards typical for Western countries.

Communism was also a mental devastation. People were taught that everything is public, and personal property should be eradicated. As far as the economic sphere is concerned, the following facts should be underlined:

- i. No relation between the job difficulty and the salary – e.g. blue-collars were often better paid than engineers, because it was ideologically correct;
- ii. No stress on effectiveness – a public enterprise had to reach a certain amount of output, according to the central plan, no matter if there was a demand for it or not;
- iii. No evaluation of workers – reflected in famous proverb: 'no matter if you lie or stay – five thousand zlotys is your monthly pay';
- iv. No unemployment – a natural unemployment rate of about 5% is normal in a healthy economy, this was not accepted by communists who pursued full employment.

This is why still many people, mainly the poor ones, miss communism. They are scared to finally have their lives in their own hands. The worst thing is people simply do not want to work. They are not used to it, and prefer begging. I remember a story told by my acquaintance who lives in the rural area in the north-east Poland.

Once I went shopping to the local grocery and there was a man sitting in front of it. He looked pretty well, his clothes were modest but tidy. He asked me whether I have a job for him. Well, I said, I always have some kind of job for someone who really wants it. So I told him to come on Monday for his first day. Then he answered cheerfully: thank you, but... could you, perhaps, give me some pre-payment, just a few zlotys for a beer? I agreed. What was later? He did not come on Monday. He did not appear on any day later. And now whenever I approach the grocery, he hides himself behind the fence...

People are deprived, they have never had to work hard and they are not adjusted to the new reality. But there is even greater problem to be worried about: the same attitudes often apply to the young people who should build a new civil society, who should be protected against the legacy of communism. Unluckily, they sometimes inherit the phobia against capitalism from their unsuccessful parents. It is a vicious circle.

Acquainted entrepreneur from a parochial town said:

Young men who work in my enterprise usually do not appear on Monday morning. They are too drunk after the weekend. Fortunately, women are more reliable.



Western brands turned up in Polish towns at the beginning of 1990s. Big cities inhabitants found it easier to adapt themselves to the new reality.



Homelessness turned out to be a major, though unavoidable problem of transition, the one of social costs of 'Balcerowicz Plan'.



Free market is OK – a demonstration of economic freedom supporters.

The legacy of changes 20 years after: remaining challenges.

There are thresholds in the development of every country, that cannot be surpassed sooner than after a specific period of time. Poland is undertaking reforms and implementing strategies to support growth. However, we still have to wait for fruit of our efforts. Still too many people remember communism and miss it. These people often do not understand that many problems our country is facing nowadays is because of communist legacy, not because of its downfall.

Poland lacks political culture. Public debate is chaotic and does not consider things on their merits. Democracy is in its infancy and the society does not understand how it works. The turnout during the elections is usually very low. We basically do not take advantage of the civic rights gained 20 years ago. Many people vote for populist parties or parties that, instead of concentrating on the future development of our country, base their manifestos on accusations against people who are responsible for mistakes committed after 1989.

Needless to prove, mistakes have been done in 1989 and after. Only the one who does nothing makes no mistakes. Although some of these faults were culpable and of serious consequences, we still should have a bit broader perspective on the transformation process. Just verdict is a verdict based upon full evidence. And it is much too early for full evidence to be collected. Yet, we still do not have the full knowledge about the transition results, since the transition is still proceeding. In economy, in politics, but – in the first place – in people's minds.

Communism in Poland has not vanished into thin air in 1989. It still sits in people's minds. Some of them miss it. Some of them seem to be paralyzed and cannot get used to capitalism. Some of them, consciously or unconsciously, follow and reproduce its destructive and sinister patterns. Some of them lay claims to the state or local authorities, bearing in mind that the protective government always can help...

Challenges of 1989 are not out-of-date. The road remains crooked and stony.