



The political economy of reinstating capitalism in Poland: 1989-2020

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Abstract:

The article is a contribution to the ongoing series on the future of reformed capitalism. The author attempts to shed some light on the past and the present of capitalism as reinstated in Poland over the years 1989-2020 and on its turn to illiberal democracy since 2015. At the end, the article draws some conclusions on what revisions and additions may be needed in the liberal social-democratic agenda to help it replace the present illiberal regime in Poland.

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How to cite this article:

Osiatyński J. (2022), "The political economy of reinstating capitalism in Poland: 1989-2020", *PSL Quarterly Review*, 75 (300): 9-24.

DOI: <https://doi.org/10.13133/2037-3643/17721>

JEL codes:

P21, N14, E11

Keywords:

capitalism, reforms, Poland.

Journal homepage:

<http://www.pslquarterlyreview.info>

The critical questions asked by the editors of this special issue of *PSL Quarterly Review* may be phrased as follows. What is the future of the capitalism as reinstated in Central and East Europe (CEE) countries over 30 years ago, following 45 years of their practicing the Soviet-type communism? Which way is it likely to change in the near future? And which way may progressive economists want to see it changing, even if the chances of meaningfully redressing its future evolution are slim? In what follows I shall attempt to shed some light on the past and the present of capitalism as reinstated in Poland over the years 1989-2020 and on its turn to illiberal democracy since 2015. At the end, I shall draw some tentative conclusions on what revisions and additions may be needed in the liberal social-democratic agenda to help it replace the present illiberal regime in Poland.

The Polish package of stabilization and transformation was considered by many politicians, mainstream economic policy makers, and leaders of international financial institutions to be a huge success story and was recommended for imitation by other former Soviet Bloc countries. However, the pre-1989 Poland in many ways was not representative of

** Editor's note: this manuscript was completed and revised by Jerzy Osiatyński before his untimely passing away. The text has, however, been copyedited to correct some typos and minor mistakes, as well as to adhere with the Review's editorial standards, and the author could alas not approve the final proofs of the article. The original text contained the following sentence in its first footnote: I am grateful to Jan Kofman, Michał Sutowski and Jan Toporowski, as well as to two anonymous referees, for their valuable comments on the earlier version of this paper.*



countries transiting from communism to capitalism. In contrast to other CEE countries, especially after the 1956 Poznań Workers' Revolt, Poland – with its agriculture dominated by the private sector, its Catholic Church largely unsubordinated to communist rule, and its far greater freedoms in universities, in arts and science, and less political repression than elsewhere in the region – never fit well the standard definition of a Soviet-type, totalitarian communist country. Poland's totalitarian nature was of a rather 'soft' variety. Moreover, since 1990 until at least the turn of the 21st century, Poland avoided the takeover of its economy by oligopolies and oligarchies. Considering those special features of Poland's pre-1989 economic and political set-up, the argument and conclusions outlined below may, but need not, be relevant for other countries in the region.

Section 1 discusses the political economy of Poland's initial stages of transition. It stresses political and economic, domestic and external constraints of the 'menu of options' existing at the time, and the early criticism of the chosen trajectory of transition from 'real socialism' to 'true capitalism'. Section 2 summarizes revisions in that trajectory between 1994, when post-Solidarity Trade Union political elites lost power to a coalition of re-branded ex-communist parties, until 2004, when Poland entered the European Union. Economic policy priorities between 2004 and 2015, as well as their radical change since then until 2020, are also summarized there.

Section 3 examines how and why social democracy lost credibility in Poland and how it helped to lay the foundations for an illiberal majoritarian political system in Poland. The essence of that majoritarian system is an economic policy agenda that, although seemingly of a social-democratic nature, is in fact a combination of income redistributive and social conflict instigating measures combined with policies aimed at undermining the fundamental tenets of liberal democracy. This mix of political and economic agenda gave rise to new authoritarianism in the 'superstructure', coupled with seemingly social-democratic policies at the economic 'basis' (both terms used in Karl Marx's 1859/2010 sense¹), thus partly negating a social-democratic response to the authoritarian populism of our days.

Section 4 concludes with some tentative thoughts on potential ways of redressing the present-day political and economic policy priorities towards a liberal social-democratic capitalism.

1. The political economy of Poland's early stage of transformation²

When the Solidarity Trade Union revolution opened the way to the partly free parliamentary elections in Poland in June 1989, there were several factors that drastically limited the menu of options of its economic transformation. The first was the collapse of the centrally planned economy, which was marked by huge domestic and external imbalances,

¹ In the Preface to his *Contribution to the Critique of Political Economy*, Marx defined society as consisting of two parts: the base (or substructure) and the superstructure. The base represents the relations of production of material output and comprises the forces and the relations of production and interrelations between production and economic relations into which people enter to produce material output. These relations include conditions of work, division of labour, technical capacity of factors of production, and property relations. The superstructure comprises all other social relations, including its culture, legal and other institutional set-up, political power structures, roles, rituals, and the state (see Marx, [1859] 2010; see also Kalecki, [1964] 1997). Although Marx attached the prime role to the base, which determines society's other relationships and the ideas represented by its superstructure, those two theoretical concepts are tightly interconnected, as the superstructure also affects the base.

² This section partly draws on Osiatyński (2020a).

high suppressed inflation, and worker demands for pay rises and improvement in work and living standards. Those imbalances were not new. They reappeared with some regularity every few years, starting with the late-1940s miners' strikes, which were brutally suppressed with protestors killed, to the 1956 Poznań riots, to workers' revolts in the 1970s and again in the 1980s. The causes for those imbalances have been long recognized by reform-minded scholars and economic policy makers as inherent to central planning. Since the mid-1950s they advocated various implants of market mechanism into the framework of rigid central planning (see, e.g., Brus, [1961] 1972; Kornai, 1980; Brus and Laski, 1989). However, successive reforms proved futile.³ By 1989 this ineffectiveness forced the communists to enter the Polish Round Table negotiations (6 February – 5 April) resulting in parliamentary elections on 4 June 1989, the formation of Tadeusz Mazowiecki's non-communist government in September of that year, and the beginning of Poland's transition to a capitalist economy.

On the eve of implementation of the 1989 reforms, external disequilibrium made Poland a bankrupt country, unable to meet its international obligations. The servicing of its foreign debt had already stopped in 1981. Moreover, there were no means to finance essential imports,⁴ and immediate international liquidity assistance was badly needed. Regarding domestic market disequilibrium, there was suppressed inflation in the form of an 'inflationary overhang' accumulated over years because the supplies of consumer goods, construction materials for the private sector, and fertilizers and other agricultural inputs for private agriculture had all been continuously lagging behind demand.

The situation was much aggravated, however, after Mieczysław Rakowski's Government liberalized government-controlled food prices and eliminated rationing of meat and other consumer goods [...] The end result [of this] was accelerated inflation which, prior to start of Poland's stabilization package, reached already 20%-30% per month and threatened to turn into hyperinflation. Lest this happen, [...] Mazowiecki's Government had to block wage rises [...] and significantly reduce real wages (Osiatyński, 2020a, p. 255).

The urgent need for a 'stabilization operation' was well recognized by the communist government. However, because any such operation involved reductions of real incomes, savings, output and employment, public trust in and political support of the government were of critical importance. Moreover, in contrast to capitalist countries in need of macroeconomic stabilization, in 1989-90 Poland (and in other CEE countries) a crucial precondition for success of any stabilization operation was extensive structural reforms that would substitute a centrally planned economy for a fully fledged capitalist one. As noted above, although several quasi-stabilization operations were attempted in post-war Poland prior to 1989, none was followed by such structural reforms, since they would have undermined communist rule. With that experience, to attempt that task it had to be a Solidarity-led government to gain the public trust, the confidence regarding its technical capability, and the political support of the post-June 1989 Poland.

The stabilization pillar of the Polish reform package that aimed at restoring market equilibrium did not give rise to much opposition; it focused mainly on the speed of the operation and the rates of compensation for households through indexing wage rises to inflation. Heavy criticism was directed instead against the institutional and structural reforms,

³ Many years later Włodzimierz Brus, a leading Polish economic reformer, titled his recollections on this experience "The Bane of Reforming the Socialist Economic System" (Brus, 1993).

⁴ These included, among others, medicine, and fodder and fuels, with mounting debts towards the West and the Soviet Union – the main supplier of gas, oil and grain to Poland (see Osiatyński, 2020a, p. 254).

and especially against foreign trade liberalization, combined with making the Polish Złoty fully convertible. The other point of criticism related to the scope and forms of privatization.⁵ The absence of measures that would assist bankrupt state farms and cooperatives in the agricultural sector, and the radical restructuring of the Polish mining, steel, cement, shipbuilding and other industries, which had no chances of surviving without government assistance, were also criticized.

This criticism was partly taken into account after the early parliamentary elections of 1993. The new government pursued a 'Strategy of Sustainable Growth' that aimed at remedying what it considered to be the key failures of the first stage of Poland's transformation. The changes then introduced in the transition trajectory are discussed in the next section. Here, let me only reiterate my personal opinion as to why Mazowiecki's government was unwilling to experiment with any third way of transformation to capitalism.

The economic team of Mazowiecki's government, including its ministers of more social-democratic persuasions, was only too well aware of that bane [that Brus wrote about]. Much the same applied to the deputy ministers and senior government staff as well as to economic reformers in local governments, academia and the media. Whatever was the starting point and the expected final results of all post-1956 attempts at economic reforms in Poland [...], all those attempts ended similarly: in abandoning the reform course and the return to pre-reform track of command economy, arbitrary economic decision-making, waste of resources and wrongly conceived priority of politics over the economy. We were aware that in order this time to succeed, we needed to go past 'the point of no return'. Some of us thought that the fast-liberal bias could be corrected with time and that there will be more room for true 'social market economy' – a concept to which Mazowiecki and some of his ministers were quite attached. At the same time, we were aware that the human, institutional, legal and resource capacity to achieve any such standards have been then missing and it would take time to establish them (Osiałyński, 2020a, p. 258).⁶

The other constraint in our menu of options was also of an external nature but of a different nature. The success of structural reforms depended on the success of the stabilization package. Considering the swift liberalization of foreign trade combined with the Złoty's convertibility, success of the stabilization package required in turn stabilization of the new rate of exchange. At the end of 1989 a massive devaluation (by 46 percent), was condoned by the government, among other reasons to make the new and fixed rate of exchange an additional counter-inflationary anchor. However, with the shallow foreign exchange market in Poland and full convertibility, there was the question of how to protect the Złoty's new rate of exchange against speculative attacks in financial markets that might trigger a panic outflow of foreign capital. This forced the government to apply for additional financial support, to the tune of USD 1 billion, that is, for a stabilization fund. The requested assistance was granted. It came, however, from donors pursuing a radical neoliberal creed in economics and economic policy-making and from the international financial institutions which they controlled. Could it have come from social-democratic countries? This is doubtful, not because they were unwilling but because they could not afford it, nor did they control the international financial institutions that could provide such assistance.

⁵ Although at the beginning it was of a multidimensional nature, with employee participation (i.e., 'mass privatization') representing its substantial part, most employees soon chose to sell their shares to 'strategic' investors and the process became dominated by 'capital privatization'.

⁶ Krastev and Holmes (2019) point out that in Central and East Europe the public at large wanted what it thought 'normal', and normal at the time meant a liberal, market capitalism in its European and USA form, with no room for 'experiments'. The latter, let me add, included also a 'social-democratic' (i.e., Scandinavian) mode of capitalism that the politicians and the public thought not affordable at the time.

On 2 December 1989 the Economic Council of the Council of Ministers (the top government economic think-tank) inaugurated its work with a discussion of goals and policy measures of the government's program of economic transformation. Practically all invited foreign experts and representatives of international financial institutions, including the Paris and the London Club creditors of Poland, expressed their support for the program, which opted for a radical course of transition and was patterned along the lines of the Washington Consensus. Once the program was in a sense approved in the course of that meeting, the financial and technical assistance became abundant. Mario Nuti, who was an outspoken critic of that program, notwithstanding his expertise and experience (as a consultant to DG II of the European Commission, among others), was conspicuously absent among those invited. As I reflected on that experience, "*Cuius pecunia, eius regio et religio*" (Osiatyński, 2020a, p. 256).

2. From shock therapy to a strategy of sustainable growth, and later on

Poland's stabilization program and the early structural reforms triggered reductions in output and employment that were much larger and lasted longer than the government had expected. The hardships of the early phase of transformation, combined with splits and a power struggle between different factions within the Solidarity leaders, led to the early parliamentary elections of September 1993. They brought back to power the re-branded, post-communist Alliance of Democratic Left (ADL) and the Polish People's Party (PPP).⁷ Between 1994 and 1997 this coalition proclaimed a 'New Strategy for Poland', which with a short interval was continued in 2001-05. It aimed at achieving and maintaining "financially, economically, socially, and ecologically sustainable growth" (Kołodko, 2005, p. 376).

The main criticism by the New Strategists of their predecessors' economic program was that it delivered a 'shock without therapy', overshot the stabilization operation, included ill-devised structural reforms, and abandoned the social component of the declared 'social market economy'. The New Strategy promised, instead, further improvement of Poland's competitive position in international markets, better coordination of systemic changes in the economy, acceleration of GDP growth, and inclusive socio-economic development (see Kołodko, 2010, pp. 361 and 369; and Kołodko and Nuti, 1997). Indeed, in 1994-97 the per capita GDP growth accelerated to 6.4 percent per year,⁸ the Gini coefficient stopped rising and stabilized at 33 points, and some measures of inclusive social policy were introduced. Yet, considering that Poland's 1997 constitution required, among other things, the ratio of public debt to GDP to not exceed 60 percent (a limit that was already tightly observed well ahead of enacting the new constitution), that tight monetary policy was pursued by the independent central bank, and that international financial institutions, together with Poland's foreign creditors, closely monitored the government's fiscal policy, there was not much room for radical changes in government budget allocations other than those offered by accelerated GDP growth. It's no wonder that no significant changes in relative shares of government spending in the total budget outlay could be observed.⁹

⁷ The latter, under the name of the United People's Party, between 1949 and 1989 was a junior government partner of the communist Polish United Workers Party.

⁸ That was partly enabled by structural reforms introduced prior to 1994, however.

⁹ The other reason for stability of relative shares of budget spending lines was that over two-thirds of government expenditure consisted of inelastic, law-enforceable spending, like subsidies to public pension funds, debt servicing, budget subsidies to local governments, etc.

The parliamentary elections of 1997 were won in turn by the center-right Solidarity Electoral Action (AWS), which formed a coalition with the liberal-centrist Freedom Union, headed at the time by Leszek Balcerowicz, the chief author of the 1989 economic reform, who became deputy prime minister and minister of finance in the new government. In the face of a threat of overheating the economy, the years 1998-2001 saw what was later recognized as its overcooling, “as growth rate was brought down from more than 7 percent during the last quarters of the implementation of the ‘Strategy for Poland’ to a stagnant 0.2 percent in the 4th quarter of 2001” (Kołodko, 2010, p. 5). Inflationary pressure was suppressed and the deficit in the current account was reduced, but at the expense of a fall in GDP growth and a rise in unemployment. This brought back to power the ADL-PPP coalition, which ruled in 2001-05. Those years were marked by Poland’s return to high GDP growth and membership in the European Union. The rate of GDP growth increased from 0.5 percent in Q1 2002 to 6.5 percent in the first half of 2004, declining to 4 percent in the first half of the election year 2005, due to, among other factors, the tight monetary policy of the central bank, headed by Balcerowicz, who rather strictly implemented a liberal course of bank policy. However, most of the legal and institutional changes during that period arose from the EU accession agenda, which implied closely observing the EU fiscal and monetary discipline.

Among policy measures that brought down the ADL-PPP coalition in 2005 was its departure from the social-democratic agenda, which included the coalition’s first go (in 2004) at making the labour market ‘more elastic’, and its introduction of nearly full ‘liberalization’ of housing rents, with hardly any protection of tenants. The corruption scandal of 2002-03, combined with those measures, paved the way for the center Civic Platform Party to come to power.

Whatever the rhetoric of subsequent Civic Platform governments in 2005-2015, the actual changes in macroeconomic policy priorities were insubstantial, with one notable exception. When in 2008 the Great Financial Crisis arrived, the Polish government used the window of opportunity opened by the European Union’s temporary suspension of the fiscal and monetary regulations in its Stability and Growth Pact. In 2009 Poland doubled its fiscal deficit from 3.6 percent to 7.2 percent of GDP, and the next year it added another half a percentage point to that ratio. The public debt/GDP ratio, which stood at 47.2 percent in 2008, increased to 50.7 percent in 2009 and to over 55 percent in 2010, still below the Maastricht threshold but markedly high. This made Poland one of the very few countries in Europe that did not record any GDP decline, and its growth rates were remarkably good: 5.0 percent in 2008, 1.8 in 2009, 3.8 in 2010 and 4.3 in 2011. By 2011 the European Commission requested Poland to quickly reestablish fiscal discipline; already by 2012 this found reflection in a decline of the GDP growth rate to 1.9 percent.

In 2013 the ruling Civic Platform Party introduced further revisions in the Polish Labour Code which aimed at helping entrepreneurs overcome after-effects of the 2008-2010 crisis through increased flexibility of labour contracts (which measure the continued liberalization of the labour market that started in 2004). Many of the employed thought those revisions unjust, as they shifted the risk of unemployment and responsibility for it from the employers to the employed, whose job insecurity was largely increased. As argued by Matyja (2020), in the absence of political terms in which that grievance could be expressed, the Polish precariat used instead what was rather insignificant (if any) Civic Platform Party moral misconduct to vote against it in the 2015 parliamentary elections.

Moreover, many public services at the local and county levels were then adversely affected by the transfer of some secondary schools, post offices, police stations, etc. farther away from their earlier locations. This gave rise to growing antagonism between the thus favoured population of larger cities, that voted mainly liberal, and that of the provinces, that largely supported the conservative, right-wing Prawo i Sprawiedliwość Party (PIS, i.e., the Law and Justice Party). This, in turn, generated mounting criticism of inequality before the law, an increase in income disparities, and detachment of political elites from ordinary people (see Skarżyńska, 2019). Another grievance against the Civic Platform resulted from its increase of the retirement age, and yet another was the partial termination of a costly and insecure capital pension system, of which the public was misled to believe it would secure their higher pensions in the future. Although on demographic and economic grounds the latter two measures were justified, their explanation to the public was a total failure. All those sentiments were much used by PIS in the 2015 parliamentary election campaign and led to the Civic Platform Party losing the election.

The 2015 parliamentary elections were won by the Law and Justice Party, which introduced truly significant revisions in Poland's economic and social policy. They comprised large rises in government spending on family allowances, child benefits and other instruments of inclusive social policy, as well as shortening the Civic Platform's lengthened retirement age. The new '500-plus' program, which indiscriminately granted a 500-Złoty benefit to every child, proved a large success in reducing poverty, especially among vulnerable single-parent and multi-child families.¹⁰ It was accompanied by rises in pensions and in statutory minimum wages. Unemployment rates declined (partly because, for demographic reasons, some 150,000 employees per year were leaving the labour market). Moreover, in 2017 Poland absorbed over a million foreign guest-workers, mainly from Ukraine and Belarus, which helped to keep in check rises of unit labour costs and therefore inflation (that trend continues ever since). Additional public spending was financed through closing various tax loopholes and improving tax collection,¹¹ through the multiplier effects of spending below the capacity use of factors of production (which made that spending partly self-financing), and through manipulation of reporting public sector revenues and outlays in order to make them seemingly in line with EU accounting standards and fiscal discipline formal requirements.¹²

Some instruments of that policy, such as minimum wages, were addressed to those already employed. Others, like promises of new job opportunities in industries and regions that suffered most in the earlier phases of transformation and badly needed heavy restructuring, targeted the unemployed. All those measures garnered strong and lasting support for the Law and Justice Party and helped it to also win the 2019 parliamentary and the 2020 presidential elections. Restructuring promises in coal-mining, ship-building, and other industries were hardly delivered, which gave rise to local public frustrations and grievance; yet beneficiaries of the new economic course gained a measure of human dignity and self-confidence. New jobs

¹⁰ By January 2021 the '500-plus' child benefit program had reached 6.6 million children (out of a population of about 38 million). It should be noted that shortly before the 2015 elections the centrist-liberal Civic Platform prime minister, Ewa Kopacz, was encouraged to introduce a similar project named '300-plus' but because of fiscal considerations declined to do so.

¹¹ Some of those measures were introduced before 2015 while others were then under preparation.

¹² The essence of the latter was to take some lines of central and local government spending out of the EU defined public sector (by establishing various government-controlled funds and agencies, e.g., the Polish Development Fund) and to ask some state-owned enterprises that enjoyed monopoly or quasi-monopoly positions in their markets to co-finance public spending in health, education and culture sub-sectors, through rising domestic prices for their products, thus additionally obscuring transparency and accountability of the public sector spending.

returned them to bread-winning positions in their families and changed their social status in a society with a strong family tradition and rather conservative values prevalent outside large cities (less so among the younger generations). The same referred to the above-mentioned '500-plus' project, among others, because of its indiscriminatory allocation between the poor and the rich children. The fact that all children were covered had critical importance for avoiding social discrimination between the 'poor' beneficiaries and the children of rich families that otherwise could do without any child benefits. It was a hard choice between, on the one hand, the program's economic efficiency (since somewhere between a third and a half of its outlay is estimated to reach well-off families that do not need that support) and, on the other hand, its indiscriminatory effect protecting the human dignity of the poor beneficiaries.

Although the PIS economic agenda might give an impression of being of a social-democratic nature, it is not, and there are many critical differences between a genuine social-democratic agenda and that implemented by the PIS Party.¹³ The PIS agenda is rather of a "*divide et impera*" nature and its economic components are picked up from different political quarters. For instance, the child benefit project was first proposed in Poland in 2011 by a Christian Democratic politician, who wanted to allocate Zł 400 per each child. Also, in post-World War II Germany the '*kindergeld*' was introduced in 1954 by German Christian Democrats (and by the Nazis in 1933). Rising minimum wages and hourly wage rates are indeed social-democratic policy measures. But the drive to limit the powers of trade unions and the hostile attitude to any form of employee participation in enterprise management are not; neither is the continued neglect of public services, such as education, health, public utilities, etc. In fact, the economic agenda of PIS is driven by social welfare transfers and rises in minimum wages, combined with the instigation of conflicts between various professions in the public sectors (e.g., physicians, teachers, judges, etc.). This stands in sharp contrast with the economic agenda of liberal social democrats, which attaches priority to a high quality of public services, including public transport and institutional and financial care for the disabled, and to a social welfare policy founded on solidarity between individual social strata, a participatory system of decision making, and trade unions strong enough to play their role of checks-and-balances.

3. Why social democracy lost credibility in Poland?

In the 2015 elections, no left-wing party or coalition entered the parliament. How could that happen? Why did Polish post-communists suffer such a dramatic loss of public support? Why was the new formation of Polish social democrats hardly noticed by its would-be natural electorate? These questions have elicited a multitude of answers, partly dependent on the political inclinations of their authors.¹⁴ In what follows I shall outline my personal account of why that happened.

A coalition of the Alliance of Democratic Left and the Polish People's Party ruled in Poland in 1994-97 and again in 2001-05. It successfully introduced a fairly comprehensive social and growth-stimulating economic agenda (see section 2 above). Yet it was losing ground in terms of political rhetoric that focused on its communist roots, unclear backing from financial and other vested interests, and its neglect of the achievements of the first phase of Poland's

¹³ I am grateful to Michał Sutowski for drawing my attention to some of those differences.

¹⁴ Of numerous recent publications, the interested reader may refer to Krastev and Holmes (2019); Guriev and Papaioannou (2020); Zielonka (2018); and Zielonka and Rupnik (2020).

transformation. An important question in that political wrestling was that of national sovereignty. As in other countries of the former Soviet Bloc, Poles wanted national independence and the Soviet military troops out of their country. Although by the end of 1993 the last troops had left, the ex-communist coalition was viewed with suspicion and mistrust regarding its relations with Russia. The paradox of history was that, although without President Lech Wałęsa's hard struggle, Poland's membership in the NATO alliance would hardly be accomplished, it was an ex-communist president who in 1999 signed Poland's NATO Accession Treaty.

Most of the accusations against the left-wing rule in those years came from conservative and center-right political quarters, but some came also from the new political left, which attacked the coalition for supporting the war in Iraq, consenting to the CIA detention center in Poland, enacting a law that allowed tenant evictions, and taking other measures against the poor (like discontinuing subsidies for cheap eateries). It also accused the coalition of continuing the liberal-centrist economic agenda of its predecessors regarding privatization and liberalization measures and of not meeting expectations regarding wage and welfare transfer rises. Moreover, the ADL's support for a 'linear' personal income tax system (i.e., a single tax rate for all personal incomes) largely discredited it in the eyes of its own electorate.

Let me start with the ADL's support for a 'flat' (or 'linear') tax system. The new personal income tax system was enacted in Poland at the end of July 1991. Prior to that, Poland had no comprehensive system of taxing personal incomes and the new law was to replace a patchwork system of four pieces of legislation that covered only a small proportion of personal incomes and was riddled with many loopholes. Clearly, the new Law on Personal Income Tax (the PIT Law) aimed at improving the revenue side of state coffers. At the same time, it embodied a universality, aimed at giving every taxpayer the right to request that the government provide all information about how taxes were spent, and a concern about public finance transparency that were absent until the 1989 Solidarity revolution. However, somewhat unexpectedly, a new difficulty arrived in the last phase of work on the draft of the PIT Law at the Committee on Public Finance of the Sejm, that is, the lower house of Poland's Parliament.

Although with the introduction of the new PIT Law all money incomes were to be indexed to insulate take-home incomes, the Solidarity Trade Union made its support for the new law conditional on taxing the wages of miners and steel-smelters at the lowest of the planned three PIT rates. Miners' and steel-smelters' wage rates were at the time 2-2.5 times higher than the average wage rate in the economy. Aware of the economic and political implications of accepting this request, the leadership of the Committee on Public Finance (of which I was then a deputy head) vehemently opposed it. Negotiations with Solidarity Trade Union leaders brought no result, however. When, in April 1993, the early aggregate results of the PIT 1992 revenues became available, their structure was even worse than we had expected. About 96 percent of incomes subject to PIT taxation were in the lowest personal income threshold. Ever since, that share has oscillated between 95 and 98 percent. Thus, under the new 1991 PIT Law, as a matter of fact, Poland continuously practices a 'flat' system of personal income taxation, and this is not because of a choice of one economic and political doctrine or another.

In 1999 a revision of the PIT Law that aimed at formal introduction of a 'flat' PIT system was proposed by a coalition of a political center party, the Freedom Union, and an offspring of the Solidarity Trade Union center-right grouping, Solidarity Electoral Action (AWS), which had won the 1997 parliamentary elections. The authors of the proposal must have been aware that in practice the Polish PIT system was already as 'flat' as it could possibly be. In my opinion, the

proposal was put forward mainly for doctrinal and symbolic reasons. The revision of the law was passed by parliament but vetoed by the president.

However, some symbols are hydra-like: seemingly annihilated at one place, they reappear at another. In 2003 the chairman of the ADL strongly supported the idea of a 'flat' PIT system. The debate that followed among the ADL leadership and its rank and file was conceived in symbolic and doctrinal terms, and ultimately the idea was rejected. Nonetheless, that initiative, combined with the actually introduced reduction of PIT tax rates for high-income groups and a rather liberal economic rhetoric of the ADL's leadership, did irreparable damage to the ideological credibility and standards of the political left of those years in Poland.¹⁵ Economic success in terms of GDP growth and progress in social inclusion in 1994-97 and 2001-2005 improved somewhat that credibility, but not enough to prevent the ADL's loss of power in 2005. Other factors that contributed to bringing the coalition down were the aforementioned liberalization of labour contracts (see above) and of housing markets, among others.

Following the 2015 parliamentary elections, the Law and Justice Party (PIS) advanced its new economic agenda, which resulted in significant changes in the political scenery in Poland. Beneficiaries of the above-discussed programs *en masse* felt they had recovered the human and social dignity and inclusive community identity of which they had felt deprived in the course of liberal reforms (see above). According to many opinion polls, they felt taken care of by the government when in need. For the centrist-right constituency of PIS at large, its economic priorities, together with its rhetoric on human dignity and community identification, could have mattered more than the PIS-instigated social conflicts among various social groups contemptuously called 'alien elites' (that is, alien against the 'ordinary people').¹⁶ That economic agenda was combined with illiberal measures that aimed at eliminating the core tenets of liberal democracy, such as division of power, checks and balances, an independent judiciary – including the Constitutional Tribunal – minority and civil rights, property rights, and freedom of the media (all of which were strongly defended by the center and the left political constituencies).

The 'superstructure' part of the PIS agenda was glaringly absent in its 2015 election campaign. What appeared instead was worded in terms of improving the daily operations of the judiciary system and of changing the ownership structure of the banking and finance sector and some other 'key' sectors of the economy towards their 're-Polonization' (the latter ignited by the 2008-10 Great Financial Crisis, in the course of which some key decisions regarding crediting of Poland's economy were taken abroad without considering its needs and its creditworthiness). A similar argument was used with respect to re-Polonization of foreign-owned media, in the interest – as it was contemptuously claimed – of increasing their freedom.

Subsequent changes in all those areas were milestones on Poland's way from liberal to an illiberal, authoritarian political regime. Much the same happened in Orbán's Hungary and in other countries of Central and East Europe. What one sees there is a special mix of political and

¹⁵ The linear PIT system was subject to yet another debate in the course of the parliamentary elections of 2005. The main contenders were the centrist Civic Platform Party, which wanted its introduction, and the centrist-right Law and Justice Party, which strongly opposed it. The Law and Justice Party won the elections and the issue was dropped. When the situation changed and parliamentary elections in 2007 and in 2011 were won by the Civic Platform Party, the issue was no longer part of its political and economic priorities.

¹⁶ PIS also used the concept of 'alien' social strata or people with respect to refugees from Syria and elsewhere, although there were hardly any refugees willing to settle in Poland. While that rhetoric was countered by all opposition parties, for the PIS electorate it made the party appear as a powerful deliverer of its policy priorities (see Gdula, 2018).

economic agenda that gives rise to new authoritarianism in the ‘superstructure’, combined with seemingly social-democratic economic policies at the economic ‘basis’, thus partly pre-empting a social-democratic response to authoritarian populism.

4. How to garner public support for a social-democratic agenda in the present-day Poland?

For many years now, center-liberal politicians, analysts and journalists have argued that the single most important factor that laid the groundwork for the transition from a liberal to an illiberal political system in Poland and elsewhere in the region was economic alienation of large segments of society. As convincingly shown by Krastev and Holmes (2019), this view is doubtful, considering that between 1989 and 2019 GDP per capita increased in Poland ninefold, rising non-stop since 1992 until the Covid-19 pandemic-stricken 2020. Per capita GDP growth in other CEE countries was also remarkable, and minimum wage rates increased in those countries on average by nearly 40 percent (see Djelic, 2021). The income gap between the average income in the EU and in Poland declined every year to fall cumulatively by about a third. The same trend was observed in other CEE countries. After the first two decades of rising income inequality in Poland, the Gini coefficient stabilized and then started to decline.¹⁷ Moreover, according to public opinion polls, both prior to the 2015 illiberal ‘counterrevolution’ and in 2019 when it was already well-advanced, more than 80 percent of Poles declared they were satisfied with their lives (see Krastev, 2019, at https://www.youtube.com/watch?v=tjm_WiMiTMU). The idea that an angry society of economic losers gave birth to that counterrevolution does not fit Poland (ibid., see at the minute 28’21”), nor other countries in the region.

Krastev and Holmes (2019) explain the proliferation of illiberal populism in CEE countries in terms of dichotomy and internal contradictions of the imitation drive that ruled there in the three decades after the 1989 collapse of communism. They shed new light on the origin and dynamics of the present-day majoritarian illiberalism in the region (and elsewhere). Among factors that gave birth to illiberalism, they point out misguided communication between liberal reformers and the public at large, and a steady trend of limiting democratic decision making of publicly accountable politicians and surrendering those decisions to unelected and hardly publicly accountable technocratic institutions and experts (this factor is also strongly emphasized by Zielonka, 2018).

I share the view that merely regaining traditional social-democratic economic policy priorities (some of which were highjacked by illiberal populists) and pledging that once social democrats return to power they would not retract the PIS-introduced projects, such as the child ‘500-plus’ benefit, rising statutory minimum wages, or reduced retirement age, would not suffice for a revival of social democracy in Poland. Moreover, in line with the argument outlined above, next to those pledges, the nature of the redistributive but conflict-instigating PIS economic program should be made clear and the key differences between that programme and

¹⁷ However, the Gini coefficient does not fully represent changes in income distribution. Shifts in the ratio of wages to profits are also an important measure of changes in income disparities. Another one is the rate of disappearance of stable and well-paid jobs; with respect to the latter, on the eve of the 2015 counterrevolution, “Poland [was] a champion in precarious, that is zero-hour, contracts that give employees little or no job security and social benefits” (Zielonka, 2018, p. 59). By the end of 2020 the situation had hardly changed.

the true liberal social-democratic agenda shown. The latter should also include local and regional development assistance projects that – contrary to PIS practice – would be addressed to all constituencies that need it and not mainly to political supporters. The ‘500-plus’ project links the ‘economic base’ with the ‘superstructure’ since, through delivering a defined financial assistance, it conveys also the actual sense of solidarity and community belonging. Because of distrust in government institutions and officials, a majority of people in Poland prefer cash transfers rather than additional financing of public sector operations and its employees. To overcome that difficulty, the new left could try to improve the quality and delivery of public services in a way that would combine better and more equal access to those services with an increased sense of solidarity and community belonging.

While the arguments of Krastev and Holmes (2019) as well as of Zielonka (2018) are in many ways illuminating, I wish to address here a far narrower and somewhat different question than those considered by them, that is, what revisions in the ‘superstructure’ part of a social-democratic agenda should be introduced to enable social democracy to make some headway in Poland and Central and East Europe. Needless to say, the few suggestions put forward below are only tentative.

The first point I owe to Jan Zielonka. An important failure of liberal democracy in CEE countries was the special sense given to community belonging, without much appeal to those strata of the population that became economic losers in the process of liberal transformation and, moreover, who also lost their sense of social community and protection. The liberal essence of community belonging was meant as support of individual development. The three fundamental values of the liberal creed, equality, community and truth, writes Zielonka (2018, p. 35): “are now on the banners of counter-revolutionary politicians. Liberals should try to regain these terms for their own project”; referring to Philip Sleznick, Zielonka continues: “The thin theory of community espoused by many liberals is not enough [...] we need a stronger idea of community, one that will justify the commitments and sacrifices we ask of ourselves, and of one another, in the name of a common good” (ibid.). I agree: the sense of community belonging must be given a social-democratic dimension.

The second suggestion relates to the nature of the emulation process discussed by Krastev and Holmes. They claim that, for the conservative CEE electorate, the model country to imitate was Germany vintage 1989, which was traditional, religious and anti-communist. Yet, thirty years later, the German post-cold war model no longer existed, and they were supposed to imitate a totally different model that was secular, multi-cultural and accepting gay marriages. Hence the conservative CEE electorate felt betrayed and found a new identity as ‘true’ Europeans (see Krastev and Holmes, 2019, p. 52).

I find this argument an overstatement. With a large share of non-urban population in Poland (and in some other CEE countries), its electorate is possibly more conservative than in more urbanized West European countries. However, the Polish electorate is less conservative than Poland’s political center-right makes it. This is evidenced by, on the one hand, the election of several LGBT candidates to positions of town-mayors, local government councilors, European and country parliamentarians, etc., and, on the other hand, a good measure of tolerance regarding sexual or other preferences of members of their families or their neighbors. At the same time, flooded by massive institutional, legislative, economic and social changes, the Polish electorate is not yet ready for that deep re-ploughing of its cultural mentality. It would rather have social and behavioral norms in that area introduced in a more piecemeal way and pressed for with less ostentation, unaccompanied by semi-violent,

sometimes vulgar, anti-religious demonstrations. If this diagnosis of public sentiments is right, with one exception its conclusion for liberal social democrats would be to take a more moderate position regarding not the essence but the speed and forms of advancing changes in cultural and socio-behavioral norms. The exception relates to anti-abortion legislation recently enforced in Poland. In that case the liberal social-democratic response should be a comprehensive package of liberalization measures and trust in women's decision-making.

The third point relates to the question of nationalism as an underlying ideology of illiberal counterrevolution. As Krastev and Holmes rightly point out, whereas after 1945 nationalism was a defeated ideology in Germany, in 1989 in the CEE countries it was part of a victorious coalition against communism. Expanding their argument, let me note that during the Second World War the borders between patriotism and nationalism in fighting against the Nazis were often obscure. Suppressed by the communist rule, patriotism together with nationalism went into hiding, partly within the protective walls of the Polish Roman Catholic Church. And the 1989 parliamentary election campaign was largely organized with the assistance and direct engagement of the church structures. The elections were overwhelmingly won by the Solidarity candidates to the Sejm and Senate. However, perhaps except for a few largest cities, they were won no less by the Polish church than by the Solidarity Trade Union candidates, something that I personally experienced between 1989 and 2001 in my constituency in South-East Poland and saw much the same happening elsewhere.¹⁸

Nationalist ideology showed its ugly face in the inter-war Poland and in other CEE countries, and also during the Second World War and later on. After the Second World War, the borderlines between patriotism and nationalism continued to be unclear, the more so because, for many segments of the anti-communist opposition in Poland, regaining national sovereignty and independence from Soviet rule was a prime priority. Right after 1989 some important national symbols were reinstated. But, on the whole, their popular appeal was underestimated (except in sport) and waited to be picked up by conservative nationalists. I believe another priority of liberal social democrats should be 're-inventing' a mix of international cooperation and solidarity with national and local patriotism. The issue is complex and its comprehensive discussion needs a separate paper. Therefore, here let me only note that more emphasis should be put on the question of communicating to the electorate the importance of caring about national and local interests and at the same time explaining when, how and why national interests are best served if attended together with other nations (regions, localities). Domination of world politics by narrowly defined national interest leads to bloodshed unless natural conflicts of interests are solved through meaningful compromises reached in negotiation rooms. Majoritarian illiberalism knows no compromise, often appealing to national

¹⁸ Shortly after the 1989 elections, all four newly elected Solidarity parliamentarians from the Krosno Region paid a visit of gratitude to the election regional organizing committees. Nearly all meetings were housed in Roman Catholic parish buildings and were crowned by an audience granted by the diocese archbishop. Following this, my wife, who accompanied us throughout this tour, succinctly noticed: "If you think you, the Solidarity candidates, won the elections, you are all wrong. The Roman Catholic Church won it for you". None of us at the time appreciated the insight of her observation, nor the consequences of that victory.

Writing about Rosa Luxemburg, Isaac Deutscher observed that, in 1918, "Contrary to Rosa Luxemburg's expectations, Poland had regained her independence; but contrary to the expectations of her opponents, Poland had received it mainly from the hands of the Russian and German revolutions." In an article for *Jacobin* magazine on *Solidarność*, Jan Toporowski paraphrased Deutscher by saying that, in 1989, "Contrary to Communist expectations, Poland had regained her independence; but contrary to the expectations of *Solidarność*, Poland had received it mainly from Washington, Brussels, Berlin and Moscow" (Toporowski, 2020). I would certainly add the Polish Roman Catholic Church to his list.

referenda decision making. However, when referenda are applied to complex questions that go beyond the local cognition, they become part and parcel of majoritarianism: 'the winner takes it all' and there is no room for compromise, which is the essence of liberal democracy.

Fourthly, an important objective of liberal social democrats is revisiting the essence of the daily practiced democracies. With ever more powers delegated to institutions like central banks, constitutional courts, various technocratic institutions, as well as international or multilateral organizations, the executive officials of which are not politically accountable and the decision making of which is far from transparent, the voters may wonder whether there is still any room left for participatory democracy or democracy 'from below'. Anti-liberal politicians in the CEE region accuse liberal democrats of political 'impossibilism' and ask, especially in the context of powers granted to various structures of the European Union, whether unelected officials in Brussels should alter decisions taken by national parliaments, whether financial markets should veto meaningful social policy measures, and whether the government could effectively reform its judiciary, education or health systems without intervention of external bureaucrats or internal networks of local governments, city mayors, and powerful business lobbies or oligarchs. "[N]etworks ought to be accountable and transparent. They cannot act as 'floating islands' [...] operating above the law and free from any coordination and supervision. Striving for an open society in this multi-level, plurilateral, cloudy, and at times chaotic European environment is anything but easy, but benign neglect will lead to ever greater counter-revolutionary advances" (Zielonka, 2018, p. 120). I believe there is plenty of work for social democrats to do to make liberal democracy a participatory one in a meaningful sense.

The fifth point I want to raise refers to the fight against the Covid-19 pandemic that has plagued the world since early 2000. Political opposition in Poland in general, and that of a leftist persuasion especially, should take a more non-partisan position related to the national strategy of eradicating that plague than it has done so far. This is especially important considering that political opposition controls most of Poland's largest cities as well as regional and local governments. If that opposition, the political left included, wishes to become again relevant on a national level, it must not treat the pandemic instrumentally, as a vehicle to oust the illiberal coalition that presently rules the country (which, incidentally, also treats the pandemic instrumentally, as was only too evident in the 2020 presidential elections), but it must positively contribute to developing measures that would address fighting the plague at local, regional, national and international levels.

Discussing factors that may pave the way for a revival of social democracy in Poland, let me also refer to a recent public opinion poll that examined political preferences of young Poles as compared to those of the public in general (see CBOS, 8 February, 2021). Although it is risky to generalize the results of a single poll and one needs to see whether its results are confirmed over a longer period, they seem interesting enough to summarize them here. The poll showed unequivocal support of the 18-24 year-old group for social-democratic ideas (incidentally, similar changes appear also in other countries in Europe). Of that group, 77 percent of respondents declared they intended to participate in the next election, 10 points more than a year earlier, and the highest participation rate among them ever recorded. Moreover, 30 percent of respondents in that group declared support for the ideas of the political left, as opposed to 27 percent declaring support for the political right and 22 percent for the center. Considering that in 2019 the support of the young for the political left was 17 percent, the nearly doubling of identification of the young with the political left is striking. Subsequent

public opinion polls confirm that trend but indicate that support of the young for the agenda of the political left centers on issues related to moral standards and environmental protection. Otherwise, the young appear individualistic in pursuing their personal choices and not strongly attached to such key values of the political left as community belonging and social solidarity (see Trudnowski, 2021).

The massive protests of the young against a further tightening of anti-abortion laws in Poland at the end of 2020 no doubt strengthened those changes, and this again should be accounted for when discussing the non-economic components of the social-democratic agenda. However, to make those changes cumulative over time and, moreover, to encourage the young generation to embrace much broader values of a liberal social-democratic agenda, the young must participate in developing a social-democratic platform that would address, along with economic policy priorities and protection of the natural environment, those values of the ‘superstructure’ nature that were pointed out above.

Finally, there is another point that should be raised by liberal social democrats and which goes beyond the methodological distinction between the ‘base’ and the ‘superstructure’. It is the problem of energy transformation. On the one hand, protecting the natural environment requires rather radical changes in household consumption. The relative shares of consumption of goods and services with a high carbon footprint must be much reduced. The most effective way to achieve this are rather drastic price rises, which would enforce the required changes in the consumption structure and which would have to take a generation. Prices of energy and fuel would have to rise about 2-2.5 times, which means 7-8 percent every year for about a quarter of a century. Changes in the energy mix may only somewhat mitigate that rise. That trend already started with the introduction of carbon emission payments. Much the same relates to meat and dairy products and to modes of transport. The liberal social democrats should have the honesty and power to declare that such measures are necessary lest the earth became inhabitable.¹⁹ This may prove the biggest challenge of all, however.

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¹⁹ At the same time, social democrats might combine that priority with projects stimulating creation of new opportunities and jobs, especially in the public services sector. The most obvious examples relate to measures assisting the public transport, assisting local cooperatives in developing windmill farms and photovoltaic power generators, and establishing small family businesses dealing in mass thermo-modernization.

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