Economy Meets Democracy

By Steven J. Norton

POLAND'S early experience with economic and political transformation has served as both model and anathema to policy makers, politicians and citizens throughout the former Soviet bloc. Moreover, the pain and discontent caused by stabilization and continued austerity have brought to the surface basic conflicts; one of the most important is the conflict between "necessary" economic restructuring and the need for the fledgling democracy to respond to the concerns of its citizens. Some practical compromises among the leading political parties, and positive economic reports, have helped dispel the atmosphere of crisis which clung to the nation's politics and economy, but crucial questions about the direction of economic policy, and about the extent of democratic control of the economy, remain without final answers.

Many in Eastern Europe and the former USSR have been looking, rather nervously, at Poland for an indication of what they may have to expect as the transition to a market economy and a democratic polity moves beyond the honeymoon period. There has been legitimate cause for concern, as Poland's "shock therapy" program of stabilization and restructuring ran into heavy weather after the first year, and the stormy 1991 parliamentary elections—the first since the end of Communist control—returned a deeply fractured legislature with no easy majority in sight. New questions were raised about the suitability of the kinds of austerity programs favored by market-oriented economists and pressed by the International Monetary Fund (IMF). Worries were expressed about administering a prescription of economic pain in a new and fragile democratic system; some hinted ominously that the Eastern European nations were not ready for democracy, and that a little authoritarianism was needed to keep them on the "right" economic course. Nonetheless, Poland's fifth and latest government, made up of an unlikely coalition of parties which had all participated in one or another of the previous cabinets, seems to have surprised everyone by showing the possibilities for constructive compromise and stable government. The new government of Prime Minister Hanna Suchocka, tested by strikes but buoyed by good economic reports, has shown considerable resiliency and may be able to get an unpleasant budget package through parliament which will release IMF and other Western assistance that is currently being withheld. Thus, the other nations watching Poland have reason to hope, but not yet to celebrate.

This article has been reprinted from:
East/West Letter
Okno Group's Bimonthly Analysis of Economic and Political Issues in Eastern Europe & the former USSR
Volume 1, No. 3 **Summer 1992**

Poland is unique among the former eastern bloc nations in that its post-war history has been dramatically shaped by the political action of its industrial workers; strikes and labor actions were important political tools long before the independent labor union Solidarity was formally created. However, Poland is not alone in having protected and lionized its industrial working class during the Communist period, and it is these workers—along with the state enterprises which employ them—who are having to bear the brunt of restructuring, budget cutbacks, and international competition. These issues are especially painful in Poland, where the parties which emerged from Solidarity have found themselves enforcing economic austerity; President Lech Walesa, the former leader of Solidarity, has found that he has little option but to ask for patience from the workers despite his campaign pledges. As a result, Poland is a clear example of some of the most difficult aspects of the transition to a private market economy and the simultaneous creation of a democratic polity.

The first democratic governments

Poland's post-Communist odyssey began in September 1989 when the Solidarity government of Tadeusz Mazowiecki was chosen by a Sejm (parliament) still dominated by the Communist and associated parties (the so-called "roundtable Sejm" because the number of seats allocated to each political group was determined by the roundtable agreements between the Communist government and the opposition earlier that year). The Mazowiecki government was only possible because a large Solidarity victory in the much less powerful upper house, the Senate, prompted the "historical" parties allied with the Communist party to break and support a coalition Solidarity-led government. (The "historical" parties active at that time were a few of the parties which pre-dated the Communist takeover after World War II and which were kept on to give a semblance of democracy.) Mazowiecki's finance minster, Leszek Balcerowicz, became famous as the architect of the "shock therapy" program of rapid economic stabilization and systemic transformation.

Economic performance in most of 1990 looked promising as hyper-inflation cooled under the tight monetary and fiscal policies of the Mazowiecki government, but the switch to dollar trade in the East European region in 1991 and the growing recession in the West and in the USSR caused Polish industrial output to fall and unemployment to rise considerably. Gross domestic product fell by 12 percent in 1990 and fell by 9 percent in 1991, while consumer price inflation peaked in 1990 at an annual rate of 585 percent, slowing to 70 percent in 1991. Unemployment stood at 6 percent in 1990, but rose to over 11 percent for 1992. The beginnings of recession (and the inability of the government, under budget pressure, to ameliorate conditions much) played an important role in the October 1990 Presidential elections, where Mazowiecki came in a distant third behind Walesa, who promised "acceleration," and newcomer Stanislaw Tyminski, a Polish emigre who ran a vague campaign promising quick and painless change. Walesa won handily in the run-off election against Tyminski; Mazowiecki and his government resigned, allowing Walesa to name a government he was more comfortable with, the centrist government of prime minister Jan Krzysztof Bielecki. Bielecki retained Balcerowicz as finance minister, and economic policy continued much the same as before (to the surprise of some who supported Walesa). Poland's first free parliamentary elections, in October 1991, were also dramatically shaped by the deepening recession. The elections returned a parliament with over 20 parties represented, and no party with much more than a tenth of the seats. Mazowiecki's party, the Center Union, received the largest share but got only 13 percent. Most parties campaigned against the economic policies of the first two governments generally and divided the substantial portion of the popular vote expressing discontent with the state of things.

The next government, led by Jan Olszewski, was produced in December 1991 by a delicate coalition of several center-right and Catholic parties who had promised to ease up austerity. (It is worth noting that in several Eastern European nations the American-style liberal/conservative division does not apply; many of the most free-market and pro-transformation politicians in East Europe are also quite liberal on social issues—in Poland, abortion and religion in schools are salient questions—while the conservative and Catholic parties tend to be more anti-Communist and socially conservative but much less willing to accept the pain and dislocation of a rapid move to a market economy and the restructuring of state enterprises.) Despite much rhetoric to the contrary, the Olszewski government discovered that there were powerful internal and external pressures to stick with the Balcerowicz program, most importantly the IMF and Western creditors. The Fund had blocked further lending to Poland in August 1991 because the government failed to meet budget deficit and other targets agreed with the Fund; much Western aid, including the agreement to cancel half of

Strike Activity in Poland

Sector	Number of Strikes	Number of Strikers	Number of Work Days Lost
Industry			
mid-1991	163	147,800	154,400
mid-1992	420	304,100	272,500
Construction			
mid-1991	5	1,300	6,100
mid-1992	23	4,200	500
Agriculture			
mid-1991	25	4,300	49,500
mid-1992	9	800	500
Transport			
mid-1991	32	1,100	25,000
mid-1992	240	13,700	3,000
Local Government			
mid-1991	16	18,400	46,600
mid-1992	11	1,300	200
Education			
mid-1991	24	1,200	5,400
mid-1992	5,203	149,700	129,100
Total			
mid-1991	271	174,800	287,400
mid-1992	5,916	475,800	406,600

Source: "Statistics of Poland," *Rzeczpospolita,* 4 August 1992, as cited in *RFE/RL Research Report,* 11 September 1992.

Several strikes in some of the largest state enterprises began this summer, threatening to shatter the governing coalition.

Poland's debt owed to Western governments, was contingent on continued IMF approval of Polish economic policy. World Bank lending was also stopped by the failure to meet the targets. Olszewski's government quickly found itself hemmed in, and ended up submitting the tight budget drawn up by its predecessor.

Although the Olszewski government finally fell on 5 June 1992 because of a scandal over the release of lists purporting to name former secret police collaborators, the content of its rhetoric on economic policy and the increasing disorder in the government contributed to a sense of crisis in the economy and prompted questions about the ability of Poland's democracy to successfully manage the economy. The divided parliament and the brief tenure of governments contributed to these questions. The interim government of Waldemar Pawlak, though blessed by Walesa, lasted only through June, when coalition talks started between former adversaries. A group led by Mazowiecki's Democratic Union and parties which had participated in the Bielecki and Olszewski governments agreed to compromise on policy differences and proceeded to divvy up cabinet posts with surprising speed. The common element to all these parties is that they have faced the contradictions of government, and while they generally support continuing the austere economic policies, they have also been chastened by their social effects.

Summer strikes

The new government, led by prime minister Hanna Suchocka of the Democratic Union, has been tested from the moment it was formed in early July 1992. Several strikes in some of the nation's largest state owned enterprises began in August and September, threatening to shatter the governing coalition and undermine efforts to restructure state enterprises. Overall, the strikers wanted the government to repeal strict excess wage taxes and give the enterprises the liquidity to make substantial wage increases.The government's position was that the taxes were necessary to hold back inflation, and that any new government support for the state enterprises would only add to the budget deficit (which can only be funded currently by literally creating money). The mainstream Solidarity unions counseled patience and caution, but a radical Solidarity splinter (Solidarity '80) joined with the former official (Communist-run) trade unions to try to spread the labor action to bring greater pressure on the government. The Suchocka government, trying to argue that it was not a party to what was really a labor-management dispute, found itself caught between responsibility for the state enterprises (and the need for continued labor support) and pressures from the IMF and Western banks to hold down inflation and slash, rather than expand, government spending.

Earlier this year, the Olszewski government had extracted some concessions from the IMF, notably an allowance for a modest budget deficit, after pleading social unrest. The Suchocka government confirmed this understanding in September and got some room to maneuver. After some weeks of worry that the labor unrest would spread into a general strike, the government found a way to defuse the strikes without abandoning its tough negotiating position: in those enterprises where the strikes had been "legal" (i.e. proper procedure and negotiation had preceded the strike), the government would be more forthcoming and discuss industry-specific problems other than wages (other than to guarantee that wages would be paid). Labor minister (and Solidarity veteran) Jacek Kuron unveiled an "enterprise pact" which pledges the government to faster action on the problems facing state industry and giving greater involvement to the workers in the restructuring and privatization of their enterprises. The government also agreed to repeal the hated "popiwek" (excess wages tax) in return for the understanding that future wage agreements would be made solely between labor and management, and that the state would not be liable for wage increases which exceeded productivity growth.

One group of wildcat strikers, at the giant FSM auto plant, undermined their own position and handed the government an unexpected victory. FSM makes the popular Fiat Cinquecento model and was due to be purchased by Fiat; the strike put everything on hold. The wildcat strikers demanded to be paid ten percent of the car's sale price—which would have given them a wage several times the average wage in Poland. Their immodest demands in the face of considerable improvements already promised by Fiat alienated the FSM strikers from most other unions and the populace at large. In this instance, the government refused to make concessions for the "illegal" strike; when the strikers found themselves unable to exert pressure on the government, the strike folded.

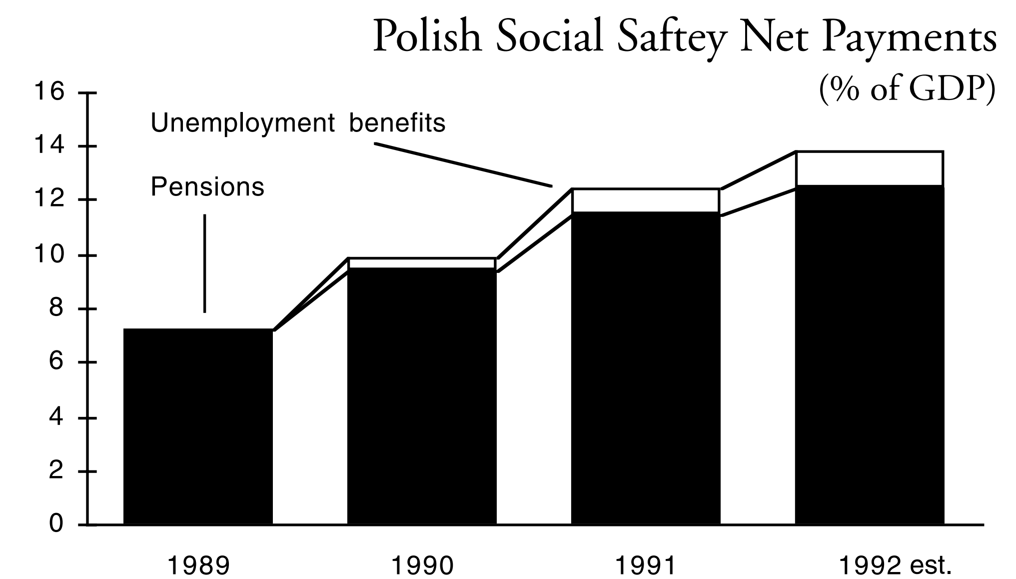
Most observers were surprised at the relative firmness with which the coalition government was able to face the strikers and surprised at the failure of the most outspoken unions—the unlikely group of Solidarity '80 and former Communist unions—to get the labor actions to catch on. There is no question that the "sadder but wiser" government knew the penalty of loosening the economic reigns—not least the hammer of IMF disapproval—and it seems most of the industrial workers were mollified by the government's promise to be more flexible and take their concerns more seriously. Other analysts argue that there has been an important sea-change in workers' attitudes. The obvious limits to state capacity in recent days and the growth of the private sector (which now employs more than half of all workers) has induced industrial labor to think more of taking their own risks and finding opportunities instead of pressing for now-scarce security, these observers argue.

The balancing act

The most painful challenges may still lie ahead. Despite the economic upturn and very good foreign trade results this year, inflation is running at 46%, real incomes have fallen sharply, and unemployment is at nearly 14% and rising (albeit more slowly). Despite these conditions, the Suchocka government finds itself needing to cut government spending, specifically unemployment and pension benefits. A tough fight in parliament is expected, and that should not be surprising: pensions and the social safety net are seen as the last protector of those who have already worked hard or have been left behind in the transition. In an economy in which so many have been employed in work now considered "uneconomic," and in which state support for retraining or relocation is nonexistent, the transition to a private economy is bound to be painful and conspicuously unequal. Growth in the private sector has been paralleled by a rapid growth of white collar fraud and corruption, adding to popular impressions that a market economy tends to reward the dishonest. The newly rich are growing in numbers and flaunting their newfound prosperity. The government's ability to enforce laws and regulations, oversee crucial market mechanisms, and collect business taxes is stretched past the limit.

Under the circumstances, the government's moves to cut back pensions and unemployment benefits might appear to be an attempt to remove the last net. Though many analysts criticized workers under the Communist system as being lazy and wasteful, many who are now unemployed can honestly say that they have lost everything through no fault of their own. Therein lies the quandary: if the government, or the political parties which choose it, must be responsive to popular concerns, how do they square the need to help those hurt in the transition with the need to keep to an austere economic program? Does it make political *or economic* sense to push the nation into a rapid transition while at the same time reducing the government's ability to ameliorate hardship or curb the worst excesses?

Poland's experience since the fall of communism has brought these issues into sharp relief. The governments from Mazowiecki on have all adhered to an economic program which they believe,and Western officials insist, is necessary to lay the groundwork for future prosperity. At the same time, the populace—having been sold on the program in some cases by politicians who promised a painless path to prosperity—are feeling the brunt of austerity and want their elected officials to listen to them. For Polish democracy—and the others of the region—to survive in spirit as well as



Source: S. Gomulka, "Economic, Social and Political Problems in Economic Transformation: The Case of Poland 1989-92," World Bank, Transition and Macro-Adjustment Division, Research Paper No. 28, August 1992.

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letter, the political leadership must make great efforts to convince the citizens that the program will work, that it is not simply imposed by the IMF, and that the government is willing to be flexible where it can. Economic policy makers and Western lending agencies need to give social costs greater weight, as they have begun to do. Otherwise, the Polish people may begin to regard democracy as an empty shell, and the tremendous opportunity seized by them in 1989 might be wasted. The creation of the new coalition government, their firm but flexible approach to the summer strikes, and the moderation of most workers, are good signs that the political leaders and citizens may be coming to terms with their new environment and may be able to make the best use of the opportunities they helped create. ◊

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