

Carrying out long-lasting and meaningful economic reform isn't easy. The benefits often show up years later, while the pain is felt immediately. In our new series, "In the Trenches," policymakers describe the challenges of pushing through reforms aimed at stronger growth, higher productivity, and more jobs.



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Window of Opportunity

Leszek Balcerowicz explains why it's important to move quickly when citizens are willing to embrace change

LESZEK BALCEROWICZ, the architect of Poland's transition to a free-market economy, began studying ways of reforming the country's Soviet-style system in the 1970s. He later became an advisor to the Solidarity trade union movement. For two years starting in 1989, Balcerowicz served as finance minister and deputy prime minister under Tadeusz Mazowiecki, who headed the first noncommunist government in Eastern Europe since World War II. Balcerowicz again assumed those posts from 1997 to 2000 and served as central bank president from 2001 until 2007. He holds a PhD in economics from the Central School of Planning and Statistics in Warsaw (now the Warsaw School of Economics), where he still teaches.

In this interview with *F&D*'s Chris Wellisz, Balcerowicz recalls the intensity of his first stint as finance minister and tells how he sought to overcome the obstacles he encountered by exploiting a narrow window of "extraordinary politics."

F&D: In the 1970s you put together a team of economists to study ways to reform the existing

socialist system. You said this work was like a hobby, because the prospect for reform seemed slim. Then martial law was imposed in December 1981. What happened next?

LB: After the introduction of martial law there was no hope for any major reforms. ... However, we continued our work, but this time without any limitations. So we studied privatization, liberalization, fiscal reforms. ... We, of course, did not assume that this would be useful in our lifetime.

F&D: Then came the so-called Round Table talks between Solidarity and the Communist government, which were followed by elections that resulted in a new government under Mazowiecki. You have said you would take the job, but only under certain conditions. What were they?

LB: First, that the economic reform would be massive, rapid, and radical. Second, that I would enter the government with a group of people, the team. Third, that I would chair, as the deputy prime minister, the economic committee of the council of ministers as a sort of coordination device of all the economic ministries. At the same time, I accepted the position of minister of finance. And, fourth, that I would have a say in who would take the economic portfolios.

F&D: What was your assessment of the economic situation?

LB: [It] was dramatic; output was falling. We had hyperinflation. We had a very large foreign debt. But I realized only after I accepted the job that the situation was even worse, because it turned out we had some hidden domestic debt.

F&D: How did you decide on a strategy?

LB: First, we knew ... that once a country is struck by hyperinflation, you must be very quick to reduce the pace of the printing of money. Second, we knew from our studies of previous reforms under socialism, and in some other countries—but especially under socialism—the initial dose of changes must be very large and very quick. [We also knew] that the changes should not be sequential. Major changes should start around the same time, as a package.

F&D: Why was that so important?

LB: After a breakthrough like in Poland in 1989 there's a short period of what I called "extraordinary politics," a window of opportunity, if you

will, that people were more ready than normal to accept radical changes. And the best use of this gift of history was to move very fast on a broad front which ... we did in Poland. A very rapid stabilization and massive liberalization of the economy, which included dismantling of most domestic monopolies. ...

F&D: What was your most pressing challenge when you first took office?

LB: The main problem was to stop hyperinflation. Technically it was easy. We had to slow down the printing of money, so it was largely a fiscal challenge. At the same time, we introduced the independence of the central bank.

F&D: What about the currency? It wasn't convertible at the time, and there was a flourishing black market in dollars.

LB: One of the greatest reforms which we introduced was the unification of the rate of exchange and the introduction of the convertibility of the currency, and this was sort of a revolution because people could legally import goods. And this enhanced supply competition.

F&D: How did you decide on a currency regime?

LB: We opted for a fixed rate of exchange for a time which was very difficult to determine. There was an argument coming from the IMF which I accepted then, that Poland needs a nominal anchor to stop hyperinflation. And it was, of course, extremely difficult to say exactly at what level the Polish zloty should be stabilized—at what rate of exchange. But we had to make the decision.

F&D: You were new to politics. How did you find that transition?

LB: I did not enter politics for the sake of politics. I was asked to do a job. And the job was of historical proportions. We didn't need lots of public communication and persuasion because we had the parliamentary majority—the Solidarity movement—and delaying change in order to make a lot of explanation would be wasting very precious time. So this was politically pretty easy.

F&D: A million people lost their jobs. Were you concerned about the political cost?

LB: This is a widespread myth, because, first, people associate social cost with reforms, while

delaying reforms brings about much larger social costs. ... Secondly, on unemployment, you have to remember there was a lot of hidden unemployment in the socialist enterprises. And some of this hidden unemployment became open. And third, the initial law on unemployment benefits was too lax.

F&D: What was the main accomplishment of Poland's reforms?

LB: Poland was lagging behind the West economically for the last 300 years, so the gap was growing, especially after the Second World War. And only because of market reforms after '89 did we start to catch up. And we moved from about 30 percent of per capita income in Germany in 1989 to about 60 percent. This is the first time in Poland's history of the last 300 years that Poland has been rapidly converging with the West.

F&D: Were you concerned that voters would associate reforms with economic pain?

LB: For the first two years, there were no massive social protests and there were few political protests. With the passage of time, as in every country, there were politicians who tried to gain political capital from the criticism of what they called harsh or inhuman economic reforms.

F&D: Was there anything that was left undone that you wished you could have accomplished?

LB: If I had more people with whom I could work, I would have made more changes in the inherited social system, pension reforms and health reforms.

F&D: Does your experience have relevance today for policymakers in other countries?

LB: There are a lot of quasi-socialist economies that are dominated by the state sector. ... in these countries, the situation to some extent is comparable to that which existed in Poland and other socialist countries in 1989.

F&D: When you look back at that time, what are your personal reflections on the role that you played?

LB: Even at the beginning of 1989 I did not dream that Poland would be free and I would play a role in its transformation. This was, of course, not easy, but if something goes beyond your dreams you can't complain. **FD**