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CHAPTER 2 Economic Resources and Systems

Poland: A Beacon for the Rest of Europe

by Rose Brady

For a newcomer, it was quite a scene. Merchants, artisans, and even bankers lined the streets to offer their products at a fair in Warsaw's Old Town on a recent Sunday afternoon. As a band played Louis Armstrong's Wonderful World and other tunes, prosperous-looking Poles shopped for private pension funds as well as locally made goods from candies to cosmetics. What a change from a decade ago, when on June 4, 1989, voters ended communist rule by overwhelmingly supporting Solidarity candidates in Poland's first competitive elections. Within months, communism had collapsed across Eastern Europe.

Poland not only led the way. It now stands out as the post-communist world's biggest economic success story. After years of covering Russia—one of the world's biggest disappointments—I traveled to Poland to gain a better understanding of its success. In chats with local managers, economists, and entrepreneurs, a clear message came through: Poland has enjoyed brisk economic growth for most of the decade because it chose radical reform, and despite the pain, stuck with it.

That's a simple message. But not enough policymakers in central Europe—or western Europe, for that matter—have heard it. While Poland thrives, Romania, Slovakia, and Bulgaria lag behind. Germany can't match Poland's boldness in pension and tax reform. Nor can it come close to Poland's expected 3% to 4% growth this year. So Europe's leaders should revisit Poland's experience for clues to sorting out their own much-needed reforms.

It starts with consensus. In contrast to politically divided Russia, Poland was blessed with a broad agreement to build free-market democracy. That support gave the opening to post-communist Poland's first Finance Minister, Leszek Balcerowicz, who pushed through a program to eliminate price controls, slash state spending, and make the zloty convertible for trade transactions. Inflation shot up to 250% in 1990, the standard of living tumbled, and consensus was severely tested. But it held out long enough for the plan to produce a stable currency, moderate inflation, and a big spurt in investor confidence. While the tempo varied, each of Poland's seven governments since then has followed the same basic course. These days, inflation is running at 6.2%, and the zloty is strong.

The second ingredient in Poland's success is financial rigor. As far back as 1991, Warsaw's Securities & Exchange Commission worked to create transparent markets. Its strict disclosure requirements sparked complaints from companies leery of opening their books. But the rules fostered the investor trust that still eludes the Czech Republic and Russia. That's partly why Poland is seeing a surge of initial public offerings, such as April's $90 million listing of Agora, publisher of Gazeta Wyborcza, the "election gazette" founded by Solidarity supporters in '89.

The third factor is Poland's openness to foreign investment, which boosts competition and productivity. Over 60% of Poland's banking assets will be in foreign hands after Warsaw sells 52% of its Bank Pekao to UniCredito Italiano and Germany's Allianz in June. And Warsaw will soon invite bids for up to 35% in TPSA, the state telecom monopoly. France Telecom, Deutsche Telekom, and SBC Communications are considering investing.

NEW TEST. Poland's revolution is far from over. The challenge now is to speed privatization, slash taxes, and launch a drastic restructuring of agriculture and heavy industry. That's necessary if Poland is to join the European Union in the next decade. Yet farmers, 25% of the workforce, have mounted blockades to protest subsidy cuts. Warsaw must also lay off 100,000 coal miners. It's offering them 50,000 zlotys—about $12,500—to quit and start their own businesses.

So Poland's desire to reform will be tested again. But it has a decade of success to carry it through the next stage. If leaders of the old Soviet bloc came to Warsaw's Old Town, they would see that for themselves.

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