
TOWARDS POSSIBLE SOLUTIONS TO POVERTY? AN INSTITUTIONAL ANALYSIS FOR POLAND’S DEVELOPMENT AFTER 1989

Adrian Eugen PREDA*

*Institute of Research, Development and Innovation, ‘Constantin Brâncuși’ University of Târgu Jiu

Abstract: *THIS PAPER AIMS TO DEVOTE AN ANALYTIC EYE ON THE LIBERALIZATION COURSE ADOPTED BY THE POLISH GOVERNMENT AFTER THE FALL OF THE COMMUNIST REGIME IN 1989. AFTER THE PEACEFUL TRANSITION FROM A TOTALITARIAN COMMUNIST INSPIRED REGIME TO A DEMOCRATIC FORM OF GOVERNMENT, THE NEW POLISH POLITICAL ELITE HAD TO EMBARK IN REFORMS, AIMING TO GENERATE ECONOMIC PROSPERITY AND RECOVER THE BACKWARDNESS COMPARED TO THE WESTERN COUNTRIES, FROM WHICH ADOPTED THE DEVELOPMENT MODEL. THIS PAPER ARGUES THAT IF THE PROPER ECONOMIC AND POLITICAL INSTITUTIONS ARE DEVELOPED BY THE STATES, THEN THE POVERTY IS REDUCED, FROM THE THEORETICAL PERSPECTIVE OF INSTITUTIONAL ECONOMICS, AS PROPOSED BY DARON ACEMOGLU AND JAMES A. ROBINSON. BASICALLY, THIS PAPER ARGUES THAT THE ADOPTION OF INCLUSIVE POLITICAL AND ECONOMIC INSTITUTIONS GENERATED PROSPERITY AND ECONOMIC POSITIVE PERFORMANCE FOR POLAND AFTER THE FALL OF THE EXTRACTIVE COMMUNIST REGIME.*

Keywords: EXTRACTIVE INSTITUTIONS, INCLUSIVE INSTITUTIONS, LIBERALIZATION

**Contact details
of the
author(s):** Email: adrian.e.preda@gmail.com

INTRODUCTION

The aim of this paper is to offer an analysis of the post-Cold War developmental path adopted by Poland, a democratic country¹, which until 1989 was a dictatorial state under Communist rule and democratized after the fall of the Communist regimes in Eastern Europe. I will use as a theoretical base the Institutional Economics perspective, with my central claim that poverty can be reduced by adopting a certain type of institutions, namely of inclusive character, transformed from extractive, both political and economic. For the present paper, I will use the arguments of Acemoglu and Robinson and

¹ In 2020, the former conservative government almost banned the right to abortion (Human Rights Watch, 2023).

concentrate on the economic and political institutions on the case of Poland after the collapse of the Communist regime. Simply put, this paper argues that the adoption of inclusive political and economic institutions generated prosperity and economic positive performance for Poland after the fall of the extractive Communist regime

My argument is that if the proper economic and political institutions are developed by the states, then the poverty is reduced. My intention is to demonstrate my argument by an analysis of the Poland's economic and political institutions, highlighting its institutional arrangements and explain the Polish positive development after 1989.

The paper is structured in the following order. The first part offers a presentation on economic and political institutions from the viewpoint of Acemoglu and Robinson, in the second part follows the presentation of political and economic institutions of Poland, the third part is reserved to the analysis, while the last is devoted to conclusions.

INSTITUTIONAL ECONOMICS

The institutional paradigm maintains that in terms of political and economic performance the institutional design matters in a very high degree, almost decisive. As the institutions, both political and economic, are more open, then the political and economic realms are more performant. Finally, economic performance is a result of the combination of democracy (free institutions) and capitalism (free economy). For Douglass C. North, institutional change represents a process where the actors shape it according to their perceptions about the outcome of their actions, by “altering the institutional framework in order to improve their (and their organizations’) competitive position” (North, 2005, p. 22). According to North, the institutions represent “the rules of the game”, which “define the way the game is played”, while the players are given by the organizations (North, 2005, p. 22). There are also another two points of view regarding the institutions, external and internal. In the first case “institutions are shared behavioral regularities or shared routines within a population”, while in the second case “they are nothing more than shared mental models or shared solutions to recurrent problems of social interaction” (Mantzavinos et al., 2004, p. 77).

Acemoglu and Robinson argue that there are two types of economic and political institutions: extractive and inclusive (Acemoglu and Robinson, 2012), while the economic success varies according to their different institutional arrangements, to the rules that affect the economy and to the incentives that motivate people (Acemoglu and Robinson, 2012, p. 57).

The *inclusive* economic institutions allow and encourage the participation to the economic activities of a great mass of people, who can use their talent and abilities. This kind of institutions guarantee private property, impartial laws and a public services system that offers the framework for exchanges and contracts between people. Also, it allows people to choose their careers and the creation of new businesses. The inclusive economic institutions favor the increase in productivity and the economic prosperity, while the private property is crucial for motivating people to invest and raise the productivity (Acemoglu and Robinson, 2012, p. 58).

The *extractive* economic institutions do not have the same properties as those mentioned above. The private property is not guaranteed, while the great mass of the population is not able to take its own economic decisions, because of the high level of coercion. The state power is not directed towards providing of public services favorable to prosperity and the laws are one-sided. These institutions are built to extract the wealth and revenues from a part of the society in the benefit of a minor elite (Acemoglu and Robinson, 2012, p. 59).

Acemoglu and Robinson see the inclusive economic institutions as engines of prosperity, which lead to inclusive markets that allow people to pursue their way in life according to their talent, in a favorable environment. Moreover, the inclusive markets are free and the inclusive economic

institutions favor the technological development and education, that complete the sustainable economic growth (Acemoglu and Robinson, 2012, p. 59).

The political institutions are a key component that determine the way of electing a government and what is allowed to do, also influencing the distribution of power in the society and how it can be used (Acemoglu and Robinson, 2012, p. 61). The political institutions are *absolutist* (extractive) when the power distribution is limited and unconstrained. The absolutist institutions favor those who have the power, allowing them to build extractive institutions that help them to consolidate their position and get rich at the expense of the society (Acemoglu and Robinson, 2012, p. 61).

At the opposite pole there are the *pluralist* (inclusive) political institutions, the power is constrained and it is found inside a large coalition or in many groups and is not concentrated in the hands of a single individual or a small group (Acemoglu and Robinson, 2012, p. 61).

Acemoglu and Robinson argue that there is a strong link between pluralism and inclusive economic institutions, but the key to explain why some states, such as the United States or South Korea, have this kind of economic institutions, is that there are sufficiently powerful and centralized, the political pluralist institutions not representing the only condition (Acemoglu and Robinson, 2012, p. 61). The inclusive political institutions have to refer to some political institutions that present a sufficient degree of centralization and plurality. At the moment when one of these conditions is not fulfilled the political institutions are extractive (Acemoglu and Robinson, 2012, p. 62).

Therefore, according to the theoretical perspective offered by Acemoglu and Robinson, the economic success of a country is determined by the institutional framework it provides, both in political and in economic terms. Acemoglu and Robinson maintain that economic performance is backed by inclusive political institutions, which also determine inclusive economic institutions. Thus, economic performance is only driven by inclusivity, both in political and economic terms.

ECONOMIC AND POLITICAL INSTITUTIONS OF POLAND AFTER 1989

After the Second World War, Poland was one of the Eastern European countries that experienced the Soviet occupation and Communist dictatorship, until the fall of the regime, in 1989. As in the classical Communist totalitarian fashion, through propaganda and terror, the Communist Party gained the control on all aspects, from administration and economy (nationalization and collectivization) to education and media (Kamiński and Korcuć, 2016, p. 95). As in other countries which adopted the imposed Soviet model, the Communist Party exerted its control through repression, intimidation and violence (Kamiński and Korcuć, 2016, pp. 95-97).

The creation in 1980 of the Solidarity Trade Union led by Lech Wałęsa set the stage for the liberalization process (Judt, 2005, p. 588). Parliamentary elections held in 1989 were a success for Solidarity, which won 99 from 100 seats in the Senate (Judt, 2005, p. 607). The first non-Communist government of Tadeusz Mazowiecki was approved and announced plans of conversion to market economy, known as the “Balcerowicz Plan”, while the Communist Party dissolved in 1990 (Judt, 2005, p. 608).

In the following years, painful reforms were introduced and the industry was privatized, together with the introduction of market-competition. Afterwards, the GDP and the quality of life have risen significantly and after the 2004 accession to the European Union, Poland continued its path becoming one of the most advanced European economies. In 25 years, the Polish economy doubled its size and the GDP per capita moved from 32% to 60% of the EU-15 average, with a GDP growth per year between 1991 and 2008 of 4.6%. It was the only country in the European Union which avoided recession in the past economic crisis, becoming the eight economic power of the EU (Wojciech et al., 2015). The Polish economy was the only one in Europe with economic growth in 2009 (Sala-i-Martin et al., 2010, p. 27).



Poland has a parliamentary system of government, based on the separation of power between legislative, executive and judiciary, with the courts and tribunals independent from the other branches (Robbers, 2007, p. 734). The people can exert its power through elections and referendum, together with legislative initiative to the Parliament (Robbers, 2007, p. 734).

Political pluralism is guaranteed and the state protection is assured to political parties, trade unions and other associations. Also, the state recognizes the freedom of mass media, conscience and religion, as elements composing the civil society (Robbers, 2007, p. 734).

The president can be elected for two terms for five years each, by universal, equal and direct elections, also being accountable in front of the justice. The Council of Ministers is responsible to the bicameral Parliament, whose members are elected for a four-year term. The judicial branch is independent from the others, with a Tribunal of State watching the respect of the Constitution by the state officials (Robbers, 2007, p. 735).

As the Constitution proclaims, the basic components of the economy are economic freedom, private property, solidarity, dialogue and cooperation, being defined as a social market economy. The state protects the property and inheritance rights, while expropriation is made only for public interest, followed by compensations (Robbers, 2007, p. 734). The system is organized as a social market economy and the rights of the different participating actors have to be protected, while every form of property is guaranteed and economic limitations are imposed only for important reasons. Also, the Constitution protects the freedom of choice and pursuit of the desired occupation and the working place. In agriculture, the family farm should be its core, but the state does not limit the property rights and economic freedom (Robbers, 2007, p. 737). From a social point of view, the economic system promotes solidarity, dialogue and cooperation, while the rights to minimum wage and social security for incapacity, sickness and invalidity are granted, together with the right of allowance after retirement (Robbers, 2007, pp. 737-738).

ANALYSIS. THE POLISH ECONOMIC PERFORMANCE AS A SOLUTION TO ERADICATE POVERTY

Even though this analytic endeavor can be regarded as an economic analysis, I will start from the political science argument, which maintains that poverty can be eradicated by arguing that economic prosperity can be driven by institutional change and democratization of the institutions, using the arguments of Acemoglu and Robinson. I will first analyze the extractive economic and political institutions, then I will address to the inclusive institutions.

First of all, democracy or liberalization was one of the main requirements for economic prosperity for the case of Poland. Through reforms, Poland transitioned from an economic system characterized by extractive economic institutions before 1989, during the Communist regime, to a system of inclusive economic institutions. The economy in the time of the Communist rule was characterized by nationalization and collectivization of the agriculture, which led to a deep economic recession in 1980-1981 and the declaration of bankruptcy in 1981 in the realm of external financial relations (Gomułka, 2016, p. 20). This was the outcome of the extractive character of the economic institutions in Poland before 1989, the public services not being favorable to prosperity. The nationalization of economy and collectivization reflect that the Polish people was restricted in its own economic decisions.

In terms of political institutions, Poland before 1989 was a dictatorship, under the rule of the Communist Party, which exerted its control by repression, intimidation, violence and propaganda. As in other countries that entered under the Communist rule, the Soviet occupation was favorable for building absolutist (extractive) political institutions that backed the extractive economy of Poland.



After 1989 and the transition towards a democratic system, Poland has begun to develop inclusive economic and political institutions. After the transition to market economy driven by the Balcerowicz Plan, Poland took a path of sustainable economic growth between 1991 and 2008, largely recovering the lag compared to EU-15 in terms of GDP per capita, with a 4.6% GDP growth, continuing to grow even in 2009, in time of recession, to the eight-place in the European Union in terms of economic power. I argue that these performances were driven by the guarantee of the private property and freedom to choose and pursue the desired occupation and the working place, which, according to the theory of Institutional Economics, created incentives for the great mass of people to follow their careers according to their talents and abilities and be productive. Also, the private property has a crucial role in this outcome, by motivating people to engage in productive economic effort. As Acemoglu and Robinson argued, the inclusive economic institutions being regarded as the engines of prosperity, it can be maintained that they have driven the Polish economic growth after the collapse of the Communist regime and during the harsh years of political and economic transition to democracy and capitalism.

At the base of the inclusive economic system from Poland stay the inclusive political institutions, where the political power is distributed among the three branches (legislative, executive and judicial) and is constrained. Elections are held periodically and the people have the right of legislative initiative and referendum. More important, the politicians are accountable in front of justice, which is independent from the other power branches. Compared to the Communist period, the political power is not concentrated in a small group and pluralism is granted, assuring the existence of other parties, trade unions and other types of organizations.

Therefore, given the character of the contemporary economic and political institutions, I can argue that the inclusive institutional arrangements developed after 1989 paved the way for today Poland's economic success. I can argue that this model can be a possible example for fighting poverty, especially when the market economy system is completed by a social dimension as in Poland, with minimum wage and allowances in case of sickness, invalidity, incapacity and retirement. I am aware that this system may not be adopted everywhere in the world, but I can argue that a prerequisite for dealing with poverty is the developing of inclusive economic and political institutions that free the people from constraints and permit to participate to the economic and political life.

CONCLUSIONS

In this paper, I tried to demonstrate that by developing certain types of economic and political institutions, a state that emerged from the Communist dictatorship was able to become a model of economic growth and democratization. I argue that if the proper economic and political institutions are developed by the states, then the poverty is reduced, staying as a proof the Polish 4.6% economic growth between 1991-2008 and the fact that it emerged from a backward economy in Eastern Europe, in bankruptcy in 1981, as the eight economic power of the European Union, the only one with economic growth in 2009. Also, a social component of the economy, combined with inclusive institutions can represent an interesting, if not successful, model of fighting poverty. Also, my analysis demonstrated that liberalization or democratization is a necessary condition for reducing poverty.



2/2023

REFERENCES

- Acemoglu, D. and Robinson J. A. (2012). *Why nations fail: the origins of power, prosperity, and poverty*. New York: Crown Publishers
- Bogdan, W., Boniecki, D., Labaye, E., Marciniak, T., Nowacki, M. (2015, February 1). *How Poland can become a European growth engine*. Retrieved from <http://www.mckinsey.com/global-themes/europe/how-poland-can-become-a-european-growth-engine>
- Gomułka, S. (2016, April 4). Poland's economic and social transformation 1989-2014 and contemporary challenges. *Central Bank Review* (pp. 19-23). Polish Academy of Sciences
- Human Rights Watch. (2023, September 14). *Poland: Abortion Witch Hunt Targets Women, Doctors. Criminalization, Pursuit of Alleged Offenders Violates Rights*. Retrieved from <https://www.hrw.org/news/2023/09/14/poland-abortion-witch-hunt-targets-women-doctors>
- Judt, T. (2005). *Postwar. A History of Europe Since 1945*. New York: The Penguin Press
- Kamiński, Ł., Korkuć, M. (2016). *1050 years. A guide to the history OF Poland. 966–2016*. Krakow: Legra Sp. z o.o
- Mantzavinos, C., North, D. C.; Shariq, S. (2004, March). Learning, Institutions, and Economic Performance. *Perspectives on Politics*, 2(1), 75-84
- North, D. C. (2005). Institutions and the Performance of Economies Over Time. In C. M'énard and M. M. Shirley (eds.). *Handbook of New Institutional Economics* (pp. 21-30). Netherlands: Springer
- Robbers, G. (2007). *Encyclopedia of World Constitutions*. New York: Infobase Publishing
- Sala-i-Martin, X., Blanke, J., Drzeniek Hanouz, M. Geiger, T., Mia, I. (2010). The Global Competitiveness Index 2010–2011: Looking Beyond the Global Economic Crisis. In *The Global Competitiveness Report 2010-2011*. World Economic Forum: Centre for Global Competitiveness and Performance