

Role model for Argentina: Poland's history shows what capitalist reforms can achieve

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Rainer Zitelmann

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Javier Milei has begun to implement capitalist “shock therapy” in Argentina. Poland, where Leszek Balcerowicz has been carrying out capitalist reforms since 1990, offers hope that such therapy can succeed. Milei and Balcerowicz are colleagues, both are professors of economics, both follow the teachings of Ludwig von Mises and Friedrich August von Hayek. Both came to power when their countries were suffering from severe poverty and inflation.

According to the largest survey ever conducted on the image of the market economy and capitalism, nowhere else in the world is the image of this economic system as positive as in Poland. <https://onlinelibrary.wiley.com/doi/full/10.1111/ecaf.12591>

And there is a good reason for this. In Poland, the first country where socialism was defeated by a strong labor movement, people have been able to judge from their own experience in recent years that socialism must fail and capitalism improves their lives.

In 1989, the shelves in many Polish stores were even emptier than the shelves in other Communist countries. Stores often stocked just bread, milk and vinegar. And even the most basic foodstuffs could only be obtained in exchange for coupons. Poles were poorer than the

average citizens of Gabon, Ukraine, and Suriname. And annualized inflation was 640 percent in Poland.

Standing in line developed into a fully-fledged science in socialist Poland. With lines everywhere and people often having to wait for hours and hours – or even several days in the case of furniture or household products – some clever systems emerged. One of them was so called the “line list,” which was used when people had to wait for days, not hours. In that case a list was made of all the people waiting in line so that they didn’t need to physically be there all the time. Every several hours the list was read aloud and people needed to report present or otherwise – and if they were no longer in line, they would be crossed of the list. The schedule for taking the register was announced ahead of time.

When the waiting period was days not hours, people needed to report three to four times a day. Some people took a leave of absence from work, some just asked supervisors to let them go and come back quickly, and some paid others to report on their behalf (it was called “hiring a stander”). Custody over the line list was taken care of by self-proclaimed line committee. You had to know the salesperson in a shoe shop, who could sell you a pair of shoes that you would then present as a bribe to a guy that could sell you a bicycle that you would then give to the baker to pay for the wedding cake for your electrician’s daughter.

According to Karl Marx, socialism was nothing more than a transitional stage to communism. Under communism, so his line of reasoning went, all people would be able to live according to their needs. The Poles who stood in line for hours to get the bare necessities of life, however, faced the reality of Marx’s vision with derision. One popular joke in Poland was:

“How will the problem of queues in shops be solved when we reach full Communism?”

“There will be nothing left to queue up for.”

None of this was all that long ago. The above reports all describe the situation in Poland in the 1980s, which was a world away from today’s Poland. Since 1989, Poland’s gross domestic product per capita has increased threefold. Poland has recorded average real economic growth of 3.5 percent per year. The country’s economy grew to become the sixth-largest in the European Community in the decades following the launch of market-economy reforms.

There is a principal reason for this astonishing growth: in hardly any other country of comparable size has economic freedom increased so much in recent decades.

The Heritage Foundation has been publishing the *Index of Economic Freedom* every year since 1995. Poland ranks 39th with a score of 68.7, which does not seem particularly remarkable at first and is certainly not among the highest scores.

Nevertheless, it does mean that Poland is more economically free than Spain, Israel, France, or Italy, for example. But of far greater importance than the absolute rank is a country's relative change since 1995, and on this measure, Poland does come out on top. Poland's score rose from 50.7 in 1995 to 69.7 in 2021. In 2022, Poland lost one point for a score of 68.7. Of countries with more than 30 million inhabitants, only Vietnam, which rose from 41.7 to 60.6 points, experienced a comparably large increase in economic freedom. According to the results of this ranking, economic freedom in the United States has declined over the same period.

The capitalist reforms in Poland from 1990 onwards, conducted by the economist Leszek Balcerowicz, led to a temporary decline in GDP, and many previously hidden problems, such as unemployment, came to light. But the successes were soon evident and Poland also suddenly became attractive for foreign investors. In 1989, foreign companies invested a meager USD 60 million in Poland; by 1993, this figure had risen to USD 1.5 billion.

In blue- and white-collar households, stereo radio ownership increased from 23 to 41 percent between 1989 and 1992 and ownership of color television sets shot up from 51 to 91 percent. The proportion of blue- and white-collar workers who had a washing machine, a freezer or a car also increased by at least ten percentage points in each case from 1989 to 1992. And while only 30 percent of farmers owned their own car in 1989, by 1992 the figure was 42 percent.

Even more remarkable than the short-term successes were the long-term effects of Poland's economic reforms. In 2017, the economist Marcin Piatkowski published a book, *Europe's Growth Champion*, in which he takes stock after 25 years: "Yet, twenty-five years later it is Poland that has become the unrivalled leader of transition and Europe's and the world's growth champion. Since the beginning of post-communist transition in 1989, Poland's economy has grown more than in any other country of Europe. Poland's GDP per capita increased almost two-and-a-half times, beating all other post-communist states as well as the euro-zone."

According to data from the World Bank, GDP per capita in 1989 was 30 percent of the corresponding figure in the U.S. and had risen to 48 percent of the U.S. level by 2016. Such gains made themselves felt in people's lives. The income of Poles grew from about USD 10,300 in 1990, adjusted for purchasing power, to almost USD 27,000 in 2017. In comparison with the EU-15, the income of Poles was less than one-third in 1989 and had risen to almost two-thirds in 2015. Poland's growth was also remarkable in global terms – the country's economy managed to grow faster than the high-growth Asian countries of South Korea, Singapore and Malaysia.

And it is by no means only the standard of living that has improved dramatically, so has the environmental situation. Anti-capitalists blame private capitalist companies' pursuit of profit for environmental destruction. In fact, however, environmental destruction was much worse

in socialist countries. Levels of water and air pollution in Poland decreased rapidly after the end of socialism. And this was not primarily a result of the decline in GDP, because the decline in air and water pollution was many times higher. Air quality has also improved significantly. From 1990 to 2019, the number of deaths in Poland attributable to air pollution decreased significantly, from a peak of 51,800 to 31,100 people.

The development in Poland is the same as in other developed capitalist countries: growth decoupled from CO2 emissions, which is quite crucial for the issue of climate change. CO2 emissions rose sharply in the 1960s and 1970s. Despite a minor fall due to various economic failures, the level still exceeded 11 metric tons per capita in the late 1980s. The transformation changed this picture significantly and in less than ten years the emissions reached around 8 metric tons per capita. Even today, despite the Polish economy's strong growth, emissions have held steady at around eight metric tons per capita.

The example of Poland shows that capitalism is not the problem, but the solution. Or, as Javier Milei put it in his speech in Davos on January 17: *"The state is not the solution. The state is the problem itself."* Poverty is not overcome through redistribution, but through market reforms and more economic freedom. However, the example of Poland also shows that after the start of capitalist reforms, the situation deteriorates temporarily before it improves. We can only hope that the people of Argentina will have the patience for this.

Rainer Zitelmann is the author of the recently published book *How Nations Escape Poverty. Vietnam, Poland and the Origins of Prosperity*. <https://nations-escape-poverty.com/>

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