The Transition from Communism: The Case of Poland
Guest: Mateusz Machaj
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WOODS: This time I want to talk about something much less technical, and I want to talk about something that you will know, I think, both anecdotally and from a historical point of view, and that is: the transition of Poland away from communism and, of course, also the Polish experience under communism. Now I am sorry to ask you a personal question like this on the air, so to speak, but do you mind if I ask how old of a guy you are?

MACHAJ: Yeah, that's fine. I was born in 1981.

WOODS: Okay, so you would still have memories from living under communism as a young boy, correct?

MACHAJ: Naturally I was born in a very, very tight era, let's say, because it was a state of emergency, state of war, actually, we should say, in Poland when I was born. Well, it started three months, actually, after I was born. So I don't remember that time, but I know that that time was pretty hard. But since I was four or five I got to see some things in the communist era: how the economy is run, meaning I saw empty shelves, and not many products in the stores, and also, of course, the fact that in order to buy the stuff, you also needed coupons. Various things were rationed in the communist era.

WOODS: What kinds of stories did your parents tell you either at that time or when you got older about their own experiences under the Polish communist system?

MACHAJ: Well, the situation, of course, under communism always depended on the possibility of using the black market, actually. That is—or grey market, well, I would say even black market. The Polish economy was actually doing better than other economies like the Russian economy because the government was not that eager to fight the black market. So we had various transactions done outside of the formal sphere that allowed you to buy, for example, some good fruits, good food from Polish farmers. People were using alcohol and cigarettes as a second form of currency apart from the official currency, which was useless without the

coupons, additional coupons. So there was somehow a secondary market going on, which allowed you to thrive and survive under that system. Whereas in Russia, they were much more serious about chasing people trading in the black market.

WOODS: What about things like political dissent? During the Solidarity period did it become easier or more difficult for people to express dissent from government policy?

MACHAJ: Well, at first it was very difficult when the state of war happened, since 1981 up until 1983, but later on we had a form of meltdown. But I would say that still people were persecuted and harassed by the government, but the biggest meltdown happened right after Stalin's death in the '50s. Then the terror was much weaker—still it was there, but it was not as harsh as it used to be during Stalin's times. Well, in the '80s, it was not actually a bad thing to be a little bit anti-government, but many people—you had eight million people signing up for the Solidarity movement. So you couldn't really put eight million people in prison. It wouldn't be possible under communism. So we had this small movement towards the transformation in the '80s that happened after the state of war was finished.

WOODS: What was the condition of the churches under communism?

MACHAJ: Oh, the Church was crucial, actually. We had the famous anecdote, or joke, of a person standing in church doing Mass, and the priest asking, "I haven't seen you before. Are you a believer? Are you Catholic?" He says, "No." "Are you a believer?" "No." "Are you converting?" "No, absolutely not. I am an atheist." "So what are you doing here?" "Well, I'm also against the government."

WOODS: I see, okay.

MACHAJ: It really tells you the truth about what was going on. The Catholic Church was a very, very important and strong factor in fighting the communist government. And people were gathering around the Church. This sentiment also was present during the first election in 1989, where people were actually showing up at churches asking their priest: who am I supposed to vote for? So since traditionally Poland used to be a very, very Catholic country, then the anti-government sentiment was definitely present there.

It was a little bit nationalistic. The paradox of our transformation was that in general, transformation was in the spirit of liberation, but the nationalist sentiment was very important in it. And also the Polish Catholic Church was, and to some extent still is, strongly nationalistic when you compare it, for example, to churches in other countries. So on the one hand, it's actually an advantage because it's allowed liberation. It's helped a lot in liberating us from Soviet occupation. On the other hand, it's also a factor which stopped us to some extent from engaging us in more free-market reforms after 1989. So the Church was definitely very, very important in that, and to demonstrate it as well: during Easter we had over 95% I think, like, two or three years ago I think that over 95% of people were going to church even though regularly like half the population is going. But in case of Easter, just put your eggs in the basket

and you go to church to make sure you get the blessing. So even people who do not consider themselves as very religious or even Catholic, would do it because it's like a family tradition. So it shows you how important was the role and still to some extent is in Poland. It's of course much weaker now, but it shows you that the aftereffects of that.

WOODS: That's funny—that wasn't the direction I was expecting you to take it, because I was wondering if because the churches could be a source of resistance, I was wondering if there had been any persecution of the churches, but maybe the faith was so widespread in the society that it would have been counterproductive to try by the government.

MACHAJ: Yeah, it would be counterproductive. Well, they were—there was this famous case with Popiełuszko, who was killed by the secret police. Of course, the secret police were spying on people around the Church and spying on priests. We have also this, let's say, original sin in Poland that there was no real lustration and decommunization. And also, the Polish Church did not really solve that problem either. So even some of the priests were infiltrated by the government. But the government was definitely not prepared to fight the Church openly. It wouldn't be possible. If you entered church in the '80s, for example, I don't know at 6:00 p.m., you would see the whole church would be absolutely full. You would see all the people from little babies and grown-up children, and then adults and elderly people. It was filled with people and sitting and standing in quiet and just listening to the priest. So that would be amazing if you entered church to see the Mass in the '80s, and the Catholic Church influence was so strong that the government would not fight it. It just couldn't win it. So the only way they could somehow control it was to infiltrate it or also attack it secretly, but definitely not completely openly. It wouldn't work if they just said, for example, we—I don't know, confiscate all the churches. It just wouldn't happen. There would be a revolt.

WOODS: Let me stay on this topic. There's one more question. Then we'll move into other things. What was the role of the election of John Paul II in this whole story?

MACHAJ: Well, of course, it integrated people even more. There was a famous saying when John Paul II showed up in Poland first in the famous speech where he says we need the Holy Ghost coming to the land, to this land. That is, to Poland. That's what he had in mind when he said "this land." We need the Holy Ghost "in this land," in order to reform it, in order to change it spiritually and then, of course, after spiritually it's supposed to change also socially and institutionally. It was very, very important because it gave people more inspiration and integrated people ideologically to be together also against the government even stronger. So this nationalist myth of Polish Catholic country increased, let's say, the social power of the idea to fight the government, the communist government, which was a foreign government, of course, or set up by a foreign occupier. So it definitely played a role.

WOODS: John Paul met more than once with Lech Walesa of the Solidarity movement. Can you explain to the audience, what was the Solidarity movement all about? And was Walesa overall a

good guy, or was he just better than the communists, but a typical politician? What is your assessment of him?

MACHAJ: Well, to be honest, I have no assessment of him because there is so many strange things surrounding that person and so many strange discussions that I don't even feel competent about assessing him personally. In general, to stick with the facts, Lech Walesa was not an intellectual. He was from the Labor movement, so he was labor. And he was the main guy giving inspiration to the laborers to fight the government, to go on strike. But of course, the basic problem with Solidarity, as with any labor movement, was that it was a socialist movement. So when you look, for example, at their postulates from the early '80s, they didn't say that we need free markets or privatization or that we need transformation in order to become a Western society and Western economy. No, no, no. The various postulates that you will see there was that we need more government policies, we need more rationing, we need additional coupons for various things that are produced, and so forth. So in essence, the postulates were very, very socialist. But fortunately, the reforms were not organized in 1989 by those socialist thinkers within the Solidarity movement. Fortunately, they were organized by more pro-market oriented people, even though they were not perfect, definitely, and they had their deficiencies.

Also, to be honest, the transformation started even before we had free elections, because the transformation was started by the Communist Party. The Communist Party actually started the transformation. Their main motivation was to increase their personal wealth to make sure they confiscated government assets. So they become rich in the new reformed economy so they would become the main capitalists, the main owners of capital in the market after we had transformation. So actually the transformation started in 1988, not after the elections. This is the one thing which is not often mentioned when you the read Western press.

WOODS: Well, that leads me to the area that I want to move into now. I don't understand exactly what the transition away from communism consisted of economically. What happened next? If you go from a communist system to a system with at least some marketplace, what does that look like? Was there no stock market before and now there's a stock market? What were the practical changes that people could see in the economy?

MACHAJ: Well, first thing you would notice after we had this whole Wilczek bill in 1988—you had a bill saying that you can trade anything except for four or six, I believe, I'm not sure right now, cases for which you need permission from the government. After 25 years from four or six, we have now over 300, I believe. So suddenly in 1988, you have the government saying, okay, right now you're free to trade whatever you have. So what you would see at that time would be small entrepreneurs starting trading the stuff that they had. Some of the stuff was actually broken and old and so on. But you would see people slowly developing local markets when they could just openly trade the stuff that they traded previously in the black market.

So it became suddenly legal to just engage in truck and barter, as Adam Smith would say. So

that was the initial effect of the reform. Also, after the transition happened, the border was opened, so lots of things could be imported from other countries, for example, from Germany. So more of the stuff coming in. Lots of shelves were suddenly filled with products, usually broke products, but still. And trade started to flourish, but that was just the small part of the reform, meaning small, seen locally by the people when you would see small businesses and medium businesses being developed. And the second part of that is the big transformation, that is, the privatization of big companies, and here is where you get more political. You have various big banks that were supposed to be privatized, the so-called *nomenklatura*—so the Polish Communist Party—was interested in seizing those assets, and basically, they actually succeeded in regaining the ownership of lots of those big companies in one way or the other. But soon they became private and after a couple of years, they started being part of freely traded asset markets.

So that was the part of a bigger transformation, and more cases of companies, and this is, by the way, the main difference between the Czech Republic, Baltic states, Poland, versus Belarus, Ukraine and Russia: major companies, big companies, were actually privatized. The privatization itself was not very impressive. It was, you could say, very, very dirty stuff and unfair stuff because basically people who are in power, they gained a lot of economic power under the new circumstances. But still, at least it became a privatized part of the market to a bigger extent than was the case in Belarus and Ukraine and Russia, where bigger companies still stayed within the sphere of the government. And after 20 years, you can basically see the main difference between those countries. It is that those countries decided to privatize big companies, big enterprises. They reached a much better situation than the countries further to the east, where big privatization was curtailed much more.

WOODS: But how do they engage in privatization? How do you decide who the new owners become?

MACHAJ: Well, that's the thing, right? So that's part of the problem. You have the government coming in, consisting of either new political elite like in the Czech Republic, or you have a mixture like in Poland, where you have both solidarity and communists somehow governing the thing. You have various group interests involved in privatization because you have a big company: what are the interests? On one side you have workers and their unions, and of course, they don't want the factory to be sold because in virtually most of the cases, those factories were run very, very inefficiently. If the company was just sold to a foreign investor, for example, the foreign investor would just basically liquidate in lots of those cases, liquidate the assets, fire people, and start something completely new because of various factors, various things. For example, the management. When you're a foreign investor, and you want to buy a factory or something, you want to make sure that you impose your ways of managing the factory. You want to be sure that, for example, personal relations are not important. You want to hire competent people, and the best way sometimes to do this is just to [demolish] the

whole building, to put the whole thing down and start from scratch, start from new again. This is what is maybe the most rational thing to do for an investor.

So we have unions protesting, the same unions that actually allowed for communism to collapse. The famous Polish thinker [inaudible] in the ’80s said during the transformation to the politicians who were elected: right now you have to betray the interests of workers, at least for some time, the same workers that allowed you to gain power. And right now you have to betray their interests in order to introduce economic liberalism. That is, of course, as you would say, liberalism as not Hillary Clinton, but liberalism as free market. So that was part of the problem. You had unions and laborers. On the other side you had also the *nomenklatura* and various political groups sometimes associated with the secret police who were interested in gaining ownership. So they are not really interested in, for example, selling it to some foreign investor, but they were interested in putting the money into their pocket. So various cases of privatization where you had basic corruption. People are putting money in their pockets for selling factories like ten times below the price that could be arrived at the market is what it was sold for at the auction, right? Also, the people who are supposed to—at least that’s what most people would believe—benefit most, that is, retired people and older people who were exploited by the previous system, they virtually gained almost nothing. Then there was—at least that is how it would work, right? You would realize that the whole system is bankrupt. So for example, you decide to sell the assets, sell the enterprises, and the money you get, you just pay out to the people who are exploited, right? People who were being taxed for many years by the state, and now we just return the money to them. Nobody was thinking about this, unfortunately.

Then you had the third way, another one, coupon privatization, but this is also very strange, because you just print some coupons and give it to the people. So you have, for example, one million people owning a factory, which in effect means that nobody owns it, which in effect means that the management that is chosen by the political group is effectively owning the company, that is running the company, and so forth. And so again, it has more to do with political capitalism, crony capitalism rather than truly free-market capitalism. I’m not sure there is a simple answer to this. In pure theory there is a simple answer: you just have to make sure that the right people are compensated. But in political reality, it is very difficult.

Another thinker, Mirosław Dzielski, who died, unfortunately, right before the transformation, I think. He said that the price of transformation is actually to give all the assets to communists and make sure that we have a completely total free market. And once we have a completely total free market, they will just go bankrupt because they don’t know how to run the company. So that was the best thing: to just bribe them to make sure that they agreed to have reform and then just wait for capitalism to naturally develop after a couple of years.

WOODS: Yeah, that might have been a good idea.

MACHAJ: Right, right, it sounded like a good idea. But unfortunately, there are so many interests connected to this. Also some foreign investors with their own interests. So I don't think there is an easy answer how you're supposed to do it. I heard this nice quote that any social system has some form of original sin in it. Even every capitalist system has some original sins in it. Well, maybe American society has the least of it, but yeah, in Europe, it's a total mess as you will see in most of history, how people migrated because of various wars and so on. So it's not always easy to give a simple answer how to solve the issue. Who should own what.

WOODS: The last thing I want to talk about is how the Polish economy performed in the years after the transformation away from communism. I want to know two things. How would you assess the standard of living in Poland today as opposed to 30 years ago? Secondly, I know that there was at least some time, and it may have been when I was over there when I did that tour—I think I spoke at 10 or 11 universities in Poland in late 2007. There was at least some time when there were bright Poles who were so discouraged by the economic prospects they faced there that they were traveling to England and places across Europe looking for work or studying or doing something but getting out of Poland. What was that all about? And is that still going on? See if you can unpack all of that.

MACHAJ: Right. Right, so to answer your first question, in general, if we compare, for example, the economy in 1981 to the economy in 2007, I was looking at it like three years ago, if you take the minimum wage in the Polish economy from 2011, roughly speaking, minimum wage, you will buy similar stuff that you would buy for an *average* wage in 1981. And it is also based on official prices. So just because the prices were such in 1981, it wouldn't mean that you would necessarily buy it, right? Soyou can easily say that the person who had an average way of living in 1981—that's the same person as the marginal laborer in the markets today, right? Am I clear on this, actually? Does it make sense?

WOODS: Yes, absolutely.

MACHAJ: Right, so that's definitely an advantage, right, that people today who are *marginal* workers in the labor market, they actually have the same standard of living as *average* workers in 1981 at least, only if you use the official statistics. When you even go into the details and pay attention to the fact, first of all, that you had huge technological innovations, so the standard of living is even higher, and also these are only official prices, so just because you earned some wage in the early '80s it doesn't mean that you could actually buy this stuff because you would have shortages in the market. So definitely there is a huge advance in terms of economic conditions, and of course, for example, you can just travel. You just have a passport and you can leave the country. Whereas in the '80s you wouldn't leave the country because you would have to sign an agreement with the secret police very often that you would work for them, and they would let you out to travel somewhere. So that's definitely an advantage, and then we progressed.

Now, apart from that we also have some problems of unemployment in Poland, and as you mentioned migration happened, to answer your second question, emigration happened when we joined the EU, so many people going to England, to Ireland, to western Europe to work there instead of staying in Poland, and I think there are various factors behind this contributing to this, although the basic factor, of course, is that that, simply speaking, wages are higher there—because, of course, capital accumulation was higher in western Europe. There was no communist era, so if capital accumulation happened, if they have higher savings rates, better production structure, they can hire the same workers and have higher levels of selectivity because of this because of this capital accumulation that happened.

So that's certainly an important factor. But apart from that, there are also side factors. So this is something you cannot just stop, right? So that is the same rule that we have for capital flowing from Western countries to eastern Asia, right? That's the same factor that creates the incentive for the people to just migrate from one country to the other where you just have higher wages. So that's something we just cannot stop, and that would happen no matter what. But apart from that, there were additional factors which can either decrease or increase this migration. And in case of Poland, business regulation that we have, for example, in the United Kingdom are so much better and so much more favorable to entrepreneurs than they are in Poland. You pay lower taxes, essentially, especially when you start your business. Sometimes it happens even with the Czech Republic. So the entrepreneurs are migrating to the Czech Republic from Poland because they pay lower taxes.

Also, as one of the research centers in Poland calls it, you have lower tax uncertainty. In the United Kingdom, even though you pay some taxes when you already get rich, you have tax certainty. So you pay a certain price, and you know that the government people working for agencies will not kill your business by making a wrong decision. It is just more business friendly. You can be sure of interpretation of tax laws. Whereas in Poland the interpretations can just change suddenly. It changed recently, like a year ago. Suddenly, the Polish social security system, which is much, much worse than the Internal Revenue Service in Poland, much worse, because they can basically hunt you for years. Whereas the Internal Revenue Service can just hunt you for five years, or almost six years, the Polish social security system, unfortunately, can hunt you for many years, like 15 or 20 years after you stop paying. So last year, suddenly they changed the interpretation of specific types of contracts. To make a long story short, private universities were hiring lecturers on specific contracts which allowed paying of lower taxes because of those contracts because it was a separate contract, it was not a regular labor contract, so they were allowed to pay lower taxes. And suddenly, last year the interpretation changed. Suddenly, it appears that it's supposed to be taxed almost as a regular contract, and you had various cases going to courts and courts just ruling yeah, yeah, you're supposed to pay higher taxes, which basically attacked a lot of private schools and private universities who are using that other form of interpretation and then suddenly it just changes, and then you realize you're supposed to pay like a couple of hundred thousand more to the state, basically threatening your business. So this regulation uncertainty—regime uncertainty, as Robert Higgs

would say—or tax uncertainty, as one of the research centers in Poland calls it. This is also a very, very important factor for business confidence and starting your own company. In some way it is even more difficult than high taxes. Once you know high taxes, you can somehow plan in the long term, but if you're unsure whether you will have even higher taxes or even more and more higher taxes, then, of course, you're afraid to start your own business. So then you're thinking, how about I go somewhere else when I am free to go there. I'll have a fixed and known level of taxes and especially in the beginning of my business, those taxes will be very low. So how about I just go there and I will be free from attacks by government officials.

WOODS: Well, it does sound like we share some of the same challenges here, maybe not in the same form. But I guess these are the challenges that anybody living almost anywhere has to fact to one degree or another. There is always some uncertainty somewhere, and it's worse in some places than in others, but it's all caused by the state, and you have to expect that this is going to happen under a statist system, but at least you guys are better off than you were under the hideous monsters who tried to enslave eastern Europe for all those years.

MACHAJ: Absolutely.

WOODS: And nobody expected in our lifetimes to live to see that. So we do have to remember that we do score a victory now and again. Well, again, I want thank you for your generosity with your time talking to us all the way from Poland, and I'll find out in the emails that I get after this show how many Polish listeners it turns out that I have, but I'll send you the link so maybe I can get some more Polish listeners as a result of these conversations we've had with you this week. Thanks again, Matt.

MACHAJ: Yeah, I will try to do some marketing myself.

WOODS: I appreciate that. Yeah, yeah. Get off your rear end and get out there and promote my show, will you?

MACHAJ: Okay, I will promise I'll do that. Thanks for having me. It was really a pleasure.