



REUTERS

Poland's example may offer Ukraine a way out

Friday, May 23, 2014

By Andrew Nagorski

May 23 (Reuters) - Since the collapse of the Soviet Union in late 1991, Ukraine has tried - and repeatedly failed - to transform itself into a stable, prosperous democracy. The presidential elections on Sunday, May 25 offer another opportunity to make that happen, for Ukraine to come out from Russia's shadow and the shadow of its own corrupt post-Soviet limping economy.

While understandably preoccupied with Russian President Vladimir Putin's designs on the eastern part of their country, Ukraine's new rulers should look to their western neighbor for lessons on how to succeed. On June 4, Poland will commemorate the 25th anniversary of its historic elections that swept out the Communist regime and produced a government led by the opposition Solidarity movement. What happened next launched Poland on the path from poverty to prosperity, from dictatorship to democracy, and from the Warsaw Pact to full integration with the West, including the North Atlantic Treaty Organization and EU membership.

If all that seems like an impossible dream for Ukraine today, it's worth remembering that after Solidarity came to power in 1989, economic prosperity and Western integration looked just as improbable.

Poland and Ukraine had very similar starting points when the Soviet system disintegrated. In 1990, Poland's per capita gross domestic product was \$1,693, and Ukraine's was \$1,569. The derisive term *polnische Wirtschaft* signaled a state economy characterized by chronic shortages, hyperinflation, corruption and abysmal living standards.

Within less than a decade Poland became a star performer in the region. Now it's also a star performer within the European Union - routinely posting growth figures that have outpaced older members of that club. In 2012, Poland's per capita GDP of \$12,820 was more than triple that of Ukraine's \$3,867. That laid the groundwork for a truly independent country that could chart its own course.

What did Poland do right? The most fundamental step the new government took was to tackle a broad range of its economic problems right from the start. Spearheaded by Finance Minister

Leszek Balcerowicz, the new rulers administered "shock therapy," slashing subsidies, freeing prices on most consumer goods, creating a convertible currency and encouraging foreign investors.

Initially, this pushed prices up, led to bankruptcies of state companies and rising unemployment - and ultimately led voters to drum Balcerowicz and other reformers out of office in 1991. But it quickly eliminated consumer shortages, ended hyperinflation and allowed private businesses to flourish. Astounding growth soon followed. Pro-reform governments would come back to power, and Balcerowicz continued on his mission, further reducing inflation from 10 percent to 2 percent during his term as chairman of the National Bank of Poland from 2001 to 2007.

By contrast, Ukraine emerged from the collapse of the Soviet Union with a distinctly post-Soviet leadership, dominated by former Communist apparatchiks who indulged in massive corruption. After Ukrainians toppled their government during the Orange Revolution of 2004, the new, self-proclaimed reformers led by President Viktor Yushchenko and Prime Minister Yulia Tymoshenko failed to take even a fraction of the measures that Balcerowicz did in Poland. Instead, they allowed corruption and incompetence to continue to flourish as they fought among themselves.

With the probable election of Petro Poroshenko, a wealthy candy manufacturer and member of parliament who backed the protests that drove pro-Russian Prime Minister Viktor Yanukovich out of the country, Ukrainians will be gambling that he may finally make a decisive break with the past.

Balcerowicz was in New York on May 21, picking up the Cato Institute's Milton Friedman Prize for Advancing Liberty. What Ukraine needs is "a cohesive team with a political mandate," he told me. "I know a lot of Ukrainian economists who are very good, but they never were given the possibilities to reform Ukraine."

To be sure, Ukrainians face a problem that Balcerowicz and his team did not have: Moscow's persistent efforts to destabilize their country precisely so that it will not succeed.

But the best way to prove Putin wrong is to get Ukraine's house in order fast. That will take the kind of courage and determination that Balcerowicz and others in the first Solidarity government demonstrated a quarter of a century ago.

After Sunday's vote, Ukrainians can't afford to miss another opportunity to make a new start. This may be their last chance.