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## Leszek Balcerowicz Transformed Poland Through An Embrace Of Economic Freedom

By James A. Dorn

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The architect of Poland's transition from Soviet-style central planning to a market economy will receive the prestigious Milton Friedman Prize for Advancing Liberty in New York City on May 21. The biennial \$250,000 prize awarded by the Cato Institute since 2002 recognizes individuals who have made outstanding contributions to the spread of economic and personal freedom.

At the beginning of 1989, Leszek Balcerowicz was a young 42-year-old economist who had earned a Ph.D. at the Central School of Planning and Statistics (CSPS) in Warsaw and had been a member of the Polish United Workers Party (he left the PUWP in 1981). He had never held any leadership positions and had no thoughts of entering politics. Indeed, he expected Soviet dominance to last and its institutions of single-party rule and tight control of economic life to persist.

That all changed when Solidarity gained legal status in April 1989 and Tadeusz Mazowiecki, Poland's designated prime minister in the first post-communist government, asked him to be his "Ludwig Erhard" in late August 1989. Balcerowicz accepted and became deputy prime minister and minister of finance in September. (Just a year before, he had spent several months in West Germany studying Ludwig Erhard's reforms of 1948, which liberalized prices, ended shortages, and stabilized the currency.)

Earlier in his studies, Balcerowicz had read Ludwig von Mises and F. A. Hayek on the "socialist calculation debate," and he came to recognize the importance of private property rights and free markets for generating rational prices. He saw the experiment with state ownership and planning as a tragic failure and recognized the importance of economic freedom for improving people's lives.

Balcerowicz formed an informal group of economists interested in reform while he was at the CSPS's Institute of Marxism and Leninism in 1978–80. The "Balcerowicz Team" initially proposed working within the political constraints under the Communist regime to try to improve efficiency by introducing more competition. After martial law was imposed in December 1981, his group discussed more radical reforms—but as a "hobby" not a realistic blueprint.

When the moment came for fundamental reform, Balcerowicz was ready. He already had a vision of what steps were necessary to make the transition from planning to the market, and he had a team he could rely on. An important lesson, according to Balcerowicz, “is that one should be prepared for the window of opportunity by pursuing what appears to be a useless hobby”—namely thinking about the institutional changes necessary for freedom.

The essence of the “Balcerowicz Plan” was rapid stabilization, liberalization, and institutional change to rein in the state and widen the scope of individual freedom. By 1991, he had tamed hyperinflation, tightened government spending, lifted price controls, ended shortages, and removed obstacles that had inhibited the spontaneous emergence of the private sector.

In what Balcerowicz calls the “era of extraordinary politics” (1989–91), he was able to push through his radical reform plan. (Poland was the first post-communist country to do so.) Piecemeal reform and gradualism were out of the question. The planned economy was broken and needed to be replaced by a robust open-market system based on private—not state—ownership.

He rejected naïve Keynesian orthodoxy and chose to promote supply-side policies rather than artificially stimulate aggregate demand by pumping up government spending and running large fiscal deficits. Some mistakes were made. He admitted that he should not have followed the IMF’s advice to institute a progressive income tax rather than a flat tax. (Balcerowicz did try to introduce a flat tax as part of a comprehensive tax reform in 1998–2000 during his second stint as deputy prime minister and minister of finance but was unsuccessful.)

In designing a program for radical reform, Balcerowicz followed general rules and did not try to make specific predictions about the outcomes. However, he did know from his studies that organizing economic life via private free markets would better serve people’s interests than state ownership and control.

In early 2000, Balcerowicz was appointed governor of the National Bank of Poland. When he left the Bank in January 2007, inflation had been reduced from more than 10 percent to about 2 percent. His “relatively restrictive monetary policy” helped Poland avoid the housing bubble and the 2008 recession.

He attributes Poland’s strong economic growth to the radical liberalization and sound monetary and fiscal policies. The testimony of his success is that Poland’s real GDP has more than doubled since 1989.

In making the transition from running academic seminars to directing Poland’s stabilization and liberalization, and leading the largest free-market party (the Freedom Union, 1995–2000), Balcerowicz became Poland’s Ludwig Earhart and helped change the course of history.

For this he deserves to be called a hero of the market liberal revolution and a worthy recipient of the 2014 Friedman Prize.

**James A. Dorn** is vice president for monetary studies, editor of the [Cato Journal](#), senior fellow, and director of Cato's annual monetary conference. He has written widely on Federal Reserve policy and monetary reform, and is an expert on China's economic liberalization. He has edited more than ten books, including *The Search for Stable Money* (with Anna J. Schwartz), *The Future of Money in the Information Age*, and *China in the New Millennium*. His articles have appeared in the *Wall Street Journal*, *Financial Times*, *South China Morning Post*, and scholarly journals. He writes regularly for *Forbes.com*. From 1984 to 1990, he served on the *White House Commission on Presidential Scholars*. Dorn has been a visiting scholar at the *Central European University* and *Fudan University* in Shanghai. He holds a Ph.D. in economics from the *University of Virginia*.