

Andrzej Zawistowski

Pilecki Institute, Warsaw, Poland
Warsaw School of Economics, Warsaw, Poland
ORCID: 0000-0001-6464-8779



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FROM CENTRALLY PLANNED ECONOMY TO...? THE EARLY YEARS OF POLAND'S ECONOMIC TRANSFORMATION

Abstract

This article is devoted to the initial period of Poland's economic transformation from a administrative-command system to a market economy. It covers the years 1988–1991, that is, three successive government cabinets. On the one hand, that transformation was accompanied by struggles arising from the legacy of the Polish People's Republic – above all, inflation and shortages in the domestic market. On the other hand, during the same period, Poland initiated the efforts to integrate with the European Communities and to reorient its foreign trade priorities. The author argues that, in the economic sphere, the transformation preceded the political fall of communism.

Keywords: Polish People's Republic, Third Polish Republic, economic transformation, privatisation, communist economy.

Introduction

The end of the 1980s brought about the collapse of Polish communism. In terms of politics, this collapse was partially secured by the Round Table Agreements and later by the decisions of the leaders of the Solidarity movement. These made it possible for politicians of the communist party to smoothly transform it into a new formation. The case was different in the economic realm. There was no place for a gentle transformation there – real socialism collapsed with a bang, and it was the communists themselves who cut off its oxygen supply. When Poles went to the polls in June 1989, all that remained of the old socialist economy was the oversight of state-owned enterprises, a bureaucratic economic apparatus, and the mechanism for controlling the prices of essential goods.

At that time, the Polish People's Republic was bankrupt and in dire need of swift therapy. Therefore, the process of regaining sovereignty and changing the political system, which began in the second half of 1989, was accompanied by a thorough transformation of the

The wreck of a Fiat 126p, a car manufactured in Poland on an Italian licence. Photo: Jan Hausbrandt (1981). Institute of National Remembrance Archives, ref. no. AIPN, 3260/1, photographic collection of Jan Hausbrandt



economy – from a administrative-command system to a market economy. This process had already begun – as detailed below – during the rule of the Polish United Workers' Party (PZPR). Its most important stage ended when Poland fulfilled the EU's Copenhagen Criteria and joined the European Union in 2004. However, that does not mean that the process definitively ended at that point. On the contrary, in some important areas it is still ongoing, or has not even begun – as, for example, in the area of returning property seized from private owners by the communist authorities (perhaps this process will never begin [apart of some activities, i.e., restitution of Church property, conducted by a specially appointed committee, and various judicial and administrative proceedings aiming at the restitution of seized property, there was no restitution law introduced in Poland – editor's remark]) (See Luterek 2016).

Describing the entire transformation process of the Polish economy requires a multi-level analysis of numerous areas. The length of this text precludes such a broad study, which is why the author – referring to the theme of this issue – focused primarily on the initial period of change. These changes took place during the tenure of the last government of the Polish People's Republic, that is, the cabinet of Mieczysław F. Rakowski (1988–1989), and during the period of the so-called 'Contract Sejm' (1989–1991), that is, under the governments of Tadeusz Mazowiecki and Jan Krzysztof Bielecki. In both of these latter cabinets, Deputy Prime Minister and Minister of Finance Leszek Balcerowicz played a leading role in economic policy. Undoubtedly, at that time the direction of transformation was set, which was subsequently – with many adjustments – implemented at least until 2004.

A Heavy Burden: the Consequences of Operating an Administrative-Command System Economy

As a matter of fact, by 1989, the Polish economy had been in a state of permanent reconstruction, rebuilding, reform and change for decades. Since the beginning of the 20th century, it had been shaken by wars, economic and political crises, and ideological revolutions. First, the fronts of the First World War, the war with the Bolsheviks, and various regional uprisings swept across Polish lands. Then came an arduous period of nearly twenty years of building an independent state that had to be 'stitched together' from three separate territories that differed



People queuing for basic groceries (covert surveillance photo), Częstochowa, March 1981.
Photo: Institute of National Remembrance Branch in Katowice Archives, ref. no. AIPN Ka, 010/53, vol. 8

in terms of their laws, markets, and even railway gauge. Additionally, after just a few years, the rebuilding state was struck by the Great Depression – Poland was among the countries most severely affected by its effects (Jezierski, Leszczyńska 2003, p. 267). In the second half of the 1930s, it seemed that the Polish economy had finally caught its breath and entered a phase of steady growth. But another war broke out. During World War II, Polish lands were ruthlessly exploited by both the Germans and the Soviets, factory equipment was taken away, infrastructure was destroyed, and the population lost wealth that had often been accumulated over generations. In 1945, it was necessary to start all over again from scratch – with the burden of destruction and, once again, within new borders.

This time, however, a new Poland was to be born – no longer a state of ruthless capitalists exploiting the proletariat, but a caring country governed by enlightened socialists, albeit imposed by the Soviet Union. At least, that was what the propaganda proclaimed. However, it was not meant as a mere copy of Soviet solutions. In the 1940s, Poles were persuaded that their country would follow its own

path to socialism, entirely different from that of the Soviet Union. This soon turned out to be a lie. The Polish economy was to be a replica of the Soviet economy, closely linked to it, yet isolated from the free world. At Stalin's explicit orders, the communist authorities in Poland rejected the invitation to participate in the Marshall Plan, withdrew from the International Monetary Fund, and severed cooperation with Western corporations interested in investing in Poland. Instead, Poland established close economic ties with the USSR and its satellite states, joining the Council for Mutual Economic Assistance (Comecon), which was entirely controlled by Moscow.

However, the attempt by the Polish communists to faithfully replicate Soviet solutions proved to be a fiasco. As a result of the agrarian reform, landowners and the wealthiest farmers lost their estates, but, in the end, agriculture was never successfully collectivised – about 80% of arable land remained in private hands (Kaliński 2012, p. 64). Although state trade controlled roughly 90% of the market, small private shops still operated on its margins. Modest craft workshops filled niches that the inefficient state industry was unable to cover. The economy of the Polish People's Republic was constantly shaken by reforms, changes, manoeuvres, and restructuring. None of these operations were ever formally completed; each was simply abandoned in favour of a new concept. The material situation of the population, although slowly improving, still lagged far behind the rapidly growing consumer aspirations of society. At the same time, the authorities hindered individual economic activity, clinging to the ideological framework of a centrally planned economy. It is therefore hardly surprising that Poland was repeatedly shaken by protests, mainly calling for better living conditions, which was understood as ensuring full supplies in shops and higher wages. This was the case, among other things, during the great social uprisings of 1956, 1970, 1976, and 1980.

Until the mid-1970s, the economy of the Polish People's Republic reflected a sine wave pattern. Periods of relatively good (although never complete) supply alternated with times when Poles spent hours queuing in front of shops waiting for meat, vacuum cleaners, furniture, and hundreds of other goods. The permanent collapse began in 1975. From then on, queues in front of shops became a fixture of the Polish landscape. The authorities were unwilling to admit that their policies had led to this situation. Instead, they blamed so-called speculators, 'hoarders,' and dishonest retail employees. However, even the introduction of rationing for scarce goods did not fill the shop shelves. At the beginning of the 1980s, approximately 32% of



The communist economy offered only limited resources for general consumption, and even quite regular household items, clothes, furniture, cutlery, etc. were objects of desire. Special exhibitions and fairs were rare opportunities to buy much-needed things. Exhibition "Modernity in every household" held in the District Culture Centre in Nakło, October 1968. National Digital Archives in Warsaw, collection Archiwum Grażyny Rutowskiej (Grażyna Rutowska's Collection), ref. no. 3/40/0/4/295

all essential goods were sold on ration cards (sugar was rationed already from 1976, several other categories of goods were rationed from 1981 – editor's remark); as for foodstuffs, this share reached 57% (Zawistowski 2017, p. 346). What were the reasons for this collapse? They can be found on many levels. On the one hand, the economy was dominated by heavy industry, while the consumer goods industry was neglected and underfunded in comparison. However, the most important factor seems to be that the economy of the Polish People's Republic was a typical administrative-command system that eliminated market competition. Decisions and resources were concentrated in the central administrative apparatus. This apparatus eradicated free market competition and imposed strict price controls. The priority was to keep food prices low at the expense of higher prices for industrial goods.

In 1981, the authorities undertook yet another economic reform, the first stage of which took place under martial law. Its purpose was to break with the principle of full price control and to introduce limited competition. Under the cover of draconian martial law, radical measures were implemented, including a several dozen percent increase in food prices. However, this reform also failed to produce the desired results. The system was flawed as a whole, and piecemeal changes could not bring about the intended effects. The Polish economy

resembled a worn-out car. Although it required a complete overhaul, its 'owners' merely patched up leaks in the system, which soon reappeared elsewhere. The bodywork, chassis, and upholstery were full of holes and crudely filled cracks. Some components were replaced with parts of different colours and styles. There was a smell of fuel in the air, threatening to ignite at any moment. People continued to 'drive' this car only because the alternative was to switch to another vehicle, which, in the Polish reality, meant emigration. Between 1981 and 1989 (mostly during the second half of the 1980s), about 1.1 million people left the Polish People's Republic legally or illegally, which is roughly the same number as had emigrated over the previous thirty years. Some decided to emigrate for political reasons, but for the majority it was an escape from poverty. More than half of the emigrants were aged 25–34, and a significant proportion were university graduates. During this period, at least 20,000 engineers, 5,500 doctors, and 8,800 teachers, lecturers, and academics emigrated (Stola 2020, pp. 356–357). In the Opole region, where many families declared German nationality, which made emigration considerably easier, the outflow of workers began to threaten the smooth functioning of the economy.

People queuing for groceries, Warsaw, Malczewski Street, 1981. National Digital Archives in Warsaw, collection Archiwum Grażyny Rutowskiej (Grażyna Rutowska's Collection), ref. no. 3/40/0/4/409



In the second half of the 1980s, the Polish communists finally understood that instead of patching up the ‘rusted bodywork of socialism,’ they needed to build a ‘new car.’ On the one hand, they were forced to do so by the economic bankruptcy of the Soviet Union. Shortly after taking power, Mikhail Gorbachev informed the leaders of the Eastern Bloc countries that Moscow would no longer be able to support them economically on preferential terms – up to that point, such support had effectively been the price of their economic dependence. He gave the green light to seeking economic contacts with the capitalist West. On the other hand, the example of China was increasingly appealing – it was a country that, a few years earlier, had embarked on a march towards economic modernity without relinquishing the political monopoly of power. The Poles, however, wanted capitalism. According to public opinion polls regularly commissioned by the authorities at the time, in 1988, 81.2% of respondents were in favour of such a solution, and only 3.8% were strongly opposed (*Dilemmas* 2021, p. 285). However, it should be emphasised that this desirable capitalism was often a myth, primarily associated with well-stocked shops, an abundance of goods, and colourful advertisements. With access to passports being restricted, the significant number of Poles (not counting those who witnessed pre-war Polish economy – editor’s remark) had never been to a country with a market economy.

The Beginning of the Transformation

If we are looking for a clear beginning of the transformation of the Polish economy, then – at least in the author’s view – this moment can be found at the end of 1988. Incidentally, depending on the criteria adopted, there could be many such moments, even beginning as early as 1956. It was then that the authorities abandoned the policy of forced collectivisation of agriculture, which resulted in Poland – unlike all other countries of the Soviet bloc – having a countryside dominated overwhelmingly by private ownership. In the following years, the authorities violated successive dogmas of the administrative-command economy system. In the early 1980s, as part of the aforementioned economic reform, they even theoretically introduced the principle of autonomy and self-financing for state-owned enterprises, acknowledging the possible emergence of unemployment. It remains debatable whether these departures

from the Soviet model were the beginning of transformation or rather attempts to reform the existing system. As for the changes introduced from the end of 1988, however, there is no such doubt. In the autumn of that year, Mieczysław Rakowski became the new Prime Minister. On the one hand, he was seen as a party liberal, with good contacts among Western social democrats; on the other hand, as an implacable enemy of Solidarity (Przeperski 2021, pp. 321–326). The change of prime minister came at a politically turbulent time. In the spring and summer of 1988, Poland was shaken by another wave of strikes. The protesters had two main demands: political (the legalisation of the Solidarity trade union) and social (wage increases and improved supplies). The strikes ended with the authorities promising to begin negotiations with the still-illegal opposition at the Round Table. While everyone was waiting for the details of these talks to be announced, the change of prime minister was announced.

The newly appointed Prime Minister met with journalists. He was asked both about the planned negotiations with the opposition at the Round Table and about the issue of the dire supply situation in shops. As Rakowski recorded in his diary:

“I replied that I no longer remembered which columnist had written that Poles were less interested in the ‘round table’ and more in a well-stocked one, and there was no doubt that the government I was leading from today had to focus on ensuring that that table was better and more abundantly supplied than it was now” (Rakowski 2005, pp. 259–260).

Rakowski’s government indeed opted for rapid change and – making use of draft bills prepared by its predecessors – presented a whole series of laws that in practice brought the era of the Polish People’s Republic in the Polish economy to an end. These reforms abolished the privileged position of the state in business, its monopoly on foreign trade, restrictions on the number of employees that private entities could hire, and limitations on access to the Polish market by foreign enterprises. These regulations were later referred to as the “Wilczek Laws,” after the Minister of Industry, Mieczysław Wilczek (Mołdawa 1991, p. 439). His views on the economy (and on the role of the communist party within it) were rather unorthodox (in January 1989, he even stated that party organisations should disappear from workplaces; Dudek 2004, pp. 185–186). Wilczek quickly became one of the most popular politicians in Poland. In May 1989, the Centre for Public Opinion Research (CBOS) surveyed Poles’ preferences in

a hypothetical election for the President of the Polish People's Republic: Wilczek came third after Lech Wałęsa and Wojciech Jaruzelski, while Prime Minister Mieczysław Rakowski took fourth place.

The most important document passed at the end of 1988 was the Act on Economic Activity. Its very first article was revolutionary: "The undertaking and conduct of economic activity is free and permitted to everyone on equal terms, subject to the conditions laid down by law" (Act of 23 December 1988 on Economic Activity). On the same day, the Act on Economic Activity with Foreign Participation of 23 December 1988 was passed. Foreign capital was freed from any upper limit on shareholding in a company, and a foreigner could also serve as its CEO. In the following weeks, further regulations were introduced that fundamentally changed the economic reality of the country (Act of 31 January 1989 on the Financial Management of State-owned Enterprises; Act of 31 January 1989 on Corporate Income Tax; Act of 31 January 1989 amending the Income Tax Act; Banking Law of 31 January 1989; Act of 31 January 1989 on the National Bank of Poland; Act of 31 January 1989 on the Determination of Remuneration in the Budgetary Sphere). The rationing of petrol and hard coal sales and the sale of cars based on orders of payment was abolished. A liberalised foreign exchange law allowed for the free circulation of convertible currencies (previously confined to the black market, although mostly tolerated by the authorities) and triggered a rapid growth of currency exchange offices (Act of 15 February 1989 – Foreign Exchange Law). At the same time, a new banking system was launched in a reformed structure, and private banks could now be established (Morawski 2002, pp. 350–351). In addition to the economic changes, free access to passports was introduced (previously regulated by the Communist Security Service (Stola 2020, *passim*)). This opened up wide opportunities for private trade. In fact, on 1 January 1989, communism or real socialism within the Polish economy effectively came to an end – understood at the time as a centrally planned economy with a command-and-control system with a privileged position as regards state ownership, a strictly controlled cooperative movement, legal discrimination against private and foreign entities, and the absence of the market as a regulator of the economic system (Bałtowski 2013).

All that remained of the system built over the previous 45 years was the dictatorship (albeit a very unstable one) of the communist party, the apparatus of repression, the nomenclature of state-owned enterprises, and a central mechanism for setting certain prices. Formally, the 1952

constitution was still in force, although its significance was purely symbolic. According to the authorities, citizens were now expected to focus their energy on getting rich and satisfying their consumer aspirations, setting aside any further efforts toward democracy. At least, that was what the authorities had hoped for.

This escape forward failed. In the partially free elections of 4 June 1989, the Poles – to the extent that they were allowed to do so by the decisions of the Round Table – rejected communism. Why did Rakowski's plan fail? On the one hand, the reforms came too late, and most of their positive effects had not yet materialised. On the other hand, restructuring the economy required both relief from foreign debt and access to financial support from the West. The Polish People's Republic was burdened with enormous financial obligations (around USD 48 billion) which had gone largely unserviced for nearly a decade, with only small portions of instalments covered. The state was essentially bankrupt, though this was never officially declared. Poland therefore needed not only debt relief but also fresh funding. Such assistance could come only from the West. It is worth noting that as early as 1986, Poland had rejoined the International Monetary Fund, which it had left in 1950 under Soviet pressure (efforts to re-enter had actually begun in the early 1980s, when the Polish People's Republic sought help to overcome its economic collapse. Due to internal policies within both the Polish People's Republic and the Soviet Union, the Fund delayed membership approval). Now it was hoped that the IMF would support the restructuring of the national debt. In 1988, official relations were also established with the European Community. The West, however, set clear political conditions: an end to repression against any political opposition. This was one of the main reasons why Jaruzelski agreed to negotiate with the Solidarity movement. It was a signal to the West – not only of goodwill but also of expectations, a plea for a new Marshall Plan. The Solidarity movement, too, anticipated such aid. Wałęsa often referred to an expected ten-billion-dollar package, which was supposed to boost the Polish economy (Wałęsa 1991, p. 149; Sawczuk 2006, p. 296). Many feared that the high social costs of economic reform might turn public opinion away from democracy (*Stanisław Gomułka...* 2010, p. 106–107). Western assistance was therefore seen as a protective shield for the transformation.

What was the condition of the Polish economy in mid-1989? With the exception of agriculture, it was still dominated by the state sector and state-controlled cooperatives. Industry was largely obsolete,

in addition to being material- and labour-intensive. The natural environment was degraded – over 80% of the country's rivers failed to meet basic purity standards. State-owned shops were empty, while the rapidly expanding private retail outlets were expensive. Additionally, the outgoing Rakowski's government left its successors a kind of time bomb. On 1 August 1989, it abolished the last remaining food ration cards – for meat – but, more importantly, it freed most prices from central control. From that point onward, the government set prices only for two types of bread, 2% milk, infant milk formulas, low-fat cheeses, gas, electricity, medicines, school textbooks, public-transport fares, and services provided by social welfare institutions. A few official prices were also retained for certain production inputs and several other goods (Resolution no. 106 of the Council of Ministers of 29 July 1989 on determining the list of goods and services for which official prices are set). Once released, prices soared immediately, and the country faced hyperinflation. Prices began to change daily. In August, they rose by 39.5% compared to the previous month, and in September by 34.4%. The average data does not capture the full magnitude of the price shock that affected the food market. In just one district of Warsaw, between 31 July and 5 September 1989, the price of milk rose by 760%, butter by 400%, cheese by 500%, flour by 400%, and bread by 250%. Meat prices increased by 650-850%, and meat products by 590-660% (APW, NIK 2459, Report on the preliminary audit of the Praga-Północ Warsaw Food Cooperative conducted between 4 and 8 September 1989, pp. 5–6.)

Once again – as in earlier periods – consumers rushed to empty stores, fearing a continuous surge in prices. Retailers restricted supply, fearing further loss in the currency's value. Workers across all sectors demanded wage increases to offset the soaring prices (although the wage indexation act – the first piece of legislation passed by the newly elected parliament – was already in force at that time).

In Search of a Direction for Change

When the Sejm appointed Tadeusz Mazowiecki as prime minister, it was still unclear who would be in charge of economic policy – that is, who would become minister of finance. There was no obvious candidate for the position. The names mentioned included Witold Trzeciakowski, Cezary Józefiak, Janusz Beksiak, and Witold Kieżun (Kuczyński 1992, p. 17; Luszniwicz 2017, p. 73). Some of these

candidates were rejected by Mazowiecki and his milieu, while others declined, sometimes expressing a desire to take up the much safer position of an advisor. It is worth remembering that the talks regarding the appointment of the finance minister took place after two important visits: the first one paid by French President François Mitterrand in June, and the second one by US President George H.W. Bush in July. During these visits, Western leaders made it clear that Poland had no chance for a new Marshall Plan. Bush stated before the Polish National Assembly:

“We understand in my country the enormous economic problems you face. Economic privation is a danger that can threaten any great democratic experiment. And I must speak honestly: economic reform and recovery cannot occur without sacrifices. [...] The reform of the Polish economy presents an historic challenge. There can be no substitute for Poland’s own efforts, but I want to stress to you today that Poland is not alone. Given the enormity of this moment, the United States stands ready to help as you help yourselves.” (*Official transcript of the ceremonial joint session of the Sejm and Senate of the Polish People’s Republic, 10 July 1989, Warsaw 1989, p. 19*)

Although both the United States and Western European countries made declarations of financial support, these fell far short of Polish expectations.

The absence of extraordinary financial assistance from the West meant that the new minister would face a much more difficult task than it had seemed only a few weeks earlier. Moreover, divisions emerged within the Solidarity parliamentary club, particularly over the direction of economic reforms. Alongside the previously dominant liberal approach, another option began to gain traction – market socialism or participatory capitalism. Within the Solidarity movement, tensions between the supporters of these two visions had existed for a long time, though they had remained hidden behind the façade of opposition unity. Now, however, those differences were becoming increasingly visible (Luszniewicz 2017, p. 70; *Dylematy...* 2021, p. 287; *Sprawy gospodarcze...* 2008, pp. 36, 42, 45, 49).

Ultimately, Tadeusz Mazowiecki chose Leszek Balcerowicz, who was still a PhD at the time. For more than ten years prior to that, Balcerowicz had irregularly conducted a seminar at the Main School of Planning and Statistics in Warsaw, analysing different options for restructuring the Polish economy. Politically, Balcerowicz was difficult



Leszek Balcerowicz, deputy prime minister and minister of finance in Tadeusz Mazowiecki's government (1989–1991), the main designer of the economic change. Picture taken during the 2nd Congress of Solidarity in Gdańsk, 19–24 April 1990. Photo: Stanisław Składanowski (1990). Institute of National Remembrance Archives, ref. no. 3493/1

to classify. In 1981, he was associated with the so-called Network – an agreement between the Solidarity movement and the largest workplaces. Since the 1970s, he had also been a member of the Polish United Workers' Party (PZPR), but he left the party in December 1981 in protest against the introduction of martial law. After being beaten and detained by the Citizens' Militia on 10 November 1982, the Security Service (SB) described him as follows: "He was not a member of Solidarity, but considered himself a sympathiser. After martial law was declared, he relinquished his PZPR membership card and currently maintains contacts with a group of opposition activists in Warsaw [...]" (Institute of National Remembrance Archives in Warsaw, hereinafter: AIPN, 032/21, Chief Inspectorate of the Minister of Internal Affairs. Official memorandum concerning the clarification of the complaint by citizen Leszek Balcerowicz against the officers of the Citizens' Militia who were dispersing street disturbances in Warsaw on 10 November 1982; Annex: Information about the author of the complaint, 28 February 1983, fol. 137).

In 1989, Balcerowicz was more interested in an international academic career than in domestic politics. On 5 September 1989, he was scheduled to leave for the United Kingdom with his family for a research fellowship. Initially, he declined Mazowiecki's offer, who, as he later said, was searching for his own Ludwig Erhard (Balcerowicz 1992, p. 10; Kuczyński 1992, p. 56) – the architect of the postwar

economic miracle in West Germany. In the end, Balcerowicz changed his life plans and on 12 September 1989 took office as Minister of Finance and Deputy Prime Minister. He retained these positions in the next government – the cabinet of Jan Krzysztof Bielecki. Other key figures responsible for economic matters in Mazowiecki's government included: Waldemar Kuczyński, chief advisor to the prime minister (he had recommended Balcerowicz to Mazowiecki), Tadeusz Syryjczyk, Minister of Industry and a representative of the Polish United Workers' Party (PZPR), Marcin Świącicki, Minister of Economic Cooperation with Foreign Countries, Stanisław Gomulka, advisor and international negotiator, and Witold Trzeciakowski, Minister and Chairman of the Economic Council.

Balcerowicz seemed to be the perfect candidate to lead the restructuring of the Polish economy. He was predestined for this role by his firm belief in the need to take decisive anti-inflationary and pro-market measures, while still recognising the social responsibilities of economic policy. Mazowiecki shared these views. Equally important was the existence of an informal 'Balcerowicz team,' formed during the aforementioned seminar. This team provided a group of trusted colleagues who shared his economic vision and were ready to work within the state administration. Already at the beginning of 1989, George Soros presented his "Plan for Poland" – he proposed handing over Polish state-owned enterprises to foreign specialists to ensure quick privatisation. Jeffrey Sachs first came to Poland in June 1989 – the day before the second round of elections. He was accompanied by two other economists: David Lipton and Stanisław Gomulka. Their visit to Poland was arranged by Soros, who was in contact with representatives of both the government and the opposition. Sachs returned to Warsaw at the end of July, and at the beginning of August the stabilisation programme prepared by Sachs and Lipton was published (see *Stanisław Gomulka...* 2010, pp. 108–109; Sachs and Lipton 2010, pp. 1040–1047).

Transformation

Balcerowicz's policy had two main objectives. The first, short-term objective was to control inflation and stabilise the domestic market. The second, long-term objective was to transform the socialist economy into a market model. It is also worth noting that there were advocates for even more radical measures within the Solidarity camp.

Economists associated with Janusz Beksiak called for rapid and large-scale privatisation (*Dylematy...* 2021, pp. 305–306).

In an effort to address immediate problems, Balcerowicz's team worked at breakneck speed to prepare a programme of economic reforms. The Deputy Prime Minister secured the support of international institutions, particularly the International Monetary Fund. His supervision of the economic transition in Poland was supposed to be a guarantee for the West that the chosen direction of reforms was rational. International experts began to arrive in Warsaw to support the new government with their professional advice. They were soon jokingly nicknamed the "Marriott Brigades," because they stayed at the newly opened hotel of that name. The most well-known and influential figure among them was Jeffrey Sachs. This young economist was known for his success in combating inflation in Bolivia, but he lacked experience in managing a full-scale economic transformation (*Dylematy...* 2021, pp. 305–306).

The foundation for the government's actions was the "Government Economic Programme – Main Foundations," adopted in October 1989 (Morawski 2017, p. 35). The next step was to prepare the legal framework. Time was of the essence – the new fiscal year would begin on 1 January. It was not until Sunday, 17 December 1989, that Deputy Prime Minister and Minister of Finance Leszek Balcerowicz stood before the Sejm and presented the foundations of his plan. Balcerowicz stated:

"Our proposal is an economy based on market mechanisms, with an ownership structure similar to that of highly developed countries, open to the world. An economy whose rules are clear to everyone. We must break with the false game in which people pretend to work and the state pretends to pay. The alternative we propose is a life lived, not a life simulated" (*Sprawozdanie stenograficzne z 16 posiedzenia...* 1989, p. 8).

A legislative race against time had begun. The New Year, and with it the revolutionary reform of the Polish economy, were only 15 days away.

In the final days of December 1989, the Sejm of the Polish People's Republic passed a series of laws that became known as the "Balcerowicz Plan." The amendment to the Act on the Financial Management of State-owned Enterprises abolished the guarantee that an enterprise would continue to operate regardless of its financial results (Act of 27 December 1989 amending the Act on the Financial Management

of State-owned Enterprises, Journal of Laws, hereinafter: Dz.U., 1989, no. 74, item 437). Another amendment was made to The Banking Law and Act on the National Bank of Poland (Act of 28 December 1989 amending The Banking Law and the Act on the National Bank of Poland, Dz.U. 1989, no. 74, item 439), prohibiting the central bank from financing the budget deficit without interest and limiting its ability to purchase government bonds. The Act on the Organisation of Credit Relations put state and private borrowers on an equal footing (Act of 28 December 1989 on the Organisation of Credit Relations, Dz.U. 1989, no. 74, item 440). In 1990, the Act on the Taxation of Wage Increases abolished automatic wage indexation and introduced a tax on excessive wages, commonly known as the *popiwek* (Act of 27 December 1989 on the Taxation of Wage Increases in 1990, Dz.U. 1989, no. 74, item 438). A single legal act also amended 11 existing laws governing taxation, introducing a 40-percent tax across all sectors and adjusting existing tax rates to realistic levels (Act of 28 December 1989 amending certain laws governing taxation, Dz.U. 1989, no. 74, item 443). The amendment to the Act on the Pursuit of Economic Activity by Foreigners and the Act on Economic Activity with Foreign Participation allowed profits to be transferred abroad and exempted foreign enterprises from the *popiwek* tax (Act of 28 December 1989 amending the Act on the principles of conducting, within the territory of the Polish People's Republic, economic activity in the field of small-scale production by foreign legal and natural persons, and the Act on Economic Activity with Foreign Participation, Dz.U. 1989, no. 74, item 442). The amendment to the Foreign Exchange Act introduced a uniform exchange rate and internal convertibility of the Polish zloty. 'Internal exports,' that is the sale of attractive goods on the domestic retail market for convertible currencies, which had been used since the 1970s to obtain convertible currencies from citizens, were abolished (Act of 28 December 1989 amending the Foreign Exchange Law, Dz.U. 1989, no. 74, item 441). The Customs Law standardised tariff rates for all economic entities (Act of 28 December 1989 – Customs Law, Dz.U. 1989, no. 75, item 445). The Employment Act abolished compulsory work and regulated issues related to job placement for job seekers (Act of 29 December 1989 on Employment, Dz.U. 1989, no. 74, item 446). Finally, two regulations came into effect a little later: the Act on the Rules for Employee Dismissal, adopted in 1989 but published in 1990 (Act of 28 December 1989 on Special Rules for Terminating Employment Relationships with Employees for Reasons Attributable to the Workplace and on the Amendment of Certain Acts, Dz.U. 1990, no. 4, item 19), and the Act on Counteracting

Monopolistic Practices, adopted in February 1990 (Act of 24 February 1990 on Counteracting Monopolistic Practices, Dz.U. 1990, no. 14, item 88). In addition, there were regulations specifying the details of the adopted solutions (Morawski 2017, p. 51). In total, the Balcerowicz Plan relied on six newly adopted laws and 16 amended laws.

As previously mentioned, the fight against inflation was given priority. In October 1989, inflation reached 54.8% on a monthly basis. If such a rate had continued over the following months, Poland would have faced hyperinflation, with severe budgetary problems, collapse of the domestic market and production, potential social unrest, and perhaps removal from power of the newly established Solidarity government. However, the new government did not intend to restore price controls. Economic policy was aimed at achieving equilibrium prices – there were no plans to use public funds to curb rising prices. For prices still centrally regulated and fully controlled by state entities, such as energy, rent, and transport tariffs, the aim was to achieve cost recovery. Consequently, in 1990 the list of goods subject to official prices was reduced twice.

To combat inflation, monetary and fiscal policy tools were employed. These included maintaining real interest rates (in 1990, the interest rates on loans and savings deposits hovered around 60%) and imposing strict credit limits on state banks. Banks were also required to maintain high mandatory reserves, effectively removing part of the money supply from circulation. For several months, the Polish zloty was pegged to the US dollar, which helped stabilise the Polish currency and discouraged people from fleeing to the dollar.

High costs of combating inflation were borne by the public. Pension and retirement indexation were reduced, meaning the real incomes of the economically weakest segments of society began to fall. The wages of officially employed workers were still indexed, so these employees were supposed to be compensated for price increases. However, excessive wage growth could result in further inflation. The authorities therefore implemented the *popiwek* a tax on excessive wages, in an attempt to curb economically unjustified salary increases. Exceeding a defined wage increase threshold resulted in a several-hundred-percent tax being imposed on the company. Over time, private enterprises and later the public sector were exempted. Ultimately, the *popiwek*, which had triggered numerous strikes and street protests, disappeared by the mid-1990s.

These drastic measures began to show results. In January 1990, monthly price increases had nearly reached 80%. By February, the first

unit price decreases were recorded. In March, the monthly inflation rate fell into single digits, which remained stable in subsequent years (except January 1991). Soon, phenomena that had plagued Poles for decades – such as buying durable goods as a capital investment, empty store shelves, corruption among retail workers, and queues – all began to disappear (see Advisory Team to the Economic Committee of the Council of Ministers, “The first effects of implementing the government’s economic programme, 7 March 1990,” in *Transformacja polska* 2011, p. 173). Although the monthly inflation rate was falling, it still showed its strength on an annual basis. The year 1990 ended with a price increase of 249.3%, 1991 at 60.4%, and only in 1998 did annual inflation fall to single digits.

The Return of Private Ownership

Privatisation was one of the important elements of the transformation of the Polish economy. It was believed that one of the main reasons for the collapse of the socialist system was the elimination of private ownership from economic life. Now there was an explosion of private companies being set up, and the state began to dispose of the enterprises it owned. Only strategically important enterprises were to remain in the hands of the State Treasury.

Already in September 1989, at the time of the appointment of the Mazowiecki government, the Office of the Government Plenipotentiary for Ownership Transformations was established. This is where the privatisation programme was to be developed. Privatisation officially began on 1 August 1990, with the entry into force of the relevant act (Act on the Privatisation of State-owned Enterprises, Dz.U. 1990, no. 51, item 298. The Act remained in force until 1997, when it was replaced by the Act on the Commercialisation and Privatisation of State-owned Enterprises, Dz.U. 1996, no. 118, item 561). Under its provisions, the Ministry of Ownership Transformation was set up, which coordinated the entire process until the mid-1990s.

The privatisation process was very complicated. Ultimately, it took the form of three main paths: direct privatisation, commercialisation, or liquidation. A separate privatisation process was carried out for the former State-owned Farms (*Państwowe Gospodarstwo Rolne*, hereinafter PGR). However, the main part of this process did not begin until the following years.

An important development for the new economic reality was the creation of a capital market. In April 1991, the Warsaw Stock Exchange began trading. The location where it was established at the time was symbolic. It was the former building of the Central Committee of the Polish United Workers' Party. In the place where, just 16 months earlier, the party that had spent decades calling for the destruction of capitalism had its headquarters, capitalism now flourished. When the stock exchange opened, only five companies were listed – these were transformed former state-owned enterprises. The number of listed companies grew steadily, and by the end of 1991, there were nine.

Completely new enterprises were also set up. Some were created by buying out small state-owned enterprises or cooperatives, while others were built from scratch. Between 1990 and 1994 alone, 800,000 such enterprises were established. By 1993, the private sector was responsible for half of Poland's GDP.

However, one of the problems with creating a new ownership structure in the economy was the lack of domestic capital. For this reason, hopes were placed on foreign investors. They appeared on the Polish market relatively quickly, purchasing shares in privatised state-owned enterprises or forming joint ventures with Polish investors. Initially, their interest was limited – significantly lower than in Hungary or Czechoslovakia. By mid-1990, among companies with foreign capital, the largest shares were held by companies established by Germans – approximately 42.4% (656 companies), Swedes – 9.9% (153), Austrians – 8% (123), Americans – 7.6% (117), and the British – 5.6% (87). However, if companies were ranked according to invested capital, the order would be slightly different: Germany (656 companies), Sweden (153), Norway (11), the Netherlands (62), USA (117), Austria (123). The largest number of companies with foreign capital was registered in the Warsaw Voivodeship (453), followed by Poznań (127), and Katowice (113) (Białaszczyk and Grad 1991, pp. 13–15).

In the 1990s, it became widely possible to open private banks. In 1990 alone, 52 such banks were established, including three with foreign capital. However, this spontaneous growth of the banking sector was burdened with many problems. There was a shortage of specialised managerial staff for such sensitive institutions, resulting in bad loans, that is loans granted without proper assessment of the borrower's creditworthiness and not repaid on time. This led to the collapse or winding-up of banks, causing short-lived banking panics. These original sins prompted changes in legislation and stricter criteria

for obtaining banking licences. In subsequent years, legal regulations were significantly tightened, and the number of new banks decreased significantly (the activities of the credit unions and credit union banks were also regulated starting from 1991 – editor's remark).

The fastest privatisation occurred in trade. Already in 1990, state-owned and cooperative retail chains had privatised over a quarter of their stores. These were often acquired on preferential terms by former employees. In small towns, where the number of customers was insufficient to sustain a permanent retail outlet, street trade emerged. In 1995, the share of state-owned and municipal enterprises among companies engaged in trade and repairs amounted to 0.06% (Słomińska 2009, p. 21).

A distinctive feature of trade in the 1990s was primarily a small-scale bazaar trade, which emerged spontaneously. It had several symbolic features. The first of these were camp beds. These were set up in busy parts of towns, often in locations not intended for commerce at all. Sellers, most of whom had no formal registration as businesses, traded in everything – from clothing to electronics and food. Not all vendors traded from beds – some displayed their goods on newspapers spread out directly on the pavement.

After a few years, bed trade evolved into 'hustle trade' (in Polish commonly known as 'jaw trade'). This was the second symbol of trade at the time. 'Jaws' referred to metal or plastic stalls, designed to store goods outside trading hours. Opening such a 'shop' involved lifting up the front part of the stall, resembling the opening of a jaw – hence its common name. Alongside 'jaws,' traditional stalls were also set up, but their owners had to take their goods home every evening and bring them back and set them up again each morning. The emergence of hustle trade – stationary stalls – led to the creation of bazaars in towns and cities. Some were established in areas designated by local authorities. However, traders often spontaneously and arbitrarily occupied parts of the city – this was the case, for example, in Warsaw. The 'jaws' covered a significant portion of Plac Defilad, located in the heart of Warsaw. In subsequent years, local authorities sought to regulate these unauthorised trade sites, creating officially designated trade areas. People commonly referred to such bazaars as 'Manhattan,' and this name has survived in many cities to this day as a term for a marketplace.

Another distinctive feature of spontaneous trade at the beginning of the transformation was the influx of sellers from the USSR, and later from the countries that emerged after the collapse of the Soviet

Union. The collapse of the Soviet economy, market shortages, and the real increase in the prices of goods in Poland made this country an attractive place to sell goods from the still-subsidised Soviet market. The newcomers from the East – commonly but inaccurately referred to as ‘Russians’ – became a permanent feature of Polish bazaars.

In the south and west of the country, cross-border trade developed. Small traders (known as ‘ants’) brought alcohol into Poland from Czechoslovakia where it was much cheaper than in the domestic market. This type of smuggling also increased along the eastern border. Meanwhile, the situation on the western border changed dramatically. The reunification of Germany (effectively the dissolution of the GDR) and the rising affluence of the *Ossis* led to economic tourism. Germans came to Poland to shop and to use basic services (tailor, shoemaker, hairdresser, etc.). With them in mind, border towns (and sometimes entire streets close to the border) filled with networks of makeshift shops, service outlets and bazaars.

Pathologies of the Transformation Period

The transformation of Polish economic life came with numerous abuses, embezzlements, and scandals. This was caused by the visible decline in the efficiency of the state apparatus and the rise of corruption. Faced with the incoming changes, groups that had previously ruled Poland sought to secure themselves at the expense of state property. Some of the impoverished Poles looked for opportunities to purchase goods cheaply, even if they came from illegal sources. However, it was also significant that people fell victim to the uncritical propaganda of the new economic system. Capitalism was supposed to be a cure for scarcity, and money was supposedly lying on the streets – it just needed to be picked up. The naïve became easy prey for criminals.

From the beginning of 1989, state-owned enterprises began to set up their own companies, which quickly became the main driver for the privatisation of public assets by former officials and party functionaries (Dudek 2004, pp. 188–189). This process was further facilitated by the Act on Certain Conditions for the Consolidation of the National Economy, which was drafted to introduce new technical, organisational, and economic solutions (Grala 2005, p. 321). It provided that: “Assets of state property may be transferred to legal or natural persons for their use, in a form provided for by civil law, for the purpose of conducting economic activity” (Act of 24 February

1989 on Certain Conditions for the Consolidation of the National Economy and on the Amendment of Certain Acts, Dz.U. 1989, no. 10, item 57). Decisions on such transfers were often made by directors of state-owned enterprises, who were simultaneously co-owners (or closely related or affiliated with the owners) of the entities acquiring the assets. Subsequent audits, carried out during the tenure of Tadeusz Mazowiecki, revealed that as many as 1,539 *nomenklatura* companies (i.e., companies set up by designated members of the communist party) were created. These companies not only seized public assets but also acted as parasites on state-owned enterprises, becoming completely unnecessary intermediaries between the producer and the market. Subsequent audits concluded that no more than 20% of such enterprises were economically justified (Tittenbrunn 1992, pp. 142–143; Dudek 2004, pp. 189–193; Kozłowski 2018, pp. 105–111).

The 1990s were also shaken by economic scandals of varying magnitude. Undoubtedly, the two that gained the most notoriety were FOZZ and ArtB. The Foreign Debt Service Fund (FOZZ) was a state institution created in February 1989, still under the rule of the Polish United Workers' Party. Its purpose was to buy back Polish debt on the secondary market. Poland was considered bankrupt, so certain creditors were willing to sell their debt even at a loss of several dozen percent. However, buying back own debt on the secondary market is illegal, so FOZZ operated through hidden intermediaries. In practice, trillions of zlotys were spent in an uncontrolled manner, only partially in accordance with the intended objective. In 2005, the court estimated that at least USD 120 million had been embezzled (Dudek 2019, pp. 192–194). ArtB was a private company founded in 1989. It traded in almost everything – from foodstuffs, electronics, cars, and tractors to works of art. It quickly grew into one of the largest domestic private companies, and its owners became 'economic celebrities.' It turned out that one of the company's main sources of profit was the so-called 'oscillator.' Taking advantage of the fact that the Polish banking system was not computerised, the company transferred checks (some of which lacking collateral) between banks. As a result, the same funds were simultaneously held in interest-bearing accounts at different banks. The above are just a few examples of scandals that shook the Polish economy in the early 1990s.

The authorities tried to combat economic crime, although the scale of the phenomenon hindered effective action. In 1990, they managed to deal with the alcohol scandal (alcohol imports under reduced customs duties), inherited from the Rakowski government.

In 1991, the FOZZ scandal was exposed, although the liquidation of this institution took 25 years. In the same year, fearing arrest, the owners of ArtB fled to Israel.

The extent of the grey economy in Poland during the 1990s is difficult to estimate. It is possible that at the beginning of the decade its share in GDP could have been as high as 30% (Gardocka-Jałowiec 2010, p. 226). The grey economy included, for example, 'off-the-books' (undeclared) employment, which significantly reduced labour costs but deprived employees of basic protection. Copyright violations were widely accepted (the 1952 law concerning authorship rights was significantly obsolete, and the adjusted law came into force in 1994 – editor's remark). The market was flooded with pirated audio and video cassettes as well as computer software. Even highly popular books were pirated, such as the extended interview with the former communist leader Edward Gierek. Some of these illegal publications were sold at bazaars, while others appeared in official stores. Record companies estimated that for every legal product sold there were nine pirated copies (Kowalski 1995).

The rapid growth of organised crime was a huge problem for the nascent private sector. Criminal groups extorted regular protection money (known as 'protection fees') from small business owners, including shopkeepers, restaurant owners, and craftsmen. Sometimes, criminals would collect fictitious debts or grant loans secured against a company, only to take it over when the debt went unpaid. Stories of 'straw-man scams' were common: criminals would register companies in the names of people on the margins of society and then carry out fraudulent transactions under the guise of a legally operating enterprise. Business partners had no chance of recovering lost funds from the formal owner of the company – often a homeless person living at a railway station.

Public Reaction

Poles welcomed the launch of the Balcerowicz Plan with great hope. In mid-January 1990, 41.5% of respondents surveyed in public opinion polls declared support, while only 8.5% were against it (*Społeczna ocena...* 1990, p. 3, table 2; the survey was conducted by Centre for Public Opinion Research CBOS between 12 and 16 January 1990; in November of the previous year, during the initial phase of the Balcerowicz Plan, the percentages of supporters and opponents amounted respectively

to 30.8% and 3.1%, cf. *Spoleczna ocena...* 1990, p. 4). In the following months, as the economic transformation progressed at high social cost, the proportion of supporters of Balcerowicz's programme declined. By July 1990, 26.1% of a nationwide sample declared support, while 24.3% expressed opposition (see CBOS survey *Program Balcerowicza...* 1990, p. 6, table 5). However, two months later, in September 1990, when asked about the greatest successes of Tadeusz Mazowiecki's government, over 42.4% of respondents cited achievements in the field of economic life (achievements in terms of political life were indicated by 28.2% of respondents, and 9.4% pointed to successes in foreign policy; see CBOS survey *Pierwszy rok działalności rządu T. Mazowieckiego...* 1990, pp. 4–5). Among the economic accomplishments, the most highly appreciated were: “curbing inflation, maintaining a stable dollar exchange rate, and stabilising the Polish zloty” (21.9% of all responses to the question about government successes), followed by “improved supply, fully stocked shelves” (11.0%) and “marketisation of the economy, privatisation, free market” (9.7%). However, only 1% of respondents indicated an improvement in “financial conditions.” At the same time, it was precisely the regression in this area that topped the list of the government's greatest overall failures, accounting for 33.9% of all responses. The second most cited area of failure was “economic life,” with 28.4% of responses (failures in terms of political life were indicated by 10.5% of respondents, and a decline in the government's social authority by 9.9%, see *Pierwszy rok działalności rządu T. Mazowieckiego...* 1990, pp. 5–6). At the level of detailed social concerns, the main negative aspects cited were: unemployment (21.7%), deteriorating living conditions, growing disparities, poverty and low wages (10.0%), and high prices (6.7%). Among economic difficulties, the most frequently criticised were rural and agricultural issues (14.0%), the overall economic situation (7.4%), and problems of industrial enterprises (4.0%) (*Pierwszy rok działalności rządu T. Mazowieckiego...* 1990, p. 5).

In December 1990, when asked about the effects of the Balcerowicz Plan, 31% of respondents supported it, while 24% opposed it (*11 miesięcy Balcerowicza...* 1990, p. 2). Interestingly, however, the polarisation affected Balcerowicz himself to a lesser extent. In January 1990, the deputy prime minister and minister of finance enjoyed an approval rate of 60.5% and a disapproval rate of 16.8% of respondents; by September, these figures were 54.3% and 27.9%, respectively (*Pierwszy rok działalności rządu T. Mazowieckiego...* 1990, p. 8, tables 5 and 6).

Over time, attitudes toward Balcerowicz as a symbol of the reforms initiated in 1990 became polarised. However, none of the political forces in power made any radical corrections to the economic policies launched by the former deputy prime minister. An important symbol of the attitude toward Balcerowicz was his victory in the 1997 parliamentary elections. The former deputy prime minister, leading the Freedom Union, ran for the Sejm in Upper Silesia – the most industrialised region of Poland. He won more votes there than Marian Krzaklewski, the then Chairman of the Independent Self-Governing Trade Union Solidarity, who was running in the same district.

The High Cost

The economic transformation and the shock therapy against inflation hit the Polish economy in the short term. In 1990, GDP fell by over 10%, and in the following year by a further 7%. The reduction in wage growth translated into a decline in domestic demand. The turning point came only in 1992, when GDP was higher than in the previous year.

GDP dynamics 1989–1992 (constant prices, previous year = 100)

1989	1990	1991	1992
100.2	88.4	93.0	102.6

Source: *Polska 1989–2014*, 2014, pp. 18–19

In 1990, industrial production was 24% lower than in the previous year. In the following year, the slump deepened further, largely due to the breakdown of economic cooperation within the Council for Mutual Economic Assistance (COMECON). Again, it was only in 1992 that production grew, thanks to the emerging private sector (production in the public sector continued to decline) (*Historia Polski w liczbach*, vol. 2, *Gospodarka* 2006, p. 449).

A significant downturn was also recorded in construction. In the 1970s, an average of 243,000 dwellings per year were completed, and in the 1980s, this figure fell to 180,500 per year. The 1990s saw a collapse, with an annual average of only 89,400 dwellings completed (*Zarys historii Polski w liczbach...* 2012, p. 228).

The economic turbulence translated into budgetary problems. In 1991, the budget deficit amounted to 3% of GDP, rising to 6% the following year. The budget was burdened by debt servicing (in 1990, public debt amounted to 95% of GDP) and subsidies for the social security fund.

The most pressing issue was unemployment, which had previously been practically unknown in Poland. In 1988, there were 93 job vacancies for every job seeker (Zjawiona 2004, p. 101). Everything changed from 1990. Each year, hundreds of thousands of people lost their jobs (in 1992–1993, more than one million in total). From 1991, there was less than one job vacancy for every ten people dismissed. Graduates also struggled to find work. Unemployment particularly affected women with lower education and residents of agricultural regions, particularly in areas where State-owned Farms (PGRs) had been liquidated.

Unemployment 1990–1992

Year	Number of unemployed (thousands)	Unemployment rate (%)	Number of job vacancies (thousands)	Layoffs due to reasons attributable to employers (thousands)
1990	1126.1	6.5	54.1	183.1
1991	2155.6	12.2	29.1	498.0
1992	2509.3	14.3	22.9	603.6

Source: Węgrzyn 2005, p. 221

The authorities attempted to combat unemployment. Early retirement was made easier. Opportunities for pursuing higher education were significantly expanded, with the aim of delaying the entry of new workers into the labour market. The Labour Fund was established, financed by contributions from employers. District Labour Offices were created to provide care for the unemployed: job placement, activation and retraining support, and payment of unemployment benefits. The latter quickly became known as *Kuroniówka* named after Jacek Kuroń (during one of the media campaigns promoting aid for the unemployed, Kuroń, wearing a cook's hat, handed out soup to those in need), Minister of Labour and Social Policy from 1989–1991. Initially, the eligibility rules for benefits were fairly liberal, which led to abuse of the support system.

Consequently, the authorities gradually restricted access to benefits, and permanently unemployed individuals lost the right to receive it. In 1990, 80% of the unemployed were eligible for benefits. By the mid-1990s, only 59% of those registered were eligible (*Zarys historii Polski w liczbach...* 2012, p. 178).

The inhabitants of rural areas – employees of State-owned Farms (PGRs), found themselves in a particularly difficult situation. These enterprises were involved not only in crop cultivation, animal husbandry, and livestock production but also operated slaughterhouses, butcheries, fruit and vegetable processing plants, mills, sawmills, brickworks, distilleries, breweries, stud farms, hotels, and restaurants. During the Polish People's Republic, PGRs were heavily subsidised by the state, and their existence was supposed to demonstrate the superiority of collective economy over individual economy. A PGR was not only a workplace but also provided housing for employees, organised schools and medical clinics, and arranged holiday trips.

At the beginning of the 1990s, there were 1,666 PGRs in operation, employing 395,000 people at the end of 1990, which represented 24% of all those employed in agriculture (*Rocznik statystyczny 1992*, 1992, pp. XVII, 100). PGRs were not evenly distributed – for example, there were only three in the Bielsko Voivodeship, four in the Nowy Sącz Voivodeship, and six in the Tarnobrzeg Voivodeship. In contrast, there were 157 state farms in the Elbląg Voivodeship, 136 in the Olsztyn Voivodeship, 98 in the Opole Voivodeship, 90 in the Koszalin Voivodeship, 88 in the Szczecin Voivodeship, and 79 in the Słupsk Voivodeship (author's own calculations based on data from the Chancellery of the Prime Minister).

This structured world collapsed in the first half of the 1990s. By the end of 1993, there were fewer than one thousand PGRs (Machalek 2022, pp. 267, 280). Suddenly, rural residents ended up unemployed, without prospects of new employment, without land to provide minimal sustenance, and in some cases even without heating in their homes, as the PGR that had supplied it had just closed. In regions with the largest concentration of PGRs, unemployment became somewhat structural.

However, the costs of transformation affected more than just the unemployed. Income levels fell sharply. In 1990, real wages were even a quarter lower than the previous year. This downward trend continued until 1993. The decline in real incomes also affected farmers, representing a 38% decrease in 1990 and 16% in 1991. It was only in 1995 that agricultural households saw an increase in income. Rising prices, particularly of food, heavily affected household budgets. Working Poles spent about half of their household income on food, while pensioners

spent more than half. In the first half of the decade, consumption noticeably fell – people bought less meat, butter, milk, eggs, and sugar.

Heading West

In a globalising world, the new Poland had to choose its place. Theoretically, it had several options. It could remain in the structures of the COMECON, which Moscow proposed to restructure. However, that idea gained no support, and in mid-1991 the council was disbanded. On the other hand, there was an idea to establish a so-called small COMECON limited only to Bulgaria, Poland, GDR, Hungary, Czechoslovakia and Romania, or to create an International Organisation for Economic Cooperation on its foundations. In some ways, President Lech Wałęsa's proposal echoed this idea: during his visit to Germany in March 1992, he surprised everyone (including the Polish government) by presenting the concept of an EEC-BIS. These organisations were to jointly negotiate entry into Western structures. Poland could also aim only for economic cooperation within the European Free Trade Association (EFTA, which at that time was made up of Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland), and, more broadly, within the European Economic Area, which was then being created. Already in 1992 Poland signed a free-trade agreement with EFTA (Agreement between the Republic of Poland and the member states of the European Free Trade Association (EFTA), signed in Geneva on 10 December 1992, Dz.U. 1994, no. 129, item 639).

However, Poland's primary goal was to participate in a strong process of continental integration – only the European Community could offer such guarantees. It was not just a political project, but – perhaps above all – an opportunity to actually emerge from the civilisational and economic collapse. In 1992, Poland's GDP per capita was USD 2,154, while the Community average was USD 19,698. Portugal – then the poorest of the Member States – generated USD 8,518, almost 300% more than Poland (Domagała 2011, p. 33).

Already in May 1990, Poland submitted an application to begin talks on association with the European Community. On 16 December 1991, Poland (together with Hungary and Czechoslovakia) signed an association agreement with the European Community. It provided for trade liberalisation and political cooperation, as well as other measures aimed at integration. Poland, Hungary, Czechoslovakia (from 1993, the Czech Republic and Slovakia) also began cooperation

under the Visegrad Triangle (formed in 1991, later known as the Visegrad Group). The economic manifestation of this cooperation was the establishment in 1992 of CEFTA (the Central European Free Trade Agreement), which was intended to liberalise trade in industrial goods and partially in agro-food products. This was to be one of the steps bringing CEFTA countries closer to membership in the European Union (subsequently, other countries from Eastern Europe joined CEFTA. Members who acceded to the European Community simultaneously withdrew from the structures of the agreement).

It is worth noting, however, that Poland's association with the European Union was not always a satisfactory process for the country. The association agreement was significantly less favourable than those previously signed by the EEC – for instance, with Greece or Turkey. The free movement of workers was not liberalised. Poland lifted customs duties on European goods faster than this was done in the opposite direction (Berend 2011, pp. 95–96).

The association agreement between Poland and the European Community entered into force in February 1994 (its trade provisions had already taken effect in March 1992). On 8 April 1994, Poland submitted its application for membership in the European Union.

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In the autumn of 1991, Poland finally held its first democratic parliamentary elections since the war. As a result, a government under Jan Olszewski was formed. The parties that made up the government were critical of Leszek Balcerowicz's policy, but they were unable to propose a viable alternative to the course adopted in January 1990. Likewise, subsequent cabinets did not present any genuine proposal to change the direction of economic transformation. It continued at least until 2004, the year of Poland's accession to the European Union. This was the fulfilment of a goal that had been tentatively set at the beginning of the last decade of the 20th century. Naturally, the entire process did not unfold without negative social consequences. Many researchers of Solidarity's history wrote extensively on this, including Krzysztof Brzechczyn (Brzechczyn 2009, 2023). Balcerowicz's policy was also criticised by some authors of alternative concepts developed in 1989–1990. Paradoxically, it can be noted that some of the goals of the last communist government, specifically the cabinet of Mieczysław Rakowski, were eventually achieved. Poles became deeply interested in getting rich. However, this was possible thanks to the victory of democracy rather than the policies of the communist party.

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