

Deputy finance minister resigns

Deputy Minister of Finance Dariusz Daniluk has tendered his resignation. Mr Daniluk stated that the move was made for personal reasons. He will, however, retain his position as head of the Bank Guarantee Fund and his membership in the Polish Financial Supervision Authority. No decisions have yet been made as to the redistribution of Mr Daniluk's responsibilities.

Poland-Germany energy link

State-owned transmission system operator PSE Operator will build a new energy link with Germany by 2020. It has signed a contract with German operator 50Hertz Transmission to this effect, *Rzeczpospolita* reports. If earlier estimates predicting a 3% increase in demand for energy come true, the new source of exported energy will be indispensable, some experts say.

Politics and economics

Lessons of the past

Grzegorz W. Kolodko, a former deputy prime minister and finance minister, looks at the situation in North Africa and the Middle East in light of Poland's own political and economic transformation

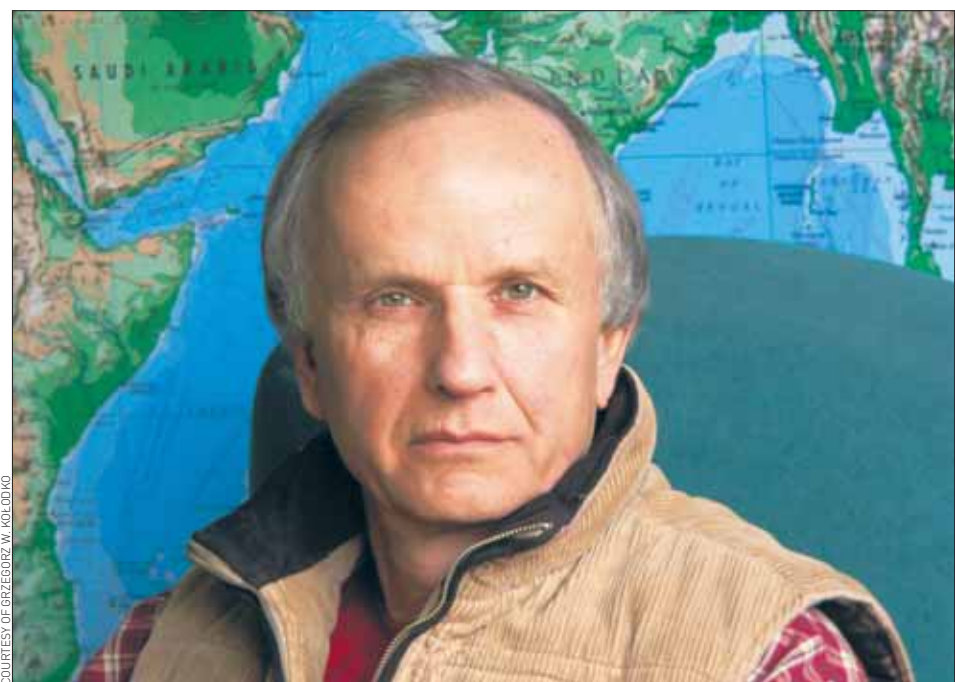
Alice Trudelle: You have written about the parallels between Eastern Europe in 1989 and North Africa and the Middle East in 2011. Do the two situations have much in common? What can we draw from Poland's experience?

Grzegorz W. Kolodko: I remember how cheerful was the day when we signed Poland's historical Round Table Agreement on April 5, 1989. But then comes the day after. The major lesson from the Polish experience is that when people succeed in overthrowing a regime they don't like, they must work at least for another generation. Over the last 22 years many problems have been solved, but others have emerged. So, in a generation, we will see how successful the countries now rejecting authoritarian regimes in North Africa and the Middle East will be. Will they be successful like Poland, Slove-

nia, Estonia, or less so, as Belarus, Ukraine and Kyrgyzstan?

One must also be careful while making comparisons. Today's Morocco and Saudi Arabia are as far apart as were Poland and Romania before transition. In 1989 in Poland we had a law on foreign direct investment, an anti-trust law, a two-tier banking system, and 20 percent of GDP was coming from the private sector. This was not the case in other former socialist countries, with the exception of Hungary and the former Yugoslavia, which were also partially liberalized. Therefore, I would say there are more similarities between Libya now and Romania then, than between Morocco and Saudi Arabia now.

Yet the Polish lesson is clear: for lasting success it is necessary first to create a mechanism of political negotiations between different parties, intellectual and political leaders.



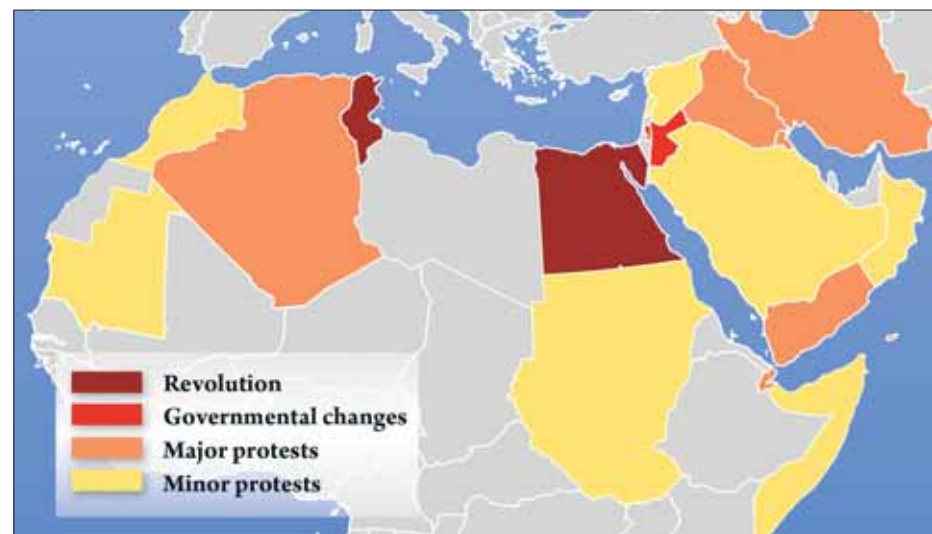
Professor Kolodko believes Poland's political and economic transition since 1989 could have achieved "much more"

From the economic perspective, what are the similarities and differences between 1989 and 2011?

The similarities are mostly superficial. They are limited to things like people on the streets and what makes the front page news. But even here there are striking differ-

ences: when people were on the streets [in Poland] in the late 1980s, it was not shown live on CNN, it was not widely followed on satellite TV or on the internet.

Western oversimplification focuses on the fact that then and now people demonstrated against authoritarian regimes, calling for freedom and democracy. But the economic roots of these protests are different. In my part of the world, beginning in Poland, protests were very much related to the fact that major shortages of goods and services were coupled with price inflation; it was described as



"shortageflation." From this perspective, the situation in Poland in the late 1980s was the worst in the region. But, from another viewpoint, Poland then, together with Hungary, was also the leader of market-oriented reforms and this made it easier to leap towards the transition to a market economy, civil society and political democracy than in the former Soviet Union or in orthodox communist countries like Bulgaria or Albania.

The grounds for the protests we are witnessing now in North Africa and the Middle East are also partly economic in nature. But this time the major causes are high income inequality, social exclusion, very high rates of unemployment, especially among the younger generation, and widespread corruption.

Between then and now, the world has also changed. At the turn of the 1980s and 1990s, the Cold War was still a reality and, from an economic viewpoint, the contemporary phase of globalization was only gathering momentum. There was neither as much free-moving capital, nor free flow of trade, people, information and ideas.

American policy, especially regarding Egypt now and Poland then, also constitutes an important difference. Interestingly, half of Poland's and Egypt's foreign debts were written off in the early 1990s. But for the past 30 years, conditional upon upholding a peace deal with Israel, Egypt has been receiving substantial aid from the US, about \$2 billion annually, while Poland during the 1980s was under tough economic sanctions imposed by the US and other Western countries. Isn't it a conspicuous difference that the change in Poland in 1989 was in part caused by American sanctions and the change in Egypt came so late in part because of American financial support?

In your opinion, has Poland's transition been successful?

We have been relatively successful, but we could have accomplished much more, without the early 1990s' ill-

advised "shock therapy" – or shock without therapy, as I prefer to call it – and over-cooling of the economy in the late 1990s. I am also far from praising the current government's response to the global economic crisis.

The fact that we are not in recession doesn't mean that Poland is not in crisis. In 2010 GDP growth stood at a decent 3.8 percent, but it could be much better. What's more important, the absolute investment level has declined, because businesspeople are losing trust in the future of the Polish economy. It is a very serious signal of crisis. Secondly, the economy is running at somewhere between 76 and 78 percent of existing capacity. And even when this is fixed, Poland will still face the consequences of the ongoing technological lag caused by meager investments. This might well undermine Polish competitiveness in the years to come.

A structural crisis is also looming over the labor market, because 1.8 million people, mostly educated, have left Poland since we entered the EU in 2004. Some of them may decide not to return and there will be an additional wave of emigration after Germany and Austria open their labor markets on May 1. This is coupled with one of the highest rates of unemployment in the EU, now hovering around 13 percent.

And last, but most difficult to overcome, is the mounting structural fiscal crisis. How do you go from a fiscal deficit level of almost eight percent of GDP to below three percent in a sensible period of time, while balancing business and entrepreneurship on the one hand, and social cohesion on the other? It is not just a question of meeting the Maastricht criteria; it is a matter of economic common sense.

As I argue in my new book, "Truth, Errors, and Lies: Politics and Economics in a Volatile World," (www.volatile-world.net), was published by Columbia University Press earlier this year.

tax rates, output, input, inflation, unemployment, profit rate of return. But how do you measure values, integration, cohesion, culture? And yet they are crucial factors for long-term social and economic development.

Negligence of the cultural aspects of economic activity, together with an inadequate building of institutions and bad regulation of the market economy are major factors of economic under-performance and result in social dissatisfaction and political unrest. If these matters were properly addressed, as has been the case in certain post-communist countries, we would now see success stories. And this is the main message we are sending to the people of North Africa, the Middle East, and elsewhere. Polish political leaders, intellectuals and experts must be much more active in offering technical support for countries in need.

As someone involved in the transition that began in 1989, what's the best advice you can offer those engaged in economic and democratic transition today?

To people in Cairo, Damascus, Tripoli or Algiers today, I would say: be realistic. To revolt is the easiest part of the game. To build something new is very challenging and you are not bound to succeed unconditionally.

Professor Grzegorz W. Kolodko, a key architect of Poland's economic reforms, heads the think-tank TIGER (Transformation, Integration and Globalization Economic Research) and teaches at the Kozminski University in Warsaw. He served as deputy prime minister and minister of finance between 1994 and 1997 and again in 2002-03. He has published extensively on economy, transition and development policy. His latest interdisciplinary book, "Truth, Errors and Lies: Politics and Economics in a Volatile World," (www.volatile-world.net), was published by Columbia University Press earlier this year.

Prof Kolodko invites WBJ readers to discuss this and other matters on www.facebook.com/kolodko.

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