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Can Ukraine Mimic Poland's Transition? The Limits of Its Latest Economic Changes

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Once again, Ukraine has a chance to transform its economic system and build a democratic capitalist one. It is tempting to say that Central European countries such as Poland in particular constitute a good pattern for Kyiv's reforms. However, this time will be different in many respects, and simply re-running an older plan will not work.

It has been more than two decades since many post-Soviet countries started reforms aimed at building free market democracies. The slightly forgotten term describing this process—transformation—stands a good chance to be revived due to the recent developments in Ukraine. Exhausted by years of bad governance, Russia's undeclared war on it and the deepening economic chaos, Ukraine may have only one last chance at profound systemic change to survive and retain its post-Soviet borders.

There are high expectations that Ukraine will repeat the same kind of transition as Poland, a country of similar size, has achieved in the last two decades. French philosopher and writer Bernard-Henry Lévy called in a recent speech for help for Ukraine to become "another Poland."¹ In the analytical world there is also now a tendency to tell a "tale of two countries,"² which entails conjecture of the chances for Polish-style reform in Ukraine. However, this nice rhetorical device may not necessarily be useful to design a comprehensive political agenda.

The transformation of Poland after 1989 was not a technocratic exercise, nor universal or applicable everywhere. It was a unique, specific phenomenon reflecting the nature of its time, international environment and features of the country. Poland simply took advantage of comprehensive conditions for change, a kind of rare window of opportunity. Ukraine post-Maidan is likely to have a much bumpier and more difficult, but for certain, different experience. Before telling Ukraine what kind of transition would work for it, it is necessary to recognise the composition of the country's window of opportunity and learn whether it is really as wide open as we would like to believe.

¹ B.-H. Lévy, "A Marshall Plan for Ukraine," *The Huffington Post*, 5 March 2015, www.huffingtonpost.com/bernardhenri-levy/a-marshall-plan-for-ukrai_b_6810112.html (accessed 16 Mar 2015).

² S. Tilford, "A tale of two countries," www.cer.org.uk/sites/default/files/publications/attachments/pdf/2014/bulletin_95_st_article1-8624.pdf (accessed 16 Mar 2015).

What Made Poland's Transformation Successful?

If one looks for explanations for Poland's stunning change in the 1990s and later, the first place to look is the point of departure: the wretched demise of the 1980s. At the beginning of the decade the country became insolvent and entered a massive economic and political crisis. The next years after that were marked by desperate attempts by the communist authorities to bend the economy to their own conditions, which resulted in a peak of nearly 600% inflation and chaos in the markets. Such poor conditions are usually a good point of departure for radical systemic reforms. Societies are ready to pay a high price for a chance to have a better future, and politicians are ready to apply new, risky measures. This was exactly the situation of Poland around 1989.

Second, there was a strong conviction that there was no way back and actually no chance to "repair" the old system. The People's Republic of Poland was a failed experiment in authoritarian socialism and was marked by an inefficient, rigid and, to a large extent, absurd regulation that forced many people to emigrate or join the informal economy. Furthermore, the wretched economic reality was combined with a lack of political freedom and an oppressive state. In essence, the society perceived the regime's crisis as endogenous and resulting from its very nature. Thus, it could not be changed but had to be completely removed.

The collapse of the disgraced socialist state created fertile ground for "change without continuation,"³ or so-called shock therapy. It aimed at a sudden, disruptive shift to new rules in the economic game and new state organisation. But even under the advantageous conditions of this "zero hour," the new Poland decided to pay a high price in order to lock down any chance for a return of the old system. The old system's primary beneficiaries were offered incentives to engage in reforms and take advantage of the new changes (the famous "bold line" policy). This was morally doubtful but helped create a nationwide, stable consensus on the track of transformation. In fact, during the following two decades Poland has impressed with its stability in its systemic orientation: after all, an ex-communist president stamped the country's membership in NATO, and a government of ex-communists signed the EU accession treaty.

Third, it was relatively clear what the post-communist transition should consist of. It was the time of the triumphal march of neoliberalism, and the so-called Washington Consensus drew up a pattern of necessary steps to build up a modern economy. Deregulation, liberalisation, privatisation had to work—all over the world. Under these circumstances, called TINA ("There Is No Alternative"⁴), the formerly communist countries were choosing only how fast and how "shocking" the therapy should be. Poland's choice was even more limited, since the country was deep in debt and could reach agreement with its creditors only after accepting canonical reforms. This helped to create consensus that the change should be quick and radical.⁵

It is controversial, but tempting to add also that the neoliberal construct communicates well with Polish economic culture. Paradoxically, it refers to traditional features of the gentry and farm system of the deep past, in which individual values and freedoms were, roughly speaking, placed above the needs of the community and the power of the state.⁶ Neoliberalism helped also to praise the initiative of many Poles who had developed their half-legal businesses during communism and dealt with the oppressive state. Economic freedom became an important part of the political mindset. The philosopher and writer Marcin

³ K. Thelen, W. Streeck (ed.), *Introduction: Institutional Chance in Advanced Political Economies: Beyond Continuity: Institutional Change in Advanced Political Economies*, Oxford University Press, Oxford, 2005, p. 8–9.

⁴ Reportedly coined and used by the Conservative British Prime Minister Margaret Thatcher against the critics of the neoliberal reforms in UK.

⁵ However, the orientation of the reform is still a matter of fierce debate. For more on this, see: R. Woś, *Dziecięca choroba liberalizmu*, StudioEmka, Warszawa, 2014.

⁶ For more on the economic culture of Poles, see: J. Sowa, *Fantomowe ciało króla: peryferyjne zmagania z nowoczesną formą*, Towarzystwo Autorów i Wydawców Prac Naukowych Universitas, Kraków, 2011.

Król rightly admitted that, “in the 1980s we were all infected by the ideology of neoliberalism.”⁷ It also was helped by the quick transition.

Fourth, Poland and other Central and Eastern European countries (CEE) faced an international environment that was friendly to change. Globalisation was just gathering momentum and very few questioned the virtues of free trade, capital mobility and international competition. It was easier to open markets since there was political consensus about the benefits following from it (the famous theorem on a “non zero-sum game”). This enabled the formerly communist countries to relatively quickly integrate with the global and European economy, since its main actors were ready and willing to open themselves and even help newcomers. Almost all of the CEE could enjoy support from the IMF, the World Bank and the European Community. Furthermore, there were no enemies of change. In the 1990s, Russia was dealing with the collapse of the Soviet Union and its own internal problems: it simply had no tools to stop the westernisation of Poland and its neighbours.

In essence, all these conditions together created a unique environment in which the Polish transition could achieve its goals. Despite widespread opinions of the unavoidable success of the change, I think that it was a kind of “black swan”⁸ moment, that is, a rare coincidence of hardly predictable, but in this case fortuitous happenings and conditions. They resulted from an interplay of the initial conditions (times were bad enough), the closed path back to the old ways, the clear ideological goal of the change, the compatibility of the local culture with the ideological foundation of the transition, and, last but not least, a helpful international environment. Does Ukraine by any chance have a similarly comprehensive set of circumstances?

The Limits of the Ukrainian Transformation

If there is something that makes the Ukraine of today similar to the Poland of 1989 it is the disastrous state of its economy. The year 2014 has probably been the worst in the history of the country in this regard. This year, 2015, will not be better, with GDP estimated to decline by even 11.9%.⁹ Theoretically, this could create the critical mass needed for radical reforms, but, in comparison to 1989 Poland, there is a strong distracting factor—the war. A military conflict is rarely helpful in dealing with transformational challenges; rather, it serves as an excuse to keep things frozen and wait for better times. Ukraine’s governments have been, to say the least, very efficient in finding arguments against change. From this point of view, the strategy of Russian President Vladimir Putin to wear out Ukraine through a low intensity war is rational because it creates a good excuse for Kyiv to wait.

Also different is the issue of the institutional change, or “no return” to the old system, because there is no collapse of communism in Ukraine now, but rather a weak, ill-developed form of capitalism. Ukraine has squandered a lot of time since 1989 on inefficient experiments, re-making its economic system into a patchwork of neoliberal market institutions amid a Soviet-like state apparatus. These troubled waters gave rise to powerful groups of interests and to individuals, known today as oligarchs. In order to protect their position and businesses, these oligarchs invested in political parties and media. In this corrupting, but in essence legal way they have bought political legitimisation, and in fact have captured the Ukrainian state. However, their power is even deeper. The oligarchs’ realms are based on quasi-feudal relations in the country’s regions, with “friendly” officials and businessmen involved. In other words, oligarchic capitalism is not just the quasi-legalised concentration of power among a few individuals or groups over the government, but a sophisticated, multilevel, informal, client-based system of dependencies fixed with the cement of material and social capital.

⁷ G. Sroczyński, “Byliśmy głupi. Wywiad z prof. Marcinem Królem,” *Gazeta Wyborcza / Magazyn*, 2 August 2014, http://wyborcza.pl/magazyn/1,136528,15414610,Bylismy_glupi.html (accessed 16 March 2015).

⁸ N.N. Taleb, *The Black Swan: The Impact of the Highly Improbable*, Penguin Books, 2008.

⁹ V. Verbyany, A. Kudrytski, “Ukraine Sees Economic Plunge in 2015 Amid Spike in Prices,” *Bloomberg*, www.bloomberg.com/news/articles/2015-03-05/ukrainian-economy-may-contract-11-9-in-2015-government-says (accessed 18 March 2015).

The Maidan revolution created expectations that this system might, or actually must be destroyed by a shock therapy solution just like in Poland in 1989/1990. But Poland had an easier situation: it faced the ruins of formal institutions left by communists who had badly interacted with Polish culture. Ukraine faces bad capitalism in an oligarchic system that corresponds well to both the pre-modern past of the manor economy and *homo-sovieticus*, which left a much stronger mark there than in Poland. So the oligarchic system exploits some old cultural patterns but stands a good chance to adjust and “smuggle” itself through the process of setting up new or reformed rules and to capture the state once again. There is little chance for “change without continuation,” despite the highly motivated, brave and clever people of the Maidan. More probable is hard, continuous change without a guarantee of success.

The third aspect—systemic goals of transformation—is also less evident in the case of Ukraine than in Poland two decades ago. The neoliberal agenda, which created an evident lodestar, is blamed today for creating inequality, instability and exposure to crisis. There is a rising group of countries and political movements that openly call for, or even test alternatives. Within Europe, this group includes Hungary and Greece, which both prefer a more interventionist approach. Its proponents can also easily be found in France, Spain and Italy.

Another transformation case that gives Ukrainians something to consider is China. In the last two decades it has not given up its model, as some neoliberal economists believed it would, but it has refined it into a highly efficient form of state capitalism. The Chinese mix of autocratic government and capitalism seems to work particularly well in economies with the need to invest in basic infrastructure, since sophisticated decisions can be made quickly and without bothering with democratic procedures. This may sound very attractive to poorer economies starting from low levels of income and development—just like Ukraine.

In other words, alternative approaches can meet with a favourable response in Ukraine and a long-lasting struggle between different ideas for reforms cannot be excluded. It is not only about the social costs of the liberal reforms, which can scare people tired after two decades of “the shock without the therapy” and still nostalgic about the stability of the communist time. It is also about efficiency. Even supporters of radical transformation can be torn between the need for liberalisation and the probably more important issue of building a strong state. After all, the oligarch’ expansion is to some extent associated with the chaotic deregulation of the 1990s under the neoliberal flag. All these dilemmas can provoke some doubts about whether Ukrainians will be able to develop a consistent and commonly shared set of measures and goals for the transition.

Fourth, unlike Poland, Ukraine faces a quite complicated and challenging international environment. The process of globalisation, which was a powerful driver of economic growth after the collapse of communism, has stagnated. According to the Pew Research Center, between 2002 and 2014 people in many countries became more sceptical of free trade, including, for example, in Italy, where scepticism went from 13% to 32% of those surveyed, and in Turkey, which increased from 12% to 36%.¹⁰ This is bad news for Ukraine because it will be more difficult for the country to take advantage of the open markets and asymmetric preferences that helped Poland and the other countries in the CEE.

Furthermore, right now the European Union is weak and inward-oriented as it deals with the costs of the economic crisis. Any new enlargement window is hardly imaginable, so Ukraine will have difficulties expecting any political reward for its reforms. Poland’s mobilisation to change its economic system was to a large extent driven by the perspective to join the European Union and NATO. In fact, the opposition to the reforms was deafened by the dead-sure argument that the reforms were part of the fulfilment of accession criteria and in response to deadlines imposed by Brussels. Ukraine now has an association agreement with the EU, but it may be too weak a measure to defend the reform track.

Even more important is the fact that the Ukrainian reforms have strong external enemies—a situation spared the post-communist countries in the 1990s. To claim that Russia is strictly against the EU or NATO

¹⁰ “Faith and skepticism about trade, foreign investment,” Pew Research Center, www.pewglobal.org/files/2014/09/Pew-Research-Center-Trade-Report-FINAL-September-16-2014.pdf (accessed 17 Mar 2015).

membership of Ukraine is not enough: it is attempting to develop its own integration projects.¹¹ Ukraine's powerful neighbour is against Ukraine building a state based on Western principles, since this would diminish Moscow's informal influence on Kyiv. Russia has a wide range of instruments to destabilise Ukraine and disturb the process of transformation, from corruption, investing in its "own" political representatives, as well as takeovers of strategically important companies. However, Russia can also take a softer approach, such as offering lower gas prices and access to markets in its Eurasian Union, in exchange for slowing down or giving up some changes. This would be a return to the time of the former president, Viktor Yanukovich, ousted by Maidan.

The Narrow Path to Success

Ukraine's latest transformation faces different circumstances than Poland and the other CEE countries did in the 1990s. Its starting point is the "bad" capitalism of the oligarchs, who are well entrenched and ready to defend their interests. Moreover, the neoliberal economic model is no longer a golden standard and alternatives may be tempting. In addition to that, Ukraine's large neighbour is determined to keep the country vulnerable and dependent. How can it achieve even moderate success under such circumstances?

To start, Ukraine needs a way out of the severe crisis into which it has been pushed by the war and macroeconomic destabilisation. Kyiv needs the suspension of military action in the east (the so-called Minsk II agreement) to work, if simply to focus on the necessary reforms. The country should take advantage of IMF assistance, which one hopes will be sufficient. However, if we may think about a radical macroeconomic game-changer, this could be the unilateral adoption of the euro with the assistance of the ECB.¹² Doing so would allow Ukraine to secure its banking sector and quickly create a stable environment for foreign investors. It is also a clear political signal—euro adoption in fiscal policy would be a strong anchor for integration with Europe.

Second, it needs to realistically acknowledge that oligarchs will remain an important political and economic factor in Ukraine for some time to come. There is probably no other way around them than to offer them a "bold line" and give them a chance to become "good" oligarchs, accepting of the new rules of the game and engaging in the process of change. So, in principle it is the same method Poland applied towards the *nomenklatura* (*apparatchiks*). The very recent idea of a reform agency funded by oligarchs¹³ seems to support this direction, although its final shape is still unclear..

However, the hope for the conversion to "good" oligarchs should not replace a comprehensive strategy against oligarchic capitalism. Its constitutive element is the fight against corruption and an efficient, independent judiciary. So far, the popular Corruption Perception Index (CPI) compiled by Transparency International places Ukraine 142nd out of 175.¹⁴ This indicates how much is left to be done. Another element is openness to foreign companies and new businesses, particularly medium-sized firms. Their expansion could help disperse the power of the oligarchs and speed up the transformation of governance, since transparent rules would make competition for newcomers against well-entrenched oligarchic conglomerates easier. This business-friendly approach must be complemented by a social aspect: a strong policy against income inequality. The Ukrainian transformation may diverge in this context from the post-communist transition elsewhere, which did not pay too much attention to this issue: the belief in a quick boom dampened such concerns. The legitimacy of post-Maidan Ukraine will be measured by the ability to bring the former losers in the market game back into the game. If not, anti-system opposition will rise.

¹¹ T. Snyder, "Russlands neokoloniales Projekt," *Frankfurter Allgemeine Zeitung*, 16 March 2015, www.faz.net/aktuell/politik/die-gegenwart/gastbeitrag-von-timothy-snyder-zu-putins-plaenen-13484611.html?printPagedArticle=true#pageIndex_2 (accessed 16 Mar 2015).

¹² This measure was brought into the discussion by one of the participants in a seminar on the ECFR on Ukraine on 17 March 2015.

¹³ "International group is formed to help kick-start the Ukraine economy," *Euronews*, www.euronews.com/2015/03/05/international-group-is-formed-to-help-kick-start-the-ukraine-economy/ (accessed 16 Mar 2015).

¹⁴ "A year after Maidan, still Ukraine is the most corrupt country in Europe," Transparency International, <http://ti-ukraine.org/en/content/5037.html> (accessed 24 Feb 2015).

The final recommendation deals with the problem of the challenging international environment for Ukraine. Unfortunately, the country will not be able to go through the transformation without external support, extensions of short-term and uncontroversial measures such as macroeconomic assistance, consulting with or even keeping Russia at a distance through the Minsk II deal. Meaningful support should involve a credible political strategy, which also points to where the story should end for Ukraine. This does not necessarily mean out-of-thin-air political speculation about EU membership, which Russia views as provocative. A better option is to focus on a trade-off: a stronger Ukraine means less vulnerability to the international environment. On an operational level this means implementing a variety of projects in Ukraine that require quick reforms but which are combined with quick rewards in the form of financial assistance and access to EU benefits. This is actually a silent, technocratic extension of the association agreement areas of energy, transport, agriculture and education. In the latter field, one project could be a joint university based on the model of the Viadrina in Frankfurt Oder or Słubice in Poland.

The success of this approach is far from certain. There is much to lose if change in Ukraine is not introduced, but also much to gain if it becomes reality. What can be lost is stability in Central Europe. An unreformed Ukraine may turn into a failed state and a larger Balkans of the 1990s, exporting conflicts and millions of refugees to the European Union. Furthermore, giving up on Ukraine and allowing it to drift into illiberal capitalism and become allied with Russia, would strengthen Putin's geopolitical ambitions and create a direct and long-term threat to the political and economic structures of the West in Central Europe. The win is the potential for a booming, relatively large economy with well-educated people and a strong agricultural sector. Finally, a successful Ukraine with democracy and a prosperous free market economy would pose a direct challenge to Putin's "managed democracy," with a potentially contagious effect.