

BACK TO THE FUTURE, OR THE PAST?
ON THE *RE*-PERIPHERALIZATION OF CENTRAL-EAST EUROPE

by

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B.A. (Hons.) University of British Columbia, 2002

A THESIS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF

MASTER OF ARTS

in

THE FACULTY OF GRADUATE STUDIES

(European Studies, Institute for European Studies)

We accept this thesis as conforming to the required standard

THE UNIVERSITY OF BRITISH COLUMBIA

May 2004

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Title of Thesis: Back to the Future, or the Past? On the Re-Peripheralization of Central-East Europe

Degree: Master of Arts Year: 2004

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Abstract

It is common for many commentators in the Western establishment to claim that “communism” collapsed in eastern Europe in 1989-91, and that the region henceforth is finally able to embark upon the path to the “free market”, to join the hallowed halls of Western liberal “democracy”. In addition, there is much credence given to the idea of the former state-socialists’ rightful “Return to Europe” after half a century of “totalitarianism”, now that much of at least central-east Europe is subsumed within the European Union.

Underpinning many of these assertions is the ideology of modernization, that is, the belief-system that a given nation-state’s “development” can follow a lineal evolution if a certain set of policy prescriptions are followed, and develop from industrializing to industrialized to advanced industrialized (or post-industrial). More often than not, the criteria to be a fully-fledged advanced industrialized country, or whatever other relevant stage at the apogee of progress, is simply a description of the West. The ideology of modernization can be divided into two opposing camps: neoliberalism and neomercantilism. Both advocate policy prescriptions to modernize a country (or so they claim); both theorize without any conceptualization of the projection of power in international relations.

It is the central purpose of this thesis to provide an alternative to the above assertions, ideologies, and assumptions, by using the tools of analysis from mainly world-systems theory. The thesis argues that the “collapse” of state-socialism in central-east Europe should in fact be seen as its destruction, by certain processes and logics inherent to the capitalist world-economy. In particular, an analysis of the reconstitution of the world order by the core- particularly the hegemon-beginning in the 1970s and firmly established by the 1990s- what many misleadingly refer to as “globalization”- is crucial if we are to understand what is happening in central-east Europe (and indeed the world) today: the return of its centuries old peripheral status in relation to the core, i.e. its *re*-peripheralization. Hence, this thesis concludes that we must look back to the past, not the future, in order to understand- and possibly change- the present.

Key Words: Central-East Europe; Eastern Europe; European Enlargement; Globalization; International Political Economy; Modernization Theory; Neoliberalism; Poland; Post-Socialist Transformation; Transition Studies; World-Systems Theory.

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Acknowledgments

I would like to thank my thesis supervisory committee: Professor Stephen McBride for agreeing to be my external reviewer five days before my oral defense (!), Dr. Merje Kuus for introducing me to world-systems theory, and above all Professor Frank Unger, for having no qualms about telling me which parts are “bullshit” (and there were many such parts), but somehow still believing in this thing.

I would also like to thank those who have influenced my thought, and have knowingly or unknowingly awakened me to all that is wrong- and good- in this world and above all how to change it, through interesting debate and discussion (albeit the following do not necessarily agree with me): Anjali Lobo, Dave Holmes, Frank Unger (again), Jean Bouichou, Jennifer Leigh Hobbs, Noam Chomsky, and Yves Tiberghien (for introducing me to the debate on “globalization”).

Special thanks also to Rob Stoddart, for leaping far above the bounds of his job description, and helping me in so many ways that I probably have not yet figured all of them out. Rob, may you forever be showered upon by furry and lovable cats. I would also like to thank Dr. Sima Godfrey, for establishing the Institute for European Studies and ensuring that its students are well pampered- from the stimulating conferences to the well-stocked cookie jar.

And again to Jen, for giving meaning to life.

Introduction

It is common for many commentators in the Western establishment- from numerous academics to journalists, from countless politicians to pundits- to claim that “communism” collapsed in eastern Europe with the fall of the Berlin Wall in 1989, and that the region embarked on the path to “democracy” and the “free market”. It is generally regarded, at least for central-east Europe¹, that with the “collapse of communism” and the fall of the “Iron Curtain”, the region- after a dark half-century interlude- is now free to “return to Europe”², to develop and “catch up” to take its rightful seat in the exclusive club of liberal democracy and the free market alongside the “West”³. The following enunciation is typical of this now conventional wisdom:

“While Western Europe moved in the twentieth century- though not without considerable difficulties- to representative democracy, to a broad acceptance of human rights, to an acceptance of cultural diversity within a framework of fundamental roots, the Soviet Union and its expanding empire in East Central Europe enshrined hierarchy and patronage, feared its ordinary people, and prosecuted cultural expressions that did not flatter its rule. This is not so much a story of good versus evil, as of openness versus closure... [Therefore t]he collapse of communism was a victory for the people in their struggle for freedom and for the implementation of fundamental human rights... [and] a matter of re-connecting with the historical trajectory of Europe and with the European identity, instead of variously stalking, threatening, imitating, and catching up with it. Above all, it was the freedoms and individualism which had grown out of the European ideal that communist citizens aspired to”⁴.

These sorts of pronouncements are usually given as received truths, thereby not

¹ *This is a geopolitical term more than a strictly geographical term, as for example it includes the Czech Republic but not Austria, even though the latter is largely east of the former. The region encompasses the Baltics to Slovenia, especially the three “Visegrad” countries: Poland, Hungary, and the Czech Republic.*

² *As Vaclav Havel, the former leader of the Czech Republic for much of the 1990s, famously declared.*

³ *More an ideological conception than an actual geographical region, this area encompasses Canada, the US, Western Europe (as defined during the Cold War), Australia and New Zealand, and Japan (the latter economically and politically, if not culturally and historically)*

⁴ Lovell & Haus, p. 156-157

requiring any substantial evidence, let alone complex explanatory theories. Indeed, many key assumptions and concepts are left entirely unproblematized. For example, it is commonly assumed that there is no need to demonstrate that the “West” or “Europe” represents “democracy”, “freedom”, “respect for human rights”, and so on and so forth; these are instead left as givens. It is equally commonly assumed that now that central-east Europe is no longer under the twin yokes of the Soviet Union and the “totalitarianism of communism”, it is free to “develop” and take advantage of “globalization”, as long as it pursues the right mix of economic policies and ensures “good governance”. It is also commonly assumed that the “collapse of communism” was due to internal factors, or at least internal to the political economic system of the Eastern Bloc.

The above assumptions, along with many related ones, can essentially be broken down into two interwoven themes: that “communism”⁵ collapsed in central-east Europe around 1989-1990, and that these former “communist” countries are now free to develop and catch up to the West. Both these assumptions are problematic in many regards. In particular, both share an underlying flaw in their reasoning: they are both ripped from their wider geopolitical context, and devoid of any meaningful conceptualization of their relation to the rest of the world. It is the central goal of this thesis to deconstruct these assumptions and to demonstrate their woefully inadequate reflection of reality. In fact, there is often much confusion, obfuscation, and downright hypocrisy in many of these commonly pronounced assumptions and concepts. In this

⁵ Communism is problematized because while it is the term commonly used in the West to describe the political economic system in pre-1989 central-east Europe, technically speaking it should be referred to as state-socialism (as indeed countries in central-east Europe generally referred to themselves), as communism refers to the last stage in the socialist revolution (of which no country has yet entered), according to Bolshevik/Leninist ideology. Of course these concepts are all contested, as for example many anarchist thinkers, such as Noam Chomsky, think that the countries in central-east Europe had nothing to do with socialism [personal email correspondence].

thesis, I argue that they are in fact reflections of the interests of power, as they serve to justify or conceal the realities of power in international affairs.

In most cases, these assumptions generally share the underlying world-view of “modernization” or “developmentalism”. That is, the assumption that a given nation-state’s “development” can follow a lineal evolution, from pre-modern to modern, from developing to developed, from industrializing to industrialized to advanced industrialized (or post-industrial); stages which are usually embedded in a hierarchy where the latter stage is more desirable than the former⁶ - i.e. the notion of progress. More often than not, the criteria to be a fully-fledged advanced industrialised country, or whatever other relevant stage at the apogee of progress, is simply a description of Canada and the US, the countries of western Europe, Japan, Australia and New Zealand (that is, the “West”). The theory of “modernization” can be elevated to that of an “ideology” because it underscores a particular view of the world, one in which it is possible to prescribe an economic policy package to any given nation-state applicable in all space and time to increase its prosperity and living standards, in which any nation-state can tap into global investment, international trade, and other cross-border flows, without any need to consider or theorize the projection- or even concentration- of power and control in international affairs. In other words, it is assumed that nothing will stop any given nation-state from developing except for itself; that development is an internal domestic issue subject to the right set of policy-choices and governmental practices.⁷

The ideology of modernization became popular in the post-World War II period, when the first wave of European decolonisation began that by the 1970s created a vast swath of new nation-states throughout the Caribbean, Africa, Asia, and the Pacific. All of these new countries shared a common heritage beside their former colonial status, that

⁶ Taylor, p. 2

⁷ *All of the above assumptions will be discussed in Chapter 2 and 3, including references to those who uphold these assumptions.*

of economic and political “underdevelopment” and poor living standards (compared to the West), and came to be known as the “Third World”⁸. An intellectual industry was spawned with the avowed purpose to devise the necessary theoretical tools to help the Third World to “develop” and “catch up” with their former colonial masters⁹. With very few but highly notable exceptions, these efforts failed miserably. This will be discussed in Chapter Four.

We can preliminarily divide contemporary modernization theory into two dominant but opposing overarching strands of thought (with internal variants): neomercantilism and neoliberalism. They will be fully introduced in Chapter Two- suffice to say here that neoliberalism reached ascendancy beginning in the late 1970s, and is certainly the dominant paradigm in central-east Europe from 1990 onwards. Advocates of neoliberalism tend to disregard or refute outright other theories of development, but in order to analyse as complete a picture as possible, we need to consider a variety of perspectives. Therefore, Chapter Two will consider a selection of the main prescriptions and assessments of the two dominant camps in development theory as they are concerned with central-east Europe- spanning several academic disciplines, from “East European Studies” to Political Science and Economics.

Throughout Chapter Two, and indeed the thesis, there will be the most emphasis on the experience of Poland. Poland serves as a good case study because many deem it to be the success story of post-1989 development in eastern Europe. After the region-wide depression from roughly 1989 to around 1993 (of which many countries in eastern Europe have to this day not yet recovered), Poland was the quickest to achieve economic growth, and the first in eastern Europe to recover its gross domestic product (GDP) of

⁸ *The first usage of this term had different connotations, having to do with the geopolitics of the Cold War, but it later became used to designate basically all underdeveloped countries. The state-socialist countries of eastern Europe were known as the Second World, and the West as the First World. See Cohen for a discussion on the genesis of this term.*

1989. Furthermore, it is increasingly becoming integrated into the West, as it has acceded to the North Atlantic Treaty Organization (NATO) in 1999, and to the European Union (EU) on May 1, 2004. Therefore, proponents of mainstream modernization theory, especially advocates of neoliberalism, assert that their ideology, assumptions, and so forth are vindicated by the factual record. Thus, if it can be shown that modernization theory provides an inadequate interpretation of Poland's experience- which is developmentalism's strongest example in eastern Europe- then it should follow that it will most likely prove inadequate for the rest of eastern Europe, perhaps the world (as I shall attempt to show). This method is referred to by David Gibbs in his *The Political Economy of Third World Intervention* as the "best-case scenario", by which one supports one's hypothesis with a case-study that would seem to *least* likely fit into the theoretical framework in question. The logic is that if the least likely case-study can still be used as convincing supporting evidence, then hopefully others that are more likely to be explained by the theory will be vindicated.

After detailing the two opposing interpretations of the post-1989 experience in Poland (and where it would add to the discussion, other "success stories" of central-east Europe, namely the Czech Republic and Hungary) in Chapter Two, Chapter Three will evaluate both neoliberalism and neomercantilism, and will assess and contrast their usefulness in presenting an accurate and holistic theoretical framework in which to understand Poland's political economic development. The Chapter will attempt to demonstrate that both ideological camps are insufficient, and in many regards their prescriptions actually do more harm than good. In fact, the chapter will conclude with a call for the necessity of a complete paradigm shift, a completely different ideological perspective if we are to meaningfully understand what has happened and what is

⁹ See So; Wallerstein for the genesis of modernization theory.

happening in not just Poland today, but every other country that is implementing the economic doctrines of contemporary modernization theory.

Chapter Four will then take on this call, and present some of the central tenets of an alternative ideology: world-systems theory. While I do not agree with certain fundamental concepts and assumptions in world-systems theory, I shall argue that the tools that it offers provides a much clearer and in my mind accurate understanding of Poland's experience. World-systems theory seeks to locate the level of analysis at such a point that encapsulates the fine line between the nomothetic and the idiographic approach¹⁰, that is, being not too particular but also not too universal. World-systems theory offers us the theoretical tools and concepts to allow us to analyse the world as an integrated whole- as one world-system- and to discern basic logics and characteristics relevant to that whole. Therefore, in the case of Poland (and any other subject country), world-systems theory stresses the importance of theorizing Poland's relations to the rest of the world- historically, geopolitically, socially, and economically- and to not fall into the pit of overspecialization and decontextualization.

Chapter Five will then apply the theoretical framework outlined in Chapter Four to the experience of Poland. The result of Chapter Five will hopefully be a much more convincing and satisfying understanding of Poland's experience in its development than is offered by both neoliberalism and neomercantilism. This understanding will be quite different to the one presented at the beginning of this Introduction, and indeed serves to shatter the latter. It serves to refute the underlying assumptions and concepts of the dominant variants of the ideology of modernization.

But before we discuss the two dominant theories of development and their respective interpretations of Poland and the world, it would first be useful to briefly summarize here Poland's experience in the late twentieth century. A series of internal

and external, regional and global developments emerged in the late 1970s that eventually led to the destruction of state-socialism in 1989-1990. Soon after in February 1990, a major economic reform package was implemented: the Balcerowicz Plan. It was partly drawn up by a Western economist (at the time from Harvard), Jeffrey Sachs, in consultation with the International Monetary Fund (IMF), and carried all the hallmarks of neoliberalism. What ensued in the next four or five years was socially worse than the Great Depression of 1929: while in both cases unemployment rose and industrial output collapsed, from 1927-1936 real wages were stable and even increased; in Poland (and the rest of eastern Europe) real wages *also* collapsed¹¹ - to the level of the 1970s in the case of Poland. Economic growth (if we accept the standard economic measure of GDP) resumed around 1993-4, and Poland reached its GDP level of 1989 in 1996, the first in eastern Europe to do so, as mentioned above. Inflation and growth are now fairly stabilized. Despite (or perhaps because of) the success of these indicators that are important to mainstream modernization theory (especially to neoliberalism), poverty is still considerably worse now than in 1989, even than in 1991. Other social indicators, such as structural unemployment, structural poverty, income inequality, and others, are still shocking compared to pre-1989 levels, and in certain cases worsening (such as income inequality and unemployment)¹². In the meantime, Poland applies for EU membership in 1994, and is invited in December 2002 to join in May 2004.

In certain respects the above account is familiar to many countries that have been the subject of contemporary modernization theory, and in other respects the above account is specific to central-east Europe, and occasionally applicable solely to Poland. But some of the central lessons we can draw from the Polish experience can be applied to the rest of the world, for example the rejection of contemporary modernization theory

¹⁰ Wallerstein, p. 150-154

¹¹ Milanovic, p. 28-29

and many of its underlying assumptions, through the lens of world-systems theory. And with the theoretical tools that world-systems theory provides us, we can situate Poland (and central-east Europe) within a wider geopolitical and historical perspective; one that, as we shall see, in fact incorporates an understanding of Poland's place in the world-system over the past five hundred years. With such a holistic approach as possible, we can better see that the "collapse" of state-socialism was actually part of the global core-periphery relationship that took on a new turn since the 1970s, a relationship that actually *destroyed* state-socialism in Poland (and eastern Europe), and began a process that re-established Poland's peripheral status (which first emerged roughly five centuries ago) after a brief, half century, hiatus from Western subordination.

¹² *For all important data, which will be elaborated upon and referred to throughout the thesis, see the*

Chapter Two- *Modernization Theory*

There is by now quite an extensive literature on the post-1989 development (or lack thereof) of Poland (and central-east Europe). Some have even coined the term “transitology” to describe it, as it is common to characterize the destruction of state-socialism and its replacement with a certain kind of capitalism as a “transition” (with all the implications of a “natural” or unproblematic process). In any case, the vast majority (but not all) of this literature can be categorized into two distinct and opposing strands: neoliberalism and neomercantilism. As mentioned in the Introduction, these two strands can be treated as ideologies; they can be analysed both as a certain theoretical framework by which to interpret and understand the world, and as a concrete set of policy prescriptions designed to reach certain goals that are held valuable by each respective ideology. Therefore, in order to undertake as “objective” an assessment as possible of these two interpretations, it will first be necessary to present them through the lens of their own assumptions and analyses, while still attempting to maintain a critical stance. I shall start with the more dominant ideology: neoliberalism.

The concept of “neoliberalism” is contested, especially by those who espouse its central tenets. In fact, the term “neoliberal” is a label that is predominantly used by those who criticize “neoliberalism”- those who actually espouse what others call “neoliberalism” often do not regard themselves as espousing any particular ideology or theoretical framework at all, simply the “science” of economics. As a result, I shall be careful to not ascribe the label “neoliberal” to any individual, and instead outline general tenets that most advocates of what others call “neoliberalism” share in common, and cite indicative examples from various authors.

There are a number of roughly interchangeable terms that one may substitute for “neoliberalism”: “neoclassical economics”, “monetarism”, “supply-side economics”, the “Washington Consensus”, “market fundamentalism”, “free market economics”, “trickle-down economics”, “shock-therapy”, or in many cases simply “economics”. They all refer to the general idea that the “market” (which is assumed to be capitalist) should be “free” or “liberal”. There is rarely any attempt to clearly define these three abstract concepts¹³, but they usually refer to the idea that the government should keep to a minimal role in the economy, restricted primarily to ensuring certain economic fundamentals and the rule of law in order to foster the best conditions for economic growth (which is measured using GDP or GNP indicators). There are a number of key assumptions: 1) Humans are rational and act in their perceived self-interest; 2) In a free market economy (i.e. with no or limited government interference), “the invisible hand” guides the individual’s pursuit of self-interest to benefit the interests of society as a whole. For example, the more profit an investment banker makes, the more that banker can invest, creating more jobs, greater production, and so on; 3) Maximum efficiency is crucial, because there are scarce resources in the world; 4) In a free market with free competition, prices will reach a natural equilibrium point as supply meets demand (which is the most efficient way to allocate resources); and 5) Economic growth benefits society as a whole- it is therefore paramount.

More concretely, “neoliberal” policies can fall under four broad categories: liberalization, stabilization, deregulation, and privatization. Liberalization primarily refers to opening a country’s market to foreign trade and investment. The former can involve dismantling tariff and non-tariff trade barriers, import quotas, subsidies, and so forth.

¹³ This does not mean, however, that the reality of what they refer to is vague (i.e. the exhaustive list of policy prescriptions and constraints that make up the neoliberal paradigm), simply that the rhetoric surrounding the concepts is left abstract without any clear connection or reference to reality as it exists in the world today (as opposed to merely in theory).

The latter- eliminating barriers to foreign direct investment (FDI)- primarily involves dismantling barriers to capital mobility, ensuring non-discrimination between foreign and domestic capital, and providing tax incentives and so forth to attract FDI. The reasoning behind attracting FDI, especially for poorer countries, is that it brings increased capital and investment, and supposedly transfers needed technology and “know-how” (such as different corporate governance structures).

The primary justification for the liberalization of a country’s trade barriers (to allow “free trade”) is the theory of comparative advantage, proposed by the classical economist David Ricardo in the early nineteenth century. Ricardo was attempting to challenge mercantilism- “the notion that a nation’s wealth and influence depend upon its ability to control its external trade at the expense of its rivals”¹⁴. In mercantilist theory, trade is perceived to be a zero-sum game in which “one nation’s gain from trade is another’s loss”¹⁵. Ricardo, on the other hand, argued that trade could be a win-win situation if each country specializes in the goods and services to which it has a comparative advantage. Ricardo’s classic example is between Britain and Portugal: if Britain specializes in and trades textiles with Portugal, while the latter specializes in and trades port with Britain, the argument goes that they will both be better off because overall efficiency is achieved. Hence all countries should promote free trade as in the end everyone will be better off.

Stabilization policies are primarily concerned with stabilizing inflation and addressing balance of payments issues. Inflation is anathema to investment, as it leads to devaluation, decline in profitability, and unpredictable (hence risky) prospects. Economic stability is also a crucial factor to attract FDI. Ways to combat inflation include tightening monetary policy, increasing interest rates, and balancing the government budget (in other words, reducing government spending). Balance of

payment issues can also be addressed by devaluing a country's currency, so that its exports are more competitive, leading to export-driven growth. In addition, a tight monetary and credit squeeze not only can control inflation, but it can also create an environment that increases economic efficiency. For example, as companies have a disincentive to seek new loans, they need to restructure to cut costs to increase profit, which often means laying off workers and/or increasing productivity- thus increasing the overall efficiency of the economy.

Deregulation is the third category, and its purported goals are similar to liberalization and stabilization: to increase efficiency, to "roll-back" government interference in the economy, and to stimulate economic growth. Deregulation is fairly self-explanatory: the government must cut "red tape" by deregulating, from industry to the labour market, from the environment to the stock market, from taxes to food safety. The reasoning is that free market forces are the most efficient, and therefore best, allocators of resources. Government interference will only create market distortions, for example inflexible labour markets or price distortions leading to disequilibria of supply and demand.

And finally, to complete the neoliberal policy package, there is privatization. This involves the government selling off its assets, such as state-owned enterprises, or eliminating its monopoly in certain sectors, such as utilities, education, healthcare, and so forth, and allowing private investment. Again, the justification is that the free market is the most efficient allocator of resources- hence the government should sell, or privatize, its assets. Privatization in a liberal environment also allows for increased FDI, as multinational corporations (MNCs) participate in the bidding process and usually have an insurmountable advantage over domestic industry, due the MNC's massive resources and capital (and MNCs often have political backing from the West).

¹⁴ Dicken, p. 51

Who are the greatest advocates of these neoliberal policies? In short, wherever the highest concentrations of power exert their influence- particularly through the establishment of the Group of Seven (G-7) countries- from many Western-trained academics in economics and political science to most policy-makers and political leaders, from many elite research institutes to the mainstream corporate media, from virtually all multinational corporations to the establishment international organizations, such as from the International Monetary Fund to the World Trade Organization, and from the World Bank to the European Union.

Neoliberal policies are at the core of the post-state-socialist transformation across central-east Europe (CEE), including of course Poland. Poland was the second country in CEE to implement the full neoliberal program (the first was Yugoslavia); that is the Balcerowicz Plan in February 1990. Each subsequent government in Poland, no matter what political stripe, from the Freedom Union to the SdRP, supported neoliberal transformation. In CEE the preferred term for the neoliberal policies is "Shock Therapy"¹⁶, [which is] never a precise description... The sequence of these [policies] would be determined by events, but they would normally be implemented as simultaneously as possible because of the need for a swift transition. The need for swiftness was determined, in the case of the post-communist states, by the window of opportunity given by the election or appointment of reforming governments, able to use popular support to call for temporary sacrifices of anyway illusory relative well-being in pursuit of a more surely grounded base for future prosperity"¹⁷. In any case, whether because of these policies or not, Poland, as mentioned on pages 6-7, in the first few years

¹⁵ *ibid.*

¹⁶ *I do not know who coined the term, but it became used and accepted by advocates of neoliberalism, such as Jeffrey Sachs who helped design the Balcerowicz Plan. In any case, it should be stressed here that while some authors have associated Shock Therapy with a specific individual or movement (e.g. Gowan 1995), I think we should avoid this because it gives the impression that only certain individuals or groups are responsible for the implementation of neoliberalism, whereas it will be the argument of this thesis that their implementation is a result of circumstances and logics inherent to the world-system itself (thus assigning authorship to specific individuals or groups is beside the point).*

after 1989 slumped into a deep depression- in some ways worse than the Great Depression.

Those who espouse some form of neoliberalism interpret these two occurrences- that is, the implementation of neoliberal policies and a deep depression- in a variety of ways. One of the more common ways is to argue that neoliberal policies sharpen the pain to get it over with quickly, rather than prolonging it with gradualism: "but that there would be pain, there is no argument [against]"¹⁸. We are told that Shock Therapy is "a series of desperate efforts to stem the total collapse of state finances"¹⁹. We are directed to the rising GDP to prove that there is now recovery- that the initial shock is over (like a cold shower).

Another interpretation is to argue that the "[d]isappointing outcomes are a product both of the legacies of communist times as they interact with new institutions, and of the short-sightedness and venality of postcommunism's political and economic elites"²⁰, therefore having nothing to do with the neoliberal policies themselves. It is claimed that some of the legacies of the pre-1989 era include the "mentality of compulsion and command, which pervaded the communist apparatus", thus rendering many to be "ill-suited to the rule of law, compromise, and negotiation"²¹. There can be differences, however, as for example "[p]olitical behaviour and culture in Hungary... tends to be markedly consensual... In Poland, by contrast... workers formed independent trade unions and used the weapon of strikes; intellectuals refused to be co-opted by the state and formed opposition groups. Yet this difference does not mean that democracy in Poland is impossible"²². Note that an assumption is that striking workers

¹⁷ Lloyd, p. 123-124

¹⁸ Lloyd, p. 128

¹⁹ *ibid*, p. 120

²⁰ Lovell, p. 2

²¹ *ibid*, p. 4

²² *ibid*, p. 17-18

are not amendable to "democracy"- strikes and unions create "inflexible labour markets", thereby hindering economic growth.

Others blame the "egalitarian attitudes" of the state-socialist era of hindering progress, as according to the *Polish General Social Survey* referred to in Appendix I, a whopping 83% of Poles are considered to share "egalitarian attitudes" (moreover, 44% are "extreme egalitarians"). Egalitarian attitudes are unhealthy to a market economy and democracy according to neoliberal theory because they create, again, an inflexible labour market (as workers demand higher wages and better working conditions), and also stir demand for equal redistribution of wealth (usually in the form of social benefits), which is not only a drain on the state budget and would probably require high(er) taxes, but is also a threat to "democracy", because the redistribution of wealth implies violation of private property rights and therefore individual liberty and the freedom to pursue wealth.

But the situation is not yet out of control: "On the one hand, these egalitarian attitudes, together with the strong political position of trade unions, are disadvantageous factors for a quick economic transition. On the other hand, the process of political and economic transition was from the beginning implemented and carried out by the elites with very liberal attitudes. Leaders of Solidarity were and still are very important members of these elites. So the egalitarian attitudes of the majority of society do not help, but are not important obstacles either. The people just have to adjust to the new situation. Poland is in this respect like any developed liberal democracy, where the opinions of the political elite are distinct from those of ordinary citizens... [Therefore] [d]espite the paradoxes described... , or because of them, enormous positive changes on the way to democracy and to a market economy were made possible in Poland during the last ten years"²³. Notice that the fact that "the opinions of the political elite are distinct from those of ordinary citizens", and that the political elite govern the country according

to their own opinions (and not of “ordinary citizens”), in no way contradicts the neoliberal conception of “democracy”- in fact this *strengthens* “democracy”.

Therefore, in the eyes of some and perhaps counter-intuitive to the economic and social indicators, the post-socialist transformation is quite a success. Indeed some argue that the collapse of socialism cannot be anything other than a victory, as state socialism represents all that is counter to what is held paramount to neoliberal theory: “The collapse of communism was a victory for the people in their struggle for freedom and for the implementation of fundamental human rights”, and was “a matter of re-connecting with the historical trajectory of Europe and with the European identity”²⁴. Indeed, post-socialist countries have “embarked on a journey from totalitarianism to democratic politics and free market economics”²⁵. Therefore, how can the post-socialist transformation not be regarded as a success? After all, the former Czech president Vaclav Havel famously declared that the destruction of state-socialism represents the “Return to Europe” (as mentioned on page 1).

Others are not so optimistic, and in fact blame a general anti-intellectualism and anti-elitism that has impeded Poland from fully implementing neoliberal policies (implying that the *lack* of full implementation of neoliberalism is the cause for the economic and social collapse). Even though in early 1990 the Polish leader “Mazowiecki favoured a considered, cautious style, appealing to reason and argument in an attempt to promote a closer identification between the Polish population and its economic interests [i.e. the Balcerowicz Plan]” he was defeated in the December elections due to the “populism espoused by Wałęsa [which] was a classic appeal to non-material values of morality through his attacks on *nomenklatura* privatization and an offer of an easy solution

²³ Nawojczyk, p. 137-138

²⁴ Lovell & Haus, p. 157

²⁵ Mandelbaum, p. 2

to problems that simply do not have easy solutions”²⁶. Mazowiecki’s defeat was “clearly motivated by a kind of anti-intellectualism, an impatience with complex solutions and a particular style of governing that the bulk of the population disliked”²⁷. Indeed, the problem in Poland is that there is a “bitter hostility towards the emergence of a bourgeoisie based on the old ruling elite, the *nomenklatura*. Despite evidence that the *nomenklatura* and those who previously constituted the state-dependent private sector are virtually alone in having the know-how, the technology and the capital to launch a private-enterprise-based economy, for many Poles this is quite unacceptable... [as there is] a strong unwillingness to accept that the reconstruction of Poland will involve years of complex effort, as a result of which there will be major winners and losers”²⁸.

It is especially argued that Poland must ensure the emergence of a successful entrepreneurial class- “[f]ailure to achieve this could result in a scenario in which rather negative, introverted working-class ideologies dominate politics, and these will be maximally anti-intellectual given that intellectuals threaten the homogenized, simplistic construction of reality by which these working classes understand the world around them. Thus only a society with a strong bourgeoisie can provide the economic and political space within which intellectuals can exercise their critical function”²⁹. Thus, referring to the *Polish General Social Survey* again from 1995, since only 10% of the population were able to “take advantage” of the post-socialist transformation, the failure of a sizable entrepreneurial class to emerge is to blame for the economic and social collapse.

Others take an opposite approach: rather than blaming the economic failure on culture or simply the foolishness of the general population, they blame the government itself: “a cultural legacies approach to unsuccessful or incomplete democratic and market

²⁶ Schöpflin, p. 238

²⁷ *ibid*, p. 245

²⁸ *ibid*, p. 248

reform is faulty both methodologically and empirically. A more promising focal point for postcommunist studies, by contrast, is the crisis of governance... How can a government impose order on a disorderly society if the government's own agents are themselves infected with disorder- if they will neither obey instructions nor follow the law?"³⁰ Therefore, some seek to address the issue of corruption and the lack of "good governance" as causes of the "unsuccessful or incomplete... reform" (and again, nothing to do with the neoliberal policy prescriptions themselves).

The World Bank, by contrast, offers a variety of reasons for the sharp increase in poverty during the transformation: "the degree of initial macroeconomic distortions" (i.e. a legacy from pre-1989), the lack of "familiarity of institutions and individuals with market mechanisms", "the inherited economic structure" (i.e. blaming the entire state socialist system), and "the comprehensiveness and quality of the policy reform package" (i.e. whether the neoliberal policies were fully implemented or not- the latter being detrimental)³¹. On the other hand, the World Bank contradicts itself: "Because of the positive achievements of the past [i.e. pre-1989], the poor in [CEE] fare much better than the poor in other parts of the world in terms of their education and access to healthcare. But there are signs that these past achievements are being undermined by cutbacks in the delivery of health and education services and, even more importantly, by the wide-spread rise in under-the-counter payments demanded by public service providers"³². Nevertheless, the World Bank is still the World Bank, as it proclaims that "[g]rowth- and with it the generation of employment opportunities- is a *sine qua non* for poverty reduction... [and that] [l]iving standards in very poor countries cannot be improved without growth"³³. Therefore, it advocates cutting unemployment benefits and

²⁹ *ibid*, p. 249

³⁰ Holmes, p. 69

³¹ World Bank, p. 10-11

³² *ibid*, p. 6

³³ *ibid*, p. 19

pensions, even as it admits that they “have played a major role in helping countries (especially in Central Europe) cope with transition shocks... and dampen inequality”³⁴. This is because “some increases in inequality as a result of transition [is] both anticipated and welcome- insofar as it provides incentives for risk taking and hard work”³⁵. In addition, unemployment creates a more flexible labour market because there is less job security and reduced union power.

And finally, there are even those who claim that the transformation from state-socialism to capitalism is over: “it may be sensible now to decrease the talk of ‘transition’ and to put a quiet, dignified end to the new field of transitology”³⁶. The countries of CEE “are already full-fledged democracies if we use as models real Western countries (as opposed to some sort of vaporous ideal), and by most realistic standards they have already substantially achieved the kind of capitalism found in the West, where governments still control and regulate much of the economy”³⁷. Despite all the fan-fare, “the transitional experience in many of the postcommunist countries and elsewhere suggests that democracy as a form of government and capitalism as an economic form are really quite simple, even natural, and, unless obstructed by thugs with guns, they can emerge quite easily and quickly without any special development, prerequisites, or preparation. It seems to me that democracy is fundamentally about leaving people free to complain and that capitalism is fundamentally about leaving people to be greedy. Neither emotional quality, it seems, can be stifled easily, and neither is terribly difficult to inspire”³⁸.

In sum, supporters of neoliberalism either argue that Shock Therapy is in fact not implemented enough, or that its failure is due to legacies of the “totalitarian” past, or

³⁴ *ibid*, p. 23-24

³⁵ *ibid*, p. 25

³⁶ Mueller, p. 103

³⁷ *ibid*, p. 102

³⁸ *ibid*, p. 104

simply that the transformation has not at all failed, and is indeed a great success. It will be useful, before we move on to the opposing view neomercantilism, to re-emphasize certain assumptions from the above discussion: 1) Unemployment and at least some level of poverty is acceptable- in fact encouraged by many- because it not only encourages people to “work hard”, thereby increasing productivity, but also creates job insecurity, thus a flexible labour market, which then stimulates economic growth; 2) Inequality is acceptable- in fact encouraged by many- because it creates incentives to compete, and a competitive environment is supposedly conducive to progress; 3) Democracy is first and foremost an institution that protects the freedom to pursue wealth, “individualism”, and private property; it is controlled from above because elites know best and act in the common interest (whereas the masses pursue narrow self-interests, such as better working conditions and higher wages, which are against the common interest because they impede economic growth), and that intellectuals (it is assumed that the working class cannot be intellectuals- in fact they are anti-intellectual) are best-suited to formulate complicated and sophisticated policies regarding the economy, and that the masses should accept these policies because they are, again, in the common interest; and 4) Perhaps the most fundamental assumption is that the primary objective in any economic policy program should be to stimulate economic growth, even if the short-term result is negative to human welfare, because “a rising tide floats all boats”. The importance of economic growth to neoliberalism cannot be over-stressed.

Hence, a common reply from those who espouse neoliberalism regarding the post-state socialist transformation (and indeed in any region that has implemented neoliberal policies, such as Latin America, Africa, and parts of Asia), is something along the lines of, “Yes, there will be initial hardships, but these policies are necessary for economic growth, which will eventually benefit everyone”. It is never certain at what point in the future these policies will actually “benefit everyone”: indeed, as we are always

situated in the present, pointing to the future is quite a clever tactic, one that renders an attempt to refute neoliberalism difficult (because advocates can always argue that the benefits will come in the future). Furthermore, "economic growth" is almost exclusively measured by changes in GDP or GNP, and neoliberal policies do generally, at least from the medium-term, increase GDP- therefore, neoliberal policies can often be seen as a success (and the post-state socialist transformation is no exception, as GDP is generally on the rise throughout CEE).

So, how does neomercantilism attempt to refute neoliberalism? I should first note that the term "neomercantilism" is also contested, and is in fact not used as commonly as "neoliberalism". I justify the use of the term, however, because it serves several useful purposes: it acts as an umbrella term that combines key concepts that are shared by a variety of perspectives; like "*neo*-liberalism", the term "*neo*-mercantilism" implies a revised and updated version of an earlier theoretical framework or mode of thought; and the term highlights, or attempts to make explicit, the fact that it represents the binary opposition of "neoliberalism" (and is thus in part a stylized construct to contrast with its opposite extreme).

Therefore, as "neomercantilism" is the opposite of "neoliberalism", instead of a doctrine of government non-interference in the market, neomercantilism invokes heavy government intervention through protectionism and industrial policy- in other words, giving weight to the nation-state over the market³⁹. As at the heart of free-market doctrine is the belief in free trade as a win-win situation no matter how rich or poor (or how developed or underdeveloped) a country is, at the heart of neomercantilism is the belief that trade is a zero-sum situation unless two trading partners can compete in the global market roughly equally. Therefore, a central tenet shared by those who espouse some variant of neomercantilism is the importance of a government-directed and

managed economic development geared to increase international competitiveness. Some variants to this general doctrine (namely the west European “Social Democratic” tradition- if less so now, then at least when originally conceived) also emphasize that economic growth should be balanced with human development and social welfare, sometimes the environment. Some (for example the United Nations Development Program- UNDP) also draw a distinction between “economic growth” and “economic/human development”, with the latter being the superior goal for economic policy. There is also a difference in how UNDP measures the success of development policies, as it uses what it calls the “Human Development Index”, as opposed to merely increases in GDP or indicators related to increases in international trade or FDI⁴⁰. In any case, all these perspectives can fall into the umbrella term neomercantilism, as they all share the basic reasoning that there is imperfect information or imperfect competition in the market, and so it needs to be “adjusted” or “corrected” by the government.

The term “neomercantilism” can be substituted with “Keynesianism”, “import-substitution”, “economic nationalism”, “state-developmentalism”, or the “Third Way”. Hence, like “neoliberalism”, “neomercantilism” covers a broad spectrum of authors and advocates- though noticeably less widespread than neoliberalism. Contemporary examples range from the Nobel Prize-winning economist Joseph Stiglitz to the Polish Minister of Finance from 1994-7, Grzegorz Kolodko, from many nongovernmental organization (NGO) activists to numerous academics. But perhaps the most influential advocate of neomercantilism is John Maynard Keynes (hence Keynesianism), a British economist who lived from 1883 to 1946. Keynes proclaimed that “[i]deas, knowledge, art, hospitality, travel- these are the things which of their nature should be international. But let goods be homespun whenever it is reasonably and conveniently possible; and

³⁹ Slater, p. 93

⁴⁰ See http://hdr.undp.org/reports/global/2003/pdf/hdr03_HDI.pdf for UNDP’s 2003 world rankings in human development, and the list of indicators it uses. See also Appendix II, Table 2.3

above all let finance be primarily national”⁴¹. Incidentally, some have characterized the binary opposition of neomercantilism and neoliberalism as a struggle in the twentieth century between the thought of John Maynard Keynes and Friedrich von Hayek (an Austrian economist who was an advocate of neoclassical economics), for the “commanding heights” of the economy⁴².

In relation to Poland and its post-state socialist transformation, then, those who espouse some form of neomercantilism argue that the implementation of neoliberalism is an unequivocal failure from all angles, and that any positive developments in Poland and CEE in general stem not from neoliberal policies, but from the implementation of precisely *non*-neoliberal policies, that is, policies closer to the tenets of neomercantilism. Different critics attack different aspects of neoliberalism, but they all share the criticism that the policy package of sudden liberalization, stabilization, deregulation, and privatization is ill-suited because it ignores the context of state socialist Poland prior to 1989, with its specific institutions and circumstances- and the fact that Poland was already industrialized and integrated into the international economy to a large degree. In fact, neoliberal policy-makers deny Poland’s (and CEE’s) historical, geopolitical, and socio-economic context and assume a blank slate. Furthermore, neoliberals assume “that market institutions, if they did not appear out of thin air, would rise up quite spontaneously the ‘day after’ liberalization and stabilization”⁴³. Indeed, “it would be little exaggeration to say that, while neoclassical theory is focused on the operation of efficient factor and product markets, few Western economists understand the institutional requirements essential to the creation of such markets since they simply take them for granted”⁴⁴.

⁴¹ quoted in Andor and Summers, p. 6

⁴² See e.g. Yergin & Stanislaw

⁴³ Kolodko 2000, p. 124

⁴⁴ North, p. 2

Other than criticism of the assumption that “markets spring up as soon as central planning bureaucrats vacate the field”⁴⁵, another commonly shared criticism is neoliberalism’s general treatment towards Poland’s industrial economy, particularly its bias against state-owned enterprises and potentially competitive economic sectors in its policies of liberalization, stabilization, deregulation, and privatization. “At the time of the transition a wide array of industries and a diverse assortment of skills already existed... and relying on lowering real wages and abruptly liberalizing imports to boost growth and efficiency has therefore left a large segment of industries out in the cold... Just after the transition began... heavy goods producers and [a] large engineering sector, for example, tended to be internationally cost competitive, at least in terms of labor costs. Still, they were unable to compete in world markets, due to low-quality and out-dated technology. Lowering real wages did not address their problems and inflicted real injury by widely lowering domestic demand. Rather than following comparative advantage, a more sensible industrial strategy would have been to focus on restructuring the most promising enterprises, whatever their industry”⁴⁶.

Moreover, while “[s]ome labor-intensive industries have benefited from real wage cuts, such as garment making in Poland... , whose low-wage workers engaged in cutting, sewing, and finishing cloth supplied to them by German and Swedish merchants... At the same time, the initially larger domestic cotton spinning and weaving industry in Poland died for lack of resources to redress its quality problems. Overall, then, these developments are likely to have left total employment unchanged”⁴⁷.

In addition, a number of commentators point out that there is really no strategy at all in terms of privatization: simply to sell state assets as quickly as possible. “This process of changing ownership has generally occurred independently of any concern for

⁴⁵ Jeffrey Sachs, quoted by Kolodko 2002, p. 49

⁴⁶ Amsden *et al*, p. 9

⁴⁷ *ibid*.

the structure of management control of the enterprises or the environment in which they operate. In most cases the existing managers and party bureaucrats have remained in positions of power⁴⁸⁴⁹. In fact, many privatization schemes involve a simple transfer of production and assets from the formal sector to the informal- in other words to the black market⁵⁰. Indeed, in a society without significant private capital “those... with the cash to buy [for example] a steel mill would be very few in number and without question former or current crooks at the head of the Mafia pyramid”⁵¹; or, as per above, former *nomenklatura*, and, as discussed below, foreign capital, namely from the West.

The reasoning behind the state practically giving away its assets is supposedly to engender a capitalist class. For example: “When in 1993 [Kolodko] asked a high-level official in the Ministry of Finance in Poland why the shares of Bank Slaski were being sold at several times below the market clearing price, [Kolodko] was told that the reason was simple: to provide the new owners with such extraordinary capital gains that they would soon be able to acquire yet another bank. And they were. The Bank Slaski shares, when quoted a couple months later on the floor of Warsaw’s stock exchange, were being traded at a price more than 13 times higher than that asked by the Ministry of Finance. The state budget lost a great deal in this transaction, while a few investors gained a great deal”⁵². There was also a mass privatization scheme implemented in 1995, as referred to in Appendix I.

Furthermore, some argue that “it is important to take into consideration that privatization is more a political than an economic issue... [and] is a primary means of political legitimation for the newly elected, fragile governments of East Central Europe, which can now demonstrate to their electorate and the international community how

⁴⁸ See Appendix I for proportion of former *nomenklatura* in top management and ownership positions.

⁴⁹ Matzner *et al*, p. 41

⁵⁰ Kolodko 2002, p. 13

⁵¹ Gowan 1995, p. 15

⁵² Kolodko 2000, p. 196-197

radically different they are from their predecessors”⁵³. “Privatization is also used as an instrument to assert special interests of certain pressure groups within the political elite. Decisions about its methods and institutions are often decided on the basis of momentary political constellation rather than economic rationality or general welfare criteria”⁵⁴.

Moreover, the SOEs that are not privatized are penalized in a number of ways, as “not only was proper corporate governance lacking in the state sector, but state enterprises suffered from discrimination. Thus, additional credit restrictions existed in the state sector (including restrictions on lending from international financial organizations for even the most competitive and profitable enterprises), and special fiscal measures were applied exclusively to state companies”⁵⁵. An example of the latter measure is the popiwek tax, mentioned in Appendix I. Also, the European Bank of Reconstruction and Development, whose dominant shareholder is the US, has two primary conditions attached to its loans: 1) only the private sector may draw loans; and 2) the loans are at full-cost, to which not many enterprises in the midst of depression are amendable⁵⁶. In addition, “many enterprises were created which at their birth had negative net worth”, because the State Bank’s allocations for enterprises’ variable costs of production under the state socialist system were converted post-1989 into loans with market interest rates⁵⁷. This also had the effect of creating “a banking system which from the beginning had a high proportion of impaired loans on its books and was thus extremely unwilling to lend additional funds to the newly formed enterprises, or any others, without government guarantees”⁵⁸.

⁵³ Kiss, p. 142

⁵⁴ *ibid*, p. 143

⁵⁵ Kolodko 2000, p. 157

⁵⁶ Andor & Summers, p. 68

⁵⁷ Matzner *et al*, p. 44-48

⁵⁸ *ibid*, p. 48

Contrary to neoliberalism, then, and the post-state socialist experience in Poland, especially in the early years of 1990-1993, those who espouse some variant of neomercantilism argue that the "state should not retire from economic activity, but should take a firm position in terms of the regulatory environment, infrastructure development, and investments in human capital"⁵⁹.

But how much government intervention should there be? There is disagreement within neomercantilism. Some argue that the neoliberal conception of institution-building- "the specification of property rights, contract law enforcement, and the removal of impediments to private enterprise"- is too narrow⁶⁰. What should also be encompassed, according to some, is the "creation of private and public organizations capable of carrying out expansionary macroeconomic policies as well as investment, trade, competition, and technology policies, all operating under the umbrella of what has loosely come to be called industrial policy"⁶¹. And a system of subsidies should be established, directed to "facilitate the flow of resources from primary product assets to knowledge-based assets", to which recipients would be "subjected to monitorable performance standards that [are] redistributive in nature and results-oriented"⁶².

Others argue that the policy package is essentially right, but that it should be gradual and complemented with the development of institutions: "Liberalization, stabilization, and privatization are indispensable, and sound fundamentals are required, but these will not work without institutional backing. A strong fiscal position, balanced budgets, balance in current accounts, low inflation, liberal regimes toward international trade and capital flows: all these help growth only if they are supported by adequate organizations, good institutions, and market rules which are respected"⁶³. For example,

⁵⁹ Kolodko 2000, p. 6

⁶⁰ Amsden *et al*, p. 4

⁶¹ *ibid*.

⁶² Amsden, p. 8

⁶³ Kolodko 2000, p. 27

the transformation needs to “involve the retraining of many professionals to enable them to work effectively within the market environment. This takes years, and it would clearly be much wiser to manage liberalization and privatization at a pace compatible with the speed of this necessary evolution in human capital... Otherwise, brute market forces are unleashed, and these alone will not propel an entire economy toward competitiveness, efficiency, and growth”⁶⁴. Hence some argue that it is the pace of reforms that needs to be corrected, while others argue for a completely different approach: a full-fledged industrial policy, implying long-term planning (i.e. over several decades, as in certain parts of East Asia) with full governmental intervention and guidance.

Still others within neomercantilism focus on criticizing the neoliberal stabilization policies, which remember are intended to combat inflation. Neoliberalism asserts that there is “a single cause of inflation- excess money supply- and that there [is] a single cause of excess money supply- excess government spending”⁶⁵ - hence the neoliberal imperative to balance the government budget by cutting spending. But Keynesians argue that there are a whole host of other causes of inflation, for example the cycle of rising wages leading to rising prices leading to increased demand for rising wages, and so on. More specifically in relation to Poland, part of the Balcerowicz Plan was “getting the prices right” by suddenly deregulating them, thus leading to sharp inflation. Under conditions of increasing wages this would perhaps be bearable, but remember that part of the Balcerowicz Plan was also to impose a wages tax on SOEs. And, many SOEs were forced to create credit outside of government control by writing each other “inter-enterprise IOUs”, further accelerating inflationary expansion. The government then either had to accept them, or force the SOEs into bankruptcy. The government could not afford to do the latter- and the former resulted in the further expansion of inflation⁶⁶.

⁶⁴ *ibid*, p. 125

⁶⁵ Andor & Summers, p. 51

⁶⁶ *ibid*, p. 57

In any case, these stabilization and deregulation policies- the “sudden liberalization of prices and slashing of state subsidies, coupled with the imposition of wage controls, and second, a very tight monetary and credit squeeze”, collapses both output and demand, in addition to driving inflation⁶⁷. Moreover, the policy of privatizing state assets indiscriminately and haphazardly drives the state to slash its spending even more, thus deepening the collapse, because its tax revenue is “almost exclusively focused on the turnover of industrial enterprises”⁶⁸. To compound the government’s bind, “Poland was actually extremely close to defaulting” on its international debt⁶⁹, which in 1990 was US\$ 41 billion. Therefore, as the government budget was attacked from all angles, coupled with the absence of an investor class, a deep depression ensued.

In these conditions, the liberalization of trade and capital flows leads to insurmountable foreign capital penetration, as local enterprises cannot compete with the wealth and power of MNCs without the protection of a strong government. If domestic industries are not nurtured and allowed to develop, then “a flood of foreign capital can destroy a developing economy by creating a crippling current account deficit”⁷⁰, whereby income from exports cannot cover the costs of imports and foreign-debt repayments. This is compounded by the fact that FDI “can also spur domestic price rises, and this leads to over-valuation of the national currency, which hurts domestic competitiveness in international trade and puts a squeeze on exports”⁷¹, thereby deepening the depression yet again.

And foreign investors are usually not concerned with the long-term economic development, or even growth, of a particular country, or tackling the structurally “pervasive bottlenecks of low quality and out-dated technology” in the newly privatized

⁶⁷ Gowan 1995, p. 13-14

⁶⁸ *ibid*, p. 29

⁶⁹ Kolodko 2000, p. 60

⁷⁰ Zloch-Christy, p. 184

⁷¹ *ibid*.

enterprises- rather, “the objective of most capitalists was... a fast payback and a high rate of return, both of which were possible in many segments of the service sector”⁷². For example, “[w]hile minister of finance of Poland in 1994-7, [Kolodko] was not asked even once by a foreign investor or a foreign association to privatize a (presumably less attractive) state coal mine, steelmill, shipyard, or tractor factory. Yet, constantly and with the very rigorous and well-orchestrated support of certain political parties and interest groups, he was pressed to accelerate the privatization of banks, telecommunications firms, and utilities, especially in the energy sector”⁷³. And by 2000 in Poland, “there is little remaining to be privatized”⁷⁴.

In sum, then, neomercantilism argues that without a well-planned industrial policy and protectionism that does not discriminate against SOEs but in fact nurtures the more viable ones, and without maintaining a favourable climate for domestic investment and productivity, and without ensuring the proper development of institutions, and by depressing demand and prematurely liberalizing trade and capital flows, the economy will collapse and fall prey to insurmountable foreign competition. And, contrary to neoliberal theory, “the postsocialist slump does not reflect any sort of ‘investment’ in the future, but has simply been a waste of precious time and resources”⁷⁵.

⁷² Amsden *et al*, p. 9

⁷³ Kolodko 2000, p. 193

⁷⁴ *ibid*, p. 246

⁷⁵ *ibid*, p. 76

Chapter Three- *Evaluating Modernization Theory*

In a sense, both the theoretical frameworks of neoliberalism and neomercantilism are correct: by looking at the factual record in Appendices I and II, the interpretations and conclusions that each theory offers can in fact be vindicated. Neoliberalism postulates a sudden shock, a “cold shower”, with the implementation of its policies, and subsequent growth in GDP- this is vindicated. It predicts a number of policy-outcomes: increased FDI, the dismantling and privatization of state assets leading to industrial restructuring, a sharp decline in wages and job security leading to more flexible labour markets, the increase in inequality and poverty again leading to a greater labour market flexibility along with other purported effects- these are all vindicated in the actual experience of post-socialist Poland. As a matter of fact, if we accept neoliberalism’s terms of reference and assumptions, its only significant failing is that it did not predict quite such a drastic depression and collapse in output and demand- nevertheless, Poland began to recover after a couple of years, and by 1996 surpassed its GDP of 1989. It is now over 120% of its 1989 GDP and still growing (albeit only 1% annually).

One theory’s gold is another’s garbage! Through the lens of neomercantilism (particularly its Social Democratic and Keynesian variants), the above outcomes represent neoliberalism’s failure, not success. It is argued that there is no need for rising inequality and institutionalized poverty, and that the destruction of state assets via privatization and so forth is a waste of valuable resources for long-term growth and development. Furthermore, it is argued that whatever economic growth and development that did occur was *not* a result of neoliberal policies, but the opposite- the *roll-back* of neoliberal policies. This could indeed be interpreted from the factual record, as the Balcerowicz Plan represents the most “pure” neoliberal policy package, and

gradualism became the norm after around 1993 (with a few notable and significant exceptions, such as the mass privatization program of 1995). On the other hand, supporters of neoliberalism argue that subsequent growth in GDP emerged precisely due to the economic fundamentals laid down by the Balcerowicz Plan. Within this context, it is difficult for neomercantilism to reply because it immediately must enter into the realm of the counterfactual: if these policies were implemented instead of those, then this would have happened instead of that- this kind of argument is always murky and difficult to sustain.

If both theories can so easily be interpreted as both correct and wrong, how should we evaluate them? We need to establish- or reiterate- separate assumptions, and then examine the historical record. The most important assumption that should be clearly established from the beginning is that a worthy goal of human affairs is to attempt to overcome concentrations of illegitimate power and authority, to eliminate systems, institutions, and mechanisms of elite power and control, to emancipate the human condition from oppression and exploitation, and to establish and institutionalize human freedom. Another assumption is that anything that opposes these general goals should itself be opposed, unless it can pass the test of legitimacy (which is nearly an impossible test). Therefore, policies that knowingly lead to greater inequality and increased poverty even in the short-term can only be possibly justified if it can be clearly and demonstrably shown that the implementation of such policies will quickly lead to substantially greater well-being for all in the society than if they were not implemented. Neoliberalism maintains that a "shock" is required in the short- to medium-term to lay down the fundamentals required for sustained economic growth, and that even if there will be temporary human costs, these will be justified because in the end, everyone will be better off. Neomercantilism asserts that the cost in human suffering, at least to the extent that

neoliberalism requires, is totally unnecessary, and that sustained economic growth can be achieved by following policies that are antithetical to neoliberalism.

To evaluate these two opposing arguments, we need a closer examination of their experience in history, and I shall re-iterate what has already been said in the Introduction. Both neoliberalism and neomercantilism have their roots in “modernization theory” or “developmentalism”, which emerged in the post-World War II period. Conventional wisdom asserts that in the aftermath of the Second World War, European colonialism was de-legitimized and subsequently dismantled: a process of “de-colonization” ensued, beginning in the immediate post-WWII period and for the most part finished by 1970. At long last, or so received opinion has it, the new nation-states of the Third World were free from their chains, and could chart their own paths to development: the Third World- with the right policy-choices- could “catch up” to their former masters, the West.

Neomercantilism has a venerable history within the above context. Every single country that successfully developed and eventually prospered- some even joining the exclusive Western club of wealth and prosperity- followed some version of neomercantilism, from the post-WWII reconstruction of West Germany and Japan, from South Korea to Taiwan, from Hong Kong to Singapore. All these countries’ successful development from the devastation of war or underdevelopment to highly competitive and wealthy countries (indeed in the case of Japan and Germany, the second and third largest and wealthiest economies in the world, respectively), involved intense government intervention and guidance directed by a complex and systematic industrial policy institutionalizing a system of subsidies and protectionism geared to creating a strong and internationally competitive domestic industrial sector- in other words, the antithesis of neoliberalism⁷⁶.

⁷⁶ *This topic would of course warrant a thesis unto itself; indeed, numerous volumes have been written on what are called newly industrialized countries and the importance of an industrial strategy and*

Furthermore, if we dig even deeper, Germany and the United States in most respects “caught up” with Britain by the turn of the 19th century by following a textbook case of neomercantilism (there were also other factors, such as an emerging policy and structure of US and German imperialism). Therefore, “when Britain was the dominant economic power in the late nineteenth century it was the leading advocate of free trade, while the then newly industrializing United States, along with Germany, for example, were pursuing a trade policy... which aimed to protect these countries’ infant and emerging industries from unbridled free trade until they were robust enough to compete on world markets”⁷⁷. Thus, the United States and Germany in the nineteenth century adhered to one of the central tenets of neomercantilism, as discussed on pages 21-22: a country’s government should be heavily protectionist and interventionist until at least the country’s domestic economy can compete internationally. Furthermore, the United States and Germany, as well as every single other Western country, is still to this day heavily protectionist and interventionist, despite much rhetoric and propaganda to the contrary (more on this in Chapter Four).

Neoliberalism has a much murkier, more ambivalent past. In fact, I shall argue in Chapter Four that neoliberalism serves to re-assert and re-consolidate the global core-periphery relationship. Suffice to say here, however, that its predominance arose in the late 1970s, and was firmly established by the twin rise to power of the Thatcher and Reagan governments in Great Britain and the United States, respectively. Furthermore, after the collapse of the Bretton Woods system with the Nixon administration eliminating the fixed dollar to gold exchangeability in 1971, the IMF eventually took on a

other policies associated with neomercantilism. See for example: Amsden 1989; Amsden 2001; Johnson 1982; Johnson 1995; Woo-Cummings

⁷⁷ Dicken, p. 52

new role⁷⁸. The IMF became the “principal forum for discussing not only national economic policies in a global context, but also issues important to the stability of the international monetary and financial system”⁷⁹. The IMF works towards economic growth “that can be sustained without lending to such difficulties as inflation and balance of payments problems”, and stresses the importance of an “open and stable global economic environment”⁸⁰. The IMF is a “lender of last resort”: countries only approach the IMF for financial loans and other forms of “assistance” as a last resort when they encounter serious balance of payments issues. The Third World international debt crisis emerged in the late 1970s and the early 1980s (more on this in Chapter Four), and so the IMF was given plenty to do.

The IMF’s loans became conditional upon accepting and implementing “structural adjustment programs” (SAPs), and the direct supervision of the recipient’s policy-making in order to ensure that borrowers give “priority to repaying its loans”⁸¹. In fact, 20% of the entire IMF budget is reserved for “technical assistance and training”, which includes “advice on tax and customs policies and administration, budget formulation, expenditure management, design of social safety nets, and the management of internal and external debt”, as well as “advice on banking system regulation, supervision, and restructuring... and the structure and development of central banks”, and even on “drafting and reviewing economic and financial legislation”⁸². The IMF’s SAPs represent the epitome of neoliberalism. Furthermore, the SAPs are virtually identical, with no regard to historical, geographical, social-economic, political, or cultural context- a truly “one-size-fits-all” policy framework: “The same ‘menu’ of budgetary

⁷⁸ *For an account of the obsolescence of the IMF and its subsequent rebirth with a new purpose, see Pauly*

⁷⁹ IMF, p. 4

⁸⁰ *ibid.*, p. 5, 10

⁸¹ *ibid.*, p. 26, 28

⁸² *ibid.*, p. 34-35

austerity, devaluation, trade liberalisation and privatisation is applied simultaneously in more than 100 indebted countries" [Chossudovsky: 35].

As a result of the above, the success or lack thereof of the IMF's SAPs is a virtually perfect test-case for judging the success or lack thereof of neoliberalism, and we have a historical record of roughly a quarter of a century. In addition, we can incorporate quite a formidable sample of data, since the same neoliberal policies are implemented in over one hundred countries. Upon cursory examination of the record, we see time after time an outcome in certain respects quite similar to the experience of Poland: economic collapse coupled with an unmitigated social catastrophe. On the other hand, identification of the other aspect of the Polish post-socialist transformation- subsequent economic growth as measured in GDP- is less universal in the record concerning the implementation of the IMF's SAPs: in some cases it happens, in others it does not. In any case, poverty and other social indicators never recover, and in almost all cases continue to decline as long as the neoliberal program is enforced⁸³. Moreover, there has been a global trend of both increasing poverty and increasing inequality, despite fifty years of modernization theory (including over twenty-five years of neoliberalism). Billions in the world survive on less than \$1 a day⁸⁴, and according to the United Nations, this proportion has increased from 48 per cent of the world's population during the period 1965-1969 to 50 percent in the period 1995-1999⁸⁵. In 1998 alone, the number of people living in absolute poverty rose by approximately 100 million people⁸⁶. In terms of increasing inequality, according to the 1996 UN Development Report, the share in

⁸³ See Chossudovsky and Bello for two excellent studies on the effects of SAPs on an extensive sample of Third World countries, from Latin America to Africa to Asia.

⁸⁴ The Economist. (December 3.2002)

⁸⁵ United Nations, p. 111

⁸⁶ Saul, p. 220

global income of the richest 20% between 1961 and 1991 has increased from 70% to 85%- while the poorest 20% has fallen from 2.3% to 1.4%⁸⁷.

In an internal document assessing its SAPs, even the IMF has conceded its failure: "Although there have been a number of studies on the subject over the past decade, one cannot say with certainty whether programs have 'worked' or not... On the basis of existing studies, one certainly cannot say that the adoption of programs supported by the Fund led to an improvement in inflation and growth performance. In fact it is often found that programs are associated with a rise in inflation and a fall in the growth rate"⁸⁸. Thus, even when leaving aside all the grim global poverty and inequality rates mentioned above, and simply judging the SAPs on their own criteria of success- that is, economic growth- they are a total failure.

Therefore, leaving aside (temporarily!) the theoretical framework set forth by world-systems theory, and by evaluating neoliberalism and neomercantilism by their own terms and assumptions as I have attempted to do above, it seems that neomercantilism is a much more sensible economic policy paradigm. Its record of increasing economic growth as measured by GDP, decreasing inequality, raising overall living standards, fostering internationally competitive industrial sectors, and so on and so forth, all seems rather praiseworthy. The principal redeeming justification for the human devastation caused by neoliberalism is that "things will get better in the future". I hope that the above discussion- in light of the counter-record of neomercantilism- has demonstrated the vacuity, even insanity, of this argument.

Thus, we have hopefully established a strong preference for the neomercantilist policy paradigm at the expense of neoliberalism. Is the debate settled, then? Is neomercantilism the development theory of choice, and the solution to the poverty, death, and destruction in this world- or at the very least an adequate theoretical

⁸⁷ quoted in Taylor, Watts, & Johnston, p. 10

framework in which to analyze world affairs? Is their critique of neoliberalism as a completely inappropriate set of misguided policies, and their assertion that rather than implementing neoliberalism, “developing” countries should implement neomercantilism in order to “catch up” to the West, a satisfactory conception of the world and of international relations? I shall argue that the debate is far from over, and that neomercantilism itself shares certain underlying assumptions with neoliberalism (as they both share the common heritage of modernization theory) that also renders it into an inappropriate over-arching set of theoretical tools and policy prescriptions in which to understand and change this world.

A fundamental critique of neomercantilism, and modernization theory in general (including of course neoliberalism), is that its theoretical framework is largely devoid of any conception of the projection of power and control in international affairs, and indeed in the human condition itself. Why can a select few countries, like Japan, develop into wealthy and prosperous capitalist centres of power, while the vast majority continue to live in misery? To simply state that it is because Japan followed the tenets of neomercantilism while others follow neoliberalism-while surely being partly true-, is to ignore the fact that numerous other countries in the post-WWII period also attempted to follow neomercantilism, from Guatemala to Iran, from Iraq to Vietnam, from Indonesia to Chile, from Nicaragua to Grenada, and so on and so forth, but their efforts all failed. Why? Because the United States of America in every country mentioned variously staged CIA-backed coup d'états or direct military interventions to prevent them from doing so⁸⁹.

⁸⁸ Khan, p. 196, p. 222; quoted in Chossudovsky, p. 69

⁸⁹ *Respectively, in 1953-1990s, 1953, 1958-63, 1962-1975, 1965, 1973, 1978-1990, 1979-83, et al. There is a vast literature not only on detailing US foreign interventions but also offering theories to understand and explain them. For a small selection, see Ahmad; Albo; Amin; Biel; Blum 2000; Cohen; Chomsky 1992; Chomsky 2002; Chomsky 2003; Foster; Gibbs; Gowan 1999; Harvey; Panitch and Gindin; Magdoff; Munk; Petras; Sweezy; Wood 2003*

In addition, we must ask why is the IMF (and other international financial organizations) so fervently insistent on fuelling a world-wide neoliberal revolution (of which it has predominantly succeeded)? Where is power situated and whose interests are being served? Does not a pattern emerge when we see time and again the consequence of a “developing” country implementing an SAP are the sharp polarization of society, the deep penetration of foreign direct investment (which should really be called “Western Direct Investment”) at the immense profit of the latter, and spiralling dependence on the IMF as recipients of its “aid” fall deeper and deeper into debt, to the point that their entire economies become subordinated to repaying just the interest- could this highly familiar and virtually universal pattern simply be the result of 25 years of “misguided” policies?

Furthermore, when we cast a quick glance across the West, and plainly see that to this day, the West constitutes the most neomercantilist region on this planet, and yet at the same time pursues the most feverish advocacy of neoliberalism on this planet, forcing it through the IMF and WB via loan conditionality, pushing it through the WTO, advocating it at almost every relevant intergovernmental meeting and international gathering, and so on and so forth- does not this contradiction reach beyond hypocrisy? When the two most actively fervent advocates of neoliberalism, the EU and the US, are simultaneously the most protectionist and interventionist in the world, subsidizing its agricultural sector to the tune of over 40 billion euros a year and subsidizing its high-technology sector to the tune of over half a trillion dollars a year⁹⁰, respectively- surely this is more than absentmindedness or innocent policy blunders. In short, we need to introduce a theoretical framework that conceptualizes the effects of the concentration and projection of power in the world-system, characterized by the unequal relationship

⁹⁰ *For an argument on the US Department of Defense and Pentagon budget functioning as an industrial policy and heavy government planning, see Albo; Blum 2000; Chomsky 1992; Chomsky “For Reasons of State”; Gibbs; Harvey; Lowen; Mitchell & Schoeffel.*

between the West and virtually the rest of the world, and neomercantilism is woefully inadequate for this purpose.

Furthermore, neomercantilism accepts certain assumptions shared by neoliberalism, apart from theorizing in a vacuum of power- albeit, in a sense, the following are all derived from this latter deficiency: 1) It is assumed that efficiency and economic growth- as measured in GDP- should be the ultimate goal for any economic policy paradigm, albeit occasionally tempered by concerns to balance it with human welfare; 2) It is assumed that elites generally act in the “common” or “national interest”, and as a consequence the public should trust them; and perhaps most importantly 3) Capitalism is an accepted and unquestioned framework in which to theorize and propose action.

I find all three of these assumptions problematic and unsatisfactory. Accordingly, a rejection of them is also a rejection of neomercantilism, and modernization theory in general (at least in its present state). “Economic growth” is not an unambiguous concept and hence term, especially when measured by GDP. Gross Domestic Product is not only a very vague and imprecise measure, it is also value-neutral. In other words, everything from polluting a river (because it costs money to clean it up) to bombing a foreign country (because the government-funded military needs to buy bombs, airplanes, train and hire pilots, and so forth)- essentially any “economic activity” no matter how detrimental to human welfare- increases GDP, thus economic growth. I problematize “economic activity” because there is much productive and socially useful but unpaid work that GDP does not incorporate, for example domestic labour (i.e. housecleaning, washing dishes, and so forth) and child-rearing. Even for those who

stress “human development” over economic growth, GDP as a measure is still accepted and used⁹¹.

But the inadequacy of GDP aside, the concept of “economic growth” itself is misleading and obfuscated. We are told that economic growth is needed to create wealth in a society, which in the end benefits everyone. But how much economic growth is enough? How much wealth is enough? The 1998 United Nations Human Development Report contains several interesting facts: 1) The richest three men (and they are *men*) in the world have more assets than the combined GDPs of the world’s 48 poorest countries; 2) The richest 225 human beings (this time there are some women included) in the world have a combined wealth of more than US\$ 1 trillion, equal to the income of the poorest 47% of the earth’s population, which is over 2.5 billion people; and perhaps most importantly 3) “It is estimated that the additional cost of achieving and maintaining universal access to basic education for all, basic health care for all, reproductive health care for all women, adequate food for and safe water and sanitation for all is roughly \$40 billion a year. This is less than 4% of the combined wealth of the 225 richest people”⁹².

So how much economic growth is enough? When can we begin to benefit the needy with the vast wealth that exists in a handful of miniscule pockets of the world?

Developmentalism- whether neoliberal or neomercantil- stresses the importance of economic growth and/or development so as to benefit society as a whole. We are now far surpassed the point by which there is enough wealth in the world to give every single human being on this planet a decent livelihood, free from want of the basic necessities of life. But clearly this is not the current situation; and clearly there must be certain logics in the world-system that prevent this from happening.

In addition, it should not be unquestioningly assumed that efficiency is always desirable. There are many examples one could draw upon that demonstrate the efficacy

⁹¹ For example, the UNDP Human Development Index. See note 37.

of subordinating efficiency to some other cause if it leads to better or more valuable circumstances. Running education and healthcare, and a host of other socially desirable services, for example, at an economic loss, or at least on a non-profit basis, and being subsidized by redistribution through taxation revenue, serves a greater social purpose and benefits society as a whole. Or, converting an economy to alternative energy sources, such as wind, sun, and water, may not at first be cost-effective- because we can *inter alias* invade countries like Afghanistan and Iraq to secure cheap energy sources- in the long-run (and the immediate-run, so that we do not have to *inter alias* continually shatter all hope for peace and democracy in the Middle East) it would serve the greater good.

As for the second assumption shared by neomercantilism and neoliberalism- the legitimacy of elite decision-making at the expense of democracy- I hope that in light of the discussion so far, that the crudeness and vulgarity of this assumption is self-evident. Ditto for the assumption concerning the acceptance of capitalism as an appropriate mode of organizing society and human relations. It is obviously not the purpose of this thesis to attempt to demonstrate the incompatibility of capitalism and democracy⁹³. Suffice to say here that the capitalist mode of production is based on the necessity of maintaining a class-based society, which is of course inherently contradictory to the ideals of democracy, freedom, and equality, all three of which I assume to be worthy ideals. Capitalism institutionalizes inequality between the capitalist class and the working class, as the former appropriates the surplus of the latter, with the primary goal of the accumulation of profit (vis-à-vis appropriating the workers' production and also competitively with other capitalists). The implications of a capitalist world-system will be discussed in Chapter Four.

⁹² Quoted in Saul, p. 221, 240

⁹³ *There are a number of studies, however, that attempt to do this. See for example: Callinicos; Wood 1995*

Hopefully, it has now been established that both neoliberalism and neomercantilism are founded upon false assumptions and dangerous illusions. What is an alternative theoretical framework? The next chapter will introduce world-systems theory, and Chapter Five will attempt to evaluate its usefulness in interpreting Poland's experience with development in the twentieth century and beyond.

Chapter Four-

An Alternative Paradigm

World-systems theory is most commonly associated with Immanuel Wallerstein. It was he who originally began to write about an overarching world-system with a division of core, semi-periphery, and periphery. He claims that he was unsatisfied with the oft-quoted defining struggles of the twentieth century- democracy vs. totalitarianism, bourgeoisie vs. proletariat, capitalism vs. communism- and instead saw the main struggle as the West vs. the Rest⁹⁴. He thus proposes world-systems theory as a model to view the world⁹⁵. He uses the concept of "historical systems" as a framework of analysis, which are "systemic in that they consist of interlocking parts that constitute a single whole, but they are also historical in the sense that they are created, develop over a period of time and then reach their demise"⁹⁶.

⁹⁴ Wallerstein, p. xvii

⁹⁵ Wallerstein claims that his "'classic' essay in the sense that it has been the most widely reproduced and widely cited of all [his] articles" is *The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis* written in 1972, p. 71.

⁹⁶ Taylor and Flint, p. 7

Wallerstein claims that there are three kinds of historical-systems: mini-systems (small-scale, reciprocal networks of exchange), world-empires (a multi-cultural system dominated economically and politically by a core, with a governing logic of extracting tribute and redistribution amongst an elite), and world-economies ("vast uneven chains of integrated production structures dissected by multiple political structures", with a governing logic of accumulating surplus capital and unequal distribution amongst an elite)⁹⁷. Since around the early nineteenth century or so, for the first time in world history, there has been only one historical-system: the capitalist world-economy⁹⁸. The existence of only one historical-system in the world is another way of saying that there is a single division of labour; that is, there is not a single region of this planet that is not affected, influenced, or governed by some other region. In a world-economy, this influence is usually directly or indirectly traceable to the core of the world-system.

A possible criticism of world-systems theory is of its tripartite division of the world into a core, semi-periphery, and periphery. I tend to share this criticism, and offer the solution of simply envisioning a "core" and a "periphery", without conceptualizing a "semi-periphery". For there are too many complications that arise out of a tripartite division, such as clearly defining the categories, conceptualising how and when a particular state may traverse between the categories, and so on. For example, while it is clear that Brazil has more power within the capitalist world-economy than Swaziland, it is unclear whether it has the same power as China, and so on and so forth. In other words, if we break from a bipartite division of the world, then we quickly descend into a mire of facing and attempting to categorize too many degrees of "peripherality". On the other hand, there is clearly a difference between the countries that make up the West and the

⁹⁷ Wallerstein, p. 139-140

⁹⁸ *ibid.*, p. 139

“rest”, whether one wishes to conceptualize this difference as developed vs. developing, the North vs. the South, or the core vs. the periphery- often simplicity is a virtue.

Another possible criticism is that world-systems theory amounts to a “conspiracy theory”, that elites in the West could not possibly have planned the destruction of state-socialism in central-east Europe in order to expand capitalist accumulation, let alone domination of the world. And indeed they did not. No one planned it, in the sense of a cabal sitting in some basement orchestrating the subordination of CEE (or the world). This process occurs as a result of specific systemic logics, of discernible rhythms and cycles and tendencies all related to the capitalist logic of expansion and competition (i.e. one must not only increase profit, but also increase market-share by out-competing one’s competitors). These logics are no secret, and the corporate business press, the mainstream discipline of economics, corporate executives, and so on are very open about them. The difference from these sources and reality, however, is that they claim that these processes benefit global society as a whole, whereas clearly, with an examination of the historical evidence, in reality most of the world suffers while a few prosper. This is not a conspiracy theory, but simply systemic analysis of clearly discernible logics. For example, no one needs to order Nike, McDonalds’, Coca Cola, Ford, and Starbucks to increase their profit and to expand their market-share- we simply expect these processes of them due to their internal logic and to the logic of the mode by which they operate (i.e. capitalism).

In any case, world-systems theory emphasizes that if our locus of analysis is the totality of a given historical-system, instead of its various disaggregated parts, then we can properly ascertain the over-arching governing logics and rhythms that commonly affect, influence, and govern these various parts, whether aggregated or disaggregated. For example, if our object of analysis is a nation-state, then we must consider and relate its role with all other nation-states within a given historical system. World-systems

theory thus attempts to identify and theorize empirical data within a wider scope of analysis than most other theoretical frameworks. Modernization theory (whether it be neoliberalism or neomercantilism), on the other hand, fails to do this- therefore it does not conceptualize the role that is played by external nation-states in a country's development (or underdevelopment- or even more accurately, *antidevelopment*). Without reference to long-term historical processes and governing logics resulting in the unequal distribution of power and wealth in the world-system, modernization theory cannot conceive of the existence of a core preventing a periphery from developing. No such reality occurs to those who espouse the ideology of modernization.

The contours of the present historical-system began to emerge in the fifteenth century⁹⁹. Some theorists characterize the rise of this system as capitalist from the beginning¹⁰⁰, while others place the emergence of capitalism later, such as in the eighteenth century¹⁰¹. Either way, the area roughly encompassing present-day Italy and Spain, and then replaced by northwest Europe, developed to be the core within a world-economy, gradually expanding to truly encompass the globe, and in all accounts by the nineteenth century firmly capitalist. The development of a core within an historical-system does not arise without a corresponding periphery (by definition, since these terms are of course all relative), and the first peripheralization of a region by the core within the early development of the present world-system was in fact of central-east Europe (excluding Russia). This observation will be expanded later- suffice to emphasize here that "Eastern Europe's regression... is to be explained as the first example of the causal relationship between the economic development of the West and the underdevelopment

⁹⁹ For a detailed account, see Arrighi; Stavrianos; Hopkins & Wallerstein; Wallerstein

¹⁰⁰ eg Arrighi

¹⁰¹ eg Wood 1999

of its weaker trading partners”¹⁰²- a relationship that is indicative of a core and periphery within a world-economy.

As the world-economy develops and consolidates, with the core shifting from south-western Europe to north-western Europe from the fifteenth to nineteenth centuries, a historical cycle of rising and declining hegemonies emerge, punctuated by transitory phases- or what a world-systems theorist, Giovanni Arrighi, calls “[l]ong periods of crisis, restructuring and reorganization, in short, of discontinuous change... [ending] in a reconstitution of the capitalist world-economy on new and enlarged foundations”¹⁰³. This occurs because “[w]henver world-scale processes of capital accumulation as instituted at any given time attained their limits, long periods of inter-state struggle ensued, during which the state that controlled or came to control the most abundant resources of surplus capital tended also to acquire the organizational capabilities needed to promote, organize, and regulate a new phase of capitalist expansion of greater scale and scope than the preceding one”¹⁰⁴. This expansion eventually reached the point whereby no human society is completely unaffected or isolated from it.

More concretely, Spain emerged as a hegemon in the sixteenth century, with the Netherlands challenging and eventually overcoming Spain in the 17th century, and the French challenging the British challenging the Dutch in the 18th century, with the British reaching an unprecedented hegemonic position within the northwest European core of the now vast world-economy in the early to mid-19th century- constituting the destruction (or amalgamation) of all other historical-systems to establish a world with a single historical system: the capitalist world-economy. While the vestiges of mini-systems and world-empires still remained at the end of the nineteenth century (such as some

¹⁰² Stavrianos, p. 63

¹⁰³ Arrighi p. 1

¹⁰⁴ *ibid*, p. 14

isolated islands in the Pacific or the Ottoman empire, respectively), no region was truly outside or independent of the capitalist world-economy. The cycle of rising and declining core hegemonies continued, however, and in the late nineteenth century, both Germany and the US challenged Britain, with the US gaining ultimate hegemony in the capitalist world-economy during World War II. As with the consolidation of previous hegemonic powers within the core, the United States reconstituted the world order in its favour, but this time to the greatest scale and scope ever seen in world history (i.e. an order encompassing the entire planet). An understanding of this reconstituted world order is vital if we are to understand the relations within the present world-system, including those of Poland- more on this later.

In the meantime, however, a parallel process occurred in the twentieth century- the attempt of a significant portion of the world to force itself out from the reigns of the capitalist world-economy. I am referring to the state-socialist experiment, beginning in earnest in Russia in 1917, eventually spreading throughout eastern Europe, large parts of Asia, and Cuba- always under threat from the capitalist core- until it was finally destroyed (for the most part) in 1989-1991. There were two immediate goals in the state-socialist experiment¹⁰⁵ (at least as expressed in Bolshevik/Leninist ideology): 1) to opt-out of the “capitalist imperialist” world-system; and 2) to “catch-up” and “overtake” the core in terms of development (thus representing another variant of modernization theory- albeit with a number of differences). The first goal failed miserably, as we shall see in Chapter Five. The second goal, on the other hand, was quite successful in many respects. In fact, its initial success in the early to mid twentieth century is quite remarkable considering that it took several centuries for the present capitalist world-economy to become dominant, while state-socialism was able to challenge capitalism as a viable model for

¹⁰⁵ *With the overarching goal of sparking the transition to socialism and then to communism*

development after only 30-40 years¹⁰⁶. With decolonisation after WWII and the subsequent creation of a whole slew of new nation-states, many in the periphery were attracted to state-socialism's development paradigm of "modernization in a single generation", and the possibility of opting out from the tutelage of the capitalist world-economy (whether by joining the state-socialist bloc or the "Non-Aligned Movement"). By the 1950s and early 1960s, there were even hopes that certain parts of eastern Europe might actually eventually "catch up" to the capitalist core.

These hopes, however, proved premature. With the establishment of a burgeoning Third World increasingly clamouring for greater independence from the capitalist core to break the bonds of enforced underdevelopment (and other factors to be discussed), the core, and especially the hegemon, again reconstituted the world order in its favour, again on a greater scope and scale (albeit this time there was a greater role for the rest of the core as the US lost its uncontested economic superiority- more on this soon). Beginning in the 1970s, firmly established by the 1980s, the core reorganized the world order so as to quash all prospects of the independence of the Third World. It is the central argument of this thesis, then, that the gradual destruction of state-socialism in eastern Europe, and correspondingly in Poland, beginning in the late 1970s, complete by 1991, must be seen in this context. Eastern Europe's brief hiatus from the capitalist world-economy (if there ever truly was one), was shattered by the processes of re-peripheralization, orchestrated by the institutional logics governing the relationship between the global core and periphery. But in order to fully understand this, we must understand the reconstituted world order of the post-WWII era, particularly after the 1970s.

The United States of America emerged from the aftermath of World War II as the uncontested hegemon in the capitalist world-economy. It represented over half of

¹⁰⁶ Wallerstein, p. 81

the world's production, a military expanse encompassing both the Pacific and the Atlantic Oceans, uncontested financial prowess, and other diverse mechanisms of power, authority, and control¹⁰⁷. It is not pertinent here to discuss how the US attained this position- only to make clear its ability to reconstitute the world order in its favour. On the other hand, the US could not ignore the other powers within the core. After all, history has shown that unmitigated inter-core rivalry can spiral into mutually destructive wars that violently disrupt the processes of capitalist accumulation in the world-system, a consequence of which all core powers have an interest in preventing. We need only look to the causes and consequences of the two world wars to opine the self-interest of inter-core collaboration and peaceful competition, as opposed to inter-core rivalry and violent competition¹⁰⁸. Even under non-war circumstances, intense inter-core rivalry can lead to mutually destructive disruptions in the process of global capitalist accumulation, as seen by the experience of the Great Depression in the inter-war period.

In the contemporary parlance of mainstream discourse, this principle of inter-core collaboration is akin to the oft-heard enunciations about the desire to maintain global "peace and stability", or to uphold the interests of the "international community", or to ensure "multilateralism"- in each case the terms of reference are of course not addressing the needs and concerns of Malawi, Congo, or Bolivia *et al*, but France, Germany, and the United States *et al*¹⁰⁹, i.e. that of maintaining the needs and concerns of the core vis-à-vis the periphery.

Therefore, as David Harvey points out, the US during and immediately after WWII designed a "system that sought to establish a global compact among all the major

¹⁰⁷ For a succinct account of the vast extent of US power in the immediate post-WWII period, see Chomsky 1992

¹⁰⁸ Both J. A. Hobson in 1902 and V.I. Lenin in 1916 caution against inter-core rivalry, albeit from very different perspectives!

¹⁰⁹ Of course, we are told that the needs and concerns of Malawi, Congo, or Bolivia *et al* are the same as the needs and concerns of France, Germany, and the US *et al*. This is propaganda serving to justify and legitimate the present world-system, as I hope will become clear by the end of this chapter.

capitalist powers to avoid internecine wars and find a rational way to deal collectively with the overaccumulation that had plagued the 1930s. For this to happen they [the other core powers] had to share in the benefits of an intensification of an integrated capitalism in the core regions... and engage in systematic geographical expansion of the system (hence the US insistence upon decolonisation and 'developmentalism' as a generalized goal for the rest of the world)"¹¹⁰.

This also meant that the US needed to re-establish and strengthen its potential rivals in the core, that is western Europe and Japan (of which both were virtually decimated during WWII), and to a lesser extent later Taiwan and South Korea. The US heavily intervened in post-war western Europe in order to revitalize and re-consolidate the capitalist mode of production (for example, by implementing the Marshall Plan and undermining various anti-fascist movements), and in Japan by more overtly dictating economic policies and controlling the political structure¹¹¹. Apart from the mutual benefits accrued by inter-core peace and collaboration discussed above, this revitalization and re-consolidation of concentrations of capitalist power in western Europe and Japan served a dual purpose: 1) to provide an outlet for US overproduction and capital overaccumulation by raising consumption levels (usually by increasing the living standards of consumers, thereby increasing their buying-power)¹¹²; and 2) to act as a bulwark against the state-socialist bloc of eastern Europe (in regards to the strengthening of western Europe), and against namely China and the Soviet Union (in regards to the strengthening of Japan, and later Taiwan and South Korea).

¹¹⁰ p. 76

¹¹¹ For an account of Japan's post-war experience, see Dower

¹¹² Of course, the US could also have increased the living standards of its own population as an outlet for overaccumulation, rather than that of western Europe and Japan, which it indeed did to a certain degree. But raising domestic living standards can only bearably reach a certain extent, as increasing living standards decreases inequality, which is detrimental to capitalist power as it compromises the expansion of profit (which is of course vital to capitalism); hence the US necessity to complement its domestic market with the rest of the West. There are also other ways to manage overaccumulation, such as investing in expensive and high-skilled (but socially useless) production, such as advanced high technology for the military or space exploration.

The establishment of this bulwark (or in Cold War terminology, “containment”) was in part a response to a real competitive threat (as discussed above) economically, politically, and in some respects militarily, as “communism” strove to provide space outside the capitalist world-economy, but also in part a response to a *constructed* threat. That is, the ideology of “anti-communism” throughout the Cold War served as a useful justification for the massive military-industrial complex of the United States, in that it was necessary- or so the propaganda went- to continually pump billions of dollars of public funds into the domestic high-technology industries¹¹³, which is of course the epitome of neomercantilism at its most fervent. Depending on the audience, the justification was to protect US “national security” or US “national interests” (if addressed to an elite or highly educated audience), or its more vulgar variants, such as the “protection of democracy and freedom in the world” or to “combat evil in the world” (if intended for a mass-based audience). What is truly spectacular, however, is the unprecedented success of this propaganda to this day, as the current US Department of “Defence” budget is \$583 billion, more than the rest of the world combined, and yet academics and other elites continue to maintain that the US is a “liberal market economy”, as opposed to one of the most centrally-planned economies in world history¹¹⁴.

In any case, that the US only allowed select regions to develop and prosper is clear, due to its violent smashing of any non-invited country that attempted to meaningfully develop- let alone join the core. In most cases the US smashed various

¹¹³ *With the destruction of state-socialism by 1991, US state-planners faced a potentially embarrassing situation as their primary justification for the military-industrial complex was now dissipated (indeed, one of the first reactions of then President George Bush Sr. was to order the CIA to prevent the dissolution of the USSR, whatever that meant). Fortunately for them, however, a series of new justifications were found throughout the “New World Order”: “peace-keeping”, “humanitarian intervention”, and now the “war on terror” (the latter of which is of course rehashed by the Bush Jr. regime from the Reagan era of the 1980s- even by some of the same state-planners, such as Dick Cheney, Donald Rumsfeld, Paul Wolfowitz, Richard Perle, John Negroponte, and so forth).*

drives to Third World national development covertly, in the form of numerous CIA-backed and orchestrated coups and other forms of foreign intervention¹¹⁵, but it was still never adverse to deploying overt military force, as witnessed in Korea, Cuba, the former Indochina, and others. Where appropriate, the US sought the active participation of allies from the core, and in many cases found many willing to share the costs as the core as a whole benefits from the protection of the capitalist world-economy due to the “global compact” mentioned above; nevertheless the US did not hesitate to intervene unilaterally.

While inter-core collaboration was seen as necessary for the maintenance of the capitalist world-economy (with all the implications of the unequal distribution of power and wealth and so on, which of course favoured the core as a whole), an emerging contradiction in this inter-core arrangement became increasingly irksome to the US. The use of US hegemony to foster inter-core collaboration (albeit led by the US- the so-called “first amongst equals”), allows for especially Germany and Japan, and then later the European Union and parts of East Asia (though the latter is debatable), to eventually credibly compete with the US on economic terms. As a consequence of this contradiction, the “United States, whose hegemony was based on production, finance and military power in the immediate post-war period lost its superiority in production after 1970”¹¹⁶. By this time, the US was succumbing to competitive pressures from the very capitalist centres of power that it largely nurtured and helped to re-establish. In particular, Japan posed an increasingly grave economic threat, as it was able to peripheralize much of east Asia, especially China¹¹⁷. By the late 1980s Japan’s economy

¹¹⁴ *For a deeper account of the equivalence of the US Department of Defence budget to an industrial policy, and the various consequences of this (including why the US consistently leads the world in the most advanced technology) see note 87, p. 40.*

¹¹⁵ *For a detailed account of over 100 such interventions, see Blum 1995; Blum 2000; Vidal*

¹¹⁶ Harvey, p. 82

¹¹⁷ *The story of Japanese capital penetrating China and east Asia, institutionalizing a core-periphery relationship as Japanese corporations in the 1970s were some of the first to outsource their low-skill*

surpassed all of Europe, and many Americans feared that it would soon be able to outperform the once-insurmountable economic superiority of the United States.

From the standpoint of United States hegemony, the contradictory logic of inter-core collaboration, becoming increasingly obvious by the 1970s, was aggravated by a host of other developments in the world-system. I have already mentioned on pages 48-49 the increasingly clamorous Third World for a greater piece of the global pie after decolonisation. The Non-Aligned Movement was established in 1965 in Indonesia in an attempt to create space between the two camps of the Cold War, and to increase the voice of the Third World. Also, members of the Third World created the United Nations Committee on Trade and Development to provide a greater and more focused voice on Third World development issues, the Group of 77 was established in the United Nations General Assembly as a counter-voice to the Group of 7 and as a way of organizing and representing Third World opinion in the United Nations, and so on and so forth. Furthermore, within the core itself, consistent economic growth could no longer be a given, as the post-WWII economic boom began to diminish. The economic growth and development rates of the 1950s and early 1960s became a distant dream. Full employment was no longer a given. Moreover, a new phenomenon occurred, what came to be called "stagflation" in the 1970s, the parallel occurrence of economic stagnation and inflation.

Moreover, the military prowess of the United States was being seriously tested in its invasion of Indochina (Vietnam, Cambodia, and Laos). Even though the US dropped more bombs in the "Vietnam War" than in the First and Second World Wars combined, massacred over four million people (conservative CIA estimates are over two million), decimated the social fabric of the entire Indochina region (spawning the conditions for

production, is of course completely outside the purview of this thesis. See Arase; Johnson 1982; Johnson 1995; Schaller

further massacres by for example Pol Pot), eradicated much of the agricultural land (namely by spraying the cancerous defoliant Agent Orange, and bombing dams thereby flooding the rice paddies¹¹⁸), and a string of other crimes against humanity, the United States could still not achieve a military victory after thirteen years. In addition, financing the US invasion of Indochina led to a large drain on the US coffers, perhaps one of the primary causes of President Nixon no longer being able to guarantee a fixed gold to dollar exchange rate in 1971, which served as the backbone of the post-war "Bretton Woods" economic order. Furthermore, the resistance of the National Liberation Front in Vietnam inspired scores of independence movements across the Third World, and was one factor (of many) in sparking mass social movements across the First World by the late 1960s. These popular social movements led to increasing social unrest in the US, especially as the civil rights movement was beginning to explode at around the same time. These rising demands for greater democracy and social justice in the US and other parts of the core (especially the student and workers' movements in France and the student movement in the Federal Republic of Germany), was bound to elicit a reaction from elite power in the core. The international oil crisis of 1973, orchestrated by a cartel of mainly Third World oil-producing countries (OPEC), was by this time the icing on the cake.

For largely these reasons, the hegemon of the core, the United States of America, initiated a process that gradually led to the reconstitution of the world order (in its favour of course) in order to re-consolidate the global core-periphery relationship; in short, to re-assert its hegemony both within the core, and within the world-system at large (the latter implying a reassertion of the core as a whole vis-à-vis its relationship with the periphery because of its self-interest in maintaining the world order of inter-core

¹¹⁸ *Incidentally, Nazis were convicted and hanged of war crimes at the Nuremberg trials for inter alias releasing the dykes in Holland.*

collaboration). At the beginning, this process is unilateral, by the mid-1970s involves others in the core, and by the 1990s involves the entire core. This process of reconstitution is by no means smooth, and is in fact facing great resistance- what is misleadingly referred to as the “anti-globalization” movement. In any case, the embryonic phase of this reconstitution began in 1971, with the US unilaterally abolishing the gold to dollar fixed exchange rate, effectively ending the post-WWII international economic order: the Bretton Woods system (as mentioned above). The Bretton Woods institutions, the IMF and the World Bank, then gradually took on new roles- to be discussed.

The US then unilaterally liberalised its financial markets in 1976, slowly initiating a domino effect of expanding global capital flows seeking open markets for investment (what many term “financial globalization”). The logic behind the domino effect is that if one country liberalises its financial markets (thereby creating greater opportunities for the investment class) it becomes more attractive for investment. Thus, if other countries do not also liberalise their financial markets, the theory maintains that it will lose its competitiveness and as a result capital flight will ensue. Therefore, as the US unilaterally liberalised its markets in 1976, other countries would inevitably soon follow, at least in theory. Reality, however, is of course much more complicated, as there are a plethora of other factors that determine whether a country is more desirable for global capital flows to invest¹¹⁹, coupled with the fact that there will be much resistance to financial market liberalisation since enhancing the interests of the investor class at the expense of society at large will of course not carry much popular support- unless there is a convincing or powerful ideology to justify it. In comes neoliberalism.

¹¹⁹ *A general rule of thumb (with exceptions) is that the more economically developed a country is, the more opportunities there are for investment. Therefore, even if the US did not liberalise its markets, it would still be a more attractive market for investment than any Third World country that has liberalised its financial markets. There are also other factors (e.g. the nature of the core-periphery relationship that governs the world-system).*

Neoliberalism as a modernization theory and establishment ideology emerged in this period to justify the need for a reinvigorated drive of capitalist accumulation and expansionism by the core. I shall not repeat here what neoliberalism is or stands for- hopefully this was achieved in Chapter Two and Three- I shall now only attempt to place neoliberalism within the context of the present discussion. It should be clear from the previous chapters that every major mantra of neoliberalism is designed to increase economic growth; that is, to increase the ability of the capitalist class (based overwhelmingly in the core) to increase its profit and power. Neoliberalism attempts to justify this goal by maintaining that the pursuit of self-interest by some equals the pursuit of the self-interest of all- hopefully the venality of this argument was made clear in Chapter Three and will again be made clear in Chapter Five. In any case, neoliberalism instigates a renewed accumulation drive (what its many proponents misleadingly refer to as “globalization”) that eventually leads to record surplus capital creation and profit-maximization in the core, and correspondingly growing global inequality and poverty, and further economic and social underdevelopment (or more accurately, devastation)- though this time not only in the periphery, but also in large segments of the core itself. Facts and figures to vindicate this interpretation were given in Chapter Three. But one aspect of this story remains to be told: how this ideology and the consequences of its implementation were imposed upon the Third World¹²⁰.

A parallel process was occurring in the 1970s, largely sparked by the international oil crisis and the prevalence of extremely low interest rates and credit. The efforts of OPEC vastly increased the wealth of oil-producing countries, particularly in the Middle East. This wealth (sometimes referred to as “petrodollars”) was then recycled back into

¹²⁰ *How neoliberalism is imposed within the core itself is another interesting story, but not entirely relevant to this thesis, since it is on the re-peripheralisation of Poland, i.e. a member of the periphery and not the core.*

the core (mainly the US) as they were deposited into Western banks¹²¹. Western banks were then in a very favourable position to grant much-needed loans to the Third World to finance their development projects, which prevailing interests tended to favour massive capital-intensive infrastructure projects, such as dams, airports, freeways, ports, and so on. To combat rising inflation in the core, however, interest rates towards the late 1970s and early 1980s soured, and coupled with the second international oil crisis in the early 1980s (which affects the non-oil producing Third World the severest), the Third World increasingly found themselves mired in greater and greater debt and balance of payments problems- what came to be known as the “international debt crisis”¹²².

What is one’s bane is another’s boon! The increasingly dire debt crisis of the Third World placed the core in a very favourable position, as it could dictate the terms of loan conditionality. Hence the rise of the IMF’s “structural adjustment programs” and loan cross-conditionality with the World Bank and other international financial bodies, as the core countries, particularly the United States¹²³, effectively govern these bodies and determine their policies. Moreover, the evolving nature of the Third World debt crisis, with many debtors requiring loans simply to pay off interest from previous loans, spiralled the debt crisis into deeper and deeper dependency on the core. The core would then use this dependency to force the implementation of further neoliberal policies, spiralling the debt crisis further, each time further consolidating neoliberalism and so on. Many countries within the core also made the receipt of foreign aid conditional upon the implementation of neoliberal policies; a practice that is by now a given.

It is only with this holistic lens, this bird’s eye view of the contemporary world-system, that we can adequately understand the experience of Poland (or any other

¹²¹ Gowan 1999 *in fact provides evidence for the case that President Nixon conspired with OPEC members, particularly Saudi Arabia, to recycle the petrodollars exclusively into US banks.*

¹²² *For a detailed account of the international debt crisis, see George*

country for that matter). For if we are to understand the destruction of state-socialism in Poland (and eastern Europe), then we must situate the analysis in regards to the general mechanics and logics inherent to the present world order, that of the core-periphery relationship, and the attempt of the core, especially the hegemon within the core, to re-consolidate this relationship beginning in the 1970s. Only then can we understand what is currently happening in Poland, and to discern the circumstances and processes under which Poland is being re-peripheralised. In the next chapter, we shall turn to Poland in more detail, to assess whether these claims and the theoretical framework presented in this chapter can withstand the factual record.

¹²³ For example, the IMF requires an 85% majority vote on substantive issues, and as a member-state's voting power is equivalent to the proportion of its contribution to the total IMF budget, the US, with 17% of the vote, has a de facto veto. The next highest contributor is Japan, with 9%.

Chapter Five-

On the Re-Peripheralization of Poland and Central-East Europe

To paraphrase the discussion in Chapter Four, the theoretical tools and framework of analysis of world-systems theory can be used to provide us with three primary insights concerning the contemporary development of Poland: 1) that state-socialism did not “collapse”, if it is implied that it imploded- rather, that it was “destroyed”, in large part due to the logics and relations characteristic of the contemporary world-system; 2) that the destruction of state-socialism did not begin in 1989, but in the 1970s as part and parcel to the reconstitution of the world order by the core (specifically by its hegemon, the US), with all its ramifications; and 3) with the destruction of state-socialism in Poland, the latter becomes ~~re~~-peripheralized, thereby indicating the end of its attempted “prison break” from the capitalist world-economy, and the return of its several-centuries old status as a peripheral region to the core. Are these three insights vindicated by the factual record?

There are three phases that need to be analysed: 1) Poland's first peripheralisation, i.e. four or five centuries ago; 2) the beginnings of Poland's second peripheralisation, in relation to the most recent reconstitution of the world order by the core, i.e. from the 1970s; and 3) the consolidation of Poland's peripheralisation by way of its implementation of the neoliberal program representing the destruction of state-socialism and the termination of all hopes of being independent of the core, i.e. after 1989.

First of all, it will be important to emphasize that for much of its history over the past four or five centuries, Poland represents the periphery in relation to the emerging core of northwest Europe. Thus, there is the beginning stages of a core-

periphery system emerging in Europe in the late 15th century. From the 1490s onwards, as serfdom was being abolished in much of northwest Europe, it was being imposed in much of the east, including Poland, “as a way of organizing production destined to serve Western markets”¹²⁴. This especially became important during the Industrial Revolution in northwest Europe, as the burgeoning urban population required an agricultural surplus. With urbanization, demand for agricultural produce in the northwest rapidly increased, and industrialization dramatically increased demand for raw materials. Eastern Europe had an abundance of both, and the core-periphery relationship between the northwest and east was firmly established by the Enlightenment.

One of the primary differences between the first core-periphery trade relationship and previous trade relations is that the former involves trade in necessities, while the latter is primarily based on luxury goods destined for elite consumption (with a few notable exceptions from ancient history). The previous trade in luxuries for elite consumption “did not call for an outlay of labor or other resources on a scale large enough to exert a pressure on economic and social processes in Europe, whether western or eastern”¹²⁵. On the other hand, the “East-West trade in goods for mass consumption” was fundamentally different¹²⁶. At the turn of the fifteenth century, Poland and the Baltic region traded wood and grain in return for mainly textiles from north-western Europe. From the Polish side, this soon expanded to rye, cattle, furs, timber, potash and hemp¹²⁷.

The nature of this burgeoning trade was such that the lords who oversaw it in Poland (and elsewhere in the east) gradually coerced and organized their peasants in a different manner: “In Poland, for example, peasants had been required before 1500 to give only one day to six days of labor service per year. By 1550 this had been raised to

¹²⁴ Dunford, p. 58.

¹²⁵ Postan, p. 127; quoted in Stavrianos, p. 64

¹²⁶ Stavrianos, p. 64

three days per week, and by 1600 to six days. In the meantime the peasants also had been completely deprived of the freedom to move. Thus the Eastern European peasants, whose status in the thirteenth century had been improving and had been comparable to that of the Western peasants, now were forced down to serfdom and made completely subject to the will of the lord rather than to the jurisdiction of the state"¹²⁸. These processes gradually resulted in "the division of the European continent into a dynamic and industrialized Northwest, and an agrarian and dependent East- a division that was to persist until the mid-twentieth century"¹²⁹.

Therefore, when referring to Poland's changing relationship in the contemporary world-system, we must talk of Poland's *re*-peripheralisation, to indicate a return to a prior status. This process of re-peripheralisation began in the late 1970s. Poland (and other central-eastern European countries- CEEs) were also victims to the international debt crisis plaguing the Third World since the late 1970s, and the IMF and the WB have been involved in CEE since at least the early 1980s (Poland was a founding member of both), and represented "the largest *single* source of official international financial assistance"¹³⁰. This shatters the common myth, particularly held in the West, that CEE must be integrated into the global financial architecture. It already *was* integrated during the state-socialist era: Valerie Assetto, writing in 1988 (i.e. before the post-state socialist transformation of the 1990s), claims that the "states of Eastern Europe...do not differ significantly from other [World] Bank and [International Monetary] Fund members...in their dependence on the First World states for investment capital and balance of payments financing"¹³¹.

¹²⁷ *ibid*, p. 65

¹²⁸ *ibid*, p. 66

¹²⁹ *ibid*, p. 68

¹³⁰ Assetto, p. 1, 5

¹³¹ p. 6

In fact, Poland implemented austerity reforms that resemble very closely the SAPs of the IMF¹³². Poland, in response to the *de facto* Western credit embargo of the late 1970s and early 1980s and the unwillingness of the Soviet Union to help bail Poland out from its severe and mounting foreign debt crisis, imposed "severe austerity measures [that] triggered a serious political crisis in Poland which resulted in strikes, protests, the formation of the Solidarity movement, and the eventual imposition of martial law in December 1981"¹³³. With the imposition of martial law, "the Ministry of Finance and the Central Bank became the primary instruments of macro-economic management", and the "Law on Economic Planning of 1982 abolished the five-year plan and shifted the management of the economy away from the party apparatus and branch bureaucracy"¹³⁴. Some of the measures implemented during this period include typical neoliberal policies such as the lengthening of the work day and cuts in social welfare. Both took their toll: between "1980 and 1987 the number of injuries per 1,000 employees increased by a third and by 1989 every second worker died before they reached retirement", and the "share of government expenditure on social welfare dropped from 22.9 per cent in 1981 to 20.8 per cent in 1988 and was lower in Poland than in any socialist country other than Romania"¹³⁵.

Poland's rising debt in the 1980s also increasingly resembled the experience of periphery countries in the capitalist world-economy. In 1981 Poland's debt was \$23.9 billion, and by 1986 "the debt constituted 43 per cent of GNP and was five times the amount of annual hard currency earnings"- by 1989 the Polish debt had risen to \$41.4 billion, "despite the payment of \$18 billion to Western creditors" since 1981¹³⁶. Again, to combat this rising debt, Poland in 1987 declared that it would "implement all the IMF

¹³² Assetto, p. 172, 175

¹³³ Assetto, p. 174

¹³⁴ Glasman, p. 121

¹³⁵ *ibid.*, p. 122

¹³⁶ *ibid.*

recommendations on economic policy”, including “currency convertibility, high interest rates, a liberalization of prices and an increase in privatization”¹³⁷. Hence, the processes of Poland’s reperipheralisation and the destruction of state-socialism began as a related off-shoot of the reconstitution of the world order by the core in order to reconsolidate the global core-periphery relationship.

Poland’s record with neoliberalism and the global financial architecture in the 1980s was consolidated after the disintegration of the Communist Party: according to the IMF itself, “[s]ince 1989, the IMF has actively helped countries in central and eastern Europe... transform their economies from centrally planned to market-oriented systems”¹³⁸. This involvement was bolstered in 1993 when the IMF established the “Systemic Transformation Facility” to “provide additional financing to support the early stages of transition”¹³⁹. In fact, 29% of the IMF’s budget for “technical assistance and training” in the fiscal year 2001 was allocated to Europe, representing the largest share (the next largest was Africa with 27%)¹⁴⁰.

Hence IMF involvement and its neoliberal doctrines are not merely a feature of the post-state socialist transformation- they shape and govern it. Their power to enforce compliance should not be underestimated. CEE post-state socialist transformations require massive financial resources that are largely lacking in the region, and so the largest international financial institutions with their practice of cross-conditionality in providing loans represent a vital life-blood of funds. Grzegorz Kolodko, the first deputy premier and later Minister of Finance in Poland from 1994-1997, states that “no matter what political leaders [in CEE] may have had in mind at the end of the 1980s and the beginning of the 90s vis-à-vis the overhaul of the economic system, they could not succeed without the active support of the wealthier part of the world, and without a

¹³⁷ *ibid.*

¹³⁸ IMF, p. 31

¹³⁹ *ibid.*

doubt the Bretton Woods institutions [i.e. the IMF and WB] and the governments in the rich developed market nations supported the drive toward a Western-style economy” and that indeed “[o]nly changes which guaranteed that at the end of the transition a free market economy (that is, full-fledged capitalism) would emerge were going to be backed politically and financially by the West”¹⁴¹. The effects of these neoliberal policies were discussed in previous chapters, hence there is no need to repeat.

The EU (it was the EC at the time) also acted swiftly during and after the culmination of the destruction of state-socialism, and its role is crucial if we are to understand the processes of Poland’s re-peripheralisation. The entrance of the EU into the process after 1989 marks the third phase of analysis, when the processes of Poland’s re-peripheralisation begin in earnest. This is when the second phase, the circumstances and nature of the reconstitution of the world order by the hegemon, allowed for a major power within the core, the EU (and especially Germany), to peripheralize Poland and CEE. The EU initiated PHARE (Poland, Hungary: Assistance for Restructuring Economies) in January 1990. As the name implies, its official purpose was to aid Poland and Hungary in the transformation process to a “market economy”, later extending it to eventually include the eight other candidate countries slated for the most recent round of EU enlargement¹⁴². According to Peter Gowan, however, from its inception, it was mired in corruption and hypocrisy. The great bulk of the funds served as an incentive and subsidy for EU companies to invest in Poland and Hungary, instead of aiding the two countries directly¹⁴³. This bulk consisted of grants to directly assist EU corporations in their FDI projects in CEE, and indirectly by the contracting of Western consultants and researchers to gather and transfer CEE economic information westwards to the EU. Around forty such studies by Western consultants were carried out concerning Polish

¹⁴⁰ *ibid.*, p. 34

¹⁴¹ Kolodko, p. 32

¹⁴² *Estonia, Latvia, Lithuania, Slovakia, the Czech Republic, Slovenia, Cyprus, and Malta.*

industries during 1990 and 1991¹⁴⁴. No consultants from Poland were employed, and the deliberations of PHARE were secretly conducted and directed by the Commission.

Of the few instances of financial resources set aside for Poland and Hungary themselves, much of it went missing. One of the earliest large projects, for example, was a credit of 50 million ecu to Poland to purchase pesticides. Apart from the fact that Poland never asked for such aid, the Court of Auditors has never been able to trace where the 50 million ecu went¹⁴⁵. In addition, a 150 million ecu fund was established to grant loans to Polish farmers. Two years later no loans were granted, and no annual report was filed as to the fund's whereabouts¹⁴⁶. While one may argue that these examples are innocent blunders, the PHARE's priority given to funding EU corporations indicate the ideological (neoliberal) driving force for these policies (the justification being that FDI will spur economic growth and transfer of know-how and technology).

The EU also quickly entered into negotiations for Association Agreements with certain central-eastern European countries (CEECs), the first concluded with Poland and Hungary in March 1992. These Agreements stipulated the requirements for Poland's (and others') accession to the EU, and are summarized by the "Copenhagen Criteria": 1) "be a stable democracy, respecting human rights, the rule of law, and the protection of minorities"; 2) "have a functioning market economy"; 3) "adopt the common rules, standards and policies that make up the body of EU law"¹⁴⁷. The most important is the second and third criteria, since the first is largely a fantasy, as democracy, respect for human rights, and the protection of minorities exists in no nation-state on this planet, thereby rendering their "success" in the eye of the beholder, as the very institution of the nation-state itself contravenes these principles, let alone capitalism and the global core-

¹⁴³ Gowan 1995, p. 34

¹⁴⁴ *ibid.*, p. 31

¹⁴⁵ *ibid.*, p. 36

¹⁴⁶ *ibid.*

¹⁴⁷ <http://europa.eu.int/comm/enlargement/enlargement.htm>

periphery relationship. As for the “rule of law”, the meaning should be clear from the discussion in Chapter Two: the protection of private property rights, contract law, standardized accounting practices, and so forth that are required by capitalists of the state for survival. The second criterion refers to the implementation of the neoliberal doctrine, the third to the implementation of the so-called *acquis communautaire*. Before I elaborate on these last two points, note that the Association Agreements are almost entirely one-sided, as the EU’s only real concession is financial aid, though of the kind described above and below (i.e. directed at benefiting EU corporations).

Again, I shall not re-iterate the details of the neoliberal doctrine, only to emphasize here the one-sidedness of its implementation. Hence, while Poland must for example liberalize its trade and financial markets, the EU must do no such thing, and in fact its characterization as the most neomercantilist regional bloc in the world remains untainted. Thus, while EU goods, services, and capital must be allowed unrestricted access to CEE, CEE goods and services are met with steep tariff and nontariff barriers at the EU border. One example (out of a plethora) is agriculture. Agriculture is a major sector for CEE employment and economy. This is especially true in Poland where “one fourth of the population still lives on small, inefficient farms”¹⁴⁸. These farms use up 60% of Poland’s land and yet constitute only less than 5% of its GDP¹⁴⁹. Agriculture serves as a partial sponge of industrial and urban unemployment¹⁵⁰. In Poland and Hungary, consumers spend roughly 40% of their income on food¹⁵¹. And “[e]conomic analysis has shown that even small price variations and minor modifications in budgetary support may dramatically change the level of income earned by a particular farmer”¹⁵². And unemployment in the agricultural sector tends to be long-term due to the lack of

¹⁴⁸ Commission, *Relations with Poland*

¹⁴⁹ Deutsche Welle, *Poland: Lobbying until the Very End*

¹⁵⁰ Inotai, p. 50

¹⁵¹ Karasinska-Fendler, Shotnicka-Illasiewicz, Sobotka, Swierkocki, p. 178

¹⁵² Stanovnik et al., p. 237

alternative employment in many rural areas and the fact that many farmers lack other skills since they have most likely been farmers for most of their lives¹⁵³.

The EU's Common Agricultural Policy (CAP), essentially a system of agricultural protectionism through price interventions, external tariffs, quotas, and anti-dumping measures, and direct wage and production subsidies to the tune of 40.5 billion euros a year (the largest single allocation in the EU's budget)¹⁵⁴, should therefore be a godsend to CEE. Instead it is a distant dream. The European Council capped the CAP at 23 billion euros in the first three years of accession, to *all* ten candidate countries, which is still 2.5 billion euros less than what the Commission initially proposed during negotiations¹⁵⁵. This budget is a half-hearted gesture and clearly not based on need- the agricultural sectors of Latvia, Malta, and Poland surely require more funds than France or Germany- the latter of which are among the richest in the world. Furthermore, the inequality is compounded by the fact that subsidies granted after accession will only be 25% of that allocated to current members, and will not be 100% until 2013 at the earliest¹⁵⁶.

In addition, CAP intervention prices will only be introduced in CEE after 2006¹⁵⁷. This implies a fundamental contradiction with the principles of the Single Market, as prices of products from the EU will be inflated from subsidies and given complete, free access to CEE markets immediately after accession, while CEE products are not given access to the same protectionist measures. This situation has the potential to plunge the CEE agricultural sectors into further depression as they cannot possibly compete with the heavily subsidized EU agricultural products, resulting in further human

¹⁵³ Brusis, p. 270

¹⁵⁴ Brusis, p. 274

¹⁵⁵ Hossack, *EU Strikes Deal to Fund Historic Enlargement*

¹⁵⁶ *ibid.*

¹⁵⁷ Brusis, p. 274

suffering and poverty. The EU clearly has its own interests prioritized at the expense of Poland (and the rest of CEE).

The third component of the Copenhagen Criteria, the implementation of the *acquis communautaire*, is equally pernicious. The *acquis* pertains to 14,000 pages of EU laws, protocols, and so on- the result of 50 years of EU haggling and development. The expectation of full implementation is unrealistic and unfair predominantly because the *acquis* was largely drafted for circumstances relating to the needs of the most advanced capitalist states in the world, unrealistic for the sheer scope and scale of the *acquis* and lack of proper time and resources to train professionals in its provisions and establishing the necessary institutions, and unfair because each CEEC has unique qualities and circumstances. For example, why should the land-locked Czech Republic spend its resources on implementing into their statutes and administrative framework the Common Fisheries Policy?

In addition, Poland (and the rest of CEE), for example, must implement and enforce the Schengen Accords, part of the *acquis*, which relates to the agreement between member-states to harmonize border controls to create a single, EU border. The borders of many CEECs, however, were drawn up at the whim of the Great Powers in the early 20th century. Therefore many have ethnic minorities (and disputes) either within their borders, in neighbouring states, or both. Both Poland and Hungary have sizable ethnic minorities in neighbouring states (Hungary has millions) that will not be eligible for EU accession for a very long time, if ever. With the adoption of strict immigration and border controls, ethnic minorities will feel sold out and could generate anti-EU sentiments in both the homeland and the neighbouring countries¹⁵⁸. Furthermore, Poland's "open borders have fostered business contacts, favoured the move of national capital into neighbouring (less developed) transforming economies, and provided [them]

with sizable economic benefits”¹⁵⁹. The adoption of the Accord also hurts political relations. When Poland complied and adopted restrictive immigration regulations towards Russia, Belarus, and the Ukraine, diplomatic relations were hurt between these countries¹⁶⁰.

In any case, as it suits current EU member-states, many have not themselves enforced the Schengen Accords due to their own border disputes. To name but a few, Britain and Spain dispute Gibraltar, Eire and Britain over Northern Ireland, the Basques in Spain, Greek claims in Macedonia and Cyprus, German claims over Sudetenland in the Czech Republic, and Italian claims in Slovenia- the latter which provoked Italy to initially block Slovenia’s application for membership. The hypocrisy of the EU not enforcing the stipulations to which it requires CEE to implement before accession, is reminiscent of the hypocrisy vis-à-vis the advocacy of neoliberalism as it itself practices its polar opposite, neomercantilism.

Another unequal stipulation regarding the *acquis* involves the “free” movement of labour. In other words, EU citizens must be given free movement and employment without a work visa throughout CEE, which Poland granted in April 2002, while freedom of movement within the EU will not be granted to CEE nationals until at least seven years after their accession¹⁶¹. As with the implication of the maintenance of customs duties on agricultural products mentioned above, this unequal condition implies the maintenance of border controls. This is a fundamental contradiction of the principles of the free market, and is another example of the nature of the relationship between the EU and Poland (and the other CEECs). This relationship is based on the logic of “do as we say, not as we do”, as the EU dictates such onerous terms

¹⁵⁸ Tang, p. 11

¹⁵⁹ Inotai, p. 23

¹⁶⁰ Brusis, p. 277

¹⁶¹ Deutsche Welle, *Poland: Lobbying until the Very End*

(neoliberalism, full implementation of *acquis*, and so on) that it does not itself implement, due to the negative consequences that are well documented.

Perhaps the only redeeming factor of the EU's relations with Poland (and CEE) that might be conceived of as demonstrating good-will (and not exploitation) is the EU's structural funds allocated to Poland (and the other accession countries), as foreign aid in conventional discourse is generally regarded as an act of altruism and not in the self-interest of the donor. The Cohesion Policy and the administration of structural funds through the Committee of the Regions represents the second largest share of the EU budget (after CAP). I have already discussed the EU's primary donor agency to Poland, PHARE, and how its primary purpose is to subsidize EU corporations wishing to invest in CEE (which of course represents yet another break with the neoliberal doctrine, as the state is not supposed to interfere in the market). There are two further points that should be made here. One should compare the structural funds allocated to Poland with that allocated to current member-states. Furthermore, separate to the concern of how the allocation of structural funds to Poland compares with current members, one should question whether the entire logic of "development" via FDI is suspect.

It seems from the outset that structural funds allocated to current members are far more generous than to Poland and CEE. Spain, from 1989-1999, received 39 billion ecu in structural funds¹⁶², while Poland from 1992-1999 received 2.534 billion euro from PHARE (and remember that the bulk of this went to EU corporations¹⁶³), and by further comparison Hungary received 1.03 billion euros from PHARE during the same period. Structural assistance allocated to Greece and Portugal in 2000-2001 amounted to 400 euros per capita, while to the pre-accession countries in the same period, it amounted to 30 euros per capita¹⁶⁴. On accession, the Commission has pledged 85 euros per capita

¹⁶² Berend, p. 260

¹⁶³ Gowan 1995, p. 34

¹⁶⁴ Brusi, p. 269

increasing to 247 euros in 2006¹⁶⁵. Clearly the funds are not allocated based on need, as Spain's GDP is over 70% of the EU average, Hungary's is 47% and Poland's is 40%. And these are the richest candidate countries- for example Latvia's is 27%.

In any case, whatever the discrepancies between structural funds to much richer current member-states and to the CEE accession countries, one must ask whether their allocation is at all even in the interests of the recipients themselves (in terms of benefiting the society as a whole, and not just narrow elite interests). I have already provided the neomercantilist critique of the neoliberal policy of "an early exposure of the newly emerging industries to the competitive pressures of world markets, where imperfect competition prevails, ... which lends to divergence rather than convergence of economic development"¹⁶⁶ in Chapter Two. But I have not presented the argument that the corporation itself is an instrument of capitalist power, and therefore inherently illegitimate, and certainly is not a legitimate mechanism of spurring development, an argument that is outside the purview of the neomercantilist critique.

The corporation represents the epitome of private capitalist-elite power¹⁶⁷. It is required by law to place the pursuit of profit above all else. It is non-transparent and unaccountable to the public, with an authoritarian top-down command structure. Is this the kind of institution that we want to allow to "develop" a country at the expense of the same ability of its government, as insisted upon by both neoliberalism and neomercantilism (they only differ in chronology, as neomercantilism argues for gradualism)? Indeed, Western corporations have a negative reputation in the eyes of many in CEE. For example many people find them "particularly ruthless" when it comes to mass lay-offs¹⁶⁸, and their public image is not helped by the fact that many

¹⁶⁵ *ibid.*

¹⁶⁶ Tomann, p. 4

¹⁶⁷ *For a study on the corporation as inherently pathological and destructive to society, see Bakan*

¹⁶⁸ Estrin, Hughes, Todd p. 230

Western corporations disallow or discourage labour unions in CEE, even when the majority support such unions in their Western plants¹⁶⁹.

The effects of all of the above- Poland's relations with the IMF, the EU, and FDI- have all impacted the internal balance of power as the polarization of Polish society heightens to unprecedented levels with increasing mass poverty on the one hand, and increasingly greater concentrations of power into the hands of elites on the other. See Appendices I and II for the requisite data, such as increasing malnutrition, decreasing access to the necessities of life including social welfare, the emergence of structural unemployment and poverty, and so on and so forth. Much of these developments are predicted by both neoliberalism and neomercantilism, but what is lacking from both discourses is a sense of the projection of power and control by the West. The pressure that Poland faces to implement neoliberalism is intentional (and not the result of policy mishaps as argued by neomercantilism), and the outcome of these policies serve the interests of those who advocate them (including Polish elites).

Furthermore, there is possibly a broader logic to the EU's attempt to institutionalize the subordination of Poland (and CEE) than the desire to simply increase EU capitalist accumulation by both dispossession and stable appropriation (though this is of course a large part of the reason). The EU is also driven by the desire to peripheralize CEE much the same as Japan has peripheralized east Asia and the US has peripheralized Latin America (and one may argue much of the world), in order to enhance the EU's global competitiveness vis-à-vis Japan and the US, thereby enhancing the contradiction of global inter-core collaboration and inter-core competition. This process of peripheralization entails outsourcing production and capitalist accumulation to regions of cheap labour and lax working, health, consumer, and environmental standards,

¹⁶⁹ *ibid.*, p. 223

thereby institutionalizing their subordination at the expense of the masses but to the great benefit of the prosperous few.

Conclusion-

Back to the Future, or the Past?

Modernization theory tells us to look to the future (and promises us a brighter future); world-systems theory to the past (in order to understand the present). The former is derived not from historical experience (or at least not from an accurate representation of historical experience), but from abstract theoretical models. The latter attempts to do both, or as Wallerstein claims, “to hold the tiller firm” between the nomothetic and the idiographic approach. This seems to be important, for while the present is by definition different to the past, as Thucydides famously remarked 2,500 years ago, “history repeats itself”.

The theoretical framework and tools of analysis that world-systems theory provides can be used to observe that contemporary Poland is returning back to the past, not the future: Poland (and eastern Europe), after an attempted brief hiatus from the capitalist world-economy in the mid to latter half of the twentieth century, is returning to its peripheral status in relation to the core, the “West”. That is, the destruction of state-socialism, a process which began in the late 1970s and fully in earnest by 1989/1990, which should be seen in light of the reconstitution of the world-order by the core (especially the hegemon) in order to re-assert and re-consolidate the global core-periphery relationship, is leading to Poland’s re-peripheralisation via the processes that define the capitalist world-economy.

What of EU enlargement? On May 1, 2004 eight countries from eastern Europe (along with Cypress and Malta), including Poland, joined the European Union, the bastion of the core in northwestern Europe. The mainstream corporate media, particularly in the West, exalt this event as new hope for the “progress” and

“développement” of central-east Europe, new hope for the future. The Economist proclaims that enlargement “is a momentous event in Europe’s history: the logical culmination of the tearing down of the Iron Curtain in 1989, making a long-divided continent properly whole again”¹⁷⁰. Clearly the mainstream media do not incorporate into their analysis the insights that can be drawn from world-systems theory! Given the discussion in Chapter Three, Four, and Five, it should hopefully be clear that Poland’s accession into the European Union represents the consolidation and institutionalization of its re-peripheralization. Should Poland then not have acceded to the EU? Of course not. Poland can better exploit the many contradictions of the world-system when it is incorporated within the structures of power than if it was left outside: as a member of the EU (even if a peripheral member), it has at least some voice, which is of course better than no voice.

Perhaps one of the (many) reasons why so many “normal” people (i.e. people not directly wrapped up within the interests of perpetuating elite power) flock to the ideology of modernization is because it offers hope for the future. This seems to be a common concern for humanity: when times are difficult, we look to the future and hope for positive change. Modernization theory tells us that if we implement a certain set of policies and institutions, then we will grow and prosper, perhaps even join the luscious fruit-picking of the Garden of Eden: to join the core. But hopefully it should be clear from the historical record and alternative theoretical frameworks, that these are false hopes and false promises, and in fact result in the opposite: further peripheralisation¹⁷¹.

¹⁷⁰ Ironically, *The Economist* goes on to exuberate how the new member-states will re-invigorate neoliberalism within the EU!: “Most of the new entrants also bring with them healthy attitudes to the European project. Having worked so hard to escape the deadening grip of the old Soviet Union, few want to replace it with the irksome nannying of Brussels... They mostly believe in open markets, not state intervention. Indeed, their entry will do much to bolster the EU’s liberal economic credentials” (emphasis my own) *The Economist*, May 1, 2004

¹⁷¹ While this is clear for neoliberalism, perhaps not for neomercantilism, since the latter has a fine record of spurring development. But if our locus of analysis is the world-system, then we can clearly see that there is one other vital factor: a country’s position in the global core-periphery relationship.

On the other hand, world-systems theory in a sense also can provide hope for the future, in its knowledge and understanding of the past as a way to understand the present. For if we are to change the present in the future, we must understand our experience in the past. But what world-systems theory does not provide, is a clear vision of what that future might look like (and how to get to that future). This of course is a completely separate task, but it is one of the primary criticisms levied at world-systems theory, that it does not provide an alternative model for development¹⁷²; or in world-systems jargon, a way to break free from the global core-periphery relationship of the capitalist world-economy.

World-systems theory should not be confused with any prescription for the path to eternal peace and universal democracy, as the ideology of modernization attempts to be (or so it claims). We need to separate the attempt to understand the world as distinct from how to change it, and realize that we need to achieve and firmly establish the former before we can even begin to address the latter. In fact, we should resist the temptation to believe that such a Holy Grail even exists; that is, a one-size-fits-all policy prescription for a better world. Indeed, such a belief *regresses* progress to a better world, not propels it, as denying the complexity and context of the world-system is a method of obfuscating a serious and *useful* understanding of the world and the processes of power that shape and govern it. On the other hand, the theoretical framework and tools of analysis that world-systems theory encourages us to use, if it does not provide us with a concrete alternative model to development, can still bring us one step closer to creating that better world. For once we can identify where and how power lies, only then can we proceed to dismantle and overcome it.

For if a country in the periphery implements the tenets of neomercantilism without explicit invitation and guidance from the hegemon, the country will be smashed by the latter.

¹⁷² See for example Inozemtsev, especially pages 8 to 14.

Appendix I

Appendix I will attempt to provide an "objective" chronological account of important events, developments, statistics, and so forth regarding the experience of post-state socialist Poland from 1989 to the present, relevant to its political economy and international relations. I shall attempt to portray the information below without any reference to a particular ideological framework, such as world-systems theory- and mainly use the terms of reference used by the sources from which each entry is taken. Throughout this account there will be three general components: the post-state socialist transformation, Poland's relations with the European Union (EU), and Poland's broader relations with the international economic architecture. I shall also provide salient pre-1989 background information in order to better appreciate Poland's reperipheralisation. Furthermore, it will sometimes be appropriate to cite comparative data with other countries in central-east Europe¹, in order to portray as complete a picture as possible.

But first a word of caution: it is difficult to find extensive primary sources on economic and political information on Poland, at least in English². The World Bank conducts many thorough studies, but the majority of their results are kept confidential, even to many policymakers³. Hence I must rely primarily on piecemeal secondary sources in English, and much information that is available for one or more years may not be available for other years, and so forth. Nevertheless, along with the aggregate data presented in Appendix II, I think that the Appendices represent an adequate body of evidence from which to draw certain conclusions.

¹ Particularly Hungary and the Czech Republic, as, all three taken together, these countries are the most "successful" in the post-socialist transformation.

² In fact, at least to my knowledge, the following appendix is one of the most complete factual accounts of Poland's post-state socialist experience available in English.

³ Amsden *et al*, p. 53

1981

Corporate Governance

- In September, to a large extent due to the lobbying of Solidarity, the *Law on Self-Management* was passed, which “gave enterprises the status of independent self-governing, and self-financing economic units. While the assets of firms remained formally the property of the state, enterprises largely managed themselves without outside interference. Under self-management, the governing organs of an enterprise became the employee general assembly, the workers’ council, and the director. The general assembly could adapt statutes, approve long-term business plans, and determine how the share of profits earmarked for the workers was to be used. Workers’ councils, elected directly by the general assembly, negotiated annual plans with managers, had final authority in the approval of these plans, and verified accounts”. The workers’ council also hired and fired directors.⁴

1986

Broader Relations with the International Political Economy

- Poland rejoins the IMF and the WB (Poland was a founding member, but soon after quite its membership)⁵.

1988

⁴ Hanley, p. 154

⁵ Kolodko 2000, p. 26

Role of the State in Socialism

- State employment as a proportion of the labour force in Poland is 70.4%, in Czechoslovakia 98.8%, in Hungary 93.9%, and on average in the OECD countries 21.2%⁶.
- The family allowance for two children as a percentage of average earnings: in Poland 17%, Hungary 24.9%, Czechoslovakia 19.6%, Austria 16.9%, UK 8.2%, France 6.5%, US 0% (no universal child allowance)⁷.

1989

The Post-Socialist Transformation

- From February to April, the government enters into open negotiations with the opposition, which helps to spark the process of change⁸. Called the *Poland Roundtable Negotiations*⁹.
- “First elections in central and eastern Europe” held in Poland, June 4-8¹⁰. In first partially free elections- Solidarity wins overwhelming majority, nearly 100% of free seats. All-Polish Agreement of Trade Unions (OPZZ), formed under the auspices of the Communist party in 1982 involving many former Solidarity members, “after 1989” became a partner of the post-Communist party, the Social Democracy of the Republic of Poland (SdRP)¹¹, under the umbrella of the Alliance for the Democratic Left (SLD)¹². The first post-socialist government in Poland calls for a “socialist market” economy, but soon yields to “the widely accepted opinion” for the desirability of a “liberal free market” economy. Solidarity and its leader Lech Wałęsa- soon to become

⁶ Milanovic, p. 12

⁷ Milanovic, p. 21

⁸ Kolodko 2000, p. 2

⁹ Welsh, p. 385

¹⁰ Ibid.

¹¹ The SdRP was formed in January 1990, and the Alliance for the Democratic Left in 1991.

president- calls for a “peoples’ capitalism”, with the free distribution of state assets.¹³

- Yugoslavia the first to implement neoliberal policies in eastern Europe, under advice from the IMF, WB, and western academics, in mid-December¹⁴.
- 24.7% of the population receive 40% or less of the average 1989 wage in Poland¹⁵.

1990

The Post-Socialist Transformation

- In January the Polish United Worker’s Party is dissolved and the SdRP is formed. Its chair, Aleksander Kwasniewski, purges the party of “die-hard communists”.¹⁶
- The “Balcerowicz Plan” implemented, named after the Deputy Prime Minister and Minister of Finance Lesek Balcerowicz and personally endorsed by Jeffrey Sachs¹⁷, an influential American economist heavily involved in post-socialist transformation economic policy. Sachs in fact helps to draft the Plan¹⁸. The IMF Executive Board approves the Plan on February 4, and shortly after in February the World Bank announces a US\$5 billion loan earmarked for Eastern Europe, half of it going to Poland alone¹⁹. There are very clear and specific conditions attached to the WB loans, as the (London) *Financial Times* reports on February 23 that the World Bank’s president, Barber Conable, “wants to open up the East European economies to Western trade and investment, and wants legislation and institutions there for free

¹² Nawojczyk, p. 130

¹³ Kolodko 2000, p. 31

¹⁴ Amsden *et al*, p. 34

¹⁵ Emigh *et al*, p. 16

¹⁶ Ishiyama, p. 159-160

¹⁷ Andor & Summers, p. 35

markets”²⁰. The Balcerowicz Plan includes a wages tax (the popiwek tax) on state-owned enterprises (private enterprises are exempt), which “penalized any attempt by public sector firms to increase output by increasing labour inputs” and had the effect of decreasing real wages because of inflation- giving significant advantages to the private sector²¹. The government estimates a GDP contraction of 3%; from 1989 to 1992, the GDP contracts by over 20%²².

- The IMF in its *World Economic Outlook 1991* predicts a contraction of 1.5% in 1991, 2.8% growth in 1992, and 4.4% growth in 1993²³.
- Industrial output falls by 25%; in 1991 it falls a further 19%²⁴.
- Inflation is over 60%²⁵.
- The Polish international debt is US\$41 billion. Only US\$9 billion of this debt is owed to private sector banks, the rest is owed to the public sector in the West²⁶.
- New legislation passed giving workers’ councils the right to veto the privatization of their enterprises. This was quickly nullified with new legislation laying out a two-stage process of privatization: 1) corporatization, turning the enterprise into a joint-stock company and replacing the workers’ council with a supervisory board consisting of four members nominated by the Ministry of Privatization and two by the workers; and 2) privatization, a two-year period of selling off the shares.²⁷ With the Poland Privatization Law of

¹⁸ Lloyd, p. 122-123

¹⁹ Gowan 1990, p. 72, 73

²⁰ Gowan 1990, p. 73

²¹ Andor & Summers, p. 57

²² Kolodko 2000, p. 41

²³ Kolodko 2002, p. 14

²⁴ Matzner *et al*, p. 12

²⁵ *ibid*, p. 13

²⁶ Gowan 1990, p. 64, 70

²⁷ Hanley, p. 156

1990, small- to medium-sized enterprises are simply liquidated, with the assets sold or leased, to internal or external buyers²⁸.

- At the beginning of 1990, there are 8,400 state-owned enterprises (SOEs), worth an estimated US\$ 58 billion. From the end of 1990 to March 1992, a total of 1,554 SOEs began the privatization process (20% of the total), with 431 corporatized and 1,123 liquidated. Expected sales from this first batch of privatization were 15 trillion Polish zloty (ZL), but by March 1992 actual sales were only ZL 2.5 trillion (US\$ 223 million).²⁹
- Real wages drop by 24%³⁰. Real wages drop by nearly a third³¹. 43.1% of the Polish population receive 40% or less of the average 1989 wage (in 1989 this figure was 24.7%)³².
- In the December elections, Mazowiecki receives only 18% of the vote³³. In Lech Wałęsa's election campaign, he promised every Polish citizen US\$10,000 in coupons exchangeable for shares in corporatized SOEs³⁴.

Relations with the European Union/ western Europe

- In January, the EU establishes PHARE (Poland, Hungary: Assistance for Restructuring Economies). As the name implies, its official purpose was to aid Poland and Hungary in their transformation to market economies.³⁵

Broader Relations with the International Political Economy

- The Council of Mutual Economic Assistance (COMECON or CMEA) is dismantled³⁶.

²⁸ Kiss, p. 133-134

²⁹ *ibid*, p. 136

³⁰ Hanley, p. 157

³¹ Matzner *et al*, p. 12

³² Emigh *et al*, p. 16

³³ Walicki, p. 120

³⁴ Kiss, p. 147

³⁵ Gowan 1995

³⁶ Kolodko 2000, p. 41

1991

The Post-Socialist Transformation

- First fully free parliamentary elections: members of two largest unions, Solidarity and the All-Polish Agreement of Trade Unions (OPZZ), win seats in the Sejm (Lower Chamber).³⁷ The SdRP forges the Democratic Left Alliance³⁸.
- In the period 1990-1991, industrial output drops by 40%³⁹. In 1990 industrial output falls by 25%; in 1991 a further 19%⁴⁰. For the year 1991, real GDP falls by 10%, roughly the same in Hungary, and by 16% in the Czech Republic⁴¹.
- Inflation is over 80%⁴².

Broader Relations with the International Political Economy

- Poland receives a 50% international debt pardon guaranteed by the United States, in return for the IMF-sponsored Balcerowicz Plan⁴³. Poland joins Mexico, Egypt, and Turkey as the only countries to receive significant international debt write-off in the past 30 years.
- Trade between east European countries becomes dollarized⁴⁴.

1992

The Post-Socialist Transformation

- By mid-year, 22% of industry, 42% of the construction industry, 16% of transport, 30% of foreign trade, and 75% of retail trade are in private hands⁴⁵.

³⁷ Nawojczyk, p. 131

³⁸ Ishiyama, p. 160

³⁹ Kolodko 2000, p. 157

⁴⁰ Matzner *et al*, p. 12

⁴¹ *ibid*, p. 13

⁴² *ibid*.

- Unemployment doubles from 6% in 1991 to over 12% in March 1992⁴⁶.
- Inflation is over 40%⁴⁷.
- By the end of 1992, a sizable percentage of state-owned enterprises (SOEs) were operating at profit⁴⁸.
- 43.7% of the Polish population receive 40% or less of the average 1989 wage (this figure was 42.1% in 1990 and 24.7% in 1989)⁴⁹.
- It is estimated that over two million people are affected by the closure of state farms in the early 1990s⁵⁰.
- Child poverty using two different methods (and ending up with two drastically different results): 1) In relative terms, children living in households earning less than 50% of the average income: 14.2% in Poland, 1.8% in the Czech Republic (in 1992), 6.3% in Taiwan (in 1995), 11.5% in Hungary (in 1994), 16% in Canada (in 1994), 21.3% in the UK (in 1995), and 26.3% in the US (in 1994); and 2) In absolute terms, children living in households earning less than 50% of the US official poverty line, which is the estimated income needed to purchase essential goods and services (all figures adjusted using purchasing power parity index and national price deflators): 90.9% for Poland, 90.6% for Hungary, 85.1% for the Czech Republic, 28.6% for the UK, 18.5% for the US, 9% for Canada, and 4.3% for Taiwan.⁵¹

⁴³ Andor & Summers, p. 24; Kolodko 2000, p. 30

⁴⁴ Andor & Summers, p. 28

⁴⁵ Kiss, p. 136

⁴⁶ Matzner *et al*, p. 13

⁴⁷ *ibid*.

⁴⁸ Hanley, p. 159

⁴⁹ Emigh *et al*, p. 16

⁵⁰ *ibid*, p. 93

⁵¹ Bradshaw, p. 196

- 17.9% of the population are afflicted with malnutrition; in 1989, the figure is negligible⁵².

Relations with the European Union/ western Europe

- From January to September trade with the West, relative to same period in 1991 (changes): imports in Textiles US\$149 million and Clothing US\$ -5 million; Exports in Textiles US\$10 million and Clothing US\$ 28 million- Net change in trade balance for Textiles US\$ -139 million and for Clothing US\$33 million.⁵³
- From 1985 to 1992, there is a cumulative decrease of Polish intra-CMEA trade of 59.5%; from 1989 to 1992, there is a cumulative increase of trade with the West of 52.3%⁵⁴.
- In March, the trade aspects of the Europe Agreements come into effect between the EU and Poland (and Hungary).

1993

The Post-Socialist Transformation

- Solidarity loses elections⁵⁵. September elections of the Sejm brought to power the SdRP (the former Communist party). The Democratic Left Alliance (which includes the SdRP and the Polish Socialist Party) forms a coalition government with the PSL, the former Communist-front peasants' party⁵⁶. SdRP's campaign slogan was "Things Don't Have to Go on this Way". The Union of Labour (descended from the Solidarity movement) approaches the

⁵² UNICEF, p. 22

⁵³ Amsden *et al*, p. 104

⁵⁴ Kolankiewicz, p. 485

⁵⁵ Nawojczyk, p. 130

⁵⁶ Andor & Summers, p. 138

SdRP to form a coalition, but then reneges on offer- though pledges to “cooperate” in parliament.⁵⁷

- By now 26.4% of *nomenklatura* from 1988 are retired. Only 5.8% are manager-owners, compared to 18.9% in Hungary. On the other hand, 48.8% of former *nomenklatura* are managers, as opposed to 4.6% of the general population (the figure for manager-owners of the general population is 0.8%)⁵⁸. Note that the implication is that over 90% of enterprises in Poland are either still owned by the state, or by foreigners.
- The total amount of food available (production plus imports) is 86.3% of the 1989 level⁵⁹.
- Between 1990 and 1993, livestock production fell by 22%, and farm incomes fell by more than 50% (17% of the Polish population are entirely dependent on farm incomes). Overall demand for food fell by 20% due to rising prices, unemployment, and falling incomes. UNICEF reports that food shortage due to structural change is extremely rare- usually it is due to drought, war, and so forth.⁶⁰
- From 1987-1993, real *per capita* income falls by 26%, real *per capita* GDP falls by 12%⁶¹.

Relations with the European Union/ western Europe

- In 1989 Poland has a US\$557 million trade surplus with the EU in agricultural goods; in 1993 Poland has a US\$333 million trade *deficit* with the EU in agricultural goods⁶².

⁵⁷ Ishiyama, p. 160

⁵⁸ Hanley, p. 162

⁵⁹ Andor & Summers, p. 102

⁶⁰ *ibid*, p. 102, 109

⁶¹ Milanovic, p. 34

⁶² Andor & Summers, p. 109

1994

The Post-Socialist Transformation

- The “Strategy for Poland” program of economic policies implemented, in which “the policies of liberalization and macroeconomic stabilization were shifted toward gradualism...[thereby bringing] “inflation down by more than two-thirds in 1994-7 and simultaneously boosted GDP by over 28 per cent”⁶³.
- From 1994 to 1997, there are more professors in government than there were generals in the martial law government of the early 1980s⁶⁴.
- Per capita foreign direct investment is US\$38.4, in the Czech Republic \$83.6, in Hungary US\$146.6, in Portugal \$127.2 and in Spain \$208.1⁶⁵.

Relations with the European Union/ western Europe

- Poland submits an official application for EU membership. Hungary in 1994 does the same. These are the first two post-socialist countries to do so.⁶⁶

1995

The Post-Socialist Transformation

- President Lech Wałęsa vetoes the IMF-sponsored pension reform proposals of the Alliance for the Democratic Left, the post-Communist coalition party. Wałęsa’s approval ratings immediately go up.⁶⁷
- In the November presidential elections, the SdRP candidate Alexander Kwasniewski defeats Lech Wałęsa’s re-election campaign⁶⁸.

⁶³ Kolodko 2000, p. 41-42. *Note on source: Kolodko was the first deputy premier and minister of finance of Poland, 1994-1997.*

⁶⁴ Kolodko 2000, p. 43-44

⁶⁵ Estrin *et al*, p. 40

⁶⁶ Williams & Balaz, p. 21

⁶⁷ Andor & Summers, p. 71-72

⁶⁸ Andor & Summers, p. 140

- The PSL (former Communist peasants' party) member of parliament Bogdan Pek, recently appointed head of the Polish parliamentary commission on privatization, pushes for a policy whereby each "privatization proposal should be assessed on its merits and should be subordinated to a coherent industrial policy". He is quickly removed from office by the SdRP and Balcerowicz's party, the Freedom Union.⁶⁹
- "A special programme of 'mass privatization' was carried out in Poland in 1995 after several years of debate and preparation. Over 500 state companies, with a book value of about 10% of all state assets before privatization, were transferred through 15 specially established 'national investment funds' to the population for a nominal fee equivalent to \$7 each, or 2% of the average monthly wage at that time. Around 97% of the eligible citizens participated in the programme...After trading on the secondary market, it is estimated that at most one-third of the participating citizens have retained the shares originally acquired, while two-thirds have sold their certificates to other entities for a price 5 or 6 times as high as the price at the primary market"⁷⁰.
- The *Polish General Social Survey* reports that 44% of those surveyed are "highly likely to approve of state intervention" and are characterized as "extreme egalitarians"; 39% "also approve of state intervention, but not so strongly" and are characterized as "egalitarian"; 11% are "more likely to disapprove of state intervention"; 6% are "undecided"⁷¹. Nawojczyk goes on to say that the survey shows that "those whose economic position is higher are more likely to accept income differences" and that "middle aged respondents are the most likely to have elitist attitudes...Only those with the lowest level

⁶⁹ *ibid*, p. 182-183

⁷⁰ Kolodko 2000, p. 201

of education are willing to take extremely egalitarian attitudes [note that this is 44% of those surveyed!]"⁷². Furthermore, Nawojczyk claims that at least 10% of those surveyed- "of the better educated, middle-aged people- were able to adjust to the new situation very well and take advantage of it [i.e. the post-socialist transformation]"⁷³.

- The World Bank calculates poverty by using a random income cut-off: US\$120 a month or less for Poland. By this measure, 20% live in poverty, which equals 7.6 million people. In 1987-88, using this measure, 6% live in poverty.⁷⁴
- 60% of Polish farms are technically bankrupt, according to *The Guardian* (London)⁷⁵.
- From 1990-1995, the cumulative total of foreign direct investment (FDI) from the US is 30.8%, Germany 10.8%, and the Netherlands 7.3%. Of the of FDI in Hungary from 1990-1995, Germany's share is the largest with 24.1%, closely trailed by the US 23.2%. In the Czech Republic, Germany's share is 29.5%, the US 14.3%, Switzerland 13.9%, and the Netherlands 13.8%.⁷⁶ In Poland the electro-machinery industry is the most important sector for FDI with 17.1% of the share, 8.5% for the construction industry, 5.1% for chemicals, 5.1% for transport equipment, and 5.1% for transport and communications⁷⁷.

1996

⁷¹ Nawojczyk, p. 135, citing Cichomski & Morawski

⁷² Nawojczyk, p. 137

⁷³ *ibid.*

⁷⁴ Milanovic, p. 68

⁷⁵ Andor & Summers, p. 109

⁷⁶ Estrin *et al*, p. 42, 44

⁷⁷ *ibid*, p. 49-50

The Post-Socialist Transformation

- 1.5 million Poles receive social benefits; 77.8% live below the poverty line⁷⁸.
- Poverty is becoming more long-term and structural: in the two year period of 1990-1991, 11.6% of those in poverty at the beginning of the period were still in poverty at the end of the period; from 1991-1992, this figure is 18.6%; from 1993-1994, this figure is over 20%; and from May 1995 to May 1996, a full 69% of households living in poverty at the beginning of the period were still in poverty at the end of the period⁷⁹.
- Poland regains its 1989 GDP level, the first post-socialist country to do. Slovenia does the same in 1998, Slovakia in 1999, and Hungary in 2000.⁸⁰ The overall GDP of "Eastern Europe" in 1996 is approximately 80% of its 1987 level⁸¹.
- The *per capita* gross national product of Poland reaches the level of the 1970s⁸². In 1996 real wages are less than 90% of the 1987 level⁸³.
- The average farm wage in Poland is 128 British pounds per hectare. In Britain, the Common Agricultural Policy subsidizes cereals at 269 British pounds per hectare, peas and beans at 388 British pounds per hectare, oilseeds at 456 British pounds per hectare, linseed at 520 British pounds per hectare, and unused farm land set aside at 340 British pounds per hectare (in an effort to curb overproduction)⁸⁴.

⁷⁸ Emigh *et al*, p. 91-92

⁷⁹ *ibid*, p. 92

⁸⁰ Kolodko 2000, p. 10

⁸¹ Milanovic, p. 23

⁸² Andor & Summers, p. 81

⁸³ Milanovic, p. 28-29

⁸⁴ Andor & Summers, p. 111

Relations with the European Union/ western Europe

- Around US\$4 billion of Polish “exports” consists of German cross-border bargain shopping. The Polish trade deficit is US\$6.154 billion.⁸⁵
- It is estimated that the EU’s trade surplus from 1992-1996 has caused the loss of 200,000 to 250,000 jobs⁸⁶.

1997

The Post-Socialist Transformation

- Solidarity re-wins elections⁸⁷.

1998

The Post-Socialist Transformation

- Poland is still ethnically homogenous, with 97.6% Poles and 1.3% Germans. 63.4% live in urban areas, and 87.1% of the eligible age group is enrolled in secondary school (the latter two figures for Hungary is 63.1% and 73%, respectively).⁸⁸
- The capitalization of the stock market is less than 10% of GDP; “the core of the financial sector is being taken over by the banks. The stock exchange is of relatively minor significance”⁸⁹. Despite this, Poland has more stockholders than Germany⁹⁰.
- By now, over half of all banks are foreign-owned⁹¹.
- Poverty in 1998 is higher than in 1991⁹². Share of patients making informal, *extra*, under-the-counter payments for healthcare is 78%⁹³. Those living in

⁸⁵ *ibid*, p. 74

⁸⁶ Inotai, p. 175

⁸⁷ Nawojczyk, p. 130

⁸⁸ Emigh *et al*, p. 13

⁸⁹ Kolodko 2000, p. 190

⁹⁰ *ibid*, p. 201

⁹¹ Polanski, p. 61

⁹² World Bank, p. 1

⁹³ *ibid*, p. 9

absolute poverty, as randomly defined by the World Bank at US\$2.15 a day, is 1.2% of the population; those living on US\$4.15 a day is 18.5% of the population⁹⁴.

Relations with the European Union/ western Europe

- According to EU estimates, 40-50% of eastern European exports fall into the “sensitive category”, and are thus subject to EU protectionism. This especially hurts the east European steel and agriculture sectors, as they would be competitive if the EU did not subsidize and protect its own steel and agriculture⁹⁵. Polish chemical exports to the EU are subject to anti-dumping laws that pre-date 1989. Polish textiles and clothing exports are controlled by the Multi-Fibre Agreement (which is an international treaty), steel is subject to EU anti-dumping laws, there is an EU-imposed quota on the import of Polish cars, and the bulk of Poland’s agricultural goods- grain, livestock, and dairy products- are all protected in the EU under the Common Agricultural Policy. Furthermore, a “rules of origin” clause between the EU and Poland stipulates that at least 60% of Polish exports to the EU must be local content, which hampers regional linkages, especially in the former COMECON group. Germany threatens a trade war because Polish producers of garden gnomes are “flooding” the German market; Poland withdraws.⁹⁶

2000

The Post-Socialist Transformation

- Capital gains remain tax-free. In the mid-1990s, there was a 0.2% tax, but this was scrapped⁹⁷.

⁹⁴ *ibid*, p. 35

⁹⁵ Andor & Summers, p. 28-29

⁹⁶ *ibid*, p., 65

⁹⁷ Kolodko 2000, p. 215

- Absolute poverty, as defined by the World Bank at less than US\$2.15 a day, is less than 5% in Poland, the Czech Republic, and Hungary; whereas in Russia it is over 20%⁹⁸. On the other hand, if one accounts for those living just above the absolute poverty line in Poland, the rate is nearly 10%⁹⁹.
- In Poland and Hungary, consumers spend roughly 40% of their income on food¹⁰⁰.

Relations with the European Union/ western Europe

- The EU Commission ranks Poland and Hungary as the two most ready for EU membership¹⁰¹.
- Poland's GDP is 40% of the EU's average¹⁰².

2001

The Post-Socialist Transformation

- People 65 or older constitute 5% of the "poor population", and children under 14 constitute 30% of the "poor population"¹⁰³.
- The Social Minimum Level is the estimated income needed to buy essential goods and services- in the largest cities 26.2% live below this level, in the towns this figure is 51.1%, and in villages 57.7% live below this level¹⁰⁴.
- Inflation is 10.1%¹⁰⁵ and unemployment is 18.4%¹⁰⁶
- Poland spends \$371 per capita on healthcare, while the OECD average is \$1558¹⁰⁷.

Relations with the European Union/ western Europe.

⁹⁸ World Bank, p. 4

⁹⁹ World Bank, p. 6

¹⁰⁰ Karasinska-Fendler *et al*, p. 178

¹⁰¹ Williams & Balaz, p. 21

¹⁰² Brusis, p. 267

¹⁰³ Emigh *et al*, p. 91

¹⁰⁴ Emigh *et al*, p. 96

¹⁰⁵ Commission 2002, p. 156

¹⁰⁶ *ibid*, p. 157

- The EU's trade surplus is 8.9 billion euro¹⁰⁸.

2002

The Post-Socialist Transformation

- There are by now 350 registered trade unions in Poland. The two biggest are OPZZ with 3 million members and Solidarity with 1.2 million members¹⁰⁹.
- One fourth of the population lives on small, inefficient farms¹¹⁰. These farms use up to 60% of Poland's land and constitute less than 5% of its GDP¹¹¹.

Relations with the European Union/ western Europe

- On December 13 the European Council extends its official invitation to eight central and eastern European countries, along with Malta and Cyprus, to join the European Union on May 1, 2004¹¹².

For tables of selected aggregate data across time, see Appendix II.

¹⁰⁷ Mihalyi & Petru, 227

¹⁰⁸ Commission 2002, p. 10

¹⁰⁹ Nawojczyk, p. 131

¹¹⁰ Commission *Relations with Poland*

¹¹¹ Deutsche Welle

¹¹² Joshi

Appendix II

Table 2.1- Change in National Accounts of Poland, 1995-
2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 (est.)
Gross Domestic Product (constant prices)	100	107	106	106.8	104.8	104.1	104	101	101.4	103.7
Gross value added in industry (constant prices)	100	110.4	107.5	110.2	104.1	103.1	106.5	99.7	99.8	107.6
Gross value added in construction (constant prices)	100	105.8	102.7	113.1	109.1	101.7	100.3	92.1	91.4	94.9
Gross value added in market services (constant prices)	100	104.8	105.6	104.7	105	105.6	104.1	102.8	104	104.1
Total consumption (constant prices)	100	103.3	107.1	106.1	104.2	104.5	102.5	101.7	102.8	102.5

Source: *Polish Official Statistics*. Polish Central Statistics Office,
<http://www.stat.gov.pl/english/index.htm>

Table 2.2- Registered Unemployment in Poland

	January	March	August	November
1990	0.3	1.5	4.5	5.9
1991	6.6	7.1	9.8	11.1
1992	12.1	12.1	13.4	13.5
1993	14.2	14.4	15.4	15.5
1994	16.7	16.7	16.8	16.1
1995	16.1	15.5	15.2	14.7
1996	15.4	15.4	13.8	13.3
1997	13.1	12.6	11	10.3
1998	10.7	10.4	9.5	9.9
1999	11.4	12	11.9	12.5
2000	13.7	14	13.9	14.5
2001	15.7	16.1	16.2	16.8

2002	18.1	18.2	17.5	17.8
2003	18.6	20.6	19.5	19.5
2004	20.6	20.5 n/a	n/a	

Source: *Polish Official Statistics*. Polish Central Statistics Office,
<http://www.stat.gov.pl/english/index.htm>

Table 2.3- UN Human Development Report 2003

	Poland	Austria	Germany	Spain	Czech Republic	Hungary	Central & Eastern Europe & CIS	OECD	High- Income OECD
Life expectancy at birth (years)									
2001	73.6	78.3	78	79.1	75.1	71.5	69.3	77	78.1
Adult literacy rate (% age 15 and above)									
2001	99.7	99	99	97.7	99	99.3	99.3	99	99
Combined primary secondary and tertiary gross enrolment ratio 2000-01 (%)									
	88	92	89	92	76	82	79	87	93
GDP per capita (PPP US\$) 2001	9450	26730	25350	20150	14720	12340	6598	23363	27169
Life expectancy index	0.81	0.89	0.88	0.9	0.83	0.77	0.74	0.87	0.89
Education index	0.95	0.97	0.96	0.97	0.91	0.93	0.92	0.94	0.97
GDP index	0.76	0.93	0.92	0.89	0.83	0.8	0.7	0.91	0.94
Human development index (HDI) value 2001	0.841	0.929	0.921	0.918	0.861	0.837	0.787	0.905	0.929
HDI World Ranking 2003	35	16	18	19	32	38 n/a	n/a	n/a	

Source: United Nations Development Program. *UN Human Development Report 2003*, http://hdr.undp.org/reports/global/2003/pdf/hdr03_HDI.pdf

Table 2.4- Selected World Bank Development Indicators,
1991-2002

	Cable television subscribers (per 1,000 people)	External debt, total (current US\$)	Foreign direct investment, net inflows (% of GDP)	GDP growth (annual %)
1991	5	53,420,500,000	0	-7
1992	5	48,494,600,000	1	3
1993	16	45,176,400,000	2	4
1994	36	42,552,900,000	2	5
1995	70	44,263,200,000	3	7
1996	71	43,473,100,000	3	6
1997	72	40,401,100,000	3	7
1998	81	55,493,800,000	4	5
1999	86	60,671,100,000	5	4
2000	92	63,258,700,000	6	4
2001	91	63,274,600,000	3	1
2002	91	69,520,600,000	2	1

Source: World Bank. *World Development Indicators 2003* database,
<http://devdata.worldbank.org/dataonline/>

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