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FAST AND FURIOUS VS. SLOW AND GENTLE: A CRITICAL ASSESSMENT OF THE GRADUALIST APPROACH TO ECONOMIC TRANSFORMATION IN POLAND

Abstract. The article engages in the debate between the big-bang and gradualist approaches to economic transformation in Poland after the collapse of communism. It presents the major arguments behind both strategies and reviews the empirical evidence, finding that countries that adopted the big-bang strategy performed better in the long-run. The paper challenges two main gradualist's criticism of radical reforms in Poland, i.e., that the costs in the form of the so-called transformation recession were excessive, and that the big-bangers neglected institutions. In reality, in countries with radical reforms more institutional changes happened and the welfare costs were lower than in countries with gradual reforms, and these costs were also lower than commonly believed. Last but not least, the article argues that the main problem of gradualism is its "institution first" approach, which does not stand up to scrutiny.

Keywords: big-bang, economic transformation, economic transition, gradualism, institutions, Poland.

1. Introduction

At the end of Polish People's Republic, the need to transform the Polish economy from a centrally planned to a market economy was obvious. What was less evident was how (fast) this should be done, especially as there was no clear example to build on. Essentially, two views have been clashing over the pace of economic transformation. Some economists advocated a rapid transformation (Lipton and Sachs 1990; Aslund 1992; Fischer and Gelb 1991; Murphy et al. 1992; Balcerowicz 1993; Boettke 1993; Fischer 1994), while others favoured a more gradualist approach (Svejnar 1989; Murell 1992; Portes 1992; McKinnon 1994; Roland 1992; Dewatripont and Roland 1992; 1995; Aghion and Blanchard 1994).[1]

The aim of this article is to critically assess arguments for gradualism thirty five years after the economic transformation began in Poland.

In the following two sections, I briefly characterise the positions of the big-bangers (or radicalists) and gradualists, respectively. In section 4, in the light of the development of Poland and other countries that have gone through economic transition, over the last thirty-five years, I argue that the big-bang strategy turned out to be better approach to economic transformation than gradualism. However, the question remains why. In the subsequent two sections, I address two main arguments for gradualism, i.e., that the big-bang approach entailed too high costs and that it neglected institutions, and show their weaknesses. In section 7, I argue that the "institutions-first" approach, which is the key element of gradualism, is flawed. Section 8 concludes.

2. Big-bang

The big-bang approach to economic transformation emphasizes two features: the parallelism of the reforms and the pace of their implementation (Balcerowicz 1997; Åslund 1992). The measures should be taken as early as possible and proceed with the speed "close to the maximum possible one" (Balcerowicz 1994, 78). The changes should be also conducted in all areas of economic transformation more or less simultaneously in a concentrated period of time. The standard big-bangers' prescription for successful transition to market economy is to proceed as fast as possible on macroeconomic stabilization, the liberalization of prices, current account convertibility of the currency, privatization, and the creation of a social safety net, while simultaneously creating the legal framework for a market economy (Lipton and Sachs 1990; Fischer and Gelb 1991; Fischer 1994, 237).[2]

What were the arguments of the big-bangers? First, they argued that the window of opportunity is very narrow, so it is necessary to use it to reform economy before the support for changes and transitory sacrifices will fade away (Lipton and Sachs 1990).[3] It was argued that immediately after the political upheaval, there was a short period of "extraordinary politics," during which people were more inclined to think about the common good and were more ready to accept economic changes, as opposed to 'normal' politics aimed at realizing particular interests.

Second, it was believed that the new liberal institution should be quickly implemented before the public could potentially change its mind. Moreover, the radical reforms could lower inflation expectations and implement hard budget constraints. The idea was that the big-bang would be perceived as irreversible, which would make people – including the managers of companies – change their expectations and behaviour (Balcerowicz 1995). In other words, only radical reforms could be a credible signal of commitment to economic liberalization (Boettke 1993).

Third, the fast and comprehensive reforms would prevent opportunities for speculation and rent-seeking, as well as the formation of interest groups defending the status quo and opposing liberalization. Thus, the rapid reforms would more easily prevent or overcome the political opposition (Lal 1987). As Klaus (2014, 56) explained the big-bang mindset adopted by reformers in Czechoslovakia, "We did not want to allow opportunities for all kinds of rent-seeking groups to try to preserve the status quo or hijack the whole transformation process to benefit their own vested interests. We did not want to give the opponents of reform time to organize and block change."

Fourth, the interdependence of economic processes and variables required comprehensive, decisive reforms. The idea was to take advantage of synergistic links between different reforms and to avoid the pitfalls of partial reforms (Murphy et al. 1992). In other words, one element of transition plan to be successfully implemented, the economy needs the other policies to be introduced as well (Balcerowicz 1994, 78–79). As Lipton and Sachs (1990, 100) put it, "the transition process is a seamless web. Structural reforms cannot work without a working price system; a working price system cannot be put in place without ending excess demand and creating a convertible currency; and a credit squeeze and tight macroeconomic policy cannot be sustained unless prices are realistic (...)".

The sequential reforms could also lead to time-iconsistency problems and could be interpreted as insufficiently decisive, which could undermine the credibility of the whole process (Martinelli and Tommasi 1997). The big-bangers remembered the failed attempts to reform socialists economies.[4] They believed that the reason for these failures was the insufficient radicalism, or the failure to achieve a certain critical mass of reforms (Balcerowicz 1995). They argued that more comprehensive and decisive reforms could be more credible and, thus, lead to higher investment (Lal 1987; Hiemenz et al. 1991; Funke 1993).

Fifth, earlier reforms would bring results sooner (Selowsky and Martin 1997). It seems trivial, but "if reform improves welfare, the optimal policy is to implement the program rapidly so that the welfare gain is achieved as quickly as possible" (World Bank 1991, 117). Additionally, given the size of macroeconomic imbalances, each month without reforms could lead to disaster, at least in some transforming countries. For example, there was a hyperinflation in Poland. Hence, the big-bang approach was stated as the only reliable option.[5]

Also, inefficient institutions characteristic of socialist economies were seen as the source of problems, so the sooner they were removed, the better. The big-bangers acknowledged the existence of market failures, but they were more afraid of government failures. According to Aslund (2007), the radical reformers wanted to build normal societies, which they understood as democracies with market-based economies. They rejected any attempts to build a third way or market socialism. As Klaus (2014, 55), put it, "We took for granted the need to totally and unconditionally liquidate the communist political and economic system – we took this idea as our starting point."

Last but not least, the radicalists argued that rapid reforms were supported by the international financial institutions such as the World Bank and the International Monetary Fund (Balcerowicz 1994) and that they were more desirable from a political point of view. First, they would facilitate debt reduction. As Balcerowicz (1994, 78) noted, "the chances of obtaining such a reduction from the Western creditors, especially from the Western governments who owned two-thirds of the Polish debt, depended on Poland's adoption of a comprehensive and radical economic programme, which was in any case required on domestic grounds." Second, there was a belief that rapid transformation toward market-based economy would facilitate admission to the European Community. As Bronislaw Geremek, one of the most influential Solidarity leaders, said "I understood the difficulties that we faced because of the Balcerowicz Plan, but at the same time I knew that this was the only way that could secure for Poland the chances of getting a place in the European economic order (...) I was also aware that we must move very quickly on this way, because Europe had frankly no intention to wait for us" (Kowalik, 1994, 121–122).

3. Gradualism

Although the gradualists agreed with the big-bangers about the direction of the reforms, they opted for a slower pace of their implementation. They supported gradual (evolutionary, incremental) approach, in which the reforms would be carried out sequentially, or would be spread over an extended period of time.

What were the arguments of the gradualists? First, they were afraid that the big-bang would entail too high costs for society. These economists believed that more gradual reforms would either result in a shallower recession or lower social costs (Kołodko and Nuti 1997; Wei 1997; Kowalik 2009). These fears were so great that the gradualist started to call the big-bang strategy as "shock-therapy", or even "shock without therapy" (Kołodko and Nuti 1997, 30). Both terms are emotionally loaded which could bias against radical reforms (Balcerowicz 1995).

Second, the gradualists criticized radicals for ignoring the importance of institutions (Hecht 1994; Stiglitz 1999; Kołodko 2000; Popov 2000; 2006). They believed that proper institutions should be implemented before crucial reforms such as liberalization and privatization. They worried that if the socialist institutions would be destroyed, but no new institutions would be created, there would be a systemic vacuum, neither central plan, nor market (Kołodko 2000; 2004). This point is, of course, connected to the previous one, as the gradual reforms would give time for the creation of new institutions (as well as new industries and companies), which would reduce the scale of dislocations.

Third, the gradualists believed that instead of quickly implementing the whole package of reforms at the same time, an optimal path of reforms could be designed, tailored to a given country (Dewatripont and Roland 1995). If the sequencing of reform is correct, it can even "create momentum by strengthening the support for reforms during the transition process" (Dewatripont and Roland 1995, 1209).

Fourth, the gradual strategy would allow for necessary midcourse adjustments. Its supporters pointed out the uncertainty related to the outcomes of reforms. This is why it was believed to be reasonable to defer some actions until more information is obtained and uncertainty is reduced (World Bank 1991, 115–118; Murell 1992; Erbas 2002).

Fifth, the gradualists argued that evolutionary approach would allow for gradual building of credibility and support for further reforms (Dewatripont and Roland 1995). Thus, it would be politically more acceptable and result in greater political stability (Svejnar 1989; World Bank 1991, 115–118).

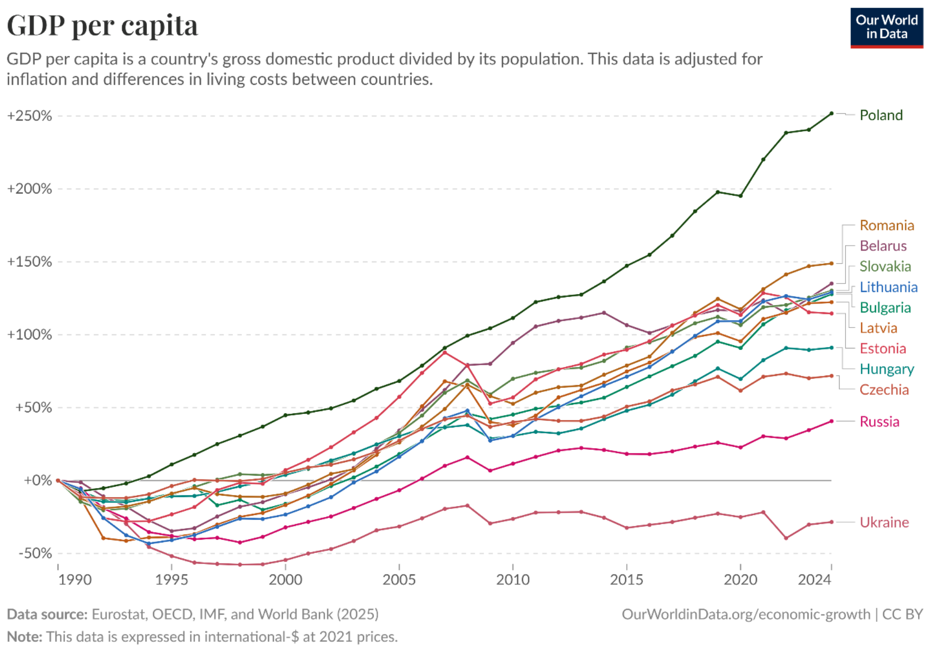
4. Empirical Evidence

The big-bangers believed that the risk of political reversals, and its negative impact on long-term income, was high under a more gradualist scenario. If they were right, the fast pace of reforms were more than justified.

Of course, it is impossible to determine precisely what would have happened if Poland had adopted a more gradualist approach. However, slower pace of reforms in other countries (Bulgaria and Romania in Central Europe and most countries in the former Soviet Union) often indeed produced policy slowdowns or even reversals (Piatkowski 2018).

Moreover, the economic success of Poland has become so clear (Piatkowski 2013; 2018), that it would be rather controversial to evaluate the Poland's economic transformation negatively in general. As Figure 1 shows, Poland's real GDP per capita has increased 63% between 1990 and 2004, when it joined the EU – which was declared as the end of transition by the World Bank (Alam et al. 2008) – and 252% between 1990 and 2024 (World Bank 2025).

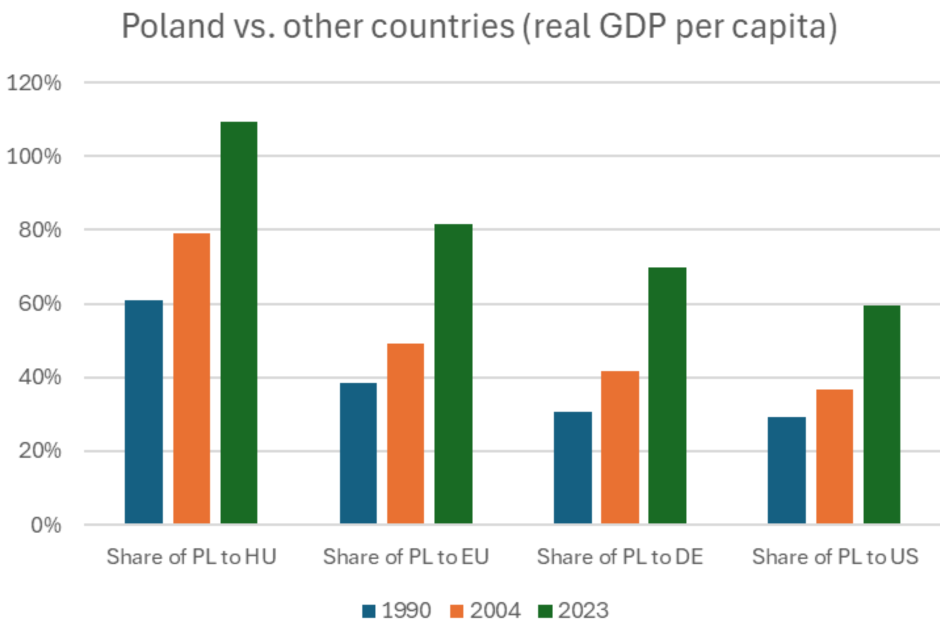
Figure 1. Relative change in real GDP per capita of Poland and other countries in transition, 1990–2023



Source: Our World in Data (2025).

Poland has also reduced its development gap with developed economies and other transition economies, surpassing some of them. For example, as Figure 2 reveals, in 1990 Poland's real GDP per capita was only 29% of American level, 31% of Germany's level, 39% of EU's level (EU-27), and 61% of Hungary's level. Meanwhile, in 2023, these shares were 60%, 70%, 82%, and 109%, respectively. To be clear, the figure compares distant dates, but Poland has surpassed several countries (such as Bulgaria, Romania or Ukraine) by 1997, when transformation was still ongoing.

Figure 2. Share of real GDP per capita of Poland and other countries in 1990, 2004, and 2023



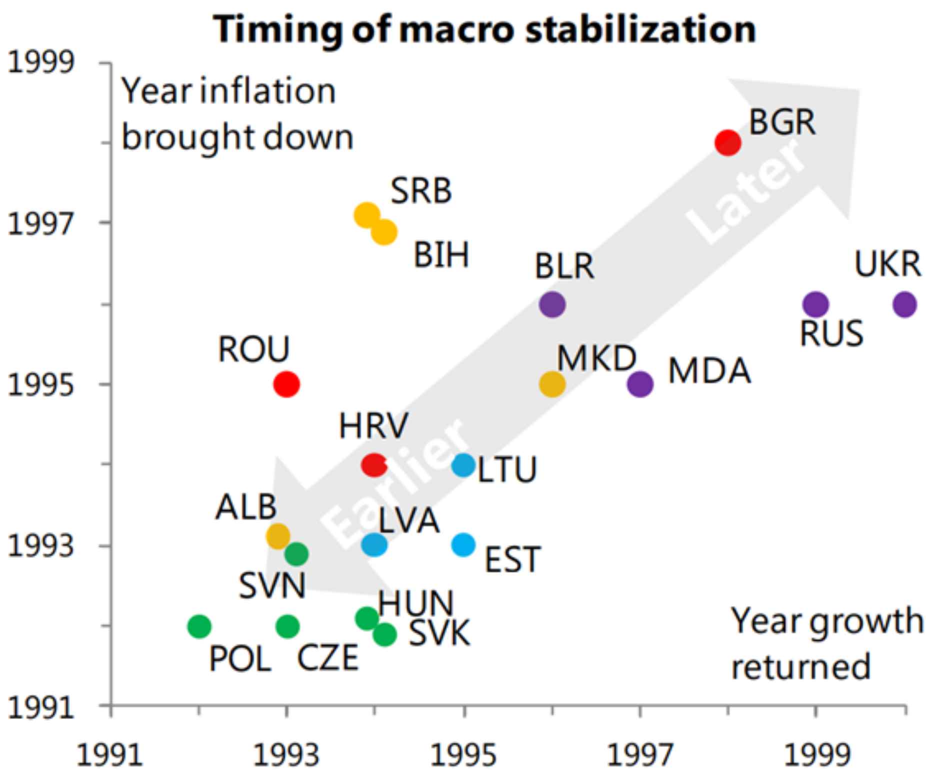
Source: Own elaboration based on World Bank (2025).

There is strong empirical evidence that countries that have been more radical with reforms, such as Poland, outperformed countries that have been more gradualistic. Comparing Poland with Czechia and Hungary, Jarmołowicz and Piątek (2013), point out that the reforms in Poland were the most radical and implemented under the most difficult conditions, while the macroeconomic results they brought were the best, which supports the big-bang approach.

More generally, the countries of Central Europe and the Baltics outperformed the countries of former Soviet Union (excluding the Baltics) (Havrylyshyn et al. 1998). It is important to note here that the Baltics were the part of the Soviet Union, but these countries chose more radical path of reforms, and enjoyed better growth performance. As IMF report notes, "countries that took bolder and more front-loaded reforms – notably in Central Europe and then the Baltics – were rewarded with a faster return to growth and stability" (Roaf et al. 2014, 3).

Indeed, economic growth was found to be positively correlated to the progress of reform in several econometric analyses (Fischer et al. 1996; de Melo et al. 1996; 2001; Sachs 1996; Selowsky and Martin 1997; Havrylyshyn et al. 1998; 2016; Berg et al. 1999; Gros and Steinherr 2004). As Fischer and Sahay (2000, 1) put it, "the faster the speed of reforms, the quicker the recovery and the higher the growth". Although imperfect illustration of complex transformation progress, Figure 3 suggests that countries that conducted macroeconomic reforms (to curb inflation) relatively quickly also returned to growth earlier than countries that implemented macroeconomic stabilization at slower pace (Roaf et al. 2014; Piatkowski 2018).

Figure 3. Years of inflation brought down and growth returned among transition economies in the 1990s



Source: Roaf et al. (2014, 13).

In light of this empirical evidence,[6] it should be clear that the big-bang strategy turned out to be generally better approach for the countries of the former Soviet Bloc to economic transformation than gradualism. However, two important questions remain.

5. Did Big-Bang Entail Too High Costs?

It is true that in all transforming countries there was a recession. However, despite the fears of the gradualists, it turned out that "choosing a faster *path* (...) does not imply an offsetting cost; if anything, fast reforms appear to provide an *additional* impulse to growth" (Berg et al. 1999, 53, emphasis in original). In other words, the costs were lowest in rapid, not gradual, reformers (Aslund 2007; Havrylyshyn 2007; Havrylyshyn et al. 2016). The decline in output was the smallest in Poland (apart from Slovenia). And it was also shorter than in other countries, while the pace of economic growth that followed was dynamic (Gomulka 2016).

It is worth emphasizing here four things. First, the official data significantly overestimates the depth of the so-called transformation recession and does not reveal the strong supply effects of the reforms (Balcerowicz 1995; Aslund 2001; 2007). This is because the reported production was overstated in the socialist economies (and understated in capitalism). Also, production in the socialist economies was of low quality, as the produced goods were often of little value relative to the production in market-based economies. McKinnon (1993) even argued that the negative value-added at world prices in industries producing finished goods was common in socialist economies of the USRR and Eastern Europe.[7] There were also issues related to the bias toward heavy industry and military production, to the growth of informal economy – which could reach a level of 20% of GDP in 1992 (Rajewski 1993; Berg 1994) – and to the decline in inventory investment (in socialist economy, inventories were excessive).[8] According to Berg (1994), much of the measured decline in Poland's GDP in 1990 could result from the reduction in inventories. Thus, when adjusted for all the methodological issues, the real size of Poland's recession is estimated to be much lower. For example, Czyżewski et al. (1996) estimate that the real fall in GDP in Poland during 1990–991 was closer to 7 percent rather than 18 percent reported by the official statistics, while Berg (1994) points out that the overall consumption (but without adjustment for quality, variety and the end of queuing) fell by about 3% in 1990, much less than the GDP.

Second, the recession occurred to a large part due to the collapse of socialist economy, the Soviet Union and the Council for Mutual Economic Assistance, and the resulting trade and supply chain disruptions. In other words, significant distortions have been accumulated in socialist economies, which could not be fixed overnight. This is why all the transition economies experienced recession, no matter whether they adopted a big-bang or gradualist approach. Rostowski (1993, 102) points out that Hungary – which introduced a market-oriented reform already in 1968 and has been undertaking economic reforms since then (Somogyi and Boote (1991) – "has suffered just as much since 1989 as the former Czechoslovakia or Poland, both of which adopted far more aggressive approaches to reform".

Third, the restructuring of economy was expected and actually necessary. This is because the resources needed to be reallocated in order to correct the distorted economic structure inherited from socialist economy, while the surviving firms needed to be restructured (Blanchard 1997; Popov 2006). And the move from sellers' to buyers' market (via price liberalization), and introduction of a hard budget constraint led to the accumulation of unsold goods and the need for reducing production (Kornai 1994; Havrylyshyn et al. 1998). The benefits – for example, liberalization increased the productivity of the factors of production – counterbalanced the transitional costs over the medium and long-run. Thus, it is important to look beyond short-term costs and take into account the dynamic effects of different reform trajectories.

Actually, one should remember that the fall in output "can only to a certain extent be seen as a cost of transition, understood as a welfare loss" (Winiecki 1991, 669). And it resulted largely from a reduced demand for production inputs due to increase in efficiency (and reduced energy and input intensity and wastefulness) (Winiecki 1991). Somewhat similarly, Berg (1994) points out that the reported decline in output was not a Keynesian recession, but rather the unraveling of distortions that characterized the socialist economy and the following structural adjustment.[9]

Fourth, it is inappropriate to talk about "shock therapy", and to blame it for recession, as the shock has happened *before* the reforms. There was actually slowdown in economic growth in several socialists economies during years preceding the transition. For example, the economy of the USSR declined in the last year of its functioning (Aslund 2007). Also, Hungary adopted a comprehensive economic reform package in 1995, after the recession ended.[10] It is worth noting in this context that the collapse of the Soviet Union contributed significantly to the recession in Finland, although it was not in transition, as it was already a market-based economy. However, the Soviet Union was Finland's main trading partner, which indicates the key role of the trade disruptions in the so-called transformation recession. Indeed, the adjustment path for Finland's GDP is very similar to those observed in the transition economies of Central and Eastern Europe. This fact strengthens the argument that the so-called transformation recession was to a large part caused by the collapse of trade within the CMEA (Gorodnichenko et al. 2012).

It is also important to point out that the along with the rapid reforms in Poland, a safety net was kept in place and even expanded, as unemployment benefits, easier early retirement and disability pensions were introduced, while the low retirement age was maintained in practice. Compared to the countries of the former USSR, social transfers in Poland were much higher in relation to GDP. This is why Rutkowski (1998, x) notes that the welfare state in Poland "has increased rather than diminished during the economic transition" and that "the Polish social protection system is extremely generous even by OECD standards". Similarly, Aslund (2007) claims that the big-bangers never forgot about institutions or social policy, and that, actually, Poland has fallen into a social welfare trap. Indeed, pension and social expenditure share in GDP has been relatively high in Poland compared to other Central and Eastern European or even the OECD average (Sawulski 2017; Piatkowski 2018; OECD 2025a; 2025b). As Sachs (1994) noted, "roughly 32 percent of all Polish adults are on retirement pension or disability pension, in comparison with 18 percent in the United States."

Moreover, in some respects, the reforms in Poland were far from being radically fast. For example, the reduction in inflation was gradual. The inflation rate only dropped below 10 percent at the end of 1998. Also the privatization of state-owned enterprises was relatively slow. To this day, the share of the state ownership is relatively high (Bałtowski and Kwiatkowski 2022; OECD 2024). And, after initial fiscal tightening, there was a quick return of budget deficits, as in 1992, the deficit amounted to 6% of GDP (Gomułka 2016). Moreover, not all prices were fully liberalized in a big-bang fashion (e.g., wage controls were strengthened initially, and the prices of energy and other utilities were brought to the market level in several steps) (Balcerowicz 1995). Hence, although the reforms in Poland were implemented relatively fast, the expression "shock therapy" might be a bit exaggerated, at least in some respects.[11]

Due to the limited space of this article, I focused on the decline in the reported output.[12] However, others pointed out the decline in the real wages of Poles in 1990 or the increase in the unemployment rate after transformation. When it comes to the former, the reported decrease resulted from the a sharp rise in real wages during 1987–89, which hardly reflected a true and sustainable improvement of living standards (as they could not be turned into real purchasing power with goods not available at the official prices). Thus, the reported decline in real wages after 1989 does not say too much about the real living standards (Berg and Sachs 1992). And when compared to 1987, real wages decreased only 7.7 percent in 1990 (Gomułka 2016).

When it comes to the unemployment rate in Poland, the officially registered one increased to 16.4 percent in 1993. The increase in the unemployment rate was inevitable as a result of economic transformation. In part, it only revealed hidden unemployment (or overemployment) existing in socialist economy and the true unemployment was probably lower than the officially reported (Sachs 1994; Góra 1996; Gardawski 2002). According to Maret and Schwartz (1993, 9), in the early 1990s, over 50 percent of all registered unemployed in Poland were actually working in the shadow economy. However, the unemployment rate deviated significantly from the average for other economies in the region undergoing economic transformation, which suggests the structural and institutional issues (rather than the mere effect of the so-called transformation recession), and that at least some part of this increase could be avoided.[13]

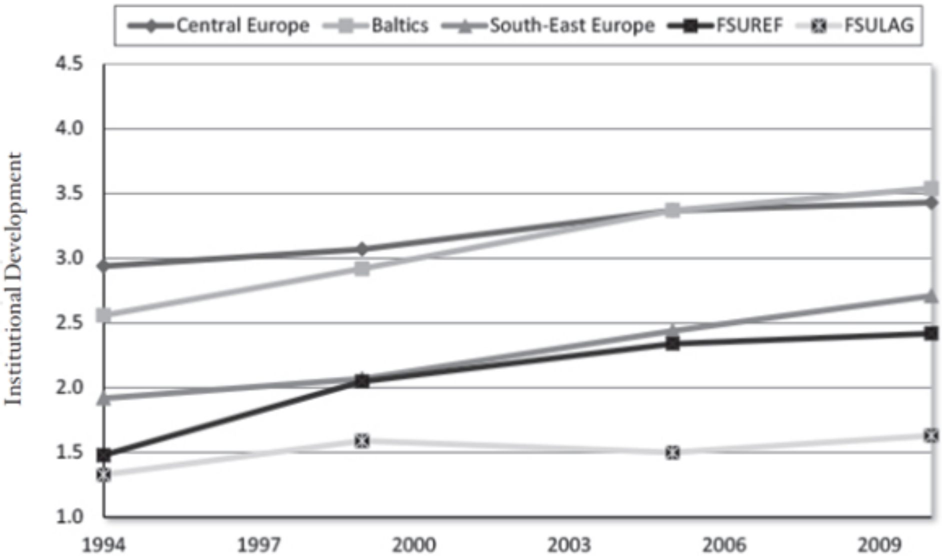
6. Did Big-Bangers Ignore Institutions?

Gradualists were blaming the big-bangers for "neglect of institutions" (Hecht 1994; Stiglitz 1999; Popov 2000; 2006). However, the facts are such that in countries with radical reforms more institutional changes happened than in countries with gradual reforms (Aslund 2007). As the Figure 4 shows, Central European and Baltic economies – i.e., countries that quickly implemented market liberalization reforms – moved also fastest on institutional reforms (Havrylyshyn et al. 2016).

According to Havrylyshyn (2007, 7), this was because "the leadership committed to firm progress on economic liberalization was also committed to progress on institutional development". Conversely, "leaders in the less liberalized countries (...) were not interested in real economic and institutional reforms but used the gradualist arguments to delay reforms, which (...) resulted in large rent-seeking and state capture."[14]

Indeed, important institutional reforms were conducted in Poland. Actually, according to Piatkowski (2018, 206), "Poland was one of the leaders of institution-building among transition economies."[15] After all, there was a rapid macroeconomic stabilization, price and trade liberalization, as well as elimination of companies' soft-budget constraint. Even if not all authors would call these reforms institutional, the sound money, free markets and unregulated prices are also key institutions (Hayek 1948). The incentives of economic agents and their ability to carry out rational economic calculation have changed.

Figure 4. Institutional development among countries in transition



Notes: FSUREF = Former Soviet Union, gradual reforms; FSULAG = Former Soviet Union, lagged reforms.

Source: Havryshylyn et al. (2016, 10).

On this basis, Balcerowicz (1994) argues that deep institutional restructuring has been carried out since the beginning of transition. He lists the most important steps: "privatization of the bulk of the state sector, breaking up domestic monopolies and introducing tough anti-monopoly legislation, strengthening the institutional independence of the central bank, reform of the financial sector, the reform of insurance, tax reform, creation of genuine local government, and the setting up of a social safety net" (Balcerowicz 1994, 77). He also mentions the institutional reforms passed in the 1990 – "a law on insurance, an anti-monopoly law and a bankruptcy law, and a law disbanding the compulsory association of cooperatives" (Balcerowicz 1994, 80) – and in 1991: "a new securities law and the establishment of a stock exchange, a new liberal foreign investment law, a law on a comprehensive income tax, and a new budgetary law" (Balcerowicz 1994, 80). In a publication ten years later, Balcerowicz (2014, 28) again rejects the criticism that institutions were neglected and lists the following institutional changes: "massive organizational de-monopolization of the Polish economy, the substantial hardening of SOEs' budget constraints, the unification of the exchange rate, the introduction of convertibility of the Polish zloty, and the establishment of an independent central bank".

7. Critical Analysis of "Institutions-First" Approach

The gradualists not only were blaming the bing-bangers for the neglect of institutions, but they were calling for the "institutions-first" approach. This perspective, although it seems sensible, suffers from serious deficiencies.

First of all, such a vision downplays the role of markets – they are seen as mere allocative mechanism that needs a proper institutional framework to work. Under this view, the markets could work as long as they are appropriately regulated, or only as institutions were carefully designed and put in place before. However, markets are key institutions themselves (Hayek 1948). They are institutions that solve many problems. For instance, it was sometimes argued that perfect information was a requirement for markets to function properly – one could call it "information-first" approach. However, as Hayek (1948) showed, markets can function with very limited information among the participants (Smith 2008). In other words, "the perfect information is not a condition of competition – on the contrary, it is on the market that previously unknown information is generated in the competition process" (Sieroń 2018).

Although the appropriate institutional environment is important, the gradualists probably overestimated the institutional requirements. Smith's experiments revealed that markets can function with minimal institutional structures (Smith 2008). And regarding economic transformation, Berg (1994) showed that economic transformation is possible even if there are no perfect institutions implemented. He notes, "even without rapid institutional reforms, structural adjustment has been the dominant economic process in Poland" (Berg 1994, 382). Similarly, and somewhat paradoxically, based on the case of China, which was usually depicted as a role model of gradualist approach, Qian (2000) notes that significant progress can be achieved with imperfect institutions. It implies that there is no need to wait for a perfect institutional foundation to transform the economy.

Klaus (2014) argues that gradualists created a straw man, according to which radical reformers did not believe in or downplayed the importance of institutions. For him, the question was never about having institutions as perfect as possible as quickly as possible but "about whether (and to what extent) to delay other aspects of the transformation process if institutions are not yet perfect or at least not sufficient" (Klaus 2014, 59). The big-bangers decided simply that it would be a mistake to wait for perfect institutions, especially that institution building is a long or even an endless, ongoing process. What is more, it is true that institutions matter, but "they matter more for sustaining growth over the long term than for jumpstarting growth after a recession" (Havrylyshyn et al. 2016, 19).

And one should not forget about the role of ideas. According to McCloskey (2015; 2016), ideas, not institutions, were the cause of the spectacular growth of the global economy since the Industrial Revolutions. Similarly, one should not neglect the role of ideas in transition from socialist into market economies in the 1990s. The elites of countries implementing radical reforms had relatively liberal views and they knew what they wanted: to return to Europe, which meant to them to become normal countries with democratic political system and market-based economy, and to join the EU and NATO (Aslund 2007; Piatkowski 2018).[16] As Piatkowski (2018, 252) writes about Poland, "the successful transition is likely to have happened because of the Westernized elites, which used the lure of Western prosperity and the strong social consensus to 'return to Europe' to 'hijack' the conservative part of the society and introduce European institutions and Westernize the country."

It is worth pointing out that the source of problems of socialists economies were socialists institutions. They had to be replaced by the market institutions. According to the "institutions first" approach, there should be first some institutional base built before the implementation of certain reforms. However, the opposite might be actually true: some economic reforms are needed first to build then market institutions. After all, these reforms consisted in dismantling socialist institutions.

And some of the socialists institutions had already disintegrated before the reforms. For example, the collapse of the Communist party significantly weakened the state's ability to affect state enterprises. In other words, the state was not "strong enough to ensure that its commands regarding prices, wages, and output are obeyed" (Rostowski 1993, 101). This is why Rostowski (1993) asserts that gradualism was not only undesirable, but it was actually impossible, and that "shock therapy results, in part, from the need to create a mechanism for coordinating economic activity as quickly as possible to fill the vacuum left by the collapse of the administrative command system" (Rostowski 1993, 102).

Given that markets are also institutions, the "institution-first" approach assumes a certain hierarchy of institutions, or that they are some deep institutions, like culture, values or belief systems, that must be present to implement market institutions (North 2000). Focusing on institutions, the gradualists implicitly argued that the societies of transition economies were not ready – perhaps because of cultural and institutional factors – for market reforms, so they must be better prepared for a transition. Thus, reforms must be only gradual (Kołodko 1999).

It is true that informal norms and ideas held by people are very important. However, the gradualistic assumption was that the market institutions were incompatible with the nature of people living in transition economies, and that somehow the supporters of gradualism knew what were exactly the best conditions for the implementation of market institutions and when they could be achieved. Please note that this conviction implies untenable thesis that that culture (if not human nature) is different among countries and that the one present in transition economies is incompatible with market institutions (Lenger 2008).

Additionally, gradualists seemed to forget about a two-way causal effect between culture and institutions, which means that institutions can also affect culture. In this way, they neglected that introducing market institutions could affect the society and make it more aligned with the market institutions over time (Alesina and Giuliano 2015).

With its focus on institutions, gradualists' critique of the big-bangers resembled the historical school's critique of the neoclassical economics (Kirzner 1976), as the gradualists did not believe that there might be one, universal, and top-down plan of transition for different countries (Murrell 1997). As North (2000, 6) put it, "It is important that we understand that even if we did have it right for one economy, it would not necessarily be right for another economy and even if we have it right today, it would not necessarily be right tomorrow". Thus, the transition plans should take into account the local conditions and be modified accordingly to them (Marangos 2011). Hence, according to the gradualists, the institutions of a market economy cannot be simply transferred from one economy to another. Instead, they are built slowly, and this process should take into account historical experiences, culture and values of society.

Although it is true that the culture is important and that it makes sense to take into accounts local conditions, when implementing reforms or creating institutions, it does not imply that there are no universal economic laws. Rejecting them did not allow the gradualists to understand how market institutions present in market-based economies could work in transition economies as well.

Last but not least, the gradualists – with its emphasis on building institutions first to avoid market failures – underestimated the dangers of government failures, or the bad incentives created by the gradual moves. One can say that they committed the nirvana fallacy (Demsetz 1969), comparing the big-bang approach with optimal gradual sequencing of reforms instead of the more realistic alternative, i.e., the "stop-go gradualism" (Balcerowicz 1994). In other words, the gradualists were too concerned with the first-best solutions, while during the transition there were choices between various second- or third-best arrangements. As Balcerowicz (1995, 243–244) notes, "the assertion that free prices function best under conditions of perfect competition by no means implies that we should kept broad price controls" rather than "liberalizing prices within initially very imperfect market structures." According to Klaus (2014), gradualism was based on the belief that reforms can be meticulously orchestrated. However, the reform process was not an exercise in applied economics and the theoretical proposals of optimal sequencing was of limited use in real life.

One of the reasons was that partial or delayed reforms led to disruptions and created opportunities for rent-seeking, which lead to the accumulation of substantial wealth by those with inside connections. For example, partial price liberalization allowed to exploit the differences between regulated and free market prices. The elite who could take advantage of such opportunities evolved into oligarchy, which, in turn, "captured" the state and hindered the further economic transformation, locking the economy into a suboptimal stage (Aslund 2007).

It is worth pointing out here the Mises' critique of the "third way" as the unstable system that cannot be sustained (Mises 2011). Although the gradualists did not want to create a third way, they argued for slower pace of transition in order to prepare the institutional base before some of the reforms. However, the implementation of only some changes, without the complementary ones, created a distorted system that could last only because of the capture of the state by the oligarchs (Aslund 2007). According to Mises (2011), the government intervention (let's say with the price mechanism) disrupts the operation of the market (causing either surplus or shortage), which begets further intervention, in order to solve the problems caused by the previous intervention. Thus, Mises (2011, 9) concludes that there is no other choice, "either capitalism or socialism; there is no middle of the road".

8. Conclusions

The article allows to draw some important conclusions. First of all, the empirical data shows the relative success of economic transformation in Poland and in other countries that adopted a big-bang approach compared to countries that adopted a more gradualist stance. Calling the economic transformation 'shock therapy', or even 'shock without therapy', seems to be a rhetorical device motivated normatively and not being justified by facts.

Second, the analysis reveals that arguments for gradualism does not stand up to scrutiny. The gradualists' two key concerns against the big-bang, i.e., that it entails too high costs and that it neglects institution, have been misplaced. The facts are such that in countries with radical reforms more institutional changes happened and the welfare costs were lower than in countries with gradual reforms. The claims that the Poland's big-bang strategy was associated with excessive costs and the neglect of institutions are unfounded. The study undermines not only the arguments used by gradualists, but also the deeper theoretical constructs on which they were based, such as "institution first" approach.

This paper also has important political implications. First of all, the countries that have not yet transformed their economies into genuine market-based economies, should do it, adopting a big-bang approach, unless specific circumstances clearly suggest a more gradualist approach.

Second, it is worth remembering that during transition there will always be dissatisfied voices demanding a more gradual approach. One can distinguish two groups, "smugglers" and "baptists", who demand regulation, either for profits or for moral reasons, even though they are harmful or nonsensical (Yandle 1983). Similarly – either for rent-seeking or for ideological reasons – some people will demand to slow down the transition reforms, even though it will not be helpful for the economy in the long-run.

Third, the big-bang approach seems to be appropriate not only for economic transformations, but also for reforming economies and dealing with economic crises. The best example might be the global financial crisis of 2007–2009 and the resulting economic troubles of many countries. One of them was Greece, whose government was forced to implement macroeconomic and structural reforms. It cut its spending by a total of 5.3 percent of GDP between 2010 and 2013, which was criticized by some commentators as excessive austerity (the new pejorative term after shock therapy) (Karanasos et al. 2017). However, because of declining GDP, the share of state expenditure in GDP increased from 52.2% in 2010 to 60.1% in 2013, while the public debt relative to GDP rose from 146% in 2010 to 177.1% in 2014. As a result, the Greek cuts were insufficient to reduce public debt relative to GDP and restore budget balance and confidence in financial markets (Sieroń 2015). Meanwhile, Latvia, which was also hit by the global financial crisis, cut spending by a total of 11.4 percent of GDP between 2009 and 2012. Consequently, the share of state expenditure in Latvia's GDP fell from 43.4 percent in 2009 to 36 percent in 2013. And this country recorded positive economic growth already from 2011, while the Greek economy was still mired in recession. It shows that front-loaded fiscal adjustment (which is in line with the big-bang approach) works much better than the gradual adjustments (Aslund, 2015).

Fourth, even though some actions seem costly in the short-term, the policymakers should swallow that frog and think long-term. It is true that in the long run we will all be dead (Keynes 1923). But it seems that the gradualists have considerably overrated the duration of the short run. It has quickly ended and countries that refused to implement reforms in a decisive manner, have been forced to face the long-run consequences of their sluggishness (Mises 1953).

Fifth, the gradualist approach can be difficult to distinguish in practice from only partial support for reforms, if at all. As Aslund (n.d.) noted that "radical reformers really wanted democracies and dynamic market economies", while gradualistic countries "pursued policies imposed by dominant elites who wanted to make themselves wealthy on transitional market distortions". Thus, one can argue that gradualism was never a viable alternative strategy for economic transformation of Central and Eastern European Countries – rather it was its obstruction in disguise.

Indeed, it seems that some of the gradualists were skeptical of free markets. They ridiculed the concept of invisible hand, arguing that economic development must be directed within the framework of the strategy and policy implemented by the state (Kołodko 2004). They favored state interventionism and strongly believed in the possibility of social engineering (Aslund 2007).[17] As Rostowski (1993, 101) pointed out, "many of those who claim to be gradualists (particularly inside postcommunist countries) are not gradualists at all but rather 'obstructionists' whose aim is to delay the establishment of effectively functioning capitalist market economies as long as possible or 'deviationists' who hope that the transition process can be steered toward some kind of third way, or mixed system."

Given the belief in the strong role of the state in the economy among the supporters of gradualism, the skepticism of the big-bang approach – which wanted to allow markets to operate as quickly as possible – is understandable. However, it is worth recalling here the statement of William Lloyd Garrison about the gradualism in antislavery movement: "gradualism in theory is perpetuity in practice." (Rothbard 2022).

NOTES

[1] For a more detailed picture of a debate, see Iwasaki and Suzuki (2015).

[2] According to Balcerowicz (1994; 1995), as well as Balcerowicz and Gelb (1994), the economic transition have three elements: macroeconomic stabilization; liberalization of prices, markets, and entry (microeconomic liberalization), and deep institutional change (fundamental institutional restructuring). Sachs (1994) writes that economies in transition suffered from three crises: systemic crisis, financial crisis, and structural crisis.

[3] As former Bolivian Planning Minister, Gonzalo Sanchez de Losada, put it: "If you are going to chop off a cat's tail, do it in one stroke, not bit by bit" (Lipton and Sachs 1990, 100, fn. 29).

[4] According to Kornai (1990, 140), "Hungary has already experienced 20 years of muddling through with such partial changes. For instance, prices were never more than partially liberalized. Yet a sequence of partial price liberalization measures will never result in a rational price system, only in the fueling of inflation". Boettke (1993, 138–139) writes about partial reforms in Russia: "Gorbachev's piecemeal reforms neither improved the apparatus of central economic administration (the rhetoric of the first stage, 1985–7) nor introduced market discipline (the rhetoric of the second stage, 1987–91). As a result, the economic situation actually grew worse under Gorbachev."

[5] Some gradualists neglected differences in initial conditions among countries at the beginning of transformation. For example, they compared Poland to Hungary, although the macroeconomic imbalances were much larger in the former country. Or they compared China to the Soviet Union (Stiglitz 1999; Godoy and Stiglitz 2006), although in the latter country the party became so ossified that it lost its capability of reforms (any attempts of changes were blocked by the party bureaucrats), the biggest economic sector was industry (not agriculture like in China), and there was hyperinflation (Sachs 1994; Aslund 2007).

[6] See especially Aslund (2007), Havrylyshyn (2006; 2007), Havrylyshyn et al. (2016), and Piatkowski (2018, chap. 4–6) for more empirical data about the transition of Poland and other countries.

[7] Hare and Hughes (1991), as cited in Portes (1992), calculated value added at world market prices for industrial branches in Czechoslovakia, Hungary, and Poland, and found that 20–25% of manufacturing in these countries had operated at negative value added.

[8] Moreover, the production of the very small firms, which were rapidly growing in the early years of transition, used to be underrepresented in the official statistics (Berg and Sachs 1992). One can also point out improvements such as the increase in know-how or the creation of the intangible assets after transition toward capitalist economy that were, however, unlikely to show up in GDP figures.

[9] However, Berg and Sachs (1992, 119) write that "loss of output was caused mainly by the monetary contraction needed to choke off Poland's hyperinflation, and not in any important way by the rapid move to free trade". Anyway, the point remains: the loss of output, which was less than commonly believed should not be interpreted simply as *costs* of rapid transformation, as it resulted from: statistical mismeasurement, collapse of trade with CMEA, inventory dishoarding, monetary stabilization, and needed structural adjustment (Berg and Sachs 1992).

[10] According to the IMF (1995), the cumulative decline in real GDP of Hungary over 1990–93 was 19 percent. Of course, there were market reforms implemented also before 1995, but they were generally considered to be gradual rather than rapid (Žídek 2014).

[11] In a sense that fiscal policy was not excessively tight and it is not true that economic policy did not take into account the social sphere. Nor the reforms were dogmatically radical nor they came as surprises for the public (Balcerowicz 1995).

[12] See Havrylyshyn (2006) and Havrylyshyn et al. (2016) on the development of three social indicators (inequality, poverty ratios, and the United Nations' Human Development Index) among transition countries. The conclusion is similar to the previous ones: radical reformers outperformed more gradualistic countries in terms of social conditions measured by these social indicators.

[13] However, a more in-depth discussion on this topic is beyond the scope of this article.

[14] See Havrylyshyn (2006, 192) on state-capture index among transition countries. There is a clear positive correlation in data between delayed reforms and degree of state capture.

[15] The institution-building has already started even before transition. For example, in 1986, Poland introduced anti-monopoly law and joined the IMF and the World Bank, while in 1987–1989, a two-tier banking system was implemented. See Piatkowski (2018, 206–210) on Poland's major institutional reforms.

[16] On the role of the so-called external anchors in the transition process, i.e., the perspective of the European integration or the idea of "returning to Europe", see: Roland (2002), Havrylyshyn (2006), Piatkowski (2018).

[17] A critical analysis of such a belief can be found in Hayek (1988).

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