

## Policy gaffes crux of economic crisis

By David Flaum

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Don't look at the economic meltdown as a failure of market forces, says the architect of Poland's market economy.

Blame it on "an impressive string of policy failures," said Dr. Leszek Balcerowicz, two-time Polish minister of finance and former president of the National Bank of Poland.

"When government policies are defective, the operation of markets is defective," said Balcerowicz, who was in Memphis Thursday to speak to the [Economic Club of Memphis](#).

Among the policy gaffes, he said:

Excessively easy monetary policy since 2003.

Rapid expansion of credit.

Political pressure to expand home ownership without regard for the ability of buyers to pay their loans.

Reliance on [Fannie Mae](#) and [Freddie Mac](#) to keep funds flowing into mortgages.

A failure of supervision.

Balcerowicz hesitated to draw comparisons, though, between the United States and Poland, where growth this year is expected to reach 6 percent.

"You're a rich country, you don't have to catch up," he said. "A poor country can grow faster if they have reasonable economic policies."

Starting with the first democratic government in Poland in 1989, Balcerowicz designed many of those policies -- not without criticism.

A Communist Party member who became an adviser to Solidarity, the labor movement whose leader, Lech Walesa, was the first president, Balcerowicz pushed a series of changes

to create a stock market, private ownership of businesses and attack hyperinflation -- prices rising by 40 percent a month.

Reforms sent Poland into a tailspin for about a year, but it recovered and has built on those changes for nearly two decades. He left after two years as minister of finance and deputy prime minister.

When changes slowed, he returned to those posts in November 1997 and stayed until June 2000.

"Poland is what it is today because of what he did," said David Kemme, professor of economics at [University of Memphis](#) who studies economies of ex-Soviet bloc nations and is a fan of Balcerowicz.

"He's got real admirers and real detractors," Kemme said. "His detractors say there were other ways to do it, but with less pain."

To his critics, Balcerowicz said speed was essential: "It's like a fire in your house. It's better to put a fire out quickly rather than slowly."

He was back in late 2000, elected to a six-year term as president of the [National Bank of Poland](#).

Inflation had ballooned to 10 percent, so Balcerowicz set a policy of slowly cutting interest rates. At the end of his term, inflation was 2 percent.

He's proud of the Polish market economy with low inflation.

"Within 18 years we have made a complete transformation ... with lively free media and a booming civil society."

-- *David Flaum: 529-2330*

### **Leszek Balcerowicz**

Age: 61

Position: Head of the International Comparative Studies at Warsaw School of Economics, Warsaw, Poland.

Mission in United States: Two-month tenure as visiting scholar, Peterson Institute for International Economics, Washington.

Education: Graduated in 1970 from what is now Warsaw School of Economics; MBA from St. John's University, 1974; doctorate, Warsaw School of Economics, 1975.

Polish government experience: Minister of finance, 1989-1991 and 1997-2000; president, National Bank of Poland, 2000-2006.



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