Emerging from Behind the Curtain: A Comparative Analysis of Polish and Czech Reforms Based on Quality of Life Improvements

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Abstract

This thesis examines the economic reforms undertaken by Poland and the Czech Republic during the 1990s transition period. It seeks to ultimately differentiate reform quality between the Czech Republic and Poland in terms of well-being. The basis of reform success is determined using a quality of life scale that spans economic, health, and environmental indicators. Reform quality is then assessed based on improvements in well-being, instead of high-level economic metrics that often evaluate in a manner that fails to capture individual citizen sentiment. From this point, it is possible to determine which transitioning country underwent the most optimal reform process in aggregate with a corresponding breakdown of each indicator. The ultimate hope is that other transitioning countries can learn from Poland and the Czech Republic’s experimentation and carry forth policies that intentionally take into account quality of life.
Acknowledgements

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Chapter 1: Introduction

The year was 1989. Revolution was brewing across Eastern Europe. Upon the year’s end, the door had opened for one of the greatest political, economic, and social reconstructions in modern history: the possibility for a complete transition from communist authoritarianism to a democratic, free market system. In the Soviet bloc, the death of communism came about quickly. Timothy Garton Ash, a British historian, humorously remarked on the chronology of events by saying, “What took 10 years in Poland, took 10 months in Hungary, 10 weeks in East Germany, and ultimately 10 days in Czechoslovakia.”¹ Poland led the charge in February 1989, beginning with the Polish Round Tables and later achieving the first democratic election in the bloc. The nation then introduced a new Prime Minister in August of the same year.² Czechoslovakia, having been one of the most authoritarian communist countries in the bloc, was one of the last satellite countries to revolutionize. Yet, once public dissent escalated in October, the collapse was almost immediate. Vaclav Havel, the playwright and leader of the resistance movement the Civic Forum, gave his famed speech in front of 300,000 protestors in Wenceslas Square on November 23rd. A month later, Communist party control had officially ended, and Havel was elected president.³

At the end of 1990, the Soviet satellites had all separated from Moscow and entered a period of major transformation. By undergoing a novel democratic reconstruction simultaneously, the collapse presented an historic opportunity for social scientists to examine the comparative economic and political transformations. This thesis seeks to compare the

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³ “The Declaration of the Civic Forum by Representative Vaclav Havel on Wenceslas Square,” World History Commons.
effectiveness of various economic reforms to improve citizen quality of life in a cross-country examination.

While the dissolution of the Soviet Union and the Eastern bloc provides a plethora of opportunities for comparative international relations scholarship, Poland and the Czech Republic were selected for this study because of their proximity, regional advantages, and reform success. Through the selection process, it was crucial to choose countries that faced similar influences before and after the collapse in order to isolate the effects of their reforms. The legacy of Leninist communism for instance was more deeply ingrained in the Eastern Soviet region, while Western democracy and the free market had more exposure in the Western satellites.\(^4\)

Furthermore, it was important to choose two countries with measurable quality-of-life indicators, and which took prominent leaps in the post-communist period. Both also had thorough, intentional, and organized transition processes. In essence, the significant quality of life improvements provide an opportunity to evaluate changes caused by economic reforms. Geographically, the post-Communist countries in central Asia and the Caucasus were then far removed from the Western free market system and less capable of improving communication and trade routes. Ekiert and Hanson note that within the former Soviet Union countries, “many of its largest cities lie thousands of miles away from centers of world trade and capital.”\(^5\) Unlike Warsaw, Prague, Bratislava, and Budapest, Western ideology diffusion was more challenging further to the East. Ideological contagion was most possible in the Western regions, leading to the “transfer of ideas, behavioral patterns, and cultural practices, as well as mimicry and


\(^5\) Ibid., 33.
imitation in institution building and policy innovations.”6 These considerations put Western countries in a more favorable position for successful reform.

With these factors in mind, it becomes clear that the ideal candidates to study are the most successful transition countries. According to an ordinary least squares regression study done by Rovelli and Zaiceva in 2011, Poland and the Czech Republic were the only countries in the post-Communist region where respondents to the European Barometer survey reported the transition economic reforms positively.7 Thus, these two countries stand out, especially within a study that considers quality of life perception. With a baseline standard of success, it is easier to discern the intricate nuances that differentiate each country’s reform approach.

Ultimately, Poland and the Czech Republic implemented different reforms that allowed them to integrate into the Western economic system. However, instead of measuring success purely by standard economic indicators, this study seeks to understand the impact of reforms on quality of life using a variety of metrics. Chapters 2 and 3 delve into the economic reforms of Poland and the Czech Republic, respectively. Chapter 4 then describes the creation of the quality of life measurement scale and the individual components within the scale. The indicators chosen for this assessment include economic, healthcare, and environmental variables; components that required significant investment at the start of the transition. These metrics provide a foundation to assess each country's reforms with a focus on well-being. Chapter 5 assesses the quality of life linked to the reform records from the previous sections. Using the quality of life measurement scale, this chapter provides an analysis of the most effective strategies in the transition period for each country. Altogether, this study reveals that Poland’s reform process provided a greater magnitude of improvement in quality of life compared to the Czech Republic. However, the

6 Ibíd., 38.
Czech Republic, helped by an advantageous starting position and an effective reform process has today a better quality of life overall. Examining each component individually, Poland improved economic growth and environmental factors to an impressive degree, while the Czech Republic exceeded Poland’s performance in stability and social services.

Finally, the conclusion reflects on these findings and relates them to a series of the author’s interviews with Czechs who experienced the transition period. In doing so, it is possible to gauge the long-term effects of successful reforms and the areas where there are shortcomings. The goal of this thesis is to determine the success of policies based on how they improved citizens’ quality of life through a holistic measurement system. Although every country comes from a political and economic background that requires different policy choices, replicating success by focusing on societal well-being can be carried out in other transitioning governments.
Chapter 2: Polish Reforms

Leszek Balcerowicz, Poland’s first Minister of Finance in the post-communist period, has commented reverently on the performance of Poland since 1989. In a September 2000 volume of the IMF magazine, *Finance and Development*, he stated:

Poland benefited from the difficult but effective introduction of truly market-driven mechanisms into the economy and became the first country in the region to rebound from transformational recession and exceed GDP levels seen before post communist reforms. A moderate recovery during 1992-94 was followed by robust growth (the fastest in Central Europe) during 1995-99 that was driven by a rapid expansion of the new private sector. Poland’s GDP was 20 percent larger in 1999 than in 1989.

While Balcerowicz's statement involves a tone of self-praise for his contribution, it also provides a timeline to examine the policies behind Poland’s economic success. He first references the year 1992, excluding his tenure as Minister of Finance, which involved considerable pain due to the reform strategy known as shock therapy: a strategy for quickly transitioning away from a centrally planned economy. 1990 and 1991 were spent undergoing dramatic economic reforms to remedy the economic problems of the past and lay the foundation for meaningful institutions and policies. From 1992 onward, the policies enacted in the early stages began to bear fruit and were further enhanced by future reform-minded governments. This section will discuss both the policies used to remedy economic crises in the early stages and the policies that ultimately benefited people once the economy stabilized.

** Preconditions 

Poland faced many challenges heading into the transition period due to its turbulent economic state. After the communist government was voted out, the reformers were left with a macroeconomic crisis on their hands. External debt was 44% of GDP and hyperinflation was far

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greater than in neighboring countries amounting to 251% in the pre-reform year of 1989. This predicament was largely due to the communist government’s attempt to bolster the failing economic system of the 1980s through subsidies and purchases of foreign goods. Alongside these subpar conditions, initial reformers had to grapple with communist legacies of inefficient enterprises, norms of labor underperformance, and a lack of market institutions.

Despite monetary failures, Poland had some noticeable advantages working towards the transition. One such tailwind included Poland’s already largely private agriculture industry, due to the farmers' resistance during the communist era. Their legacy of privatization helped place them in a better private position than the Czech Republic, where the state had control over industries and there was no experience with a market economy. Poland’s robust civil society, led by the Solidarity movement, may have helped further solidify democratic institutions and participation. Although mostly favorable, this element had some drawbacks as economists were worried that the powerful civil society (i.e. labor unions) could hinder the development of reforms due to frustration with wage controls and economic conditions in the early years. Overall, reformers from the Solidarity camp were cognizant of these present difficulties, but were eager to move forward through the development of a functioning free market system that could integrate into Western Europe.

**Economic Reforms**

*The Transition Begins: 1989 to 1990*

Before being able to build institutions, Poland needed to address certain macroeconomic problems. Its strategy included a shock therapy stabilization plan that called for aggressive

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11 Balcerowicz, “Transition to the Market Economy: Poland, 1989-93 in Comparative Perspective.”
economic reforms happening simultaneously in order to quickly shift to a free market system.\textsuperscript{12} The simultaneity of different policies was encouraged by both Polish reformers and Western neoliberals assisting with the transition process, most famously the American economist Jeffery Sachs. These groups believed that there was a small “window of opportunity” during which the public would be willing to accept the hardship that came with an intense transition, and therefore wanted to capitalize on the sentiment.

The Balcerowicz Plan, initially developed in September of 1989, included five pillars of economic transition that would emphasize a combination of stabilization and liberalization. The goals included liberalization of the economic system, transformation into a market economy, development of a social safety net, privatization of state-owned enterprises, and assistance from international financial institutions.\textsuperscript{13} Balcerowicz and the reform team developed a sequence of policies to implement their strategy. Price liberalization, subsidy reduction, and the convertibility of the zloty (Poland’s currency) were of first priority. Other plans were considered secondary, such as privatization, which would demand major and prolonged structural changes within companies and required price stabilization, a difficult prerequisite given the extreme inflation levels.\textsuperscript{14}

As a result of the new government’s rapid mindset, the package of reforms was launched only three months after the Solidarity movement’s Tadeusz Mazowiecki, became Prime Minister. On January 1, 1990, the Economic Transformation Program, formed by ten distinct reforms, was under the leadership of Finance Minister Leszek Balcerowicz with the help of the IMF. Adhering to the original goals without deviation meant carrying out economic policies that would likely

\textsuperscript{12} Balcerowicz, “Poland’s Transformation.”
cause short-term public disapproval. One of the most painful sets of policies at the onset was the enactment of wage controls and positive real interest rates. Meant to contain the runaway inflation, reformers used wage control as a strategy to impact the supply-side contribution to inflation and reduce industry costs. Through these controls, the government hoped that companies could gain their footing in a high inflationary environment by benefitting from cheaper labor. Moreover, without the need for corporations to raise prices they assumed runaway inflation could be contained. This policy was rigid, leading to a 200 percent marginal tax if a company deviated above the wage ceiling.\textsuperscript{15} It effectively decreased the real wages, lowering it by 17\% in 1990 compared to 1987 wages.\textsuperscript{16} Which was then further lowered by decreases in output and productivity. Alongside wage controls, price liberalization began almost immediately. In the initial reform package, the government implemented an act to terminate subsidies and bad loans to inefficient state-owned enterprises. As a result, tax exemptions were eliminated and subsidies were reduced from 15\% in 1989 to 6\% in 1990.\textsuperscript{17} By the early part of 1990, the government succeeded in eliminating the price controls. Studies showed that 90\% of prices were liberalized.\textsuperscript{18} This significantly benefited the fiscal state by reducing the budget deficit. However, it had a painful short-term impact for producers and consumers.

On the monetary side, the new regime set out to liberalize trade through the convertibility and devaluation of the zloty. The formal goal for this measure was to improve the trade balance and allow the zloty to become the primary currency instead of the commonly used dollar. Through this policy, price stabilization was sacrificed for future integration into the West. The reformers expected the devaluation would initially cause a rise in inflation, but hoped it would

\textsuperscript{15} Lehmann, “The Polish Growth Miracle: Outcome of Persistent Reform Efforts.”
\textsuperscript{17} Lehmann, “The Polish Growth Miracle: Outcome of Persistent Reform Efforts.”
benefit the extraordinarily weak money supply in the early stages. This strategy proved to be correct. The inflationary impact of the devaluation only increased prices by 15% compared to a 25% increase in the nominal money supply.\textsuperscript{19} Through the liberalization of the zloty, consumers were encouraged to convert to the zloty from dollars and exports began to appear more attractive to foreign enterprises.

The new government also aimed to liberalize enterprise regulations, which were integral to stimulate economic growth. Deregulation was the tool used at the beginning of the privatization process. In 1990, a legal act which broke with the former exclusivity of state-run corporations was passed allowing people to sell anything at any time. Anders Åslund describes the effect of this policy by detailing how the cities were flooded with sellers in 1990. These enterprises were later transformed into successful businesses.\textsuperscript{20} As these laws helped solidify a new economy, most of the successful privatization in the early days was seen solely in the small business sector. State-owned enterprises would face a much longer road to privatization.

Finally, the strict policies enacted in early 1990 made Balcerowicz and his team unpopular, even amongst the Solidarity ranks. Continued high levels of inflation, high unemployment rates, and wage controls were difficult for the public to bear. The poor approval rating and improved fiscal position caused the regime to become less disciplined in the second half of 1990 while easing credit expansion.\textsuperscript{21} This had poor effects, including a decline of reserves leading to a budget deficit, an increase in real wages that stressed corporations, and an increased amount of inefficient state enterprises needing to liquidate their assets. Adding to their issues, the decline of trade within the economic system of Eastern Europe (CMEA) further

\begin{itemize}
  \item[21] Lehmann, “The Polish Growth Miracle: Outcome of Persistent Reform Efforts.”
\end{itemize}
augmented the problem for corporations. The relaxation could not last as a result, and pressure would remain on the reformist government.

1991 to 1992

In 1991, the government tightened its reform efforts through corrective measures and the passage of new laws. The next reforms emphasized developing financial institutions to reinforce the already growing private market. A new securities law, stock exchange, liberal foreign investment law, income tax, and budgetary law were all implemented. Specifically, the Act on Public Trading in Securities solidified the beginning of the Warsaw Stock Exchange in March of 1991.

Additionally, the government had to respond to worse macroeconomic conditions brought on by external shocks and policy easing. In 1991, due to growing confidence, the zloty began to appreciate against the nominal peg which weakened Polish exports. Also, in the same year, Poland lost its trade relationship with CMEA countries due to the collapse of Soviet countries. The former trade surplus then turned into a trade deficit, and in May 1991 the zloty was devalued.

The Growth Years: 1993 to 2000

After multiple years of economic downturn, Poland needed to showcase improvements to continue along its reform path. 1993 was a turning point, leading to record growth within the region. According to Åslund, the average growth rate between 1993 and 2000 was 5.4 percent a year, a significant improvement from the beginning transition years. Moreover, the economic improvements were bolstered by further integration into the West. On February 1, 1994, Poland

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25 Lehmann, “The Polish Growth Miracle: Outcome of Persistent Reform Efforts.”
26 Aslund, “Poland: Combining Growth and Stability,” 5.
gained Associate Country status in the European Economic Community. Later in 1999, Poland was invited into NATO as a member country, and plans began to work toward its full membership in the European Union (EU). Institutional improvements and Western integration had a reinforcing positive effect during this period. As reforms continued, the West rewarded Poland for successful development through foreign direct investment (FDI) and membership in European organizations. Aware of the reward potential, Poland was more motivated to undertake additional reforms.

The period starting in 1993 was also a time of political alteration. With its low threshold to attain parliamentary seats, Poland was one of the most politically fragmented countries in transition. In 1993, the reformed communist coalition (SLD) took control after much public discontent with the direction of the neoliberal reforms. Waldemar Pawlak led the new coalition with Borowski as Minister of Finance. Some scholars believed the redirection of political alignment was a step backward, presuming that the neoliberal direction and democratic strengthening intended to support economic development would be reversed by the reformed communist party. However, as a previously authoritarian party reformed and accepted the governing rules, it solidified democratization. With fair transfers between parties, the system affirmed that the governing body had to act in the public interest or else they would be voted out. This process of democratic learning allowed for a robust political scene and for each party to continuously improve.

Eventually, the inaugural Minister of Finance, Lescez Balcerowicz, made his way back into the parliament in 1997, after the Democratic Left Alliance (SLD) and Polish Peasant Party

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(PSL) lost their majority. Yet, as the government changed hands from neoliberals to center-left parties and back, no group deviated from the reform effort. The Balcerowicz Plan was never reversed amidst different leadership. It was instead decelerated to give the economy breathing room to recover.

**Mass Privatization Program**

Influenced by Hayek’s philosophy that privatized companies could adjust to exogenous economic changes much more effectively due to their ability to morph into a flexible price system, the reformers were eager to begin the privatization process. The first steps to this endeavor were the passage of the Privatization Act and the creation of the Ministry of Ownership Transformation in 1990. A series of privatization laws passed on July 13th, 1990, allowed for the process of liquidation, such that state-owned assets would be transferred to an LLC. Even with these new laws, privatization of large corporations was limited due to inefficiencies and bureaucratic delays. The reformers believed that market mechanisms would motivate firms to privatize. However, state-owned corporations were much more steadfast. Because corporations had large dollar accounts, the devaluation of the zloty put them in a great fiscal position. Furthermore, wage controls and imports from the weakened Soviet Union made state-owned corporations highly profitable and did not produce an incentive to privatize.

According to Zajicek and Heisler, “By the late summer of 1991, only eight large enterprises from the list of approximately 1000 had been privatized.”

As the privatization process was behind original expectations, new legislation was necessary. Under the Suchocka government, a Mass Privatization Law foreseeing the

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30 Lehmann, “The Polish Growth Miracle: Outcome of Persistent Reform Efforts.”
33 Lehmann, “The Polish Growth Miracle: Outcome of Persistent Reform Efforts.”
34 Zajicek and Heisler, “Economic Reforms in Poland: The Dilemma of Privatization or Partition,” 27.
commercialization of 512 state-owned large and medium-sized companies was passed on April 30th, 1993. However, there was little direction for corporate governance and the transition of different government leadership handicapped this process. As a result, the implementation did not truly begin until 1995 when the decision was made for the state enterprises to be assigned to national investment funds. The final phase of the mass privatization program did not occur until 1999, when all of the National Investment Funds became formally privatized under the laws of commercialization. This was one of the last legislative pieces in the 1990s privatization process. Ultimately, Poland did not attempt to speed up the process until after the turn of the century.

Pension Reforms

Like privatization, the new pension system proved to be a major dilemma, inhibiting the allocation of government resources. Alongside liberalizing policies, original reformers were fearful of the adverse social effects caused by shock therapy and doubled pensions in 1990. The effects of this policy were seen well into the late 1990s, causing inefficiencies and limiting country-wide growth. In 1993, 28% of people received a pension, with the total amounting to 15% of GDP. In 1995, this number did not decrease, and 16% of GDP remained in pensions, inhibiting reform investment in other depleted areas. Effective pension policies did not take hold until 1999 when the Busek government passed the Act on the Social Security System and the Act on Pensions. The Pension Act was based on a three-segment pillar system where pensions were now funded through a payment, investment, and additional voluntary branch.
The aim was to create a system where pension benefits were in line with an individual's contribution. Furthermore, the three-pronged strategy allowed for risk diversification where the first branch was tied to the labor market and the second tied to the capital market, two markets that proved to be uncorrelated.\textsuperscript{43} In hopes of fiscally improving the market for pensions, the new reform increased the retirement age by five years, leading to a retirement age of 60 for females and 65 for males.\textsuperscript{44} Despite these measures, it was nearly impossible to reform the system completely. Special rules allowed some workers to bypass the new minimum age and continue to receive pensions early. It took until the mid-2000s for a law on bridging pensions to pass in Poland’s lower parliamentary house, the Sejm.\textsuperscript{45} The pension reforms did not snuff out inefficiencies until much later.

\textit{Healthcare Reforms}

During the beginning of the transition, healthcare privatization initiatives were frequently backtracked due to political and bureaucratic hang ups. Before the transition, healthcare under the communist regime was centralized into a system known as Semoszka.\textsuperscript{46} Under this style, there were no private clinics or regional differentiation. Despite plans to change, healthcare reform stayed on the sidelines of the 1989 Round Table Talks between the ruling Communist Party and Solidarity. The only discussion at this stage was an abstract vision of universal health insurance. Once Mazowiecki’s government took hold, two separate healthcare proposals formed. The Independent and Official proposals included different guidelines, but both favored the idea of a universal health insurance policy. The back and forth caused by disagreements led to incomplete policy development in 1990. It wasn’t until 1991 that the Healthcare Institutions Law

\textsuperscript{43} Ibid.
\textsuperscript{44} Ibid.
\textsuperscript{45} Ibid.
was passed, solidifying a loan agreement with the World Bank to invest in healthcare reforms.\(^{47}\) It also allowed for private healthcare facilities to be given a chosen degree of budgetary and governing autonomy. This benefited the healthcare privatization process and also allowed for advancement in patient choice and rights. Despite these improvements, the government under Hanna Suchocka in 1992-93 did not make progress due to the quick rotation of ministers moving in and out of positions. During her time, four different health reform strategies were created and all were initially rejected.\(^{48}\) It wasn’t until a new government coalition came forward that reforms would begin to take shape.

In 1993, when power was transferred to the SLD coalition, the previously rejected proposal from the Inter-Ministerial Team came to dominate thinking. The proposal called for a social democratic approach that emphasized maintaining public organizations and regional healthcare planning, insurance monopolies, and integrated care, but also included privatized outpatient facilities. Solidarity opposition parties also created a proposal that handicapped the decision process and stalled the reform agenda. The Solidarity groups were more focused on creating a privatized process with competitive insurance and separation of in-patient services.\(^{49}\) After its postponement, the bill was finally approved on February 6, 1997, and was set to be implemented in 1999. The bill held true to the original ideas of the inter-ministerial team but also compromised with the opposition through greater allowance of competition.\(^{50}\)

Again in 1997, power was transferred between the coalitions with the return of the post-Solidarity government. They were set to amend the 1997 Health Insurance Act created by the post-communist coalition. Changes included the dissociation of hospitals and ambulatory

\(^{47}\) Ibid., 10  
\(^{48}\) Ibid., 11.  
\(^{49}\) Ibid., 18.  
\(^{50}\) Ibid., 14.
departments, the removal of a fee-for-service payment, and the requirement of direct negotiations between insurance and providers. The proposal continued the emphasis on health insurance agencies in the form of “sickness funds” with room for competition between branch agencies.\textsuperscript{51} Additionally, the reformers sought to decentralize healthcare at the provincial level instead of the regional level, making it closer to society.\textsuperscript{52} For financing the new system, funding was set based on tax revenue similar to the National Health Service in Great Britain.\textsuperscript{53} This bill was the foundation of healthcare law into the millennium.

Similar to the pensions process, large-scale health reform did not take hold until January 1999, almost ten years after the transition process began. The fractured political environment and priority on stabilization and liberalization put healthcare reforms in a position to receive less attention. The lack of compromise between the two camps of political opinions further stalled the process and little consensus was reached. Outcomes of these decisions will be touched on later.

**Environmental Reforms**

Similar to other communist regimes, Poland was overly industrialized and the few environmental policies were disregarded by corporations. Once the transition period began, there was a devoted effort to change this apathy. The philosophy of the reform process can be summarized as:

To push firms to the highest level of pollution control that is technologically and financially feasible, to prevent acute threats to public health and the environment regardless of the cost to the firms or the economic loss to the community, to reward firms demonstrating a commitment to environmental improvements with more flexible treatment.\textsuperscript{54}

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\textsuperscript{51} Ibid., 16.
\textsuperscript{52} Lehmann. “The Polish Growth Miracle: Outcome of Persistent Reform Efforts.”
\textsuperscript{54} Halina Szejnwald Brown, "Transformation of the Environmental Regulatory System in Poland During the 1990s," Sustainability and Social Justice (2007): 35.
A valuable first step included regulation oversight by an independent ministry to consolidate the process and eliminate loopholes. From the onset, procedures were standardized and pollution fines were implemented.\(^5^5\) Through this process, business managers were given a set of codes to abide by, leading to an immediate positive impact. Permits became the primary way to regulate businesses’ environmental usage. Industrial companies were required to obtain permits by disclosing their pollutants, environmental impacts, and a plan for meeting the benchmarks derived from the national ambient quality standards.\(^5^6\) Helping to aid the process, industrial companies worked with the ministry throughout the reform period. According to Brown, “Of the 109 firms in the survey, only four reported that they had operated without a legal air permit during the previous five years.”\(^5^7\) The study also suggests that the majority of firms were satisfied with the policies and only a small fraction believed the policies were too tough. The previously apathetic viewpoint of Poland had been eliminated, possibly due to the obvious negative externalities being caused by pollution. Ultimately, Polish industry exemplified a harmonious “culture of compliance.”\(^5^8\)

After 1993, the ministry stayed vigilant with their cause. Inspections and fees remained an integral part of the process. Although the strictness continued, the reformers maintained a case-specific philosophy so that corporations could adjust accordingly without being burdened by these new regulations. Having known the negative situation industrial companies were emerging from, reformers were willing to negotiate fees and promote discipline through other means, such as investing in environmentally friendly technology. The environmental reform process was overall consolidated and dedicated, but at the same time flexible, allowing for

\(^{55}\) Ibid., 28.  
\(^{56}\) Ibid., 29.  
\(^{57}\) Ibid., 31.  
\(^{58}\) Ibid., 32.
businesses to buy in. Later reforms also took into consideration further environmental protections. In 2004, the Nature Conservation Act was created to ensure environmental protection through necessary resources.\textsuperscript{59} This solidified an increased awareness of conservation and a willing commitment from the government to sustain the environmental trajectory.

\textit{Post-2000 Reforms}

Some crucial developments in the 2000s are worth examining. With greater emphasis on public interests, the government saw an increase in public expenditures to 44\% of GDP in the late 1990s, well into deficit territory.\textsuperscript{60} This was unacceptable to the reformers, especially since the ministers succeeding Balcerowicz wanted to continue his legacy of fiscal strictness. Accordingly, the government added an amendment to the constitution that stated gross public debt could not exceed 55\% of GDP.\textsuperscript{61} With Balcerowicz now as Chairman of the Central Bank (Narodowy Bank Polski), he implemented a tight monetary policy through enforcing high-interest rates when other countries were experiencing record growth, making Poland more steady but comparatively slower.

Poland also had the opportunity to tighten its institutions. In order to enter into the European Union in 2004, compliance with European standards was required. Pre-2004 reforms included developments in a corporate and income tax system, civil legislation, privatization measures, and financial sector improvements. At this stage, Poland had sufficiently undergone the transition period and reached a destination of Westernization, through EU accession. Yet, the process was not perfect. In 2002, there were still 1,951 SOEs that needed to undergo privatization.\textsuperscript{62} Institutional learning was still necessary. In the next chapter, the contrasting

\textsuperscript{60} Aslund, “Poland: Combining Growth and Stability,” 5.
\textsuperscript{61} Ibid., 6.
\textsuperscript{62} Hunter and Ryan, “Privatization and Transformation in Poland: An Update,” 934.
experience of the Czech Republic is outlined, followed by a systematic quality of life analysis in both country cases. Despite many similarities, a different reform philosophy led to a distinct set of policies in the Czech Republic and substantial differences in the quality of life.
Chapter 3: Czech Reforms

The Velvet Revolution, named because of the absence of bloodshed, was the catalyst that sparked the downfall of the Communist Party in Czechoslovakia. The free parliament and executive election occurred half a year later on June 9, 1990, producing a majority for Vaclav Havel’s Civic Forum and the Slovak counterpart Public Against Violence.63 Until the breakup of Czechoslovakia in 1993, Havel acted as President with Vaclav Klaus as the Minister of Finance. From that point forward, Havel remained President of the Czech Republic under an independent party until 2003, with rotating Ministers of Finance beginning with Ivan Kocarnik from 1993 to 1997.64 During this time, the Czech Republic had a fairly stable political sphere with little fragmentation and no emergence of a reformed communist party as in Poland. Due to the totalitarianism of the old regime, former communists were rejected from political and social spheres.

From an economic point of view, the reform period consisted of multiple stages. 1991 and 1992 were experimentation years, as the reformers consistently learned free market mechanisms and dealt with problems arising from unfamiliarity with the system. From 1993 to 1996, the Czech Republic benefitted from steady growth, while 1997 marked a downward shift. The currency crisis and economic recession motivated the government to implement new reforms and adjust policies. This event hindered the growth process, but allowed the reformers to perfect institutions entering the millennium. Czechoslovakia, and later the Czech Republic, took an overall more moderate approach compared to Poland, which later turned into an “adjust as you go” policy positioning.

Preconditions

In the 1980s, Poland experimented with a damaging program of fiscal loosening within an inefficient state-controlled system. As Poland was struggling with macroeconomic troubles, its neighbor was previously sheltered by its isolated state-controlled economy. For Czechoslovakia, the few benefits of this period included the much better condition of debt and inflation than its neighbors. The conservatism that was characteristic of the past communist regime left the new Czechoslovak leaders with only $7.9 billion of hard currency debt, a minuscule number compared to Poland. Since Czechoslovakia was in a better position macroeconomically, the main concern thus became its microeconomic response to the reform effort. Reformers needed to be mindful of the supply and demand changes and the ability of inexperienced corporations to act efficiently under these free market conditions. Entering the transition, Czechoslovakia had an overwhelming presence of inefficient businesses due to its past industrialization approach. According to Sojka, the share of GDP in industry was 63% in 1989. When including construction, the proportion was at a whopping 74%. Compared to efficient economies that were regulated by market mechanisms, this was overwhelmingly high.

On the political side, reformers had limited experience with anything market-oriented due to the strictness of the former regime. During the period under Husak, not a single book was published by a non-Marxist author that dealt with a political or economic issue. Scholarship was not allowed to take place in the field of market economics, leading to insufficient market knowledge. Czechoslovakia moreover lacked the robust civil society witnessed in Poland. Charter 77, the Czech resistance group, was infantile compared to the mass Solidarity movement. Discontent towards the regime for example was much quieter throughout the 1980s and only

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culminated in an uproar motivated by the transitioning of surrounding countries at the end of the decade. Handicapped by their ignorance of the outside world, the reformers started in a position of weakness and needed to solidify democratic institutions that could facilitate a reform effort. Lastly, with both the Czech and Slovak nationalities making up the country, the differing experiences and opinions became a challenge as the country worked toward a coherent reform policy for the future.

**Economic Reforms**

*The Planning Stage: 1990*

Czechoslovakia was plagued by an insufficient legal framework from the onset. It had to undergo constitution building while also deciding upon an economic transformation, making institution building increasingly complicated. In 1990, the leading Civic Forum was divided over how to handle the transition. In one camp, Vaclav Klaus, the Minister of Finance, advocated for the most rapid transition possible. On the other, President Havel advocated for a different strategy, one of gradualism playing on the old Dubček slogan “socialism with a human face,” but this time with capitalism. The two governmental camps formulated opposing strategies moving forward. In March 1990, the National Economic Council led by Frantisek Vlasák proposed “The Strategy Proposal for the Transition to a Market Economy” which advocated for gradualism and a slower transition due to concerns of enterprise adjustments. In opposition to this, Klaus and the Federal Ministry of Finance proposed the “Strategy of Economic Reform” in April 1990. This proposal emphasized quick liberalization, more in line with Poland’s shock therapy. The official program was developed in September of 1990, referred to as the “Scenario of Economic Reform” combining elements from both plans, but leaning toward Klaus’s neoliberal proposal. In

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Klaus’s words, the plan called for “liberalization, price and foreign trade deregulation, [and] internal convertibility.” Although the program leaned toward shock therapy, some scholars have found fault with this assumption. Zidek referenced Hoen, stating that the actual route taken was socially liberal with state corporatism, a social market economy, and ad-hoc crisis management.

The process of implementation in 1991 and onwards revealed whether this was true.

The Transition Begins: 1991 to 1992

After the planning period, proposals were solidified in late 1990, making 1991 the true inception of the reform process. A series of liberalizing reforms took place on January 1. The crown was made convertible at the fixed exchange rate of 28Kcs/$ from 14.29Kcs/$, a level that promoted exports but was not overly devalued. This level was a compromise between the two camps. One sought to devalue it further to stimulate exports and the other wanted to achieve a purchasing power parity rate to protect from an inflation run. Looking back, reformers were satisfied with this choice because it gave Czech exports an advantage while not being too devalued. Amidst fears of inflation, reformers decided to use a fixed exchange rate policy instead of a floating rate. Having witnessed the high levels of inflation in Poland, and from seeing evidence that countries with pegged exchange rates have lower inflation, Czechoslovakia was comfortable sacrificing monetary adjusting freedom for lower inflation. The crown would remain pegged to a currency basket of five and then two currencies until its fixed rate removal in 1997.

In an effort to liberalize prices, the government removed subsidies quickly, with 85% of prices liberalized at the start of the year. However, this was not a full liberalization. Food, rent, heating and public transportation prices remained state controlled due to concern over

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70 Ibid., 61.
71 Ibid., 59.
monopolies taking advantage of liberalization. Fearing public discontent, reformers also implemented a state-balancing benefit given to all citizens. Ultimately, the government was consistently attempting to counteract liberalizing measures to stay politically popular and control the market. This led to restrictive policies because of the fear of unchecked economic troubles. Another example that followed this pattern was the implementation of wage controls in 1991, which led to a 24% decrease in the real wage and in effect caused a shock to consumer demand. It is worth noting that despite this decline, these controls were relatively miniscule compared to Poland. Wages were allowed to increase in line with sales, but a tax would be demanded if this was exceeded. This helped the inflationary state by attempting to keep productivity above incomes. Once the government decided that the outlook was stable, this policy was relaxed in 1992 and used periodically afterward. The inclusion of wage controls caused major discontent in society, with labor unions and commercial banks becoming vocal about their disapproval. To counter the public frustration, social welfare institutions, such as the Public Employment Services and others, began to be built in the early years.

Consecutively, liberalizing policies were enacted to increase competition for domestic monopolies. For example, the reformers liberalized foreign trade by lowering the duties to 5% and signing a trade treaty with the European Community. Again, as a counteraction, an import surcharge was introduced to protect the balance of payments. Considering trade, the government also created export policies. Domestic firms were required to sell foreign currencies to the central bank, receiving the domestic currency in exchange. This strategy was implemented to

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74 Ibid., 74.
75 Ibid., 68.
78 Ibid., 79.
boost the country’s monetary positioning as the young economy lacked foreign exchange reserves.

Lastly, 1992 was characterized by political upheaval between the Czech and Slovak counterparts, holding up the reform efforts. The majority of reforms in this period included institutional developments and privatization of state-owned enterprises. A new commercial code, trade law, and anti-monopoly law were passed alongside the beginning of the voucher privatization process.79

The Voucher System and Czech Banking

Czechoslovakia experimented with a unique strategy of privatization that contrasted with other countries within the bloc. To privatize state-owned enterprises, vouchers distributed by the government allowed Czech citizens to buy shares of companies in two waves of bidding. The rounds took place during 1992 and 1994, auctioning 988 enterprises in the first round and 861 in the second. Private ownership increased rapidly as a result, with over 80% of Czech state assets becoming privatized at the end of the bidding process.80 The details of this process can be broken in the following steps. Czech adult citizens could purchase a voucher book that included 1000 points for 1000 crowns, roughly a week’s wage.81 Then, when the bidding process took place they used their points to purchase shares of investment privatization funds or individual investor shares. The first round was based on a standardized share price for all companies. If demand exceeded supply, the purchases would halt and the shares would be re-auctioned in the second round at a higher price that better corresponded with demand. The first wave in 1992 was a five round process whereas the second wave privatized through six rounds.82 The process of using

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79 Ibid., 84.
81 Ibid., 135.
82 Ibid.
supply and demand indicators to execute the transformation allowed Czech citizens to adjust to market mechanisms and participate in the new economy.

In banking, initial reform efforts were designed to switch commercial banks from public enterprises into private hands. During the auction process in 1992 and 1994, the previously state-owned banks were bid on. However, these were only minority interest bids that left the banks in the hands of the government, which further struggled to clean up the banks' balance sheets. Ultimately, this transfer wasn’t true privatization as the government retained majority control. During these transitions, the banking sector was continuously plagued by a legacy of poor risk management due to the communist-era norm of soft budget constraints and bad lending. Woolman explains how “nonperforming loans mounted in the years leading up to 1997 due to the continuation of soft lending, which…was exacerbated by a lack of bankruptcy legislation and continued state ownership of the banks.” The late-decade reforms would touch on the flaws that weren’t fully addressed in the early years.

Newfound Growth: 1993 to 1996

In 1993, the breakup of Czechoslovakia led to the creation of two new states, the Czech Republic and Slovakia. This study examines and refers to the Czech Republic only from this point forward. Only few economic reforms took place during this year due to the focus on state breakup. The creation of a new tax system, welfare system reforms, and the Prague Stock Exchange were the limited reforms launched at this time. The new tax system was intended to increase the tax base while also making the tax process more efficient by removing distortions. It proved successful, allowing the budget to avoid a deficit in 1993 despite transition costs.

While most of the breakup went smoothly, the economic costs associated with the dissolution

hindered improvements. The process of breaking up assets and administering the bureaucratic divide was a timely endeavor that both nations paid. The new country also underwent a transfer to a new currency in February which took administrative resources. Despite the potential hiccups, this did not handicap the Czech Republic’s general progress.

Once the dust settled, 1994 marked a shift to economic growth. With growing reserves, the central bank had more flexibility to continue the liberalization process. The obligation for corporations to hand over foreign currencies to the central bank was removed.\footnote{Zidek, “Reform Measures and Economic Policy,” 88.} Reaping the benefits of the growing economy, the government also decreased taxes and was able to keep the budget balanced by cutting costs.\footnote{Ibid., 90.} Additionally, privatization measures continued through the second wave of voucher privatization. While this was happening, the Czech Republic’s success was being recognized around the world. As a reward for its successful development, the Czech Republic entered the Organization for Economic Cooperation and Development (OECD) in 1995. It was the first country in the former bloc to achieve this honor.

1995 continued with additional liberalization measures. A focus on currency liberalization led to the external convertibility of the crown in January. Further reforms to stabilize this measure included the central bank selling securities to decrease the pressure on price growth.\footnote{Ibid., 95.} This was not entirely beneficial. While economic growth occurred, the fixed crown increased in price relative to its neighboring trading partners, causing domestic industries to lose competitiveness.\footnote{Ibid., 93.} To combat the inflationary pressures, the Central Bank faced a dilemma. It needed to raise interest rates, however, this would draw in additional foreign investors. The external convertibility amid a fixed exchange posed a major issue heading into

\textsuperscript{86} Zidek, “Reform Measures and Economic Policy,” 88.  
\textsuperscript{87} Ibid., 90.  
\textsuperscript{88} Ibid., 95.  
\textsuperscript{89} Ibid., 93.
1997. As foreign reserves had increased and the relaxation of policy occurred, wage growth began to exceed productivity. The economy was becoming unknowingly less efficient than before, an issue that the government failed to notice or address.

1997 Onwards: The Banking Crisis and Market Reforms

As discussed previously, the reformers wanted to stabilize the currency as a control against the volatile market economy in the early years. The fixed exchange rate policy, although consistent, proved to be a major hindrance when the crisis emerged in 1997. Once the rise of inflation and real wages changed the fiscal status from a trade surplus to a deficit, the fixed exchange rate blocked any government intervention. On May 27, 1997, after many attempts to stabilize the situation through trying to support the currency, the central bank adopted a floating exchange rate, causing the crown to quickly depreciate by 10 percent. In an effort to combat inflation, the central bank also increased interest rates and instituted budget cuts and public wage freezes, which amounted to 16.9 billion CZK. As the crisis raged on and public discontent further escalated, Prime Minister Klaus and his administration resigned on November 30, 1997, and the Social Democrat party took power.

The new more socially-minded leadership implemented a looser fiscal policy to stimulate the economy during the recession. In 1999, a National Employment Plan was created to increase jobs and better incentivize worker motivation. Through these measures, a Revitalization Program and Agency was implemented in the same year. Eight large companies participated in this program with the addition of a financial boost. Economic stimulation occurred with these programs, but at a significant price. The high spending led to a budget deficit. Furthermore,

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94 Ibid., 110.
additional policies were taken to help people recover. The Social Democrats raised the minimum wage, and surprisingly, they also decreased the tax burden.\textsuperscript{95} Later, they would reverse this to address the higher debt from the early 2000s. Due to the increased spending, the Ministry of Finance created a plan to cover its deficit through higher taxes and lower expenses after the country was sufficiently recovered.\textsuperscript{96}

While the crisis was being dealt with, problems from the former system were revealed. An anticorruption campaign was launched in 1999 to combat widespread corruption. This included a civil code amendment that increased the prison sentence from five to eight years and the Law on Budget Rules in 2000 was implemented to incorporate fiscal transparency under the IMF Code.\textsuperscript{97} Even before this formal initiative was launched, a “Clean Hands” campaign began in 1998 through the help of an inter-ministerial commission. These groups were determined to search and prosecute corrupt practices within the privatization process and punish government officials. Due to widespread corruption in the financial system, the Czech government began to clamp down on potential corrupt areas. An Exchange and Securities Commission was introduced to oversee the market, helping the gradual improvement of the financial system.\textsuperscript{98}

As these stimulating reforms took place, the crisis also revealed major shortcomings in the banking system. Transferring bank ownership was urgent and the government welcomed foreign investors in the process. The government from 1997 to 2001 sold its majority interest in four major banks to foreign investors Nomura, KBC, Erste Bank, and Societe Generale.\textsuperscript{99} The next step of the process included absorbing bad debt so that the financial sector could move

\textsuperscript{95} Ibid., 108.
\textsuperscript{96} Ibid., 122.
\textsuperscript{98} Ibid., 10.
\textsuperscript{99} Woolman, “Czech Banking in the 1990s: What Went Wrong?,” 196.
forward. The Czech State took on this burden and paid an estimated 51 billion crowns. Finally, the government increased banking regulation to prevent a similar situation down the road. Through an amendment to the 1992 Banking Act, the reformers sought to separate investment and commercial banking activities to remove conflicts of interest.

Alongside the transfer of bank ownership, further banking legislation was passed to minimize financial risk. A new rule required that banks had complete provisions on non-performing loans outside of real estate collateral. Additionally in 2000, the National Bank began to examine bank exposure limits on an individual and group basis to stop attempts to diffuse risk across subsidiaries. Regarding bankruptcy, an amendment was passed to quicken the process and favor creditors in 2000. The financial reforms that the leadership carried out after 1997 changed the direction of the banking sector and solidified the importance of institutions thereafter.

The late reforms were a painful but necessary step to cleaning up the financial system and allowing for the Czech Republic to emerge as a flourishing economy ready to join European institutions. At this point, the Czech Republic put itself in a successful position and reaped the benefits of successful reforms in its accession into the EU alongside Poland in 2004.

**Healthcare Reforms**

The healthcare reform process emphasized two components. The former state-run system was to be transformed through the privatization of healthcare services and a shift in payment systems from state provided to insurance based payments. Physician interest groups moreover had a large influence on the health reform process, which was a unique characteristic in the

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100 Ibid., 197.
101 Ibid., 198.
102 Ibid., 198.
The process began in 1992, when healthcare facilities transferred to private ownership through smaller day units and outpatient units. However, the formal first wave of the process did not begin until November 1993 with the decision to categorize healthcare facilities into groups A, B, and C, by how closely they would remain tied to the state. After this was determined, the process to privatize occurred quickly. Veprek quoted that “according to the Ministry of Health, by the end of 1993 there were 17,173 health care facilities and health care offices in the Czech Republic of which only 2559 remained state-owned.” While the transfer of facilities, equipment, and obligations to regional authorities appeared beneficial, they were also required to address the former inefficiencies and debt. Likewise, as the privatization of healthcare services carried forward, communist-era legacies remained. With the creation of a standardized medical system, providers were unable to compete for better profit due to a reimbursement system that measured practices based on costs rather than performance. The effects this had on quality will be discussed in the analysis portion of the study.

Alongside privatization, financing was placed into the new system of insurance. In 1993, a reform allowed for competing healthcare companies and by January 1994, 18 private insurance companies competed with the state-run company for insurance clients. Under this process, healthcare was financed by 13.5% of employed person pay, 9% from the employer, and 4.5% from the employed. The state contributed to the healthcare of non-employed persons, with 53% of the population enrolled in this option. In the breakdown of payments, private financing

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105 Ibid., 403.
106 Irena Jindrichovska and Ivana Funkova, “Influence of Reforms on Availability and Quality of the Czech Health Care,” 5.
107 Veprek and et al., Health Care Reform in the Czech Republic, 403.
108 Ibid., 406.
in the reform era was a insignificant portion of funds, with the majority coming from the public side. Ultimately, despite the incentivizing drawbacks, it is clear that the Czech Republic consolidated its healthcare reform strategy much more quickly than Poland. By 1994, the majority of healthcare was placed under this new system.

**Environmental Reforms**

Czechoslovakia was previously an industrially-focused bloc country in the Communist period. While this satisfied quotas and contributed to industrial growth, it left the country in horrible environmental disarray. The centrally planned economy can be blamed for creating and disincentivizing corporation’s ability to adjust to polluter costs, due to the subsidization system.\(^{110}\) This malconduct left the new regime with negative externalities leading into the reform period. During the early 1990s, Czechoslovakia accounted for 1% of worldwide carbon dioxide emissions, an incredibly disproportionate contribution of emissions for a small country.\(^{111}\) This pollution could be seen across the board, through high levels of sulfur dioxide, poor wastewater management, and carbon dioxide emissions. The transitioning government responded accordingly by adjusting the regulatory system.

When protests against the Communist regime began, protestors used the pollution problems to consolidate their efforts against the government.\(^{112}\) As a result, there was a strong sentiment around environmental policy and a progressive reform status from 1990 to 1992. Formally addressed policy includes the development of a committee in 1990, an energy savings program, a Clean Air Act, and the implementation of the Energy Agency of the Czech Republic in the years 1991 and 1993.\(^{113}\) The committee which was headed by a chairman, given the name

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\(^{111}\) Ibid.


\(^{113}\) Cerna, Cetkovsky, and Tosovska, "Economic Transformation and the Environment."
the Green Parliament, was intended to oversee multiple aspects of the reform process.\textsuperscript{114} The Clean Air Act implemented a charge based on pollutants that would increase through the years (i.e. in 1992 30\% of the charge needed to be paid whereas 80\% of the charge needed to be paid in 1996).\textsuperscript{115} As support from the previous environmental push dwindled, the policy status shifted from an all-encompassing environmental focus to a primarily pollution focus based on technological progress and end-of-pipe tools.\textsuperscript{116} During this time, the neoliberals dominated thinking and the green party, which had a great transition start, became less popular. This backdrop continued to improve the state of pollution but did not allow for consideration of other factors like sustainability. However, a new environmental intentionality occurred in 1995 and 1997 with laws that addressed the ozone, forests, endangered species and waste.\textsuperscript{117} This would constitute the state of the environmental policy until shortly before the accession into the EU when the Czech Republic was forced to align its policies with EU expectations.

Some of the environmental reforms also corresponded with other liberalizing reforms. For example, in 1993, water prices were adjusted based on real costs and profits.\textsuperscript{118} Additionally, energy costs were allowed to rise in line with market mechanisms. This price liberalization was a short-term painful process for consumers, but one that had a positive impact on the environmental state by eliminating wasteful practices of the former system. The continued liberalization brought about more efficient uses of energy such as a 22\% decrease in mining and the use of coal. Furthermore, natural gas consumption rose throughout the early years becoming a 15\% share in country PER.\textsuperscript{119} Reformers succeeded in their goal to improve this metric through

\textsuperscript{115} Cerna, Cetkovsky, and Tosovska, "Economic Transformation and the Environment."
\textsuperscript{117} Horak, “Environmental Policy Reform in the Post-Communist Czech Republic: The Case of Air Pollution,” 318.
\textsuperscript{118} Cerna, Cetkovsky, and Tosovska, "Economic Transformation and the Environment."
\textsuperscript{119} Ibid.
gasification in environmental policy. Despite the volatile support for environmental policies, the reformers were able to solidify substantial legislation in this domain.

Final Thoughts

The Czech Republic had a transformation process beginning in 1991 that took a much more ad-hoc approach compared to Poland. Many liberalizing policies were followed by stabilization measures, which departed from a strictly neoliberal reform philosophy. The fear of an economic shock caused by over-liberalization led to some major problems down the line. Additionally, the major concern of politicians to stay in power by pleasing the public caused many of the policies to be tailored to gain popularity.\textsuperscript{120} Despite this, the Czech Republic was able to maintain steady growth and consolidate its liberal democracy. It is well known as one of the most successful transitioned countries in the Soviet bloc. In spite of this, positive reforms in theory may or may not have had the same effect on the average Czech. The personal impact that Polish and Czech reforms had on its citizens will be examined through a quality-of-life analysis in the upcoming chapter.

\textsuperscript{120} Zidek, “Reform Measures and Economic Policy,” 97.
Chapter 4: Quality of Life

To investigate how the Czech and Polish reforms impacted people’s well-being, one must develop a thorough understanding of what constitutes quality of life. Quality of life measurements are inherently subjective and open to many different interpretations. By virtue of the different interpretations, literature in this field contains a wide breadth of viewpoints as scholars have attempted to conceptualize the elements that contribute to quality of life. In one study, research from Shin and Johnson has landed on the definition that life satisfaction is formed by a combination of “the possession of resources necessary; the satisfaction of needs, wants and desires; participation in self-actualizing activities and comparison with others and past activities.”\(^{121}\) This description touches on the pinnacle of Maslow's hierarchy of needs with a component of self-actualization, an area that can be argued is of less importance in countries where basic needs aren’t being met. It also contains an aspect of a subjective perspective that cannot be applied universally. For these reasons, this study will attempt to relate policy decisions with what they can objectively impact. This chapter seeks to investigate and construct a quality-of-life measurement scale, explain the measurement tool chosen for this research, and present the data that will guide the analysis of the reform process.

Quality of Life Measurement Scales

In order to create an index to measure quality of life, a brief look into past scales is helpful. An objective index created to assess the quality of life is the Physical Quality of Life Index (PQLI) which is a weighted average measurement scale that takes into account infant mortality, literacy, and life expectancy at the age of one.\(^{122}\) Although this scale uses tangible

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inputs, it lacks comprehensiveness and instead acts as a health baseline negating “positive health” characteristics that can advance social well-being. In this regard, it is too brief and eliminates the possibility for advancement from a baseline.

Daniel Slottje, an economist and professor at Southern Methodist University, attempted to remedy the oversimplified research by conducting an extensive project on quality-of-life measurement scales. His research includes a regression analysis that combined twenty indicators spanning from freedom of speech, average household size, and topics including political, economic, and health. The success of this scale is in its detail and range. However, in the case of this study, his report discusses elements that equate to a higher quality of life independent of reform intervention.

By taking inspiration from these different ideas of quality of life, I have created a scale that can assess the transition period. To consider how economic reforms changed quality of life, quality of life measurement factors that are affected by economic improvement must be implemented while subjective factors must be omitted. This study in consequence will focus on factors that the government can influence, while excluding generic well-being measurements that cannot be impacted by economic reforms. For example, satisfaction and fulfillment measurements involved in quality of life determinants are mostly in the hands of the individual, instead of the prevailing administration. In a liberal democracy, the government can only provide social and economic services to fulfill basic needs that won’t inhibit life satisfaction. Because there is a limit to impacting a person’s journey to self-actualization, the factors determining life satisfaction apart from government intervention must be omitted to determine reform quality.

123 Positive indicators are measures that don’t have a limit to how much they can improve. For example, GDP is a positive indicator whereas literacy rate is a negative indicator. Negative indicators can only improve to a certain point while positive indicators can increase indefinitely. Later in the study, they are also referred to as indicators where a higher measurement denotes a better result.
Consequently, progress will be judged in this manner - the extent to which policy has made a way for citizens to achieve a “good life.”

Considering these factors, the measurement system hones in on the portion of Shin and Johnson’s definition stated as “the possession of resources necessary to the satisfaction of individual needs.”125 “Resources necessary” encompasses what the government can affect through positive economic reforms and therefore is where attention should be focused. Below, the components in the quality of life scale are addressed.

Quality of Life Indicators

The quality of life scale created for this thesis consists of four areas, each with two indicators that form the basis of that area. The areas include economic strength, economic hope and confidence, healthcare, and the environment. The eight metrics that comprise these topics were selected bearing in mind the reform direction and relation to well-being. Major emphasis was put on reshaping the economy in both countries. Therefore, the economic indicators that improve the quality of life are twice as frequent on the scale as the healthcare and environmental ones. The greater weight placed on the reformers' main focus will allow for a more intricate comparison of the results. Additionally, less pressing quality of life indicators during the reform process are not examined in this study. Infrastructure and educational indicators that appear in the OECD’s well-being measurements were less emphasized during the Polish and Czech reform process because of their higher baseline. For this reason, the scale emphasizes the most necessary changes for Poland and the Czech Republic’s transitioning period. Each section below delves into the components of this scale.

Economic Strength

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The economic strength section is based on the metrics GDP per capita purchasing power parity and unemployment rate. It is important to be cognizant of how economic reforms span past pure material gain. In many studies, gross domestic product is used as the prime indicator to assess economic improvements. However, this cannot be the only material element due to what isn’t displayed. For example, countries with high GDP levels may have wealth concentrated in a small portion of the population or may be experiencing record inflation that raises the cost of living enough for GDP growth to seem futile. As a result, GDP purchasing power parity is the growth metric used to judge the economic state and take into account the potential inflationary problems that caused the cost of living to rise in Poland and the Czech Republic. This metric compares purchasing power up to current international data sourced from the World Bank. The unemployment rate counterbalances the GDP indicator as the economic stabilization indicator. High unemployment can reveal a recessionary environment where a high proportion of society struggles to participate in the economy and optimism declines. Inversely, a lower metric displays a steady economic state. This indicator reveals a major correlation with the quality of life as a “loss of employment [is] experienced as a loss of identity, structure, motivation, or “purpose of life”” according to a qualitative study examining well-being during recessions.126

Moreover, as the Czech and Polish reformers focused on growth, they also needed to show concern for economic stability and the labor market that characterizes economic well-being. Each of these elements is impacted by reform and reveals whether or not financial needs are being met. For these reasons, they are weighted evenly within the composite. Another sufficient indicator that could be used in this area is the Gini coefficient. This measurement tool reveals wealth inequality, which directly correlates to economic satisfaction. Unfortunately,

Poland and the Czech Republic lacked early data for this indicator making the trajectory unknown. For these reasons, GDP per capita ppp and unemployment rate sufficiently capture economic strength.

Economic Hope and Confidence

The emotion of hope may appear to be a more personal indicator that is beyond the scope of this reform analysis. However, the government can greatly influence hope about the future in both positive and negative ways through policies and freedoms granted. During the communist period in the Czech Republic and Poland, this emotion was missing throughout the many years of civil freedom abuses. The revolutions of 1989 revived a sense of hope and significantly improved personal well-being even when the economic conditions were grim early on. This feeling held because people were optimistic about the prospects of a better future. In this way, hope coincided with citizens' belief in economic reforms and the potential for them to “buy in” to the new system. Greater success led to greater hope and vice versa in this reinforcing phenomenon. Therefore, the individually subjective emotion of hope is a terrific indicator of reform success and is included in this economic well-being scale.

To measure hope indirectly using related metrics, a corruption perception index and an economic freedom index form the basis of this section. As corruption is a discrete problem, it is impossible to acquire exact data. Therefore, studies resort to measuring the perception of corruption. This index accounts for the perception of bribery, officials operating for private gain, misuse of public funds, adequate laws to protect against malpractice, nepotism, and additional forms.\textsuperscript{127} Higher perceived corruption acts as a negative indicator that inversely mirrors the hopeful emotion. As citizens of a country witness more corrupt practices, their hope to succeed

in an ethical manner breaks down. In this environment, less honorable actors succeed and the well-being of the majority of the population diminishes.

The economic freedom index works oppositely. This index, created by the Fraser Institute, takes into consideration a plethora of government practices and reveals an aggregate freedom score that rates countries based on good economic practices. Included in this index are government size, regulation, international trade freedom, money soundness, and the legal system. Government size considers how much the country relies on government facilitation rather than market economics. Regulation measures the barrier to entry due and potential bureaucratic processing that could limit economic activity. International trade freedom measures restraint in tariffs, quotas, and controls that could impact commerce. Sound money measures the efficacy of monetary institutions to allow for a functioning economy and prevent recessions. Lastly, the legal system and property rights judges the rule of law and equality in practice. In the context of this study, the reforms undertaken by both governments set out to create market institutions where citizens would be free to create and produce. The ability to participate in the economy significantly adds to one’s confidence in the system and can, in turn, affect quality of life. Thus, the economic freedom index is an adequate metric to assess how well the countries built economic institutions and contributed to wellbeing. Ultimately, hope is a required emotion for people to remain optimistic about the future. Without it, well-being would decline.

Healthcare Quality
The healthcare section comprises life expectancy and healthcare as a percent of GDP. These indicators take into consideration the concrete results of healthcare improvement as well as the government investment in the system. Firstly, life expectancy accounts for the population’s physical condition which is impacted by the quality of health services. Improvements in this

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measurement are directly correlated to improvements in developmental reforms and overall well-being. The next component, healthcare as a percent of GDP, is a tangible metric used to measure spending in this field. As healthcare continually proves to be one of the most important factors in quality of life, investment demonstrates an intent to prioritize citizen wellbeing. The first metric judges the outcome and the latter judges the process. Ultimately, these two factors work together to display the inputs put into the system as well as the outputs. Both are important for impacting quality of life because the confidence that the system has adequate resources matters alongside the end result. Healthcare quality reveals how economic improvements have been targeted in a way that has advanced population well-being through better health. Healthcare improvement therefore cannot be separated from economic reform.

**Environmental Quality**

An individual’s environmental surroundings directly correlates to their quality of life because of health and lifestyle considerations. According to the European Social Survey monitoring SO₂, “an increase in SO₂ concentrations by 1 µg/m3 is associated with a statistically significant reduction in life satisfaction of between .016 and .03 points on the 11-point life satisfaction scale.”¹²⁹ This decrease is largely attributed to the adverse effects of pollution on health. For example, when the Czech Republic was in its height of industrial pollution during the communist era, it was estimated that 20% of the population was affected by environmentally related diseases that impacted living conditions and life expectancy.¹³⁰ Separate from health related causes, the preservation of natural environments allows the public to take advantage of outdoor space, presenting the opportunity for a potential boost in happiness. Bearing this in mind, the government can choose to address the environment in the reform process.

¹²⁹ Helen Russell and Frances McGinnity, “Drivers of Wellbeing.” Drivers of Wellbeing | European Social Survey.
¹³⁰ Horak, “Environmental Policy Reform in the Post-Communist Czech Republic: The Case of Air Pollution,” 315.
The environmental indicator is made up of two components, air pollution exposure and protected land. The air pollution indicator judges the amount of particulate matter that citizens are exposed to. The particulate matter, also known as PM 2.5, consists of multiple pollutants. Sulfur dioxide as mentioned above is one of the chemicals in consideration alongside others. Due to the poor effects air pollution can have on individual health and on one’s psyche, this metric is necessary on the quality of life scale. Air pollution can hinder life satisfaction in many ways other than the health restraints. Those living in a polluted environment cannot partake in their desired life due to limits on leisure activities and the ability to be active. The second indicator, protected land, examines the reformers’ intent to protect the natural environment from unnecessary development. Sectioned-off natural space solidifies protection for years to come. In this way, the protected natural environment can help decrease pollution levels and the public can enjoy the outdoors which boosts endorphin levels. Air pollution reveals a poor management of resources and protected land showcases a completely separate beneficial allocation of resources that influence quality of life. Therefore, each is included in this analysis of quality of life.

*Omitted Indicators*

This study only focuses on the indicators described above. Keeping in mind the elements of quality of life that aren’t considered, this scale is slightly individualized for the Czech Republic and Poland to best assess reforms. The economic transformation, the healthcare reforms, and the environmental state were priorities in this process. Both countries started from difficult positions with the potential to improve drastically. Efficient markets were nonexistent, healthcare quality was poor, and the legacy of the communist regime made areas highly polluted. Unlike these three variables, other important and objective quality of life indicators, such as infrastructure and education, had a sufficiently high level baseline going into the reform process and therefore weren’t focused on in the same way. The communist system required everyone to
attend school and much investment was put into infrastructure in the former period. For these reasons, the quality of life changes in these topics are minute and inconsequential for this assessment. Only the indicators that had a greater opportunity for profound change are included to reveal the transition reform quality, while the others are omitted.

**The Quality of Life Measurement Scale**

The tables below reveal the side-by-side comparison of the Czech Republic and Poland for each metric. Table I includes the raw data by year. The time points used are the earliest pre-transition date where data is present ~1990, 2002, 2012, and 2022. The majority of pre-transition data are sourced from 1990 to determine a baseline for each country’s reform progress. Indicators with an asterisk denote that data were not available in that year for either Poland or the Czech Republic, and this measurement is accompanied by a footnote for the exact year. 2012 and 2022 are included to show the more recent progress long after the initial reform era. Yet, the early data points are most important for examining 1990s reform developments. GDP per capita purchasing power parity, the Economic Freedom Index, the Corruption Index, total life expectancy, healthcare as a percentage of GDP, and protected land are positive indicators, where a higher value denotes a better quality of life. Unemployment rate and air pollution are inherently negative indicators that reflect a better state when the value is lower. The scaled data takes into consideration these positive and negative indicators and scales them accordingly.

Using the raw data, Table II presents each of the indicators scored on a scale of 1 to 10, with 10 being the best score. The number scores in this table pit the Czech Republic and Poland against other countries. In gathering data, each country that has published data is included in this measurement to assess an individual country’s performance against world performance. Scores
for each indicator are measured by calculating the Czech Republic and Poland’s position in the 
world distribution through a normal cumulative distribution function. Using the mean and 
standard deviation, the function distributes each metric as a value in between 0 and 1. These 
values are then multiplied by ten to better interpret the data and make it standardized across all 
indicators. For example, a score of five would denote an average position relative to other 
countries. The step of scaling on specific timepoints is undertaken to assess whether or not 
Poland and the Czech Republic are improving in line with world trends or if their reforms are 
setting them apart by an outpaced improvement. The same score from one point to the next 
would reveal that they are improving relative with world quality of life improvement, but a better 
score indicates that they have outpaced other countries.

Data is collected from both the World Bank (six indicators) and the OECD (two 
indicators). The OECD data records fewer countries than the World Bank. Therefore, the data 
provided by the OECD is less inclusive for the distribution function than the World Bank data. 
This only has a small effect on the outcome and cannot be adjusted because of incomplete data. 
Hence, the study moves forward with the data that are present. In addition, the scores of each 
indicator are weighted evenly in a composite score in the rightmost column to denote the total 
quality of life score. Each section also incorporates an average score to more easily compare that 
specific topic. The diagrams that include data to determine reform quality are referenced at the 
beginning of the upcoming chapter.
Chapter 5: Reform Analysis

This chapter examines how different reforms improved individual quality of life metrics based on the chosen indicators. Through this, comparing reform choices within Poland and the Czech Republic is feasible by the breakdown of the metrics in a distinct timeframe. This section will be structured by economic, health, and the environment topics after first providing the tabular data and discussing Poland and the Czech Republic’s transition-era baseline. Below, the quality of life primary data (Table I) and scaled data (Table II) are presented for further analysis.

Table I: Quality of Life Primary Data

<table>
<thead>
<tr>
<th></th>
<th>Economic Strength</th>
<th>Economic Hope and Confidence</th>
<th>Healthcare</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP Per Capita PPP (current international $)</td>
<td>Unemployment Rate (%)</td>
<td>Economic Freedom Index (10 scale)</td>
<td>Perception of Corruption Index (100 scale)</td>
</tr>
<tr>
<td>Earliest Data ~1990</td>
<td>Poland</td>
<td>6,185</td>
<td>13.65*</td>
<td>5.81*</td>
</tr>
<tr>
<td></td>
<td>The Czech Republic</td>
<td>12,725</td>
<td>2.27*</td>
<td>6.66*</td>
</tr>
<tr>
<td>2002</td>
<td>Poland</td>
<td>11,804</td>
<td>19.89</td>
<td>6.85</td>
</tr>
<tr>
<td></td>
<td>The Czech Republic</td>
<td>18,253</td>
<td>7.28</td>
<td>7.52</td>
</tr>
<tr>
<td>2012</td>
<td>Poland</td>
<td>23,589</td>
<td>10.09</td>
<td>7.28</td>
</tr>
<tr>
<td></td>
<td>The Czech Republic</td>
<td>29,255</td>
<td>6.98</td>
<td>7.89</td>
</tr>
<tr>
<td>Most Recent Data ~2022</td>
<td>Poland</td>
<td>44,135</td>
<td>2.89</td>
<td>7.12*</td>
</tr>
<tr>
<td></td>
<td>The Czech Republic</td>
<td>49,195</td>
<td>2.22</td>
<td>7.81*</td>
</tr>
</tbody>
</table>

*GDP Per Capita PPP is sourced from World Bank data.
*Unemployment Rate is sourced from World Bank data and the earliest metric for Poland is 1992 and Czech is 1991.
*The Economic Freedom Index is sourced from the Fraser Institute. Earliest Poland and Czech data is from 1995 and final data is from 2021.
*Perception of Corruption data is sourced from Transparency International. The Czech Republic and Poland’s earliest data is sourced from 1996.
*Life Expectancy is sourced from World Bank data and final data is from 2021.
*Healthcare as a percent of GDP is sourced from OECD data.
*Mean Annual Exposure PM2.5 Air Pollution (per m3) is sourced from World Bank data. In Poland and the Czech Republic the metric was present in 2000 and 2019 but not in 2002 and 2022.
*Protected Land is sourced from OECD data.
Table II: Economic Reforms Quality of Life Scale

<table>
<thead>
<tr>
<th></th>
<th>Economic Strength</th>
<th>Economic Hope and Confidence</th>
<th>Healthcare</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP Per Capita PPP</td>
<td>Unemployment Rate</td>
<td>Total</td>
<td>Economic Freedom Index</td>
</tr>
<tr>
<td>Earliest Data ~1990</td>
<td>Poland</td>
<td>4.3</td>
<td>1.7</td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>The Czech Republic</td>
<td>6.6</td>
<td>8.2</td>
<td>7.4</td>
</tr>
<tr>
<td>2002</td>
<td>Poland</td>
<td>4.8</td>
<td>1.0</td>
<td>2.9</td>
</tr>
<tr>
<td></td>
<td>The Czech Republic</td>
<td>6.4</td>
<td>5.7</td>
<td>6.1</td>
</tr>
<tr>
<td>2012</td>
<td>Poland</td>
<td>5.7</td>
<td>3.8</td>
<td>4.8</td>
</tr>
<tr>
<td></td>
<td>The Czech Republic</td>
<td>6.7</td>
<td>5.8</td>
<td>6.3</td>
</tr>
<tr>
<td>Most Recent Data ~2022</td>
<td>Poland</td>
<td>7.4</td>
<td>7.8</td>
<td>7.6</td>
</tr>
<tr>
<td></td>
<td>The Czech Republic</td>
<td>7.9</td>
<td>8.1</td>
<td>8.0</td>
</tr>
</tbody>
</table>
Baseline Data Evaluation

The Czech Republic and Poland were selected for this study because of certain key similarities discussed previously, such as proximity to the West and reform success. That said, they began the transition period on a dissimilar footing. To determine the degree of change, one must consider how each country may be starting from a distinct well-being position. For Poland, its total aggregate economic quality of life score in ~1990 was 4.9 while Czechoslovakia stood at 6.4 out of 10 based on the pre-transition data. It is worth noting that Czechoslovakia’s higher score on the quality of life scale appears deceptively elevated. For one, it is being compared to all countries with data available, including developing nations that struggled with much lower economic and health indicators in 1990. For this reason, some mid-income countries appear to be doing much better than in reality. Additionally, only improvements in economic factors, healthcare, and the environment are judged, giving room for some well-being scores to be poorer in other indicators that aren’t considered. For example, social and political factors like democratic principles and a functioning civil society were abysmal in 1989 Czechoslovakia and arguably better in Poland. These variables are excluded from this economically focused study. Czechoslovakia therefore appears slightly better in the well-being score than in reality, as the quality of life scale is not fully exhaustive. Czech economic institutions that affected growth were still young despite the relatively strong starting position.

Regardless, the individual components driving these scores still reveal where Poland was lacking and where Czechoslovakia excelled at the onset. In 1990, due to elevated inflation, purchasing power in Poland was greatly weakened, and therefore the GDP per capita ppp measured at roughly half that of Czechoslovakia. Additionally, the unemployment rate in Poland was high compared to the rest of the world, triggering a poor indicator score. Contrastingly, the
Czech Republic bypassed the high inflation and unemployment that was characteristic of the region, allowing GDP and the labor market to start at a reasonably advantageous level.

The economic freedom index, with the earliest data recording in 1995, also explains some divergence in scores. Considering the total country scaled data, the Czech Republic exceeded Poland by more than two points. However, when examining the unscaled data, they are more or less similar due to the bunched quality of early scoring that measured countries very similarly. In the corruption index measurement, the countries were more aligned due to the novelty that caused perceptions of government practices to be imprecise in the early years. In healthcare, the countries are also similar. Poland fell slightly below Czechoslovakia in life expectancy and exceeded in healthcare as a percentage of GDP. Lastly, despite Czechoslovakia being a smaller and highly industrialized country, it fared much better in exposure to air pollution. Likewise, both countries were matched similarly in the percentage of land protected despite Poland’s larger size. Due to the air pollution score, environmental factors add to Poland’s disadvantaged starting position. Overall, the greatest disparity between the two countries can be found in the economic strength and hope and confidence categories at the beginning of the reform process. When determining success, both the degree of improvement and ending position is taken into consideration. A nation with a lower starting position can be hindered by its weak institutions or can experience greater room for improvement. In this case, Poland had more potential to improve. However the Czech Republic began the process with a higher well-being score and it therefore had the upper hand to reach a better present day quality of life. Ultimately, the advantages of each position cancels out each other. The next section examines the specific reforms that influenced changes in well-being and set apart either Poland or the Czech Republic.

*Economic Strength*
While economic strength suggests growth, it also assumes the absence of a crisis. Thus, avoiding a recessionary environment is crucial for quality of life. According to a qualitative study done by Guerra et al., “participants perceived that financial hardship and unemployment during recessions increased stress and led to feelings of shame, loss of structure and identity, and perceived lack of control, which increased interpersonal conflict, social isolation, [and] maladaptive coping.”

While avoiding crisis was crucial for both countries, the Czech Republic’s reform style was much more considerate of this through its liberalizing measures followed by stabilization policies. Poland, having begun its reforms in an inflationary environment, decided to implement high growth while also eliminating inflation in a process of higher focus on liberalization and mildly responsive stabilization. The Czech emphasis on consistent growth and crisis avoidance, made preventative stabilization a greater priority. Below, the most impactful reforms are analyzed based on their effect on the metrics of economic strength.

_GDP Per Capita Purchasing Power Parity_

GDP per capita ppp is a key indicator to reveal growth, but to also take into account the cost of living through the consideration of purchasing power. Improvements are a clear sign to attest whether basic living needs are being met. It seeps into healthcare, nutrition, housing, leisure, and every facet of life that requires income. In 1990, after Poland experienced CPI inflation of 249%, GDP per capita amounted to $6,185, less than half of the Czech Republic’s $12,725. Yet, more than 30 years later in 2022, Poland nearly reached GDP parity compared to the past, at $44,135 versus $49,195. Noting this tremendous improvement, Poland was extremely successful, while the Czech Republic’s improvement was more gradual. Having experienced a

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brief downturn in the late 1990s caused by adverse effects of stabilization measures, the country shifted reform strategy and grew thereafter. Due to advantageous initial conditions in the Czech Republic, GDP per capita in the present day still remains higher despite brief recessions. However, the growth in Poland cannot be discounted. Its reform strategy outdid the Czech Republic in economic growth due to prioritizing liberalization and the implementation of late stage stabilization policies.

*Poland*

Poland’s multifaceted reform effort emphasized the need to increase GDP while decreasing inflation. Despite complexity in this idea, the beneficial contributors can boil down to a few critical parts. Early small business privatization measures, effective convertibility of the zloty to benefit trade, and the later reforms of macroeconomic stabilization in the 2000s were the most effective policies that led to large GDP growth. Complementing this strategy, the stabilization policy of wage controls benefited purchasing power in the long run despite the initial adverse effect on quality of life. While these reforms advanced GDP growth, the reform effort was not seamless. Polish GDP was restrained by the early pension reforms and the inability for state owned enterprises to privatize. Ultimately, positive reforms outweighed the hindrances, allowing for an impressive increase in GDP.

When accounting for GDP, business investment and net exports were integral parts of the equation. Trade liberalization helped prop up these inputs through the convertibility of the zloty. The floating exchange rate which was implemented in 1991, kept Polish goods sought-after on the world market and led to a consistent rise in exports and therefore GDP. Likewise, Poland attracted a significant level of foreign direct investment rising from $60 million in 1989 to $1.5 billion in 1993 and it also allowed Poles to participate in the world economy.\textsuperscript{133} FDI values

\textsuperscript{133} Ibid., 92.
continued to rise as the zloty became fully externally convertible in the mid decade. Furthermore, trade liberalization forced domestic businesses to become more competitive as the new foreign players joined the scene. This process was effective, helping GDP grow while also leading Poland closer to integration with the West.

Privatization was also a major component of GDP growth, but primarily with smaller firms leading the charge. According to Balcerowicz, “employment in industrial firms with 51-100 employees increased between 1989 and 1991 by 202%.”\(^{134}\) By 1993, a million new private firms had entered the economy and eventually, the private sector made up 70% of GDP by the mid-decade despite the continued presence of lagging state corporations.\(^{135}\) By examining this data, the reformers’ privatization push was answered by small scale business creation. The removal of communist regulations fueled this major contribution and allowed GDP to benefit from a missing segment during the communist period. As a result, the plethora of new private companies fueled much of the economy by the mid 1990s, and continued affecting progress thereafter.

Among the beneficial policy decisions, the reformists’ greatest accomplishment in GDP consistency was one that appeared reductionary at the beginning. In the early 2000s, the conservative central bank decided to withhold prosperity in the short term by implementing policies focused on stability and protecting Poland from spiraling in a world recessionary environment. From 2002 to 2012, GDP rose from $11,804 to $23,589, which was a much greater increase than what was experienced in the rest of the region. Poland’s level on the world scale jumped from 4.8 to 5.7, setting the foundation for another large improvement that took place from 2012 to 2022. This increase is attributed to the restraint exhibited by Polish leaders that

\(^{134}\) Ibid., 88.
\(^{135}\) Ibid., 89. and Brown, "Transformation of the Environmental Regulatory System in Poland During the 1990s."
helped avoid the worldwide economic catastrophe after 2007. While other nations were experiencing unforeseen growth, Poland’s leaders were hesitant about the worldwide price rise and decided to put into effect positive real interest rates while restricting domestic credits in foreign currency.\(^\text{136}\) By limiting the boom, it was the only European country to experience no recession and even grow in 2009.\(^\text{137}\) Furthermore, from using a floating exchange rate from 1991 onwards and postponing becoming a euro country, the zloty was allowed to depreciate when the recession hit in 2008. Other countries that were under the euro system did not retain central bank freedom to manipulate the currency, leading to excessive recessions. Accordingly, Polish exports surpassed its neighbors and trade with Western European countries like Germany continued to be substantial. The stabilization of higher interest rates and fiscal discipline helped Poland withstand major drops in GDP seen elsewhere in the 2000s. On account of these decisions, GDP growth in the future did not have to recover from a downtrend.

Bearing in mind that GDP per capita ppp considers purchasing power, reforms that limited inflation were essential to this metric. Although the decision to implement wage controls was particularly painful in the short run as purchasing power declined without a rise in income, it was necessary to contain inflation indefinitely. Initially, the strict wage controls that attempted to decrease inflation weakened individual purchasing power and improved profit margins of big enterprises due to lower labor costs.\(^\text{138}\) Unfortunately in 1992, GDP per capita was still at the similar compressed level as in 1990 ($6,185 compared to $6,193). However, through these controls, inflation began to stabilize and the real growth trajectory reversed. In the period of time from 1989 to 1993, inflation fell from 251% to 35.3%, helping to steady the decline of


\(^{137}\) Ibid., 6.

purchasing power.\textsuperscript{139} This progress continued and by 2000, inflation was below 2%.\textsuperscript{140} Unlike the Czech Republic, labor productivity remained above the real wage into the next decade, helping exports and the overall economic state.\textsuperscript{141} This strategy allowed inflation to recover and also placed Polish industry in a better economic position in the coming decades.

While the positives listed above helped Poland stand apart, large-scale privatization and pension reforms curbed its performance. As the Czech Republic finished its last round of mass privatization in 1994, Poland was still well within the process even until 2003. In the early transition days, Poland’s transfer of state property into private hands was done arbitrarily and through a corrupt process, dividing the society into capital and non-capital owners. The speed of restructuring was also an issue. Later in 1999, with many state corporations still not having undergone restructuring, a renewed push towards privatization occurred in the form of a mass privatization program. According to Hunter and Ryan, full commercialization of 1,951 state owned enterprises was set to occur on February 28, 2003. Prior to this, these companies were characterized by high inefficiency and poor management.\textsuperscript{142} Even a portion of companies set to be liquidated in 1990 never underwent the bankruptcy process by staying afloat through government funds. Poor resource management diluted potential investment opportunities that perhaps would have benefitted GDP. Instead, it nullified some of the economic gains.

Lastly, when poor economic conditions plagued the early days of the transition, the government implemented a softening policy of pension reform that plundered the government’s resources. According to Balcerowicz, “pension expenditures jumped from 7% of GDP in 1988 to 15% in 1993,” the highest in the world. Likewise, by 1991, over 10% of people within the

\textsuperscript{139} Balcerowicz, “Transition to the Market Economy: Poland, 1989-93 in Comparative Perspective,” 84.
\textsuperscript{140} Michael D Tanner, "Champion Economic Freedom," Cato Institute, 2014.
\textsuperscript{141} Lehmann, “The Polish Growth Miracle: Outcome of Persistent Reform Efforts.”
\textsuperscript{142} Hunter and Ryan, “Privatization and Transformation in Poland: An Update,” 934.
country received a pension, unlike the low single digit pension expenditures in the Czech Republic. This diverted extensive resources into the pension system throughout the decade and led to the need for a pension reform in 1999. In the aftermath of the reform, the decision to increase the retirement age in 1999 led to an increase in 1% of GDP. However, the pension policy was difficult to tamper with and caused continual resource plunder well into the 2000s. This resulted in an inefficiency where people who should not have had the ability to receive a pension were protected by former practices. Rooting out this problem was a major complication for years to come, further limiting GDP growth.

Despite the hurdles, the reformers' ability to generate growth was exceptional due to the sharp improvements seen in the data. Once the beginning volatility was contained, from 1992 to 1997, Poland’s GDP growth was the largest in Europe at 35%. Through assessing the reforms, the leaders’ intentions in the reform effort caused short term turmoil in some areas, but long-term success.

The Czech Republic

GDP per capita purchasing power parity gradually increased from 1990 to 2022, but not at the same rate as Poland. From 1990 to 2012, its level on the quality of life scale remained mostly intact, denoting that it did not rise any further compared to other countries. Nevertheless, the Czech Republic still underwent a concerted effort to improve growth. GDP growth in the early 1990s was not due to one particular factor, but resulted from a combination of liberalizing reforms occurring in the new market economy. In the early days, privatization, price liberalization, and foreign trade contributed the most to GDP, while the cleaning up of the financial system in the early 2000s was helpful after the crisis in 1997. Even though stabilization

144 Lehmann, “The Polish Growth Miracle: Outcome of Persistent Reform Efforts.”
helped Czech purchasing power, the policies created in lieu of inflation fear had adverse effects in later years, causing unrealized GDP potential. Keeping the crown at a fixed rate, inadequate banking institutions, and a suboptimal privatization process that led to the recession were the most costly reforms that the Czech Republic implemented. These decisions penetrated many aspects of the market and caused a downfall that would delay growth progress into the 2000s.

Despite this, the Czech Republic was no doubt an exemplary growth story. Heading into the transition without the issues that other countries faced, Czechoslovakia had the freedom to take a more fix-as-you-go approach. As a result, the reform effort did not have a standout feature, but instead was advanced by a multitude of policies. Using the approach to monitor the micro- and macroeconomic state, the new economy was highly successful at the end of the first year. The government contained inflation, increased foreign trade growth, allowed for small privatization from new companies, set a balanced exchange rate, and liquidated ineffective state enterprises and factories.\(^{146}\) As time moved on, FDI increased due to the positive world sentiment regarding its transformation.\(^{147}\) FDI inflows rose to roughly 4% of GDP, caused by the foreign impression of stability, low labor costs and the best status of economic freedom in the former bloc.\(^{148}\) FDI was also impacted by its liberal trade status. The Czech Republic was an original member of the General Agreement on Tariffs and Trade (GATT) in 1994, the World Trade Organization (WTO), and integrated much of its trade practices with that of the EU, helping its tariffs remain low and favorable to outside corporations.\(^{149}\) Additionally, early privatization led to 70% of GDP being produced in the private sector, despite some concerns in privatizing procedures lacking in quality.\(^{150}\) Especially in the early part of the decade, these early initiatives

\(^{146}\) Musil, “Czechoslovakia in the Middle of Transition,” 15.
\(^{147}\) “WTO | Trade Policy Review - Czech Republic 1996,” WTO.
\(^{149}\) “WTO | Trade Policy Review - Czech Republic 1996,” WTO.
solidified market learning for decades to come. Altogether, private consumption and FDI were the main contributors to GDP growth by the mid-decade. Privatization alongside trade liberalization continued to influence a large proportion of GDP moving forward.

Some of the liberalizing reforms that were intended to boost growth, actually had an adverse long-term effect. Through voucher privatization, the Czech Republic was prompt in its privatization methods. Only a few years into the process, the voucher system allowed Czech citizens to take part in the transformation and assume a small degree of ownership. While seemingly beneficial, the voucher method had a flawed incentivization structure. By simply giving away ownership, the companies became poorly run and much of the old management retained control.\textsuperscript{151} People who invested their vouchers were detached from their portions and had little interest in the successful management of these companies. Efficiency and productivity were therefore lower than the expected outcome under real restructuring. Additionally, the lack of business competition contributed to the trade imbalance, led to a higher wage increase than productivity increase, and later the sluggish nature of GDP from 1997 to 2001. It wasn’t until inefficiencies were dealt with that Czech business began to flourish once more.

To GDP detriment, further government miscalculation occurred before the crisis. What seemed like a successful economic reform strategy within the banking sector ended up significantly harming the country in 1997. In the early days, Klaus spoke consistently of his neoliberal strategy, yet less attention was paid to regulations, company governance, and the troubled financial sector.\textsuperscript{152} Through overreliance on the “self-regulating” free market, some of the most necessary reforms were disregarded. Klaus’s obsession with privatization led him to support bank lending to private firms amidst poor creditworthiness. In addition, he continued

\textsuperscript{151} Scheuer and Gitter, ”The rise in Czech unemployment, 1998-2000,” 47.
\textsuperscript{152} Woolman, “Czech Banking in the 1990s: What Went Wrong?,” 189.
private lending and avoided bankruptcy measures to maintain his strong approval rating. These measures were concerning as “by 1997, the ratio of bank debt to GDP reached 63.6 percent in the Czech Republic, compared to 18.1 percent of GDP in Poland.” The clean-up process inhibited the nation’s progress further. Banks were required to realize bad debt through the new provision law that forced them to use collateral other than real estate. With the major losses and a struggling economy, bank capacity to lend weakened significantly. This led to a severe credit crunch in the years following the crisis with credit to households shrinking significantly from 1997 to 1999. Additionally, inefficient banks were required to declare bankruptcy, which was an immediate difficulty to bear, but a long term necessity. Although this period was burdensome for many businesses, clear benefits were revealed in the form of a more efficient banking sector and greater foreign competition. Allowing foreign firms to purchase previously state owned banks infused better technology and practices into the financial system. Furthermore, the handicaps within the poor system were addressed early enough to where the country could recover. If this event occurred years later, it may have halted Czech accession into the European Union and stagnated GDP growth long after.

Finally, the decision to peg the crown also contributed to the 1997 crisis and thwarted the Czech Republic’s consistent growth. The reformers’ decision to devalue the currency at the beginning of the reform period was initially favorable and drew in capital. Yet, by pegging the crown to a basket of other currencies, it began to appreciate, which in turn affected the trade status and caused the current account to turn into a deficit. For instance, the current account deficit had reached 7.5% of GDP in the pre-crisis year. Once the crown became externally

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153 Ibid., 192.
154 Ibid., 192.
155 Ibid., 199.
156 Ibid., 200.
157 Ibid., 193.
convertible, the inflow of foreign capital and growth of monetary aggregates caused major concern and chatter amongst policymakers to widen the fluctuation band. Instead, they chose to defend the appreciated exchange rate by selling reserves, which cost the state roughly 2.3 billion dollars. Eventually, this decision collapsed and a run on the crown caused depreciation and the implementation of a floating currency. In retrospect, Czech leaders have even condemned the consequences of these decisions. The Minister of Finance, Ivan Kocarnik revealed that “sticking to the fixed exchange rate in this period was one of the gravest mistakes of the whole transformation process.”

While the currency and banking crisis set the country back to a certain extent, the reforms during the post-crisis period were extremely impactful towards GDP growth thereafter. From 2001 to 2010, real GDP growth measured at 3.4% annually, much higher than the European average. The legislative amendments in the financial sector, such as the collateral laws, bankruptcy laws, and the transfer of ownership, instilled a new confidence in the commercial system. These better practices introduced by the reformers paved a way for integration into European Institutions and reclaimed international trust. Its installation into the EU forged a new major trade development and from 2004 onward, FDI and exports increased significantly, influencing strong GDP growth. Additionally, like Poland, the Czech Republic was also wary of the high growth environment occurring in other areas of the world and implemented more economic restrictions through its central bank policies in the early 2000s. As a result, they

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159 Ibid., 103.
160 Ibid., 99.
162 Ibid., 24.
were able to weather the storm when domestic consumption and foreign trade declined during the 2008 financial crisis.

All factors considered, the Czech Republic has the highest GDP per capita purchasing power parity of the former bloc countries, adding to its impressive list of accolades. The brief downfall during the recession was quickly broken and the nation has been successful since. To a certain extent, the recession was a wake-up call that cemented better institutional practices after 2001. Formerly inefficient privatized companies were restructured, problematic banks were sold to better equipped Western companies, and legislature that halted unethical practices was developed. The negligence seen in the late ‘90s suspended progress, but then presented a critical opportunity to prioritize better practices. Surprisingly, the Czech Republic is better off in the present day because of the extent of the crisis and the alarm to fix the system.

**Unemployment Rate**

Poland and the Czech Republic exited the communist years with no unemployment due to the collectivist philosophy of a total workforce. Despite this seemingly strong start, the level of freedom that individuals had under this structure was negligible. Thus, the unemployment rate as a quality of life indicator is taken into consideration only within the market system. During the transition period, the unemployment rate was an accurate assessment of the effect of stabilization initiatives. It is two-fold, stemming from government capabilities while also revealing contentment of the current economic state. This is a domain where Poland failed and the Czech Republic remained consistently better off, despite faltering after the banking and currency crisis. In 1992, Poland’s unemployment rate sat at 13.65%, increasing to 19.89% in 2002, falling to 10.09% in 2012, and then hitting an optimal 2.89% in 2022. For the Czech Republic, unemployment in 1991 was at an astounding 2.27%, rising to 7.28% in 2002, 6.98% in 2012, and then declining back to 2.22% in 2022. Although eventually Poland solved its labor market
problem, the Czech Republic was far more consistent during and after the initial reform years. This was due to not only a better starting position but also to policies that emphasized a more stable labor market and sacrificed other qualities such as GDP growth and efficiency.

Poland

Poland insufficiently protected job opportunities due to the prioritization of other reform efforts, liberalization measures which led to bankruptcies, and a complex labor market that failed to adjust to workers’ skillsets. At the start of the transition, decreasing unemployment was certainly not the reformers' main concern. By mid-1992 some 400 farms had become virtually bankrupt, and another 800 were on the verge of bankruptcy due to premature removal of subsidies from liberalization policies. Reformers prioritized the transition to a neoliberal market, which shed unproductive businesses and employees in an effort to build the most efficient economy. This prioritization and the absence of unemployment strategies caused unemployment levels to rise until the mid-decade. The emphasis on improving the fiscal state and lowering government debt continued on past the initial transition decade and social safety net policies and worker retraining remained a minor focus. In this light, the negligible focus was where this indicator lacked.

Moreover, some of the stabilization initiatives that supported long term GDP growth coincided with a less optimal unemployment rate. For example, the central bank implemented a tight monetary policy in the early 2000s, suppressing the economy and overall job growth. In 1999, after a period of fiscal loosening, interest rates were raised from roughly 13% to 19% and were cut back slowly thereafter. This had a harmful effect on the labor market, raising unemployment from roughly 12% to 19% in a short period of time. As this policy helped

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165 “Czech Republic Interest Rate,” Trading Economics, April 23, 2019.
weather the financial recession later on, policymakers sacrificed a poor labor market for more steady future growth.

Furthermore, in the late 1990s and early 2000s, the labor market continued to suffer, leading to a continual state of high unemployment. In 2003, the employment rate in Poland was 55% as compared to the much higher rate of 75% in 1989.\textsuperscript{166} When examining this statistic closer, low productivity labor had been greatly reduced, benefitting efficiency but causing a subset of the population to suffer. According to the data, employment rates for the least skilled workers in Poland were roughly 20 percentage points lower than the EU-15.\textsuperscript{167} It appeared that when Poland shifted from a lower productive work environment to a competitive market environment, a portion of the workers were unable to adapt to the changes. Poland’s industries did not adjust to the lower productive labor that was available nor did policymakers consider promoting the creation of low-skilled positions. Initiatives to increase jobs could have been an opportunity to exploit this vacuum; however, it was never accomplished by the Polish government. The inability to adapt was an anomaly seen in Poland, compared to the Czech Republic, and even to other transitioning regimes.

Ultimately, the initial Polish reformers were never able to control the high levels of unemployment. It wasn’t until after the accession into the EU that Poland experienced an unemployment rate in the single digits. From thereafter, the decline of unemployment was more prompt. Since the world recession, the number of job vacancies has risen rapidly and young people have become more active, taking up a larger proportion in the labor market.\textsuperscript{168} As the economy has continued to expand, the opportunities have risen with it. Poland has now reached an impressive unemployment rate in the present day. Without the measures that sacrificed

\textsuperscript{166} Lehmann, “The Polish Growth Miracle: Outcome of Persistent Reform Efforts.”
\textsuperscript{167} Ibid.
short-term turbulence in the early 1990s and 2000s, it may not have been able to achieve optimal unemployment 30 years later. Regardless, Poland’s reform effort in this domain was far less intensive than surrounding countries, and caused subpar results for more than a decade.

The Czech Republic
Unlike Poland, the Czech Republic was mindful of its labor market, consistently taking measures to keep unemployment low. The highest unemployment rate the country experienced was in 2004 when it was recovering from the crisis in the late 1990s. During this time, it still never crossed the 10% threshold, nor was it a continual downfall. Considering these optimal levels, reforms that benefited the unemployment rate included successful monetary policy decisions, an emphasis on social programs, and a focus on keeping businesses afloat. Because of these reforms, the Czech Republic successfully recovered from its recession to go on to demonstrate optimal unemployment levels in the present day.

In the beginning years of the reform process, unemployment rose from the communist level of zero to low single-digit levels, much lower than the state in every Eastern Europe transitioning economy. At the same time, the size of the labor market decreased due to pensioners leaving the workforce and the low-skilled secondary market enlargement. The bulk of the first stage unemployment was witnessed in the secondary market amongst the lowest wage labor demographic.  

169 A combination of factors influenced its ability to maintain low level unemployment. Stabilization initiatives such as wage controls kept the price of labor low and the demand for labor high. At the same time, the early devaluation of the crown increased business opportunities as Czech exports appeared cheap and entered international markets. Additionally, deregulation, which allowed for the rise of small businesses on the market, introduced a plethora of new job

opportunities. The growing industries, such as the service sector, and the move towards privatization caused this rise in employment and blocked the potential of large job losses.170

Additionally, while demand for jobs remained strong through economic mechanisms, the government also contributed to this with active measures. The Public Employment Services was created in the early years to respond to unemployment. This service was highly successful in placing unemployed persons in jobs and even subsidizing companies for creating jobs.171 According to Frydmanova et al., in some cases the government services were able to place 60% of those unemployed in other positions.172 Due to the small percentage of unemployed, they were able to streamline their services.

Opposite from Poland reform strategy, the Czech Republic sacrificed other domains of growth for a favorable labor market. An aspect of the reform process that greatly benefited the unemployment rate, boded poorly for other economic factors such as GDP growth. For example, protection from bankruptcy in the financial and other industries prevented people from losing their jobs. The lack of bankruptcy laws caused a prominent number of bankrupt firms to continue to operate without needing to lay off their workforce.173 Although this kept unemployment low in the short term, it ended up pushing the efficiency problem down the road until the early 2000s. Additionally, in large corporations still controlled by the state, labor-hoarding unproductive workers was a normal practice to keep social peace.174 After 1997, the banking sector and other inefficient enterprises underwent labor shedding of unproductive employees.175 This effort,

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170 Ibid., 27.
172 Ibid., 32.
175 Ibid., 27.
which led to a short-term rise in unemployment, allowed the economy to restructure and employees to realign with positions in their skill sets.

The Czech Republic’s labor market stability was impressive. Although Poland has almost reached parity in the present day, the volatility that the Czech Republic avoided through the initiatives discussed above has immensely benefited quality of life. Poland’s lack of policy consideration reveals a serious chasm where reforms did not align with individual quality of life.

**Economic Hope and Confidence**

Economic hope consists of two indices: economic freedom and perception of corruption. Indices instead of individual metrics are used in this topic to capture a sense of economic sentiment as a whole. Perception of corruption is an even more accurate indicator than corruption itself because it directly correlates to societal views. Additionally, although the economic freedom indicator is more indirect, it matters to this study by revealing favorable business conditions for people to function in. As shown by the data, both the Czech Republic and Poland individually improved at a similar rate for economic freedom. Scaled against other nations, both countries significantly improved due to the declining state of economic freedom around the world. According to corruption perception, Poland and the Czech Republic are extremely similar throughout each timestamp. Having started in similar positions in 1996, both witnessed a sharp dip in 2002 and then advanced back to a comparable level in the present day. Similar to economic freedom, the stagnant level in unscaled data still leads to a rise on the scaled table due to the increasing perception of corruption around the world. Considering the stagnation that occurred in the indices however, both Polish and Czech reforms failed to address and initiate reforms that eliminated corruption. The reform attempts will be examined below.

**Economic Freedom**
It is worth mentioning that this indicator has a somewhat delayed effect on hope. Initially, the advancement of economic freedom can cause a degree of uncertainty and anxiety. However, in both Poland and the Czech Republic, better economic freedom accelerated business opportunities and instilled both confidence and hope once the reforms were proving to work. The economic freedom index created by the Fraser Institute is based upon indicators within five general topics. As the previous chapter discussed, sections are broken down between the size of the government, legal systems and property rights, sound money, freedom to trade internationally and regulation with a total of 26 components. Because the index contains such widespread topics, this analysis portion will focus on the topics with the greatest change to determine the largest reform effects. Poland’s economic freedom in 1991 scored at a mid level position of 5.81 and most recently scored at 7.12 in 2021. Alternatively, the Czech Republic began with more favorable conditions of 6.66 in 1995 and then reached 7.81 in 2021. In the middle years of the transition, the track of the two countries was similar, indicating that there wasn’t a significant deviation in policy that set them apart. Most of the improvement from 1995 to 2002 was brought on by slight increases in all factors, but a large advance in sound money in the Czech Republic, and sound money and regulation in Poland. Poland slightly outpaced the Czech Republic in its magnitude of improvement. However, the Czech Republic achieved a better freedom measurement, capitalizing on its more attractive starting position.

Poland

From 1990 to 1995, Poland experienced a major improvement in its economic freedom index score, caused by an increase in all indicators, but especially freedom of trade. During this time, trade liberalization and the convertibility of the zloty opened the door to Polish exports. The initial reform of opening trade allowed for a sharp jump in economic freedom as investment

176 “Approach,” Fraser Institute.
goods rose by more than 150% at the onset years from 1990 to 1992. This number only increased as the decade progressed. International companies were now free to compete within the domestic market. This led to amicable market conditions while drastically improving economic freedom, and in this case, the measurement index. Secondly, when the zloty was only internally convertible prior to 1995, participation in the world economy was more difficult for the average Pole. A substantial improvement occurred within the year 1995 when the zloty became fully convertible, giving citizens the ability to more freely participate in the world economy.

From 1995 to 2002, a different set of components shined within the index, most notably sound money and regulation. Having dealt with extreme inflation in the early 1990s, the end of the decade was a reversal of this ill truth. Real GDP growth began to set in as inflation had been successfully contained, an impressive undertaking by the monetary authorities. The Central Bank authorities implemented balanced interest rates, wage controls, and fiscal discipline for this to occur. As mentioned above, with the fully convertible currency, Czech citizens had the monetary freedom to convert their currency into other foreign currencies, giving them freedom of movement. This was not a prevalent characteristic in the early 1990s.

Lastly, regulation was the additional component driving freedom index growth. Poland lagged behind the Czech republic in privatization matters and its development of enterprise regulations. With still many state controlled industries, anti monopoly legislation and the breakup of large state owned enterprises had to occur during the time period between 1995 to 2002. For example, state monopolies, like the local telephone calling system, were broken up in 1999. The same was the case for many other industries such as financial services, where foreign banks and companies confronted fewer hurdles to entry. The efforts to deregulate

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178 “WTO | Trade Policy Review - Poland 2000,” WTO.
allowed for more favorable business practices and the elimination of state monopolistic control. For these reasons, Poland dramatically improved during this period and continued to advance until the present day.

*The Czech Republic*

In the Czech Republic, data is only available from 1995 onward. Therefore, the comparison between the two countries began at this point. From 1995 to 2002, the Czech Republic displayed a stark improvement in sound money quality. During this time, multiple factors influenced this rise. Beforehand, government controls kept the crown fixed to a basket of two currencies. In 1997, the forced devaluation of the currency allowed it to then move in line with its accurate value. This let the monetary state function more efficiently, albeit with considerable pain at the onset. Likewise, the currency and banking crisis was the catalyst of many reforms including a better functioning of the central bank that at the time was unable to prevent the crisis.

Additionally, while the central bank successfully kept inflation in check, to many, the state of inflation was deemed too conservative as they failed to reach the desired growth level. Critics were also worried that the Central Bank was functioning independently. To address these issues, a new reform was implemented at the end of 2000 that created greater parliamentary approval to Central Bank processes. This significantly helped cohesion between the government and Central Bank in the time of policy interventions. Unfortunately in 2001, a veto by the President caused these laws to be annulled and the central bank remained independent. Yet this brief period allowed for more cohesion and influenced the central bank to consider government opinions.

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180 Ibid., 112.
As the crisis of 1997 informed the need for better banking practices, a shift in regulation quality was subsequently carried out. Improvements included the tightening of capital adequacy, deposit insurance, management screening and more conservative reserve requirements. Furthermore, ownership change of the majority state owned banks to private companies helped first align banks with market standards and leadership with prior banking knowledge. The excessive lending environment that caused monetary disarray was contained thereafter. For instance, better deposit management was quickly implemented as the IMF reported that the spread of average lending and deposit rate went from 580 basis points to 420 basis points in between 1995 and 1999. Closing this gap solidified more conservative and safe lending practices. As a result, people became more confident in the banking system, knowing that their deposits were more protected and if seeking a loan, their chances would equate with their creditworthiness.

As commercial banking improved, the central bank successfully helped the Czech nation to recover from the recession through economic stimulation and the freedom of currency floatation. From 2002 onwards, the Czech Republic experienced significant growth and increasing freedom, which was characterized by a successful monetary policy foundation. For these reasons, the impressive sound money score is well deserved and an accurate reflection of the reforms during this time period.

**Corruption**

Governments face the dilemma of the unknown and inexperienced reformers can struggle to foresee problems that would arise from state transition. How they handled this uncertainty differed and revealed the strength of the early institutional building. Without the protection of the

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rule of law, government officials and the business elite can undermine policies for their own benefit. In this manner, behaving for personal gain can dilute belief in the governing system as well as can fracture people’s motivation. According to Kojder, corruption “generates a feeling of insecurity among citizens,” making it a fundamental portion of this quality of life study.\footnote{Andrzej Kojder, “Corruption in Poland: Symptoms, Causes, Scope and Attempted Counter-Measures,” Polish Sociological Review, no. 146 (2004): 184.} Corruption also reveals a major defect in reforms that fail to protect citizens. Poland’s perception of corruption index reveals a starting and ending position (1996 versus 2022) of 55.7 and 55 while the Czech Republic scored 53.7 and 56. It is clear that both countries remained fairly static in this indicator, but the Czech Republic slightly outdid Poland in limiting corruption.

\textit{Poland}

Much of the problems seen in corruption are due to the absence of necessary reforms. Looking at the available data, Poland’s perception of corruption weakened after the beginning of the reform period. In 1996, Poland scored better than the Czech Republic at 55.7 out of 100. This average score was due to the uncertain hope in the newfound growth and also the inability to judge immature institutions. However, in 2002 this measure dropped significantly, falling to a score of 40. This drop demonstrates how Poland did not develop the necessary institutions to counterbalance its economic liberalization. For example, it wasn’t until mid-1991, more than a year and a half after the reform began, that a law was created to prosecute unethical financial practices.\footnote{Ibid., 187.} Considering the delayed reaction, the process of liberalization in Poland, such as price and trade deregulation, should have been followed with similar policies that protected against corruption. In the Poland reform chapter, it is evident that while these reforms took place, no anticorruption considerations followed. This allowed criminals to develop early networks and continue these practices.\footnote{Ibid., 187.}
As corruption becomes a common practice it can seep into many spheres. Kojder, in his study of Poland, describes the corruption in healthcare, banking, local government, insurance, and tax services as top contributors. The defects in policy have inhibited much progress in privatization, licensing, public property and agencies, and fiscal activities. One case study demonstrates lack of financial infrastructure that has seeped into corrupt business valuation. Zajicek and Heisler showcased how Poland’s largest chocolatier was sold for a much lower price than its expected valuation based on growth metrics and its P/E ratio. Likely sold for a lower price due to bribes and personal connections, the income that would have been generated from selling at a higher price would have helped government projects and benefited society as a whole. Instead, the sale money went into individual pockets. Furthermore, the lack of legislature on correct supervision, criteria, and processes allowed for significant undermining of good governance. Thus, corrupt actors felt the low-risk nature of the act as law enforcement struggled to prosecute it.

In the political sphere, it had become common practice for people to bribe government officials due to limited regulation on lobbying. As the economic sphere merged with the political sphere since the transition, this practice seeped into business practices. According to research conducted in 1999, one in three firms bribed an official for a tax allowance or a payment deferment on a debt, credit, or loan. Even normal citizens saw bribes as one of the only ways to function in their daily lives.

This was a discouraging reality. A survey reported in 2004 stated that, “nearly all adult Poles (95%) were convinced that corruption in the country was a serious problem.” Because

186 Ibid., 191.
189 Ibid., 192.
inadequate policies did not protect the privatization process, people began to view reform as unethical and obstructing public wellbeing. The inefficacy of law enforcement to prosecute corruption and more broadly, all crime, led to an increase in unsafe feelings.\textsuperscript{190}

In effect, the early 2000s were a low point for Polish corruption perception and Poland was required to enhance rule of law to gain accession into the EU. Legislation that matched European standards began to vastly improve corruption. After 2005, Poland gradually improved and reached a score of 58 by 2012, a large 18-point improvement from its low point. Since then, Poland’s score has remained static, showing that institutional changes solidified a stagnant level of corruption perception without much further gain. Altogether, early Polish reforms hampered improvement in quality of life in the short term. Later reforms that were aided by European integration increased it to its previous level. Yet, even with European integration, corruption was a clear shortcoming in the reform process. The drastic decrease was only reversed by a change in policy that began much later than the beginning of the transition.

\textit{The Czech Republic}

As Poland struggled in this indicator, the Czech Republic did not fare much better. Perception of corruption in the Czech Republic was characterized by a mid-level score of 53.7 in 1996, then a sharp decline amounting to 37 in 2002. This was caused by serious government efforts to hide cases of corruption. In the early to mid 1990s, reformers were aware of how corruption allegations could handicap the legitimacy of the reform process.\textsuperscript{191} Therefore, efforts to eliminate public corruption perception were considered necessary. Klaus and the center right coalition did not allow the ministry of Interior to perform anticorruption measures, further augmenting the crisis as they held close watch over ministries that they believed would hinder

\textsuperscript{190} Ibid., 194.
the reform direction. However, there came a point where they could no longer hide and the poor perception of corruption became an accurate assessment. ODS, the leading coalition, and likewise, most every large party suffered from corruption allegations. From the banking crisis onward, the country had an uphill battle to create policies conducive to eliminating this destructive feature. Like Poland, a major contributor to the corruption problem was the lack of legal institutions and regulations that did not complement the privatization process. Hilary Appel, Professor of Government at Claremont McKenna College, commented on the Czech process of tunneling, stating that “privatization of state property involving tenders and direct sales is similarly dubious as numerous participants are mired in ongoing corruption scandals involving collusion between political officials and well-connected investors.”

She later references multiple instances where investors were given special treatment by the ruling party while unlawful bribes and donations to the political party were proven without adequate punishment. These scandals were broadcasted as being anomalies, instead of being normal occurrences.

Legislation also failed to protect against corruption from the beginning. Before the development of better systems, fraudulent actions were not illegal unless specifically outlawed. Without financial regulation, the Czech Stock market was known for being highly corrupt and non-transparent in the late 1990s. This caused many actions to seem non-prosecutable and incentivized the practice of cutting corners. For example, many directors of the new Investment Privatization Funds often acted in personal interests by manipulating portions of the funds. These funds were known for their unethical actions due to a lack of government regulation

192 Ibid., 535.  
193 Ibid., 530.  
194 Ibid., 533.  
policies. Further corrupt practices also seeped into prosecutable offenses. Many banking directors faced charges of embezzlement in the late 1990s. Additionally, less prevalent figures also contributed to the state of corruption. According to the Ministry of Labor and Social Affairs, 3% of households were misusing the social safety nets and unemployment benefits, furthering costs within the transition process.\textsuperscript{197} As these examples suggest, practices were widespread with high-level government officials, private business actors, and normal Czech citizens contributing to the corrupt status caused by a lack of policy focus.

When policy developments began to occur, they were ineffective and criticized. For instance, the operation Clean Hands had an air of dishonesty because of how it protected the in power party members and focused on prosecuting the opposing party. Additionally, given the amount of resources invested, it only underwent a small number of cases, making itself futile.\textsuperscript{198} Ultimately, the few measures taken in this process did not improve the state of corruption perception.

Finally, the major downturn in ethical practices presented the necessity for a response. Once policy initiatives responded to the setback, the final data revealed a score of 56, roughly 2 points greater than the starting position. Like Poland, accession into the EU helped align the corruption legislature, remedying the situation caused by the early reformers. As revealed by the downturn, both Poland and the Czech Republic insufficiently considered corruption. The state of corruption mirrored each other, both suffering from similar scandals and widespread corruption. As a result, the reforms were not successful at facilitating an improvement in this aspect of quality of life. Nevertheless, the declining state of world corruption has caused both countries to

\textsuperscript{197} Lizal and Kocenda, "The Paradox of Czech Crusaders: Will They Ever Learn the Corruption Lesson?," 17.
\textsuperscript{198} Appel, “Corruption and the Collapse of the Czech Transition Miracle,” East European Politics and Societies, 545.
advance compared to the world scene. In some ways, the stagnation of corruption has actually been a success when compared to other countries. Yet, people’s perception would say otherwise.

**Healthcare**

*Life Expectancy*

Both Poland and the Czech Republic achieved rises in life expectancy in the time frames examined. Overall, the Czech Republic is consistently higher in this measurement. In 1990, total life expectancy was relatively equal between the countries at 70.89 years in Poland versus 71.38 years in the Czech Republic. In 2021, the final year of data, Poland stands at 75.6 years while the life expectancy in the Czech Republic is 77.37 years. This final gap includes noise in the data due to the COVID-19 pandemic and different responses and impacts. Instead, the data in 2012 is a better gauge for the reform's long term effects on life expectancy. At this endpoint, the Czech Republic slightly distanced itself from its 1990 status, at 78.08 versus 76.75 years.

*Poland*

Between 1990 and 2002, Poland witnessed an almost 4-year jump in total life expectancy. This rise occurred before healthcare restructuring could consolidate in 1999 when new legislation was passed. The timeline of life expectancy changes first includes a decline in 1990 attributed to economic stress and market liberalization, which induced a rise in alcohol and tobacco consumption. However, a complete turnaround occurred in 1991, attributable to the decline in cardiovascular disease mortality. According to Zatonski and Zatonski, cardiovascular mortality declined by as much as 50% in the 20-44 age group and up to 40% in older age groups during the period from 1991 to 2002.\(^{199}\) With improvements happening long before 1999, Poland’s early economic reforms were credited for this large and quick increase through the effect on diet.

Price liberalization caused a decline in fresh produce costs and trade liberalization introduced variation into the Polish diet. By removing subsidies, vegetable prices decreased and meat prices rose in line with demand. In the ten years from 1989 to 1999, Poles vegetable fat consumption increased to 17.8 kg per year from 8.8 while animal fat consumption decreased by almost half. Moreover, the internal convertibility of the zloty in 1990 and the full external convertibility in 1995 allowed a worldwide market presence in Poland. The introduction of new products and fresh produce from the worldwide producers added variation to the Polish diet, unseen during the communist days. This change in diet was in line with the resulting health improvements. According to many studies, a decrease in animal fat consumption is directly correlated with reduced risk for cardiovascular disease mortality. Out of every contributor to the rise in life expectancy during the 1990s, the decline in cardiovascular disease mortality was the most prominent factor, indicating that the economic liberalization was indeed the source of the improvement.

While economic reforms can be acknowledged for this accomplishment, Polish reformers also implemented active reforms that combated the smoking problem in 1990. Although the open market brought multinational tobacco companies to Poland, healthcare groups expressed early concern and the government passed anti tobacco laws in the middle of the 1990s. This legislation decreased cigarette purchases and put future consumption on a better path.

From 2002 to 2012 life expectancy continued to increase. In this decade, it rose 2.25 years, brought about by many factors. A higher quality healthcare system and further improvements in lifestyle led to the continual increase. The healthcare reform in 1999 allowed
for local citizens to take control of their healthcare and gave providers more authority in the matter. Instead of being controlled by large state enterprises, people now had greater flexibility in healthcare services, incentivizing more local care. However, unlike the 1990 to 2002 period, the life expectancy improvement after 2002 mirrored world standards and therefore Poland cannot be credited with a superior reform strategy. Only the early economic liberalization can be credited for the dramatic rise in life expectancy that exceeded world standards.

The Czech Republic
The Czech Republic demonstrated a slightly higher measurement in life expectancy from the years 1990 to 2012 than Poland, moving from 71.38 to 75.22 years. The Czech Republic’s higher starting point is attributed to a slightly better diet and less alcohol consumption. Although the Czech Republic is known for high beer consumption, much higher percentages of alcohol concentration were consumed in Poland due to vodka being the primary alcoholic beverage. These small but significant differences had a noticeable effect on life expectancy.

The transition period was a time where the Czech Republic continued to distance itself. From the period between 1990 and 2000, according to research that has dissected the different causes of death in the transition, CVDs, digestive diseases, respiratory diseases and infectious diseases all declined in mortality by roughly 30%. Infectious disease declines can be credited to people’s better health and a higher quality healthcare system that was emphasized early in the reform period. CVDs, digestive diseases, and respiratory diseases are similar to Poland, caused by a better diet and manmade disease decline.

In the Czech Republic, like Poland, trade liberalization led to the introduction of novel produce in the country. Additionally, price liberalization also helped the reduction of meat

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consumption. However, this was not to the same extent. Trade liberalization was lesser in the early days due to a controlled crown and a greater focus on CMEA trade than in Poland. The CMEA shock when the Soviet Union collapsed was far greater than that of neighboring countries with a loss of GDP predicted at 6 to 9%. Moreover, subsidies still controlled much of the essential goods sector, which included food products. Nevertheless, the improvement in healthcare negated the adverse effects of trade problems. The Czech Republic witnessed a consistent increase in life expectancy as an outcome of a successful healthcare reform process.

*Healthcare in GDP*

This healthcare metric correlates directly to the healthcare quality improvement which is a major component for quality of life. As countries transition to becoming more people-focused, healthcare prioritization should cause an increased proportion of GDP spent in this domain. Thus, healthcare as a percent of GDP reveals the tangible resources affecting wellbeing. Because this metric is a present snapshot of investment, the latter data is less consequential than the early data for evaluating the impact of reforms. Unlike many of the metrics examined in this study, the Czech Republic had a lower percent in healthcare at 3.7% in 1990, compared to Poland’s 4.3%. Yet quickly, the Czech Republic surpassed Poland in 2002, having 6.2% versus 6.1% of GDP in healthcare services. In 2012 and 2022, the Czech Republic continued to diverge from Poland with an even greater proportion in healthcare. The rationale for these GDP proportions is the later development of healthcare reform in Poland as compared to the prompt nature of reform in the Czech Republic.

*Poland*

Healthcare as a percent of GDP in Poland increased significantly from 4.3% in 1990 to 6.1% in 2002 even while real GDP growth occurred. This increase in investment was necessary to initially improve the quality of healthcare services. When the 1999 healthcare reforms

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occurred, the system was then adjusted to be more regionally focused while giving insurance and private clinics a greater role. While the focus during the late decade increased expenditures, spending began to stagnate after 2002. In 2022, 6.7% of GDP was spent in healthcare compared to 6.3% in 2012, a very minimal rise causing Poland’s ranking to fall severely on the world scaled data. Part of this stagnation was due to the favorable rise in GDP. Since GDP was also growing, a similar proportion spent in healthcare meant that there was continual growth in healthcare spending as well. Yet, this was not enough to prove the reformers intentionality to invest in the healthcare system.

Initially, healthcare spending and focus lagged because of the bureaucratic hang ups before 1999. After the 1999 reforms and accession into the EU, health expenditures mainly came from public universal health coverage, making up 83% of the proportion of expenditures in 2011. Since the National Health Fund of Poland (NFZ) constituted such a large portion of the expenditures and that proportion did not grow in GDP makeup, universal healthcare failed to generate additional investment and research. The amount of physicians and healthcare workers in proportion to the population continued to remain below the European averages, indicating flaws in the reform system. The healthcare access and quality index continued to rise in line with the world levels, but not to the same extent as when healthcare spending was increasing as a proportion of GDP from 1990 to 2002. Thus, healthcare reforms did not solidify quality improvement and higher emphasis on healthcare services. Healthcare standards in effect have remained below the rest of Europe and the country in comparison.

*The Czech Republic*

In the Czech Republic, healthcare as a percent of GDP rose from 3.7% in 1990 to 6.25% in 2002. This increase reveals a prioritized focus on health services during the transition period.

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Early reforms adjusted the cost structure and contributed to the positive rise. Studies show that health care spending increased 50% in 2 years at the beginning of [the] 1990s.\(^{208}\) This is mostly due to the fact that healthcare services were inadequate for private physicians to complete their jobs which caused the need for healthcare spending to increase accordingly. Additionally, the new social insurance model that was financed from the state, employers, and employees helped to advance a system that could function long term. The quality of healthcare was bettered by the devotion of monetary resources, as a result. According to the healthcare access and quality index, the Czech Republic improved from a score of 68 to a score of 77 due to these systematic changes.\(^{209}\)

Despite this, the Czech Republic faced a dilemma in its healthcare incentivisation structure. The way that healthcare units were reimbursed incentivized healthcare providers to increase the number of billable procedures and materials used, instead of incentivizing greater quality of each procedure.\(^{210}\) For example from 1992 to 1993, there was a 20% increase in points compensated for and a 90% increase in direct material cost reimbursement, a jump that is unrealistic for any healthcare system.\(^{211}\) This revealed a major waste of resources that directly counteracted healthcare’s ability to improve quality by pouring monetary resources elsewhere. The reimbursement system exhibited no element of compensating for quality of work, further disincentivizing quality improvements. However, it is clear that this did not inhibit improvement. It is only a slight consideration that begs one to contemplate the additional growth that was possible if incentive structures were more complimentary to the reform process.

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\(^{208}\) Irena Jindrichovska and Ivana Funkova, “Influence of Reforms on Availability and Quality of the Czech Health Care,” 11.


\(^{210}\) Jaromír Veprek and et al., Health Care Reform in the Czech Republic, 408

\(^{211}\) Ibid., 409.
After 2002, healthcare funding stayed in line with world improvement. Gradual increases continued to take place with 7.6% and 9.09% of GDP in healthcare in 2012 and 2022. Altogether, the Czech Republic outpaced Poland in healthcare quality improvement with its higher dedication of funds and an adequate financing system. It appears that the incentivization structure has not held back financing nor quality, and for that reason should not be criticized within this factor. The only matter where it could have deprived improvement is the opportunity cost of investment in other government services.

**Environment**

*Air Pollution*

Both the Czech Republic and Poland suffered from overinvestment in heavy industry during the communist period. When demand began to regulate the economy at the start of the transition, major changes occurred in the industrial dynamic. When the reform process began, the sentiment toward addressing pollution was unique for each nation. Neither one strategy has stood out from the other, as pollution has decreased by a comparable amount in each setting. Annual exposure to air pollution in Poland started at 33.35 PM2.5 per meter cubed and finished at 22.64 in 2019. While in the Czech Republic, air pollution exposure was measured at 26.12 PM2.5 per meter cubed, decreasing to 16.75 in 2019. The timeline of reduction was similar in both cases and will be elaborated on below.

*Poland*

From 1990 to 2000, air pollution exposure in Poland decreased from 33.35 to 27.85 meters cubed, the largest decrease witnessed in the timeframes examined. Since Poland began in a poor position, all efforts to decrease pollution were likely to bear fruit. The first step towards improvement was allowing market mechanisms to function accordingly. For example, coal consumption changed remarkably, reporting 35% lower consumption in 1993 than in 1989
because of the overuse in the communist period.\textsuperscript{212} The mere move towards liberalization realized sizable improvements for the environment, eliminating unnecessary industrial production.

Alongside increased efficiency, the reformers displayed a genuine interest in improving environmental conditions as seen from a policy standpoint. The development of a ministry, ambient air standards, and the dedicated effort to uphold these institutions contributed to the continual decrease in air pollution. Throughout this process, reformers were watchful of highly polluting corporations. From 1991 to 1995, environmental fines increased by five times while inspections increased by 5\% during 1993 to 1997.\textsuperscript{213} Part of the effort’s success was how businesses understood that reforms guided the country towards a better existence. Thus, they wanted to contribute to the improved environmental quality. Businesses cooperated with the ministry and in return, the ministry took into consideration pollution improvement strategies on a case by case basis. Additionally, economic growth and environmental pollution were inversely related showing that more economic activity was not negating the environmental reform effort and the improvements were likely to be sustained with more growth.\textsuperscript{214} The support from reformers, corporations, and regular Poles alike, set Poland on a thriving path that reduced pollution in the early years.

After its accession into the EU, Poland continually improved. Air pollution exposure dropped from 27.85 in 2002 and 24.60 in 2012 to 22.64 in 2019. However, the degree of improvement during the later stages was numerically less and also smaller when scaled against other countries. Once environmental conditions improved from a physically dangerous level, there were less policy initiatives devoted to further decreases. As a result, the most valuable

\textsuperscript{212} Balcerowicz, “Transition to the Market Economy: Poland, 1989-93 in Comparative Perspective,” 91.
\textsuperscript{213} Brown, "Transformation of the Environmental Regulatory System in Poland During the 1990s," 32.
\textsuperscript{214} Ibid., 30.
reforms were witnessed in the early days with market liberalization and the development of environmental institutions.

*The Czech Republic*

In the Czech Republic, sentiment towards limiting pollution and promoting sustainable practices was powerful in the early transition days, especially from 1990 to 1992. For instance, the first reformers created a chairman of environmental considerations instead of a ministry so that it could infiltrate all aspects of the transition.\(^{215}\) Similar to Poland, an inspection institution was a key focal point alongside a Clean Air Act. With these institutional changes, initial satisfaction towards the environmental situation was much better than it was during the Communist era. According to an early poll conducted since 1991, people had become increasingly content with the state of the environment.\(^{216}\)

Through a comparable liberalization process to Poland, market mechanisms alongside end of pipe policy initiatives played a role in adjusting the economy away from polluting industrial goods. In the early 1990s, the shift away from heavy industry reduced pollution. Additionally from 1993 to 1996, when industrial output began to increase by roughly 14%, air pollution continued to decline due to the early efforts of the Environmental Ministry.\(^{217}\)

Yet, as the transition continued, the spirit of environmental progress waned and sustainability became less of an initiative. For example, the end of pipe approach only addressed one type of pollution and the increased energy use in the country was not complemented by energy efficient procedures.\(^{218}\) A pause in environmental policy from 1992 to 1997 caused the Czech Republic to be reprimanded by the EU. Outside frustration about Czech environmental quality caused weariness of potential inclusion in European institutions. Czech leaders were


\(^{216}\) Ibid., 40.

\(^{217}\) Horak, “Environmental Policy Reform in the Post-Communist Czech Republic: The Case of Air Pollution,” 322.

\(^{218}\) Ibid., 321.
condemned by the EU for their intransparency in environmental statistics.\textsuperscript{219} However, the nation was able to adjust its practices after this time to prove its worthiness and participation in the European community. Although sustainability was pushed to the backdrop, pollution clean up remained an integral procedural focus in the 1990s, obviating the clear improvement from 1990 to 2002 of 26.12 to 21.41 (PM2.5 meters cubed).

From 2004 onward, the Czech Republic was required to abide by European institutional standards. The final scoring in 2019 of a 7.2 equates to a very favorable status on the world spectrum of pollution. Despite waning consideration in the 1990s, the Czech Republic continued its environmental development and became a success story in the modern day. Comparing the two nations, despite Poland’s pitiful prior pollution, its improvement displayed similar magnitude to the Czech Republic. Therefore, the quality of the reforms on air pollution are roughly equivalent.

\textit{Protected Land}

This indicator is impacted by government conservation efforts and in turn, affects people through the valuable sentiments that experiencing nature can have on one's life. To improve this metric, the government’s economic initiatives are far less time consuming and complex as say, monetary policy, requiring only a brief analysis. Overall, Poland exceeded the Czech Republic in this dimension. This is somewhat expected due to the greater proportion of rural areas in Poland. Once policies could be taken to protect land, a larger percentage of the land could be in consideration. Nevertheless, the higher amount of protected land has facilitated outdoor recreation areas that people could enjoy in the 1990s leading into the present day. Poland began the transition with 13.91% of land protected, while the Czech Republic was almost identical at 13.78%. These metrics were higher than the world average giving it a score on the distribution of

7.1 and 7.0. However, Poland’s increase continued to diverge from the Czech Republic, ending at 45.59% versus 31.95% of land protected. This final percentage makes protected land the only indicator where Poland clearly unrivaled the Czech Republic.

**Poland**

Land protection in Poland consisted of places with conservation and biological diversity protection in mind. Through this system, people were able to enjoy these outdoor spaces. National Parks are the greatest proportion of protected areas and provide educational, active and cultural activities within the realm of nature. Additionally, Man and the Biosphere programme reserves are another component of land protection that emphasizes environmental sound economic growth, research, and further conservation. While this area was less open to the public, it continued to improve quality of life through the valuable effects on reducing pollution.

The initial economic reforms were conducive to Poland’s favorable environmental condition. Reformers’ devoted monetary resources to environmental protection. According to Balcerowicz, environmental conservation and water economy stood at 6.5% of national investment in 1992 as opposed to 3.7% in 1990, demonstrating an intent of reformers to improve all aspects of environmental quality. As a result, environmental protection improved from .7 to 1.1% of GDP between 1989 and 1992, then remained stable at that level, indicating an additional net rise even as GDP increased year after year.

In addition to the investment, institutional frameworks continued to guide environmental protection. Upon accession into the EU, the Nature Conservation Act discussed previously, solidified additional dedication to protection. From 2002 to 2012, protected land jumped by roughly 14%, indicating that this wide reaching act played a role in further protection. Because

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220 “Parks.it - Parks, Reserves, and Other Protected Areas in Poland,” www.parks.it.
of the emphasis on dedicating economic resources to areas other than market development, Polish citizens have reaped the benefits that come from strong environmental policies.

*The Czech Republic*

In the Czech Republic, land protection consists of national parks and protected landscape areas and forested areas. According to the national parks database, the Administration of the Protected Landscape Areas was created in 1995 to oversee land protection. In 2004, upon the accession into the EU, this body came to be known as the Nature Conservation Authority. Because of the delayed policies, the reformers did not advance land protection. The state of environmental protection remained stagnant from 1990 to 2002, increasing by less than 3%. From its inception, the formation of the Nature Conservation Authority greatly advanced the development of National Parks and specific landscaped areas, increasing spaces for the public to enjoy the natural environment.

While the Czech Republic exemplified significant improvement in the years after the reforms, Poland was much more intentional with these efforts early on. In the final data year 2022, Poland’s protected land was roughly 14% higher than the Czech Republic. While both countries were on par with institutional improvement occurring in the mid-2000s, ample investment was the differentiating factor that set Poland’s reforms apart in this domain.

*Conclusion*

To recap, the reforms discussed above played a significant role in indicator movement, even amidst some likely movement from non-reform effects. In both Poland and the Czech Republic, reforms were the dominant influence on economic metrics. GDP per capita purchasing power parity primarily rose due to business and trade liberalization measures, wage controls, and central bank stabilization measures in Poland. On the other hand, inefficient pension reforms and

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224 "Parks.it - Parks, Reserves, and Other Protected Areas in the Czech Republic,” [www.parks.it](http://www.parks.it).
large privatization weaknesses worked against its growth progress. In the Czech Republic, early measures such as trade liberalization, inflation control, and quick privatization helped, while the later reforms of financial legislation dealt with the issues and helped to regain world economic trust and initiate a path of growth. Adverse effects included the currency and banking reforms that caused the 1997 crisis and inconsiderate privatization measures. In dealing with the unemployment rate, Poland lacked any strategy for addressing this metric. As the reformers stayed focused on different concerns, little to no legislation was initiated to deal with the troublesome level, forcing it to decrease through market mechanisms which only began after the transition era. Contrastingly, the Czech Republic reformers were prompt to implement a social safety net and even controversially maintained unproductive labor to avoid large rises in this metric.

Both countries exhibited profound rises in economic freedom due to changes in economic policies such as trade liberalization, deregulation, currency convertibility, and privatization. However, while economic freedom rose, the perception of corruption was high, reaching a low point in the 2000s period directly after the transition. Lack of business legislation accompanying liberalization measures paved the way for unethical practices. Poland and the Czech Republic had to respond in the early 2000s to not only curb corruption, but to also enter into the European Union. Late stage reforms in the 2000s ultimately brought corruption perception down to a level that resembled the pre-transition metrics.

Considering health related metrics in both nations, life expectancy was surprisingly impacted less by structural healthcare reforms and more by liberalization measures. Trade liberalization and price liberalization increased food variety and decreased the price of healthy produce. These reforms caused a major decline in cardiovascular-related diseases as a result.
Despite the similarities, the Czech Republic had a leg up in life expectancy improvements through a better commitment to healthcare restructuring, while avoiding the delay seen in Poland.

Polish reforms had an initial positive effect on the percent of GDP spent in healthcare. While healthcare became more privatized, the 1999 healthcare reform solidified more investment by an increased focus on services and restructuring from the communist past. Yet, the reform process lagged behind that of the Czech Republic’s and it did not lead to increased investment through the years. The ramifications of this were healthcare quality stagnation in Poland. Contrastingly, reforms were initiated early and by healthcare professionals in the Czech Republic. Despite the pricing inefficiencies, as healthcare investment increased, Czech quality of healthcare also improved.

Lastly, both countries underwent environmental reforms that allowed for a breakthrough in pollution and land protection. The development of an environmental ministry in Poland helped steer businesses towards better environmental practices. Market mechanisms that allowed demand to influence the market, eliminated unnecessary industrial goods that caused major pollution during the communist period. This was the case for both countries. Specifically in the Czech Republic, environmental eagerness in the first years of the reform period led to the creation of a team designed to consider both sustainability and polluting factors. While this declined as the decade continued, pollution remained a major focus and legislation was adjusted with further integration into European institutions. In terms of land protection, reforms in Poland went above and beyond in nature conservation. The percentage of land protected is one of the best in the world and continually improved from the beginning of the transition. Reforms in the form of conservation investment greatly rose during the 1990s and the Nature Conservation Act
brought about legislation transformation as well. The Czech Republic also significantly improved in this metric, but only in the 2000s. Early reformers were not considerate of this domain as protected land remained static in the first decade. It wasn’t until the creation of the Nature Conservation Authority in 2004 that the amount of land protected sharply increased.

This section overall finds the prominent connections that beneficial and unfavorable reform measures had on quality of life metrics. Through their notable successes, Poland and the Czech Republic are a complicated pair to select a clear quality of life winner, as each has had reform strategies that outrival the other in different areas. The conclusion will attempt to do such.
Chapter 6: Conclusion

After an extensive analysis of the reform period, it is evident that both countries have excelled at improving citizen well-being. By examining individual differences, scaled data from the Czech Republic indicates a better overall end score. However, it must be recognized that the country began their reform process with an objectively higher standard of citizen well-being, as discussed in previous chapters. Having begun at a lower point, Poland transcended its negative foundation and demonstrated a much more prominent leap in improvement. As a result, economic reforms in Poland outpaced those in the Czech Republic in both economic and environmental factors. Given the magnitude of the progress, Poland’s shock therapy strategy achieved the largest growth across the selected indicators and can be credited with the highest degree of change in quality of life. However, consistency is key for ensuring wellbeing. Accordingly, the Czech Republic saw a notably consistent improvement in more service oriented areas, especially in healthcare. After the Czech Republic recovered from the currency and banking crisis, from 2002 onwards, the reforms created consistent growth that led to some of the best quality of life metrics in the former Communist bloc countries. Boiling the reform process down to one conclusion, Poland more successfully stimulated quality of life economic growth, whereas the Czech Republic excelled in stability and social services. For these reasons, Poland has been able to improve its citizen well-being by the greatest magnitude, while the Czech Republic has been able to provide its citizens with a better quality of life overall. Both countries deserve recognition for the outstanding successes they’ve been able to achieve.

While examining the results of these reforms can be helpful for determining the best strategies to apply to other situations, a one size fits all economic policy is too simplistic. Each nation is a separate case, formed by different economic backgrounds, cultural beliefs that react
uniquely to different policies, and policy makers that exercise different degrees of influence over society. The same is true for Poland and the Czech Republic: by having low inflation and a favorable debt situation, the Czech Republic was able to subsidize essential goods and focus more on social safety nets to ease its citizens through the beginning of the transition process. While in Poland, the government did not have the fiscal freedom to do the same. Moreover, while both countries implemented wage controls, Poland’s harsher rules in this domain were more necessary to limit inflation. Nevertheless, some reforms like trade liberalization were net positive for both countries, allowing domestic businesses to compete, exports to increase, and consumers to gain access to higher quality goods. Ultimately, the push and pull of pleasing society in the short-term and implementing long-term stabilization measures that will eventually benefit wellbeing in the long-term is a complex art that is difficult to master.

As we approach 35 years following the beginning of the transition, one can contemplate how both countries have advanced while also questioning what this quality of life achievement means for the future. Time spent in Prague or Warsaw will likely lead to the feeling of surprise that just decades ago these cities existed behind the Iron Curtain and life was far less idyllic than today. People are much more content than they once were, but still have trepidations for the future. A series of interviews conducted in 2023 helps reveal what is on the minds of educated Czech urbanites in terms of transition opinion and perception of their own quality of life. Having similar backgrounds, these Czech opinions are shared by many Poles as well. Vladimira Dvorakova, a political scientist and professor in Prague, revealed how there was a revived sense of hope in 1990. Despite uncertainty, people were excited about the opportunity to experience Western influence. Living in the country during the 1990s, she reflected on the importance of developing rule of law before the accelerated process of privatization.²²⁵ The development of the

²²⁵ Author’s interview with Vladimira Dvorakova, Prague, CZ, October 4, 2023.
free market system—without an institutional base—had led to the problems seen in 1997. While the transition wasn’t seamless, it was reflected upon positively. For instance, when asked whether Czech reforms improved quality of life, the first response from Ivana Dolezalova, a Journalist and University Professor, her answer was enormously. She notes that every day citizens saw a significant transformation in quality of life with the opening of public spaces and reforms. While reflecting allows for a lens into the past, it should also season our future perspective. When asked about the development of well-being, Jiri Koubek, a Professor at Charles University in Prague, mentioned that in the Czech Republic and across all of Europe, people are concerned that the youth will not attain a better quality of life than their parents because of climate change and other issues. These sentiments have less to do with economic concerns such as fear of unemployment, where the Czech Republic has excelled, and more to do with further-reaching global concerns. Perhaps the reality that the Czech Republic and Poland share the same concerns as their Western counterparts indicates a successful reform outcome. However, this may reveal a greater truth; countries have often avoided today’s problems and we face a moment where correction is necessary.

There are numerous ways to expand on this study moving forward. While this thesis uses one standardized quality of life scale, an additional project could adjust the scale to better reflect a country’s cultural interpretations of quality of life. The OECD has created a survey, known as the Better Life Initiative, which breaks down the most important indicators by country based on survey responses. According to the Poland survey with 3,065 responses, life satisfaction is the ultimate driver, followed by health and income. In the Czech Republic, health, life satisfaction and safety are considered more meaningful to personal well-being. By weighting indicators

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226 Author’s interview with Jiri Koubek, Prague, CZ, November 10, 2023.
227 "Czechia." OECD Better Life Index.
according to country preference, reform effects on what is most meaningful are incorporated into the analysis. Additional offshoots of this research include a comprehensive study of economic, social and political reforms on aggregate well being. An all-inclusive analysis of all quality of life factors would present a more definitive answer on reform quality.

Overall, the Czech Republic and Poland are well positioned to achieve future quality of life improvements due to reformers’ efforts to create a strong foundation. Proximity to the West, growing industries such as tourism, and business friendly legislation will continue to drive economic improvements. The push towards social services and emphasis on sustainability will prioritize citizen well-being. Impeding factors, such as democratic backsliding in Poland and populism in the Czech Republic, must be contained in order to not undermine decades of success. In its entirety, this study encapsulates reform performance on quality of life. Not only can we learn from Poland and the Czech Republic’s successes, and likewise their failures, we can seek to hold governments to a higher standard in decision-making. If countries can evaluate their policies by life improvement, then the opportunities for quality of life gains will be incredibly wide-reaching. Having been backstage to well-being, Poland and the Czech Republic’s reforms have transcended the curtain that once hung and thus remain tremendous examples of success.
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