

## MARKETIZATION AND PRIVATIZATION: THE POLISH CASE

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### *Introduction*

The fall of Tadeusz **Mazowiecki's** government — nearly as spectacular as its emergence — marks a break in the first stage of change of the economic system in Poland. The country which pioneered radical reforms now learns a pioneering lesson; its experience may be the lot of any country undertaking a profound change of its economic system.

According to both domestic and foreign observers, the government's fall and the collateral defeat of Solidarity will retard the processes of change in Poland as well as in all of Central and Eastern Europe.

The press reacted by criticizing the defeated government's elitism, its "inside" style of governing and insufficient information about its activities. Walesa and his camp were criticized for **implicating** Solidarity in factional fights, many of them personal.

These concerns must not be dismissed. But they do not touch the heart of the matter, and mistake the symptoms for the causes. In my view, the reason for the government's defeat is a recession of unprecedented dimension, caused by the economic stabilization programme (popularly known as the Balcerowicz Plan). Two contradictory value systems confronted each other: that of the population at large, and that of the "political class". The same discord surfaces in the present discussion about privatization.

### *Toward Economic Liberalism*

The eighties witnessed a turn to the right in all of Central and Eastern Europe. Poland was especially well conditioned for a triumphal re-entry into the domestic political arena of free-market ideology and for its subsequent expansion, as well as for the accompanying conservative sentiments.

Three factors created favourable circumstances for the marriage of Polish economic liberalism and the ideology of political conservatism. The first is the exceptionally deep economic crisis, unharnessed from

the end of the seventies, which compromised the economy of actually existing socialism in the eyes of the people in very obvious and tangible ways. It may be difficult to choose the lesser evil between some Communist governments' refusal to introduce any major reforms, and others' implementing only partial, half-way reforms. Most likely as the result of the latter option, Poland was the first country under Communist rule to achieve the "none" system (also referred to as "neither market nor plan"), which turned the economy into anarchy and made it the plaything of the most aggressive lobbies. The population's communal consciousness encompassed the system as a combination of compromised **etatist** absolutism and the inertia and inefficiency of the state and party bureaucrats.

The second factor is the unquestioned spiritual leadership of the Catholic Church, traditionally conservative. The dusk of Communist ideology was also the return of triumphant Catholicism, especially after a Pole became Pope. Incidentally, it is notable that John Paul II's influence in Poland is limited and selective. It is well known that the Pope made a heroic attempt to position the Church's social teaching to meet the challenge of the Third World countries. His encyclicals, especially *Laborem Exercens* and *Sollicitudo rei Socialis* include pointed criticism of both the Communist and the capitalist systems. These Church documents, however, did not become guidelines for the Catholic prime minister, nor for his economic team who derived their inspiration from the laissez-faire conservatism that had reemerged in Anglo-Saxon countries. The heroes of economic policy became Ronald Reagan and Margaret Thatcher, whereas intellectual nurture was provided by conservative American neo-liberals. In the 1980s, the Polish economic imagination was shaped by Rose and Milton Friedman (their *Free to Choose* was published at least twice by the underground printing presses), by F. A. Hayek (his well-known pamphlet *The Road to Serfdom* became especially popular), by L. Mises, George Gilder, Michael Novak, and others. The relative laxity of the Polish authorities in issuing passports made it possible to travel and to study abroad, to receive stipends, etc.

The frequent conversion of intellectuals from Communism to extreme economic liberalism was reinforced by the absence of a non-communist leftist tradition in communist countries. The non-communist left suffered the greatest repression, and for many years it found few supporters, whether in Poland or abroad. The West European social-democrats (the British Labour Party included) are much to blame for assuming the false strategy of appeasing the Communists and attempting to cooperate with them. This tactic naturally excluded cooperation with the opposition groups that attempted to restore the democratic left. It also caused the

Solidarity movement in Poland to oscillate to the right, especially as the very diversified movement won the support of many conservatives — even though at first it was dominated by egalitarian and participatory ideals — so that the outbreak of freedom in the summer of **1989** meant first of all freedom for conservative neo-liberalism.

Tadeusz Mazowiecki's Solidarity government at once declared that its aim was to create a privately-owned market economy modelled on the highly developed Western economies. It thus dispensed with the obsolete "Round Table" agreements, signed in the spring of the same year, which were a continuation of the Gdansk Agreements of the summer of **1980**, as well as of the Programme for a Self-Governing Republic accepted by the First Solidarity Congress.

The sudden change of programme without a previous public debate was possible in the ambience of public enthusiasm and widespread confidence in "our government". This was to have serious consequences after some time had elapsed.

### *"Shock Therapy"*

The term was popularly applied to the economic stabilization programme, best known as the Balcerowicz Plan.

When the new people came into power, there were many circumstances favourable for implementing such a "shock" operation; most important of these were a depressed market and rampant inflation.

Shortly before the end of the Communist rule and in the initial stage of the already evident severe recession, the last Communist cabinet liberated — without proper preparation — the prices of foodstuff. This created a wave of price increases, as inflation became hyperinflation (in the fall of **1989** prices went up 20-40% per month). It was therefore necessary to revert to radical action, and economists generally agreed that hyperinflation could only be tempered by an operation that to a certain extent had to be a "shock therapy". The open question was whether the counter-hyperinflationary operation was to become part of a larger programme of systemic changes. The government chose this option, drafting and implementing a programme of rapid transition to a market economy.

An important part of this "shock" operation, which was intended to be not only a radical abatement of inflation but also a leap into a market economy, was the concept of stabilization endorsed by the IMF and the World Bank. It must be emphasized that the deflationary and export-led recipe typically prescribed by the IMF and the World Bank bear effects that are much more shocking in economies that have no market mechanisms than in already existing market economies. This is so because in the post-Communist economies there are no

"natural" adaptive mechanisms which could absorb the shock of a sudden change.

Furthermore, Jeffrey Sachs, the new cabinet's main advisor, was a typical product of the American success story, who saw everything as simple, and who believed that wishful thinking was all that it takes! History? Tradition? What is that? People are not accustomed to market-directed behaviour? All that is needed are sufficiently strong material incentives, and the rules of the game will enforce pro-market activity. The same thinking is represented by the Nobel-prize winning Milton Friedman, who recently tried to persuade our Establishment that Poland ought not to imitate the present American economic model which is polluted by "welfarism", but to pattern our economy on real free-competition market, the kind the United States had one hundred years ago.

Let us remind ourselves that the conservative-liberal argumentation of "Americans" (the term, in quotes, is intended to include representatives of the aforementioned international organizations in the broadly defined North American Establishment) was supported by the "conditionality" of Western aid.

At the "outbreak" of freedom and independence, numerous social circles were persuaded that Poland would not be able to battle the severe economic crisis unless the West offered assistance; and of course, the condition for the granting of aid was the assent of the international institutions, which made their loans contingent on a number of qualifications.

Balcerowicz presented the first draft of his plan in Washington. The Polish authorities never concealed the fact that they often acted under pressure from the IMF and the World Bank. No doubt, it must have been possible to negotiate with their representatives; but it is difficult to know whether the Polish side exploited these possibilities. Both the unofficial information circulating in spheres close to the government, and a comparison of declarations made by the Polish economic ministers with the doctrine and the practice of the IMF and the World Bank, suggest that the views of the Poles closely resembled those of the "Americans".

Moreover, the political scene in Poland was unfavourable to the reduction of conditionality and to the attenuation of the shock of change. From the very beginning the government strove to create the impression that matters of economy were controlled by professionals (the government's representatives' favourite word), or by experts, but not by politicians. The prime minister himself modestly declared he could not presume to comprehend those matters and that he had entirely to rely on specialists. This strengthened the laymen's conviction that the stabilization programme was a matter that should

be handled by professionals.

Popular opinion was that the economy should be more or less independently managed by professional economists. This was a reaction to the excessive politicization of the economy by the Communist regime. Furthermore, Poland has a weak tradition of public pressures exerted on the government and the parliament by non-governmental social organizations. On the one hand, the establishment of a Solidarity government caused the movement to abdicate its role as trade union.<sup>4</sup> On the other hand, the sudden fall of Communist rule paralyzed (especially after the bloody events in Rumania) the other trade union (more precisely a federation of unions), which was accused of closely collaborating with the Communist authorities. Thus, there were no partners who would demand negotiations. Finally, Lech Walesa, then the greatest authority in socio-political matters, accepted the Balcerowicz Plan in advance, even before its details were known, apparently convinced that control of "our" government was unnecessary.

As a result, the Balcerowicz Plan — potentially one of the major political decisions made in recent years — was tacitly accepted without so much as an attempt to present to the population its far-reaching consequences.

What was the shock? The main target of the anti-hyperinflationary operation was the elimination of an excess of ("empty") money from the market by the sudden liberalization of prices and limiting the rise in wages (partly accomplished in the second half of 1989).

The state-regulated prices of energy were drastically raised, which resulted in the sky-rocketing of the prices of all products. In the first month of the plan's implementation, prices rose not by the 40-45% predicted by the government, but by 80%. Only 30% of the rise was compensated for, because the index figure for January was 0.3. In the following months, only one fifth of the price rise was compensated by indexation. The real value of wages in the first few months dropped by more than a third, or even by 40%, according to some opinions. Because the Polish products were not competitive on the international market, the extreme dive in employees' buying power resulted in a disastrous decline of production output. Industrial production of the state-owned enterprises fell by 30% in the first half of 1990, and production fell by even more in food processing and light industry. Production in the private sector did not fall, but neither did it show signs of expanding. The private sector is still small (a few percent), and its rise does not bear much effect on the overall level of production.

The interest rate, unexpectedly raised and definitely too high, was another factor which exerted a dismal effect on trade and agricultural production, which naturally was a long production cycle.

### **Social Costs**

The results of the Balcerowicz Plan are ambivalent. On the one hand, inflation has been curbed (although it is still high: in the last three quarters of 1990 it was 70-100%, thus one of the highest in Europe). Because of the sharp drop in the population's purchasing power, shortages were also curbed in some markets, and in others altogether eliminated. For example, the foodstuffs market is oversupplied and farmers complain about difficulties in selling their produce. Throughout the year, the rates of exchange of Western currencies have remained almost invariable (internal convertibility has been introduced).

These are the undisputed achievements of the Balcerowicz Plan. On the other hand, the price of this shock therapy was also high in terms of negative phenomena that it will be hard to eliminate. Many economists are anxious that the present recession, without precedent in post-war Europe, may easily become a lasting stagnation or a depression. Last summer, some symptoms of revitalization appeared, but they were few, weak and short-lived.

Equally disadvantageous is the restructuring, or the modernization of the economy through liberalization of prices and the introduction of tight money policies (subsidies reduced radically, credit expensive and difficult to obtain). The authorities assumed that stabilization of markets and the creation of a high demand barrier would force enterprises to strive for greater efficiency; it was hoped that they would attempt to overcome the barrier by reducing costs and implementing cheaper means of production. The enterprises that failed to do so were supposed to go bankrupt. Unemployment would improve work discipline, raise the quality of products, etc.

These expectations were only partially realized. A very high degree of industrial concentration in Poland — high even by American standards — caused the state-owned enterprises to behave like monopolists. These firms can afford to increase prices for their products to cover any expenses, and they prosper even when their output goes down. Their financial situation did not deteriorate in the present recession. Sociologists and economists noticed in many enterprises at least a potential risk in work discipline: absenteeism is lower, employees are more concerned with keeping their jobs. However, the managers often cannot (or do not try to) use this increased work potential. Only in a few enterprises has work discipline improved. The same situation is reflected in the low quality of products and their limited variety, which also have not improved.

Unemployment must be looked at separately. The liberal economic team of the government expected that in a short time the so-called unemployment on the job (also known as disguised unemployment)

would radically decrease. It was assumed that the rules of the market would force the state-owned enterprises to rationalize employment both by limiting unnecessary positions and by restructuring. Yet, there are few signs that such strategies have been implemented by state-owned enterprises. First, the market has not yet eliminated all inefficient enterprises. There were almost no bankruptcies in the past year. Second, the wages are so low that they do not represent a big fraction of the overall costs. A one-third decrease in production resulted in a 10% reduction of industrial employees. Moreover, this reduction does not accompany modernization or innovation. Sociologists suggest that it is a purely bureaucratic policy of fitting the number of employees to the recession-caused drop in productivity (compared to the level of production, disguised unemployment is greater now than it was a year ago).<sup>2</sup>

Thus, the shock therapy applied by the government does not resemble Schumpeter's creative destruction, a crisis as a breakthrough to economic and technological advancement. Equally ineffective are the appeals and the threats which some ministers address to the managers of state-owned enterprises (one of them told a group of managers: you act like bureaucrats in a command-directed, distributive economy. Apparently, the present recession is not big enough for you).

Thus it seems that besides the naive faith in a market that would "take care of itself" (which is not the case even in developed capitalist countries), two false assumptions underlay the Balcerowicz Plan.

The first was a belief that, despite the unfavourable structure of industry, liberating prices and implementing tight money policies would result in competition that would then naturally enforce market rules. However, this did not happen, nor could it happen. Monopolistic behaviour, far removed from the ideal of free competition, hindered such a scenario. Some feeble signs of increased efficiency of some state-owned enterprises are no harbinger of greater efficiency on the level of the national economy.

#### The Market and Tradition

The other false assumption is ahistoricism, or neglect of the influence of tradition, and of spiritual and material culture.

The official propaganda often speaks of a "return to normalcy", or a "return to Europe". These terms are supposed to suggest that before the "Communist violation", Poland had been a European country with a privately-owned, market economy, and that privately-owned property in a free-market, capitalist system had been the norm there. Yet that was not so. The majority of the population lived and worked

in rural areas, in conditions akin to a natural economy. The modern capitalist sector was not only small, but also linked with the state; Polish capitalism was etatistic by its very nature.

A change in the socio-professional structure and a demographic transformation took place under Communist rule. However, this modernization of population cannot be identified with a readiness to accept the rules governing a market economy, or a universal ability to adapt one's behaviour to such economy. Communist rule or the Communist system were not the sole obstacles to adopting such behaviour. Among European countries, Poland had never been very advanced in either market economy or "market society". Further more, Poland has lost in the war the two most enterprising minorities: the Jews and the Germans. Then, the displacement of millions of people from the villages to the cities under Communist rule took place in a highly bureaucratized economy. Even agriculture, which, paradoxically, became more market-oriented than it had been before the war, did not compel competition-oriented economic behaviour; such development was hindered by the shadow of a **paternalistic-bureaucratic umbrella**.

As far as patterns of social advancement under Communist rule are concerned, these were mostly continuations of the old ways rather than their negation. As before the second world war, the ideal career was that of administrative official — not that of entrepreneur, or trade dealer. For these reasons among others a transition to a market economy in Poland must take time. The aforementioned factors are usually noticed by historians and sociologists, but ignored by economists, especially those of "American" orientation.

Here are a few quotations from a book by a well-known Polish sociologist:

The slogans calling for a departure from socialism, which seem to have greatest appeal, are those encouraging decentralization, freeing economic activity from bureaucratic straitjacket, releasing new energies driven equally by the idea of free choice and a wish to get rich. Let us remember that such and similar appeals were voiced in the 19th century by positivists. They were also repeated in the inter-war period. Each time the results were only limited. In the period between the two world wars the press accused the young generation of seeking employment with the state, which was less paid but more stable, rather than turning to private entrepreneurship. . . The new coalition government [of T. Mazowiecki — TKI feels obliged to create conditions favourable for entrepreneurship and to remove obstacles to individual initiative and drive. Yet in my view the conflict between lingering elements of socialism and new political ideas will continue long into the future. . .<sup>1</sup>

. . . It is relatively **eas(y)** to change legal acts, ideological declarations, institutional statutes, but it must be remembered at the same time that society can be said to have changed only when each and every one of its members has changed his way of thinking and doing things, his habits and his work patterns, his sense of duty, values as well as his sensibilities and perceptions on what is natural and what is

not in a given community. . . A considerable number of Poles will consider it natural that Mazowiecki's government will bring us all that socialism promised. Only he will do it faster, more efficiently, and in greater quantities.'

These words were written in the fall of 1989. A year later, Tadeusz Mazowiecki suffered a spectacular defeat as a candidate for the presidency. He received fewer votes than an unknown stranger from Canada and Peru. He interpreted these results as a decisive rejection of his political and economic programme. Disappointed and bitter, accusing the other candidates of giving in to populism, he resigned with his cabinet. The future will show whether the new government will draw similar conclusions and abandon the "great operation" (as top politicians refer to it) of hasty imposition of a market economy and adopt instead an historical-evolutionary approach.

Meanwhile, the situation was used dexterously by Stan Tyminski, who returned to his homeland after twenty years of emigration with a book (*Swietepsy — Holy Dogs*), ruthlessly critical of the government for its "stagnant" politics. In Theses for his economic programme we read:

The present situation is like seeing a film I had already seen in Peru a few years ago. The film starts after a year of economic program designed to stop inflation, but which has the effect of restricting economic growth. I know how the film ends and I could tell you how it ends. But I don't want this ending to happen in my own country. . . The level of production in Poland fell by 30% in 1980. Ten years later this situation has repeated itself. We can't let production fall by 30% again next year. . . Poland is a victim of an international economic war.<sup>3</sup>

It is interesting that the candidate attracted votes by promising easy wealth, but he was very cautious in referring to privatization.<sup>4</sup>

It is also notable that both candidates in the second round of the elections advanced isolationist sentiments. Only a year ago Walesa travelled in the West, and tried to persuade Western businessmen to invest in Poland and to buy Polish enterprises. He used to say that he would "internationalize the Polish economy". Yet now he speaks a different language: "Let us give Poland to the Poles, instead of selling it off to Americans who want to close down 75% of the firms and to dismiss people."

Contrarily to Tyminski, however, and paradoxically, Walesa enters the political arena with the slogan of radical acceleration. In the political dimension, the intended meaning of the slogan is clear: it voices a desire to fight the former nomenklatura and to cleanse the power apparatus of **Communists**. **But** in the economy? What could acceleration mean here? And what do his electors expect? It is not easy to answer this question. The numerous contradictory promises and general programmatic declarations allow everyone to interpret

"acceleration" as they like. Perhaps it is possible to make the generalization that the majority of Walesa's electorate expects a quick improvement in their lives.

A look at the social composition of Walesa's constituency indicates a pending conflict. He was supported on the one hand by those eager to proceed with the privatization and with erecting a basis for a capitalist economy (one of Walesa's ideologues called him a Thatcherite), who expect a significant lowering of taxes, and on the other hand by those most hurt by the Balcerowicz Plan, that is, the unemployed and those in danger of losing employment, retired pensioners, the activists of employees' self-management, who may hold Walesa by his promises to them, the supporters of employees-owned stock companies, the enemies of nomenklatura companies, who expect that Walesa will quickly deal with these companies. A long-term symbiosis of the two groups is quite unthinkable.

### *Recession and Privatization*

For a number of psychological and economic reasons, the severe recession is not favourable to privatization.

The aim of the stabilization plan was a radical limitation of the excess ("empty") money, which aim was realized times over, resulting in a radical drop in the population's savings. The savings would only suffice to purchase a small fraction of the capital presently owned by the state (some economists assess the private savings to be no more than 1.5% of the value of state capital). Therefore, if privatization were to be based on domestic resources, and if sales of property were to be on a level approximating the real value of state capital, then even with much credit support the process would take several decades.

Moreover, the recession evokes a defensive behaviour, as opposed to expansive entrepreneurship. Most people are interested in maintaining their standard of living and rebuilding the level of their savings rather than in long-term investments. Additionally, inflation is still high, and there is uncertainty as to whether enterprises will indeed be forced to increase their efficiency; thus widespread reluctance to capitalize one's savings in investment is natural.

The most significant factor is perhaps distrust in the privatization programme created and implemented by the mainspring of the present recession: the government. Confidence in Poland's national economy depends on confidence in the government.

All in all, the Balcerowicz Plan only partially and perhaps even to a negligible degree prepared the way for privatization. The government's policy, which hardly extended beyond the implementation of the stabilization plan, also did little to improve initial conditions for privatization. I have in mind here the government's attitude to the

so-called nomenklatura companies and the employees' self-management movement, as well as the latter's concept of employees' stock companies. (I will not analyze incentives for foreign capital, though here, too, the government's efforts were meagre.)

### *The Controversy Over Privatization*

The economic stabilization plan was also left to the "professionals" by public opinion, which noticed too late that the plan was highly political in character. However, the situation of privatization is very different, as it has from the very start been regarded as a socio-economic problem. Everything concerning privatization is the subject of endless public debates. Although a privatization bill had already been passed in July 1990 and another act established the position of the Minister for Property Transformation (henceforth referred to as MPT) and defined his prerogatives, only the legal aspects of the so-called "small" privatization have been clarified (concerning small production plants, shops, pharmacies). In order to illustrate the divergent paths of privatization it is enough to quote one opinion of the victor in the presidential elections.

As is well known, the aforementioned legislative bills give many prerogatives to the government, which (especially the MPT) initiates and organizes the privatization process. The government designated five big firms for the initiation of "big" privatization. This is how Walesa reacted:

Educated by Communism, we built plants for political reasons. Now, as children of Communism, we obey the same principle while moving in the opposite direction, we want to "politically" privatize factories. This is a mistake. We are supposed to create favourable conditions, but the cleansing work is to be done by the economy itself. Kuczynski [the MPT — TK] or Balcerowicz issues a decree that these or those seven or eight plants are to be privatized. That is ludicrous. The situation needs to be turned around. Seven or **eight military** factories should not undergo privatization for strategic reasons, but the rest? We should define the rules and let the economy do the rest. Political decrees are unthinkable. I am against them, because their thinking is marked by the old style.'

Walesa also repeated his former idea that "Plants ought not to be shut down, but new plants must be created."

Both Walesa's first and second opinions link the privatization process to the selective activity of the "economy", which probably means rules of economic competition, and to a social attitude of entrepreneurship. It is difficult to predict whether the government's surrender of its initiating function would indeed result in faster, spontaneous privatization, as Walesa sees it. At this point in time, Polish society's economic imagination is far from embracing rapid privatization.

This is evident from sociological studies conducted at twenty state-owned firms shortly before the passing of the privatization bills. Here is the concluding opinion:

The majority of employees give limited support to the governmental privatization programme — especially as it concerns their own factories. . . Too many unknowns among the potential advantages of privatization make them reluctant to participate in "de-etatizing" their work places. Their distrust of privatization is also caused by their passive attitudes and the long-standing expectation that the state should take care of their material, housing, and educational needs. . . Attitudes of apathy and waiting are most characteristic among employees of the enterprises. ■

Lech Kaczynski, one of Walesa's associates in his capacity as the Solidarity trade union leader, expresses a similar opinion of society's attitude to privatization. He says: "Privatization is a difficult problem, contrary to the majority of people's idea of justice." This convinced him to support Walesa's candidacy for presidency, because Walesa ". . . is a politician closely related to the plebeian strata of our society and who can provide a protective screen for this great operation. It is necessary to acquire the workers' support for this difficult process, which is in their long-term interest." ■

What are the socio-psychological obstacles to privatization? What are the reasons for reluctance on the part of employees of state-owned enterprises?

Let us refer to another sociological study. In September of 1990 the Public Opinion Research Centre conducted a survey on privatization. The answers to questions about the general principles of privatization suggested that privatization was socially accepted. As many as **74%** of respondents expressed their assent. Moreover, nearly half of them believed that privatization proceeded too slowly. However, answers to other questions reflected bitterness about the process and scepticism about its effects. Respondents assessed negatively privatization's effects in boosting efficiency and in improving their own economic standing. Only **27%** hoped that their own situation would improve in two or three years, and **22%** that the national economy would improve during that time. As many as 35% of respondents did not expect improvement of their individual situation in the next five years, and 40% did not expect an improvement in the national economy in that period. Nearly one-fifth of all respondents expected their own situation to improve only after ten years.

Thus the majority of Poles do not link privatization with improvement of their own economic standing or the national economy in the foreseeable future.

Equally interesting and distant in principle from the general support of privatization were the answers concerning the criteria of future privatization. Respondents were asked which of the following

criteria should be decisive: maximum economic efficiency; avoidance of discrimination against anyone in particular; or avoidance of the creation of a new privileged group. 30% selected the first criterion, 37% the second, and 29% the third. The respondents were also asked which method of privatization they preferred: vouchers given free of charge by the state which could be used to purchase stock of any of the privatized enterprises, or sales of stock (for cash or credit) first to the employees of a privatized enterprise and then to outsiders. The majority chose the latter procedure: sales to the employees; they refused the government's gift!

The concluding comments of the study were: "The government's intention of concentrating on efficiency as the main criterion and goal of privatization, coupled with disavowal of the concept of the employees' stock companies, may meet with social resistance. This is so because in the popular opinion, effectiveness depends on employees' stock ownership. ■■

Employees' stock ownership is an intermediate form between collective and private forms of ownership, or a form of group ownership. One could ironically conclude that Poles universally support privatization (74% answered in the affirmative), on the condition that it is quite different from regular, actual privatization. Similarly, some say that everyone in Poland is for the market, provided the state will guarantee them work, housing, and social security.

### *Employees' Stock Ownership*

The workers' sympathy towards the employees' companies (as opposed to joint stock companies) requires explanation.

The beginnings of popularity of the employees' companies were in the summer of 1989, when Mazowiecki's government declared its intention of creating a privately-owned market economy patterned on highly developed Western countries. The declaration was followed by others, generally received as aimed at dismantling the employees' self-management.

The latter institution's name, present in most state-owned enterprises thanks to a bill passed in 1981 and resulting from negotiations between Solidarity and the Communist government, must not be taken literally. "Self-management of the workforce", despite this official name, never possessed full managing power but meant participation in the enterprise's management, limited in its capacities by numerous legal regulations and the hierarchical structure of Poland's industry. Furthermore, according to experts, only 20% of employees were active and ready to participate in management.

Nevertheless, the announced intention to remove the mostly formal participatory prerogatives of the employees was taken by many

workers — especially by the legalized Association of Activists for Employees' Self-Management — as an instance of injustice and a challenge. The move was unexpected, because it was contrary to the Round Table agreements (February-March 1989), which promised the removal of any restrictions imposed on the workers' self-government during and after the period of martial law. Reassured by those agreements, the self-management activists undertook to design a self-managing enterprise in the new political situation, expecting that favourable conditions for this form of management were finally close at hand.<sup>11</sup> Soon they found that the governmental policy was headed in the opposite direction, and that it was unfavourable to employees' self-management. After initial protests, the activists observed that the openly capitalist option found support with international financial institutions. As a result, some self-management activists became persuaded that employees' management scares away foreign investors.<sup>12</sup>

In these new conditions, some of the activists attempted to adapt the postulate of employees' participation to the altered external conditions. They were assisted by proponents of the American ESOPs (Employees Stock Ownership Plan): Louis O. Kelso, who formulated this form of ownership, and his supporters. In a short time, many publications attempted to popularize this concept in Poland. Special groups were formed to tailor the American, and then also the British ESOPs, to the specific Polish conditions. The goal was to protect participatory rights of the employees, which were to be especially significant in the transitory period during which the employees would own too few shares to control the firm solely on the basis of ownership. The problem had special import in view of the prospect of the many years that property transformations of state enterprises were to take, with the very meagre savings that the employees had at their disposal.

At first the government categorically rejected such concepts. Credit assistance was refused to the first Polish ESOPs, as was permission to form the first employees' companies. As a reaction to those clearly unfriendly gestures on the part of the government (especially its representative for property transformations), a number of employees' councils, their national representation and the aforementioned Association issued a number of protests and declarations critical of the government, and even demanded its resignation.

The National Representation of Employees' Self-Management in Gdansk addressed a "legal question" to the Constitutional Tribunal: whose property is the capital of state-owned enterprises? The basis for this question was created by the last Communist government, which (in February 1989) divided the enterprise's capital into the part

owned by the State Treasury and consisting of the founding fund, on which was imposed a special tax called the dividend, and the capital raised by the enterprise, or the enterprise fund. This led to the presumption that only the founding fund was subject to sale, while the enterprise fund was by definition the employees' property, and as such need not be purchased by them.

Public debates concerning employees' ownership, as well as the stamina of self-management activists, who countered the government's privatization plan with their own participatory proposals, resulted in a privatization bill which admitted the possibility of creating employees' companies. The battle today is for sufficient credit assistance and for the removal of other obstacles to creating such companies. The popularity of this form among workers forced the government to surrender some ground. The present phase of the debate suggests that the idea of employees' companies is again threatened by a new concept of property transformations, involving the free distribution of coupons.

The new concept involves a probable one-time distribution of stock to employees of state enterprises. The act of embourgeoisement or appropriation, turning workers into owners by giving away easily resalable stock, is intended on the one hand to win their sympathy for the idea of privatization, and on the other to create a basis for a capital market. The prices of free stock would most likely be low when resold, which would facilitate their concentration.

Rafal Krawczyk, the main proponent of this concept, does not hide his conservative-liberal intentions (his present career began with a failed attempt to establish a branch of the Washington-based Heritage Foundation in Warsaw), or his enmity towards employees' participation or any other form of non-private ownership.

**It is a paradox that a philosophy originating with the liberal-conservative idea of a free market, private property and free competition as the basis of healthy democracy, led to conclusions that — at first sight — may seem populist and egalitarian. This is obviously misleading. The whole concept is subservient to a single goal: swift restoration of the free market in the national economy. . . . The problem is that the great operation of transforming the national economy — and also the whole Polish society — into a pro-market one, with all its consequences, cannot be accomplished by the government only — no matter how pro-market it is — but it requires social participation.<sup>13</sup>**

Krawczyk won the support of some self-management activists who did not notice — at least not immediately — the anti-participatory edge of his concept.

In the United States, ESOPs are used by conservatives to weaken the trade unions' position. In Poland, ESOPs — as a seemingly more radical form of group ownership with *en masse* appropriation — are

intended to counteract deeply ingrained participatory and egalitarian tendencies. However, the "class" interest is the same in both cases.

Following the "great operation", Krawczyk clearly predicts a "policy of concentrating capital", facilitating the transfer of stock beyond the firm, special progressive taxation, bankruptcies, etc., all this to change the initial egalitarian distribution of property — a change affected to a certain extent by the employees themselves. At the same time, Krawczyk writes very openly: "Obviously, the idea of workers' self-government is only an instrument of transition to a stock ownership system. . ."

Very active in the presidential campaign, Krawczyk suffered a defeat. Yet, it is significant that the post of the Minister of Property Transitions in the Walesa-created cabinet was given to Janusz Lewandowski, who for a long time has voiced a similar concept of popular appropriation. It is a logical continuation of Walesa's idea of giving away money cheques, with which shares in privatized enterprises might be purchased.

It is hardly possible to expect that such paper-bureaucratic rather than actually privatizing operations can lead to a privately-owned market economy that would be more rational than the present one. The situation illustrates the difficulties that arise in the creation of such an economy, contrary to the expectations of the majority of Poles.

### ***Pathological Privatization***

Although privatization begun by the Mazowiecki cabinet is in an initial stage, the process of special forms of privatization widely called "pathological" has already quite a rich history. It started in 1987 as a part of the so-called second stage of economic reform and took place under the last two Communist cabinets (of Messner and Rakowski). The essence of this new stage consisted in recognizing changes in ownership relations as an equally important (beside marketization) part of reforms. Many legislative changes clearly aimed not only at the expansion of the private sector onto so to speak "nobody's land" but also at the transformation of existing state property. It has become very "fashionable" to create different types of companies. While joint-stock companies were not numerous as yet, those of limited liability have been mushrooming.

The Rakowski cabinet considered these companies as the most suitable form into which the state firms should be transformed. According to the draft Programme of Structural Adjustment, published in July 1989, all state firms were to be transformed into joint-stock companies within half a year's time. These companies were to remain state property (since most of their assets would be owned by the state).

The intention of this Programme was rather clear: to get rid of self-management bodies and to strengthen the power of the state administration. As the Communist government collapsed, this programme was not implemented. Thousands of companies, however, were created formally outside the state firms, but on their fringe, and dependent on their equipment and personnel. This process was labelled "pathological privatization" or "enfranchising the nomenklatura". In a similar way, some of the state firms were formally transformed into joint-stock companies, usually by either breaking the law or exploiting its loopholes.

These companies mushroomed not in the least because their form was superior to the existing forms of business organization. Decisive factors were the following:

- the actual taxation burden could be lessened, making it possible to pay higher wages;
- the number of high-salaried posts could be increased;
- self-management bodies could be debarred from **decision-making**;
- higher profits could be achieved by monopolizing the supply of scarce commodities.

Generally, these companies have become the source of excessive profits, and thus fuelled inflation, severed the established links of co-operation, etc. Very often, directors of the state firms were simultaneously members of the board of directors of these companies and many top *apparatchiki* and their families took part in this procedure. As more than a half of the number of the state firms' managing directors have been actively involved in that procedure, the phenomenon is common enough to be regarded as the most typical feature of the decadence of real socialism, or a form of **post-Communist primitive accumulation of capital**.

Although this way of privatization had glaring features of pathology, and was outrageously resented by ordinary people, the judgment of it by many intellectuals was rather favourable. Arguments are often advanced that the process amounts to abolition of state ownership and fosters accumulation of capital. This view, quite popular among the Polish economic liberals, seemed to be shared by the Solidarity government, which tolerated too long this way of destruction of the state sector.

The social costs of this process, however, are enormous. Many people got accustomed to treating any programmes of privatization, which are beyond their control, as stealing national wealth. This sentiment was noticed by the politicians and exploited by them in the presidential campaign: "Today ownership transformation is being blocked by society's conviction, that the new owners (small and big

ones) will become people of the nomenklatura. I fully understand that the problem is difficult from the legal point of view. But without solving this problem. I forecast very little progress in privatization.”<sup>15</sup>

### *Alternative Scenarios for the Future*

The above mentioned difficulties in implementing the stabilization programme, and in the privatization of the state sector, do not exhaust, of course, the full list of tensions and conflicts with which the process of the "great transformation" is fraught in Poland. Just these two problems, however, seem to be decisive. For this reason one should focus on them in making an attempt to outline imaginable scenarios of systemic transformation over the next few and more years to come.

Two main scenarios seem to be most probable.

1) The programme of full-blooded capitalism will be implemented "by taking a short cut", as some like to call it. Members of the power elites (even those who otherwise would opt, though in abstract terms only, for the social-democratic variant, often express their conviction that Poland must go through the stage of "primitive accumulation". The former nomenklatura, capable of creating "political capitalism" (J. Staniszkis), would become a driving force, a kind of substitute for the middle class.

Although the current Balcerowicz Plan has many features of just this, the 19th century model (and its author himself seems to reckon little with social resistance), I do not believe in the success of this programme. Poland has not maintained (never had) powerful entrepreneurial traditions and the social forces interested in such a model are meagre. On the other hand, the tradition of the workers' movement, of class struggle, and finally of participation in management, was rich and continues to the present day. After all, it should be remembered that it was industrial workers who abolished the Communist power. It is not difficult to foresee that just these factors will shape the future social framework for institutional changes. The alternatives that are likely to arise are that after a period of hoping in vain for a marked improvement in economic performance, after making the first attempts at privatization, after exhaustion of Walesa's charisma, the government will either have to retreat or resort to authoritarian methods of enforcing the new order. This second outcome, however, will only delay and possibly aggravate an open conflict.

2) Mazowiecki promised at least twice the creation of the "social market economy" (which was also included in the economic programme of an opposing coalition called the Alliance of the Centre).

Walesa on the other hand made an important concession benefitting the employees' companies, and he also promised to curb unemployment. These pronouncements are thus far only words. In the changed political constellation, however, they may happen to be the point of departure towards some combination of features of the Swedish, Austrian and West-German models. If the sufficiently influential social groups such as trade unions, self-management movement, etc.) were convinced and won over to institutionalized "cooperation" rather than institutionalized "conflict", then such a *modus vivendi* would make "learning by doing" and mutual adjustment of different social groups with different vested interests possible.

We are speaking, of course, about a process which assumes evolutionary development, full employment and a comprehensive social policy programme, going beyond the present concept of limited protection of the poorest groups. Only then would it be possible to check how effective group forms of ownership are on a large scale, and to put different forms of employees' participation to the test.

## NOTES

Criticized for not taking energetic measures to make the Solidarity Trade Union stronger, Lech Walesa has said: "We will not be on equal footing with Europe if we create a strong union which would oppose the reforms." P. Lewinski, "Ile zytzymacie?" (How much can you stand?), *Tygodnik Solidarnosc*, September 6, 1989.

G. Gesicka, "Komisje zakladowe NSZZ Solidarnosc wobec bezrobocia" (Factory Committees of the Solidarity Trade Union and unemployment), *Studia i Materialy*, April-September, 1990, Warsaw.

J. Szczepanski, *Poland: Facing the Future*, University of Warsaw, mimeo, p. 136.

*Ibid.*, p. 135.

S. Tyminski, "Tezy Programu Gospodarczego", (Theses of the Economic Programme), *Gazeta Wyborcza*, no. 262, November 10-11, 1990.

*Ibid.*

L. Walesa, an interview, *Zycie Warszawy*, no. 268, November 17-18, 1990.

M. Jarosz, "Robotnicy o prywatyzacji" (The workers on privatization), *Polityka*, September 8, 1990.

L. Kaczynski, an interview, *Tygodnik Gdanski*, no. 40, October 7, 1990.

B. Dr., "Opinie i nastroje, Poparcie bez zrozumienia" (Opinions and Attitudes, Support without understanding), *Zycie Warszawy*, no. 243, October 18, 1990.

M. Groszek and P. Roszkowski, "Przedsiębiorstwo państwowo-samorządowo-pracownicze. Założenia koncepcji uspołecznienia własności państwowej" (The state-self-managed-employees enterprise), *Zmiany*, no. 1, 1989.

The vice-president of the Association for Self-Management Activists and Member of Parliament Andrzej Milkowski has put it bluntly: "We are a bankrupt state and as such we have to comply with the conditions which are dictated to us. In that situation the self-management system in its present form

may prove to be impossible to defend." A. Gutkowska, "Samorzadnosc **miedzy** realnym socjalizmem a neoliberalizmem" (Self-management between really existing socialism and neo-liberalism), *Zmiany*, no. 22, **1989**.

13. R. Krawczyk, "Wielka przemiana, Upadek i odrodzenie **polskiej** gospodarki" (The great transformation. The collapse and rebirth of the Polish economy), Warsaw, **1990**, pp. **163-64**.
14. *Ibid.*, p. **152**.
15. L. Kaczynski, as in note no. **9**.