

DEVELOPMENT OF THE PRIVATE SECTOR IN POLAND IN 1989-1990

A CASE OF EARLY PHASE OF STRUCTURAL TRANSFORMATION ⁽¹⁾

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1. INTRODUCTION

Poland's society made a political declaration of the will of reconstruction of the private sector in the June 4, 1989 parliamentary elections. The collapse of the command economy could actually be seen as early as the mid-1950s, as witness the experience of the «Polish October» of 1956, which revealed a deep political and economic crisis. This was when a huge intellectual movement oriented to reforms of the comand economy was born. Due to political reasons, despite the recurring crises (such as those of 1970 or 1976), the preparation and implementation of moderate reforms and their actual effects turned out to be unsatisfactory in practice. The Brezhnev doctrine limited the freedom of manoeuvre. Nonetheless, the Communist elite of power saw the need of introducing market mechanisms in order to salvage the country's economy and save its own position.

As a result, toward the end of the 1970s there were more ambitious solutions which allowed the political elite to transform into managerial staff and entrepreneurs. The

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Communist doctrine was dead and there was only the apparatus which, in the name of the reforms, could see to the interests of the *nomenklatura* in the process of getting rich. This philosophy engendered demand for foreign capital and the establishment of the first joint-venture companies, then called the Polonian companies («Polonia» denoting collectively ethnic poles residing abroad). The vast economic and political administrative machinery effectively selected people with the initiative needed for economic activity.

Therefore there are grounds for the thesis about an elitist distribution of the benefits of the development of market economy outside agriculture in the final stage of the command economy, which in Poland occurred in the 1980s. The party and government apparatus were then increasingly involved in the creation of the private sector in conjunction with foreign partners.

One result of the decades of Communist rule was the almost complete destruction of the private sector in towns. Through legal, fiscal and political means, former private entrepreneurs were prevented from running their firms and thus forced to change jobs. The whole infrastructure catering to the private sector, such as banks and credit institutions, specialised service firms and self-government bodies such as chambers of trade and industry, was destroyed. The command economy stripped money of many of its typical functions, creating a vast system of state subsidies or introducing a price pattern that had nothing to do with world prices; the principles of bookkeeping were revised, with an almost complete elimination of the notion of profits and losses, novel methods of calculating the GNP and the national income, while statistics used data that were not comparable to data published outside the so-called socialist camp. One could go on multiplying the examples of original designs, which abounded in all areas of life and all state institutions.

The move to the building of the very limited scope of a market economy in Poland in the 1980s amounted to the establishment of enclaves governed by different laws, taking advantage of close ties with the public sector and, at the same time, cooperating with foreign capital on third markets. This was an obvious violation of the doctrine. The consequences

of the shift included the appearance of foreign-currency shops on the domestic market and several exchange rates for hard currency, depending on arbitrarily made administrative decisions. The gradual opening toward countries that did not belong to the Communist bloc began to bring democratic and market-economy values closer to the people. I wish to emphasise that, right from the start, this was a strictly controlled process and one that was regarded as a kind of privilege at a time when the ruling elites were aware of the collapse of the political system that engendered them. The especially profitable combination of the private sector and work in the apparatus stripped the latter of its appeal as the involvement in economic activities grew bigger. As a result, people began to move away from the apparatus to their own businesses, especially so as the apparatus was subjected to huge tensions and social conflicts, including pressure on the part of the reformist wing of the Communist party.

The rate of growth of the number of joint ventures can be regarded as one illustration of the said process, cf. fig. 1. This is an example of the influence of exogenous factors, which, on a local and regional scale, relatively quickly generated endogenous ones. The evolution of exogenous factors into endogenous ones at a time structural transformations deserves more attention. It should be noted that it began even before the transformation of the political system began.

At the same time, it should be noted that the 1980s were a period of reprisals against members of the Solidarity leadership, who, after their release from prison, were not reemployed in the public sector as a matter of principle. In this manner, the leaders of the populist social movement were forced to start working on their own and prove their entrepreneurial skills. As a result, they became isolated from their political base but the millions of members hardly noticed. Meanwhile, the leaders increasingly moved from pure representation of workers' interests to liberal-democratic positions.

From the point of view of the political transformation and its long-term strategy, this may actually be a boon because by moving to the private sector they develop a better understanding of its needs and of the necessity of making radical and costly transformations. Nevertheless, as they lean

toward conservative-liberal solutions, they stay a safe distance from the philosophy of social solidarism, preferring instead the 19th century model of rapacious capitalism.

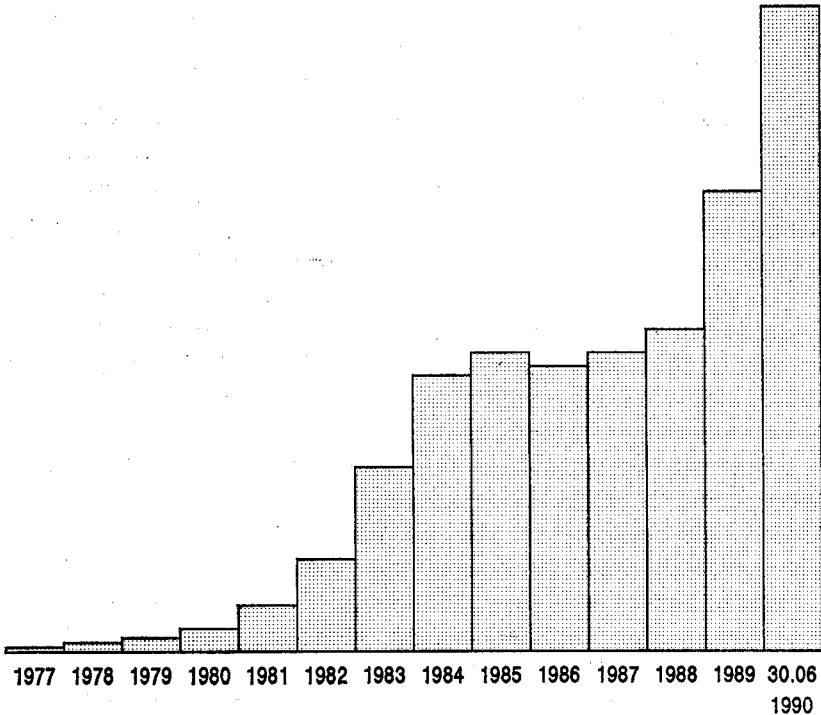


Fig. 1 — Number of foreign small-scale enterprises in 1977-90.

Source: J. FISZEN *et al.*, 1990.

2. METHODOLOGICAL ASSUMPTIONS AND SOURCES OF INFORMATION

Out of the many factors that could be used as yardsticks of the development of the market economy and structural reforms, the changes in the number of state and cooperative enterprises, commercial law partnerships and foreign small-scale enterprises were used as the basis of analysis. This is a formal approach, based on the form of ownership of enterprises, rather than on economic criteria, reflecting the volume of economic activity and its nature.

The reason for this choice was the relative ease of making comparisons between regions and between various periods, and also the resistance to business cycles and especially the high inflation rate, which amounted to 351.1 % in 1989, 895.8 % in 1990 and 177.1 % in the first half of 1991. Given the war on inflation and the implementation of the stabilisation programme, the use of financial units for comparisons is of limited cognitive value. Besides, the planned changes in the pattern of the economy, implemented parallel, with the suppressing of inflation, led to a recession. It is difficult from the methodological point of view to separate the individual factors involved in structural transformations and to measure their impact on these changes.

Therefore a simplified solution, one that is easy to interpret, was chosen. The changes in the number of enterprises of various kinds, while lacking a deeper economic analysis, attest to the development trends among economic subjects, despite the absence of information about the efficiency of their operation. It seems that in the initial period of systemic transformation, it is important to register the attempt to take up economic activity because such information signals the susceptibility to new impulses and possibilities that were not known in the previous economic system.

The figures on enterprises were obtained from REGON, the state information system; Ministry of Finance reports on natural persons engaging in economic activity were also used. The REGON system registers all economic units. Statistical ID numbers are given to legal personae, organisational units lacking a legal status and natural persons engaging in economic activity, who are treated as national economy units under the basis of notification or an application submitted by a given subject to a voivodship statistical office. Besides, fiscal offices run a registry of natural persons engaged in economic activity.

3. MAIN DIRECTIONS OF STRUCTURAL REFORMS

The economic liberalisation started a process of structural transformations of economic units in 1989. The change of economic legislation was to lead to significant envigoration

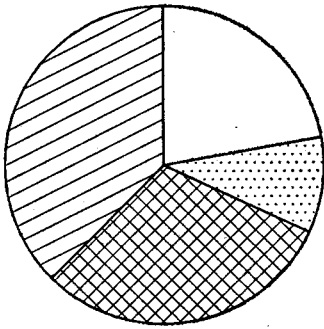
of the private sector of the economy. In practice, this activity was curbed by the lack of domestic capital, slow inflow of foreign capital and serious economic recession. Even so, the years 1989-90 saw a marked increase in the number of private commercial law partnerships and firms owned by natural persons engaging in economic activity.

The growth of the share of commercial law partnerships in the total number of enterprises from 42.1 to 58.2% in 1990 (fig. 2A) affected all the areas of the economy; this was accompanied by the drop of the share of state enterprises from 18.2 to 13.5% and of that of cooperatives from 37.4 to 26.7%. The process was especially pronounced outside the material production sphere, mainly in services, cf. fig. 2B. Services used to be particularly neglected in a command economy, in which the emphasis used to be on production. In 1989, state enterprises accounted for only 5.2% of the total supply of services, while a year later that dropped to 4.2% (fig. 2B).

The neglected services used to be the preserve of cooperative enterprises, which were stripped of their cooperative nature through subordination to bureaucratic management structures. In practice, they did not differ from state enterprises, except by name and articles of association. In the early phase of structural transformations their share of the total number of service companies dropped from 64.7 to 51.3%.

A debate is in progress on the government policy toward cooperatives. There has been criticism of the strategy of braking up huge cooperative organisations, that was pursued in the name of making cooperatives. The critics suggested that it would have been better to start at the bottom so as to revive cooperative ideals and the social movement that used to champion them. It is difficult to pass an objective judgment after such a brief period of time. In the light to the data provided in fig. 2B, however, the cooperatives, holding until recently a monopoly position, are clearly losing ground to commercial law partnerships; the share of the latter rose from 29.8% to 42.7% in just a year, which could indicate that in the market economy conditions, the model of a cooperative enterprise will have to be thoroughly overhauled is the cooperative movement is to survive at all.

A - Total

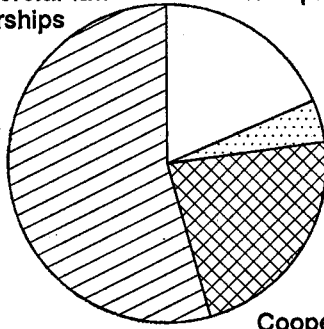


Commercial law partnerships

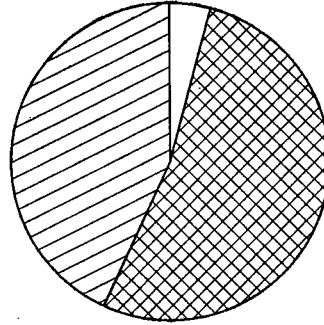
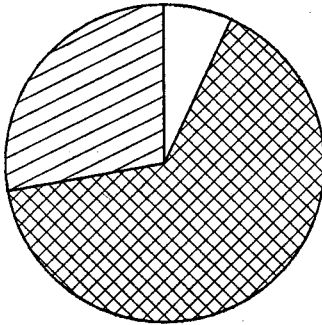
State enterprises

Others

Cooperatives



B - Outside material production sphere



1989

1990

Fig. 2 — Shifts in percentage of the number of economic units by types in 1989-90.

Source: own elaboration based on the REGON system.

It should be noted that the level of restructuring in services was markedly higher than in the national economy as a whole (fig. 2B vs. 2A). This was due to the fact that it is an area in which restructuring does not have to involve huge capital: it often just took one's own work, an idea and

a small credit to start a business. The faith in the integrity of private firms and dislike of state and cooperative companies displayed by the society at first contributed as much to the main trends of change as other economic factors and the state fiscal policy.

Fig. 3 does not address the problem of a major growth of the number of small businesses that came along with the structural transformations. It is worth noting their important role in overcoming psychological barriers and paving the way to a market economy.

The analysis of changes in Poland's economy should not ignore the fact that state enterprises continue to play a major role in it. The privatisation processes occurring in them are important from the point of view of economic reforms in Poland as a whole. It is hard to predict the outcome of reforms without taking state enterprises into account.

The main prerequisite of success of structural transformations include acceleration accumulation of capital and the creation of a market economy infrastructure.

Due to severe food shortages, the authorities authorised private imports of food by owners of foreign exchange accounts in the closing years of the command economy. This was an important move because it let loose the mechanisms of capital formation and enlivened the spirit of enterprise while ennobling domestic businesses. People imported various kinds of food, such as tea, coffee or wine, which were next distributed through the state retail network. This activity, nicknamed suitcase imports, led to an abundance of goods at a time when domestic production was falling down. At the same time, wholesale operations specialising in selling to Polish traders sprang up in West Berlin, Vienna, Hamburg or Frankfurt.

The boom in private imports only lasted for eight months, from June 1989 to February 1990, but this was enough for the emergence of a professional group of traders and the establishment of trading companies. It was also the time of the emergence of the first fortunes running into millions of dollars, while the Treasury benefited from stamp revenue.

The other important source of the creation of private capital, restructuring of public property as anticipation of privatisation processes was the establishment of private com-

panies, including holding companies, with the involvement of state enterprises, and often situated on the premises of said enterprises as well. The move to the private sector guaranteed high income to the managers of the state enterprises. Many of those firms fell in the class of *nomenklatura* companies, which grabbed state property by making artificially low appraisals of the value of assets the state enterprise contributed to the private company. Access to such profits was restricted to a rather narrow circle of inner management and former activists of the Communist party, who had access to power, information and contacts that made it easier to take over shares in the new companies step by step. While this was contemptible from the political and ethical point of view, it also contributed to the acceleration of the process of structural reforms.

4. THE RATE OF CHANGES IN THE NUMBER OF MAIN TYPES OF ECONOMIC UNITS

The steady growth in the number of economic units was an important element of the change of the system; it is difficult to pass an unequivocal judgment on it because of the lack of proper perspective. From the statistical point of view, the increments from one quarter of the year to next were large; as a result, during the two years that started the process of structural reforms, the situation in Poland changed dramatically.

4.1. *State enterprises*

The command economy had created a pattern of state enterprises with a large concentration of relatively big projects with a high degree of vertical integration. This state of affairs seriously limits technological flexibility of individual factories and precludes fast adjustment to changed demand because individual stages of the technological process were included in one enterprise from the organisational point of view. As a result, this led to low productivity and low use of capacity.

One of the easiest and most spectacular steps was the breaking up of the enterprise into separate units, as justified by the technological process. The resulting smaller enterprises had a higher chance of adapting to the new economic requirements; in 1990, the number of state economic organisations increased from 7,300 to 8,500, i. e., by 15.2% (cf. fig. 3).

A further growth of the number of state enterprises should be expected in step with the advances of organisational restructuring, which is gradually being extended to all areas. For example, it was only in the middle of 1991 that the process reached state municipal enterprises subordinated to local government bodies, such as urban transport, water and sewage, power, town cleaning and waste disposal enterprises.

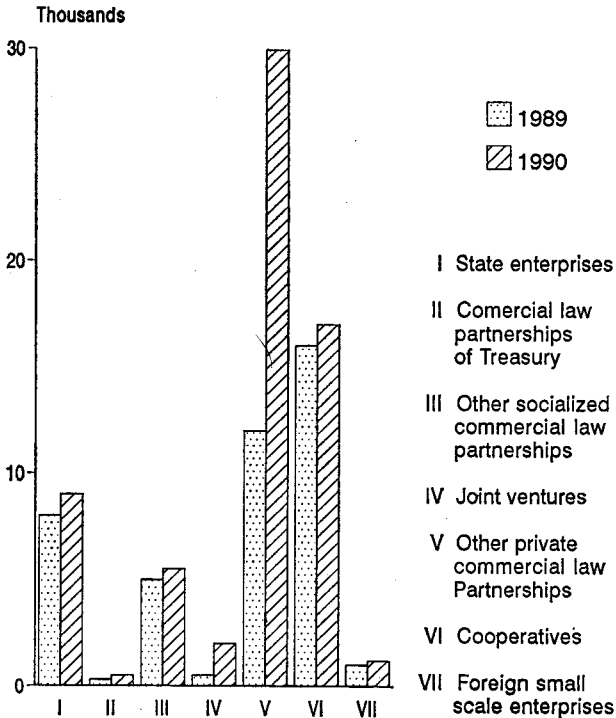


Fig. 3 — Ratio of the number of commercial law partnerships to the number of state enterprises in 1989 and 1990.

Source: own elaboration based on REGON system.

These changes were connected with the handing over of municipal property to gminas and associations of gminas. One old enterprise could be replaced by several economic entities. The general principle was that the formula of the state enterprise should be changed in such a way as to guarantee that it can be efficient, that it can grow and invest in a market economy. To this end, the enterprises needed a clearly defined owner, whose interests would be represented by the managers, who would only be accountable to the owner.

It is expected that after the completion of organisational restructuring, the deconcentration of state economic units will trigger other stages of the process ensuing from the search for more efficient methods of management.

Due to the switch to a different economic system, state enterprises found themselves facing the strongest restructuring pressure due to the economic tools employed, i. e., the fiscal policy, especially the tax rate and the interest on refinancing credit. Economic practice was to result in the identification and elimination of inefficient firms. A series of bankruptcies, resulting from the restructuring, was expected at the beginning of 1990. Soon this turned out to be wishful thinking. The scale of growth of unemployment and social tensions, combined with the lack of job offers, public works and the overall lack of preparation of the part of the civil service and self-government bodies for controlling situation forced the government to relax its tough policy line somewhat.

It turned out that in a post-Communist economy, market mechanisms and the monetary policy have not provided sufficiently effective restructuring mechanisms, even though there was marked progress in the light of statistical figures, cf. fig. 3. The relatively moderate growth of the number of state enterprises, especially by way of division of existing firms, was more a result of a tactic of trying to survive and anticipating changes than of active adaptation to a market economy.

As a matter of fact, for over two years the country has lacked a clear strategy of restructuring of state enterprises, other than the assumptions of a doctrine which were of little use in practical action in some branches of the economy. The scale of the undertaking and the difficulties involved in it

exceeded the expectations of the society, the government and experts of international organisations. British, Belgian and other experience proved to be of little use. In no country that had privatised its state enterprises did the operation embrace the whole national economy. Besides, there the privatisation was facilitated by the presence of a capital market, numerous commercial banks and bankers or insurance companies and social groups involved in capital turnover.

Poland is an example of a country that embarked on massive privatisation without any prior experience, with few specialists in such operations, without sufficient funds but with the danger of populist claims of a disoriented society incited by irresponsible politicians. In particular, when they were launching privatisation, the authorities did not make an allowance for the big inertia of the structures, psychological barriers, the technology and organisation gap and the huge costs involved. Only in the middle of 1991 did the government come up with a proposal for diversified paths of privatisation of the state sector, which aroused a lot of controversy anyway. The government privatisation plans underwent numerous revisions and were the subject of political bargaining. The media, with insistent advertising of the sale of the first five enterprises, sought to create an idealistic vision of an instant solution of all the problems experienced by state sector of industry. This was an oversimplification, but the parties involved in the privatisation process could only find out about it empirically. There were no legal acts or implementing regulations.

Given the inadequate state control over the early stage of privatisation, some people made a killing overnight while others did not know what they were losing because of the lack of elementary knowledge of the operation. As a result, not only the management of individual enterprises but also the Solidarity trade union were at a loss, knowing not how to extract back pay from the new foreign owners.

At the same time, there was no clear reply to frequent claims advanced by various groups and organisations of people interested in reprivatisation. The government was accused of dealing in stolen property as it refused to respect the rights of former owners of factories, landed estates, real

estate in the form of one-family houses, tenement houses and building plots in towns, and also the rights of the owners of property left in the Soviet Union after forced resettlement. The lack of definitive action, combined with conflicting declarations made by politicians during election campaigns, was conducive to precedents and created an unfavourable climate.

The Communist authorities carried out the expropriation by organising vigilante groups or committees. By contrast, the liberal democratic government prefers solutions introduced from above by specialised government agencies, based on criteria that are not quite clear to society, which leads to recurring charges of financial manipulations, corruption, etc.

4.2. *Commercial law partnerships*

While starting to examine the pace of change in the number of commercial law partnerships, it is worth noting the existence of the so-called socialised companies, which include in particular joint-stock companies wholly owned by the Treasury, but also private ones and joint ventures. The latter are discussed in section 4.4, together with foreign-owned companies.

The growth of the number of Treasury-owned companies, which also happened to be commercial law partnerships, was extremely slow. A faster pace of change should be expected now that it was decided to use whole ownership by Treasury as a transitional stage during the privatisation of state enterprises. In the first quarter of 1991 alone, 120 firms were transformed into Treasury-owned companies. Many state enterprises have filed requests for commercialisation. This does not meet with an enthusiastic response of the Ministry of Ownership Reforms because commercialisation was initially devised as merely a stop on the road to privatisation.

One of the goals of such commercialisation was the solving of the dilemma over the running of the enterprise. One legacy of the political struggle waged by Solidarity was the strong influence of the workers council (a self-management body) and of the trade union. Given the democracy and pluralism, it was not infrequent to have three various

unions of varying political hues involved in the decision-making process in one enterprise.

The self-management bodies and the union councils tied the hands of the management, which often took the side of the workforce in disputes with the ministries. As a result, economic performance was relegated to the back burner while the arbitrariness of the early phase of structural transformations and hyperinflation made it difficult to formulate objective assessments. In practice, nobody was in charge as everybody was involved in decision making and any action could be subject to negotiations.

In practice, state enterprises operated without an owner and any decision that put the interests of the enterprise before the interest of the workers stood little chance of being implemented. As a rule, such attempts misfired and prospective foreign investors rushed back home once they saw what the situation looked like. The workers council, the unions and the management were referred to as the three corners of a Bermuda triangle. The few enterprises that managed to adapt to the conditions of the structural transformations and went through ownership reform on their own initiative were the exceptions that confirmed the general rule.

In the summer of 1991, privatisation through bankruptcy became the real threat to Polish industry. Therefore the aforementioned commercialisation was to facilitate and accelerate the process of indispensable changes. However, it has turned out in practice that a large part of state enterprises apply for the transformation into a company wholly owned by the Treasury only when they face bankruptcy and when they are no longer suitable candidates for privatisation by way of sale of stocks. The relevant provisions stipulate that commercialisation leads to lower taxation and even the reduction or writing off of debts. The financial benefits are therefore considerable, the aim being to streamline the management of state assets. However, the legislators did not foresee that enterprises which did not adapt to market economy conditions and merely prolonged their agony by selling out elements of their property, limiting output and gradually laying off workers would seek loans, lease out some premises, before finally requesting a transformation into a joint stock

company. Therefore there is a real danger that this form of transformations will also be blocked. This is an example of the scale of problems ensuing from the attitude of the management and employees of some state enterprises who think little of the requirements a market brings.

At the same time, the ministry responsible for ownership reforms has been invoking the argument about the need to give the inefficient state enterprises a chance. It should also be noted that the changing external determinants, such as the severance of ties with suppliers and customers which lasted for several decades and the shaping of a new division of labour on the European and global scale did not make the situation any easier.

A much faster growth was recorded in the category of private commercial law partnerships, cf. fig. 3. At the end of 1989, their number was 1.6 times higher than that of state enterprises, while a year later it was already 3.5 times higher. By the middle of 1991, a further 20 % growth took place. The growth of commercial law partnerships, attesting to the advancing privatisation of the economy, is analysed from the regional point of view in section 6.

4.3. *Cooperatives*

On the whole, cooperatives were faced with similar problems as state enterprises, only on a smaller scale because they had smaller assets and a different areas of activity. Also the growth rate in the period in question was similar to that of state enterprises although their number was twice as high (fig. 3).

The rebuilding of the cooperative movement consisted first of all in the breaking up of a big cooperative into several smaller ones, the reduction of excessive employment of administrative staff and the search for means of improving the financial situation. With the depreciation of the zloty, the value of members' shares was reduced to symbolic proportions while government subsidies and cheap credit disappeared. Only the cooperative's assets represented any significant value and were the reason for taking up recovery measures. The new economic realities called for a different

strategy and new skills. Therefore the growth of the number of cooperatives (fig. 3) should be viewed as an attempt on the part of the existing organisations to adapt to market economy conditions.

4.4. *Foreign-owned firms and joint ventures*

The foreign-owned firms, initially defined as polonian companies, which first appeared in Poland back in the 1970s, played an important role in their time. In the comand economy, they demonstrated the operation of a model of efficient enterprises offering better pay, better organisation of work, fresher technology and producing attractive goods of a standard acceptable on foreign markets. At the same time, they helped to overcome the average Pole's complex of isolation from the world. They proved that a Pole could make it, that it was possible to be a businessman, that it paid to be active, etc.

In a sense, the activity of Polonian enterprises anticipated and created a good climate for the market economy, which the average citizen was inclined to identify with them in an oversimplified way. At the same time, the ground for future change of the sociopolitical system was being prepared by Poland's political and economic opening to the world that came in the wake of the abandoning of the autarkic conceptions of the 1960s. One explanation is that for reasons of doctrine it was easier to support foreign capital represented by ethnic Poles from other countries than in any other form. Then the deviation from doctrine appeared less blatant and the foreign capital assumed the traits of allegedly domestic capital.

In this context, the relatively low growth of the number of foreign firms, which are not longer called Polonian companies now, can be seen in Fig. 3. The Polonian companies made the first breaches in the wall, they were the Trojan horse that cleared the way for other firms and for fundamental reforms. The slow growth of their number should be attributed to the fragile economic stability and deep recession, which appear inevitable in the period of transition from a comand to a market economy. In May 1991, Poland's

industrial production was almost 18 % lower than in 1990, 8.9 % lower than in January 1991 and 36 % lower than in 1989.

On the other hand, the recession did not slow down the development of joint ventures, whose number has been growing at the fastest pace. In 1990 ,their number of four times higher than in 1989 and at the end of June 1991 it was more than six times higher. One explanation for the relatively big growth is the low number of such firms in 1989. Nevertheless, the growth rate justifies the prediction that joint ventures will play an important role in the process of owernship reforms in Poland. Such firms accelerate the transfer of technology, open up access to foreign markets and facilitate the influx of foreign capital while taking advantage of the already existing assets and vocational skills.

5. PRIVATE COMMERCIAL LAW PARTNERSHIPS IN INDUSTRY AND TRADE

The political decision to restore the validity of the part of the pre-World War II commercial code with regard to the registration of limited-liability companies, taken shortly before the collapse of the comand economy, opened the door to entrepreneurship. The murshrooming growth of the number of such companies was facilitated by the anachronistic prewar provisions regarding the amount of startup capital. The sum of Zl 15 was of course altered by the new minimum capital requirement but it was so low that nobody had any problem collecting it. It was only in April 1990 that the law was amended and the some raised to Zl 10 million, which was a certain barrier for many people.

As a result, the number of newly registered limited liability companies rose at a frenetic pace and the companies themselves caused the centralised system to crack, often in bizarre circumstances. The lack of appropriate legal provisions, financial guarantees and economic courts was conducive to accelerated accumulation of domestic capital. This often amounted to the robbery of state assets in broad daylight, due to various legal loopholes and the lack of appropriate institutions characteristic of a market economy. The lack of

a continuity of tradition of honest trading only made matters worse.

The dynamic development of private commercial law partnerships can be regarded as a barometer of the restructuring of the economy. Fig. 4 shows the general trend of

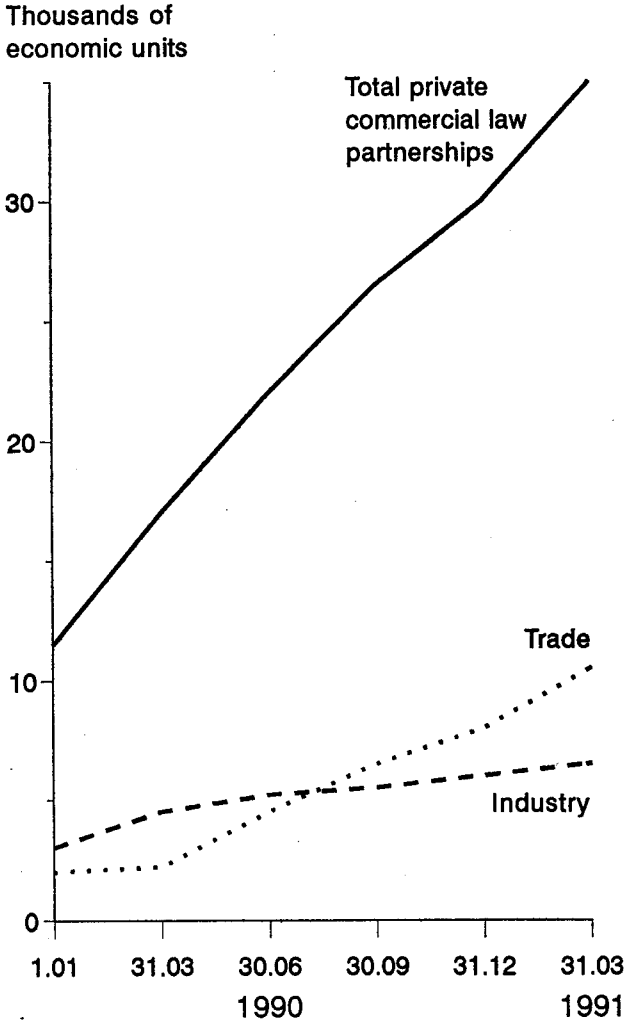


Fig. 4 — Increase of commercial law partnerships in industry and trade from Dec. 31, 1989 to March 31, 1991.

Source: own elaboration based on REGON system.

their growth, with separate figures for industrial and trading firms. On this basis, it is possible to demonstrate the fragility of structural transformations in Poland. The development of trade was both most spectacular and the easiest to achieve. As a result, it was possible to dispose completely of the institutions and structures of the economy of shortages, which were an inseparable part of the command system. This amounted to huge change in the economic and social field because the philosophy of hiding goods away from customers gave way to the circulation of goods on the market. This was a measure of success of Poland's peaceful revolution.

The problems with ownership reforms and the political shifts ensuing from the definitive collapse of the Eastern bloc led to the freezing of commercial contacts between the former members of the Comecon. This amounted to the severing of economic ties that were built over the previous forty years. For many enterprises, especially state-owned ones, which specialized in production to Soviet orders, this translated into a death sentence. Private firms cooperating with the state giants could face similar problems if their exports were limited to the Comecon markets. For years, these were markets on which it was easy to sell as administrative and political decisions limited competition; they were sufficiently large so one did not have to worry about sale outlets and not demanding enough to force producers to modernise their products and processes.

Meanwhile, a switch to other markets turned out to be highly complicated. Besides, the opening of Poland's borders, abolition of import duties and full liberalisation of trade clashed with a rigid system of quota restrictions and prohibitive tariffs used by the EC countries. At the same time, the public preferred foreign goods compared to domestic ones, regardless of their true quality, largely because the Polish products had such unattractive packagings. The desire to imitate the West's material standards was one of the factors that contributed to the fast growth of private commercial law partnerships, including trading firms, fig. 4.

Initially, in the first half of 1990 the structural changes led to a considerable animation in private industry but that would soon end because the government failed to protect

domestic producers and because of the aforementioned external factors. Domestic factors that had a negative impact on private industry included the too fast commercialisation of municipal economy by local self-government. The withdrawal of state subsidies was tantamount to the necessity of raising rents, electricity, water and gas charges, garbage removal, etc.; this, together with the growth of the prices of materials, forces many firms to suspend trading or go into liquidation.

The self-government bodies, elected in a democratic election and resuming their activity after fifty years got down to the uprooting of vestiges of the old system so energetically that in many localities they raised rents for shop premises to exorbitant levels and when these proved unrealistic, they had to reduce them downwards, thus learning about the pitfalls of a market economy.

It can be assumed that these were largely the costs of the social process of learning the principles of operation of a different system. It turned out that the numerous privileges and relief granted to the private sector, including commercial law partnerships presented in fig. 4, were not tantamount to guarantees of success of any undertaking and any new firm, with the exception of companies set up by speculators with the execution of just one deal in mind.

The development of private trade was reflected in the changed appearance of shop windows and of Polish towns in general. Back in the days of command economy, state retail enterprises liquidated many small shops, which were replaced by large stores enjoying a monopoly position. Now large shops are being divided into smaller ones owned by various firms. In the older parts of towns in particular, shops are reopening in premises originally used for this purpose but then turned to other uses. In «socialist» buildings, there are fewer possibilities of this kind but some premises for new firms were found anyway; the process is reflected in fig. 4.

The unfavourable trends which affected commercial law partnerships operating in industry to a bigger extent than originally anticipated reflected the general situation of Poland's industry. More and more economists and ordinary people believe that a successful structural transformation of a country of 38 million people, with considerable economic

potential and raw materials resources, cannot rest on the development of trade alone.

6. REGIONAL VARIATIONS IN THE DEVELOPMENT OF COMMERCIAL LAW PARTNERSHIPS

The growth of the number of commercial law partnerships is one of the important signs of a transition to a market economy. An analysis of their spatial distribution shows differences in the rate of the development in individual regions. Fig. 5 shows spatial differences in the number of commercial law partnerships related to the number of state enterprises in 1989 (5A) and on 1990 (5B).

The index used is an endeavour to standardise information about the growth of the number of commercial law partnerships by region. From the methodological point of view, it is open to criticism as the average size of a state enterprise and a newly established commercial law partnership are just incomparable. Such elementary economic indicators as the value of assets or level of employment vary widely.

Nonetheless, in the initial phase of the transformation, the emphasis in studies of the privatisation process *in statu nascendi* is on the growth rate of qualitatively new economic units. By analogy to the growth of crystals, they could be referred to as nuclei of privatisation. For all its deficiencies, the proposed indicator could be useful for this kind of analyses.

Due to the fast growth of the number of commercial law partnerships, it was necessary to resort to a different scale in graphs 5A and 5B. Analyses have shown that the speed at which commercial law partnerships are being formed is proportionate to the overall economic potential of a region. Fig. 5 shows that the rate was the highest in the area of big urban agglomerations and in heavily industrialised areas in which there were over 2.3 partnerships per one state enterprise in 1989 and over 4.5 in 1990. It should be emphasised that these happened to be regions with a relatively large number of state enterprises, so the high indicators attested to a considerable number of the commercial law partnerships.

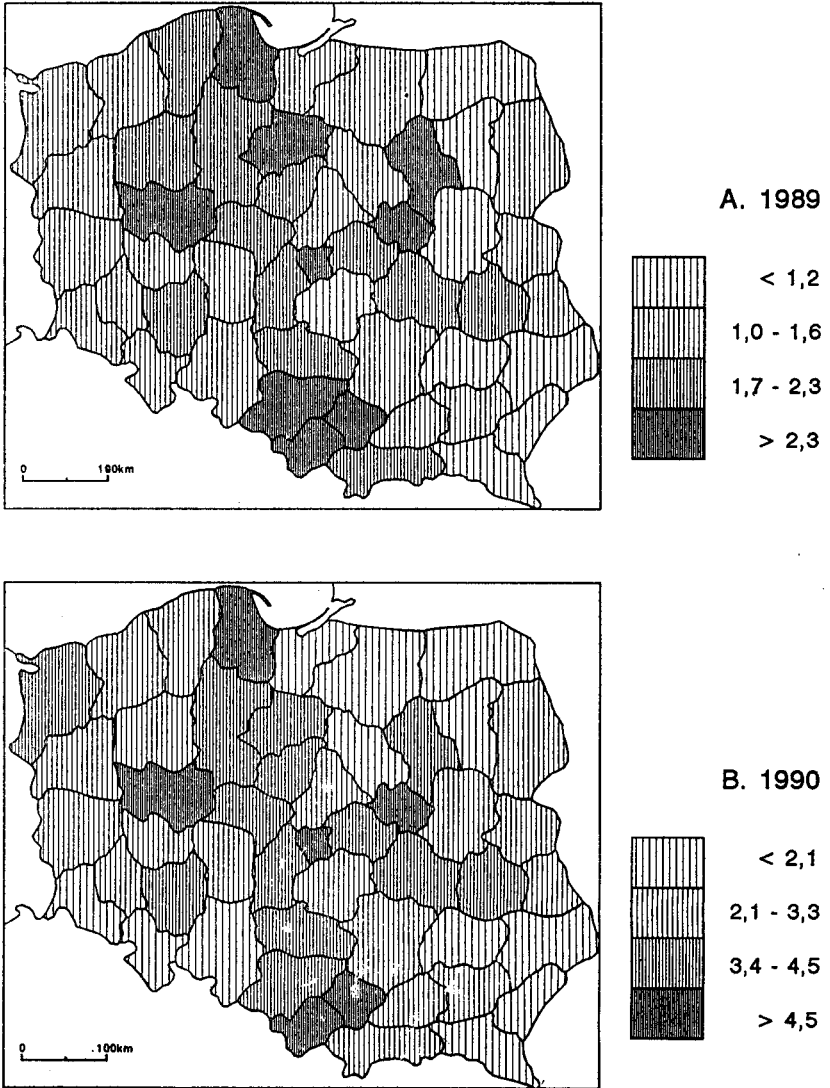


Fig. 5—Ratio of the number of commercial partnerships to the number of state enterprises in 1989-90.

Source: own elaboration based on the REGON system.

Under the command economy, the regions around big urban agglomerations were the areas of the most intense parallel economy and, despite the restrictions, the biggest number of private firms. The political and economic changes made it possible for those people to start operating above ground and to expand the scope of their activities. This could account for the fast growth of the number of various companies.

A comparison of fig. 5A and 5B indicates the scale of quantitative change that occurred in the space of just one year. The index doubled in almost every region despite the simultaneous growth of the number of state enterprises, chiefly as a result of breaking up bigger units. Remarkably, the value for the highest class in 1989 became the value for the lowest category in 1990.

With some approximation, it can be said that the growth of the number of commercial law partnerships in 1990 was proportionate to the state in 1989. This led to the growth of disparities between regions and increased the polarisation of economic growth. No major shifts were observed on the racking chart of regions. This attested to the strong link between the development of new firms and the state of the economy so far.

Some commercial law partnerships were set up with a violation of the interests of a state enterprise from which they emerged, taking over a part of its assets. The public has been especially sensitive to the so-called *nomenklatura* partnerships, formed by members of the former Communist establishment. Indeed, quite a few companies lived a parasitic life inside or on the fringes of the state sector, funnelling assets into the private sector. In the initial period, there were no adequate regulations, financial instruments, etc. As a result of years of indoctrination, a large part of the society tended to regard any manifestation of private economic activity as profiteering or another abuse. It took time to improve the mechanisms and principles of operation so as to find oneself in conditions of the freedom of deciding about oneself and of different rules of the game being in force.

A closer look at fig. 5 reveals some exceptions for the general rules. For example, in 1989, the predominantly agri-

cultural Ciechanow voivodship recorded a very high rate of growth of the number of private partnerships. This was a result of a relatively small number of state enterprises and a moderate growth of the number of commercial law partnerships. There were some more examples of this kind. However, they do not affect the general rule that in the initial phase, the growth of the private sector is strongly related to the level of economic development of a given region, attained earlier, in the period of command economy.

It can be assumed that a lot of time will have to pass before the private sector of the economy becomes a driving force of the development of regions on its own and leads to significant changes in this regard.

7. GROWTH RATE OF THE NUMBER OF SMALL BUSINESS

Private small businesses deserve separate treatment. To embark on this form of economic activity, one needs to register with his local Fiscal Office. The starting of structural transformations was tantamount to the appearance of this form of economic activity on a massive scale; formerly, there was practically no room for it. Therefore there was an almost immediate and spontaneous eruption of all forms of activity launched by natural persons, who had little capital or merely had borrowed money, and who usually lacked commercial premises but were eager to act and were flexible.

The opening of the economy to new initiatives were a sufficient stimulus for hundreds of thousands of people to start working for themselves, capitalising on their own ideas, skills, zeal and opportunities. This entrepreneurship was encouraged by local civil service bodies and local selfgovernment, and also by Solidarity, which urged its members to join in economic activity. A network of counselling stations and various institutions supporting local and regional economic initiatives was set up with the use of foreign experience and funds. Next to funds, some countries sent also volunteers, instructors and experts in animating this kind of activity, training of people and setting up the indispensable institutions.

The combined effect of the spontaneous and the organised action was the fact that almost 1.2 million small business

establishments, employing two million people, were registered by the end of the first quarter of 1991. Despite the very small size of most establishments, it is worth noting the big importance of this form of activity from the propaganda point of view; in fact, it was promoted, with some exaggeration, as being a competition to the huge heavily bureaucratised state enterprises.

Private small businesses in Poland were treated as a peculiar breeding ground of domestic capital and of the social classes related to it, and their development was viewed as a vehicle of socio-economic restructuring. This is a very oversimplified representation, which idealises the main line of the transformations.

Practice has shown that in reality, this process is quite complicated and the scenario presented above does not necessarily stand a chance of success. This was demonstrated by attempts made in various parts of Poland to transform people laid off by state enterprises into entrepreneurs. But not even the best methods of training and the best specialists could help much when the spirit of business was lacking and so was the will of action, the right atmosphere and the institutional equipment of a civic society. Only then was it acknowledged that the transformation was a process that required sacrifice of at least one and possibly two generations.

According to statistics, the number of businesses run by natural persons in 1990 was 39.6% higher than at the end of 1989. Fig. 6 shows the growth of the number of businesses in individual quarters of 1990. The steepest curve (A) is that of newly registered businesses, the bulk of which engaged in trade. At the same time, some private firms, especially handicrafts ones, were liquidated.

Another reason for the liquidation of enterprises than those listed above was the drop in demand caused by the impoverishment of a considerable part of society. The difficult financial situation forced many households to the naturalisation of consumption and the foregoing of the use of services.

At the same time, those social groups that have been growing rich have developed a demand for luxury consumption and services on a scale unknown so far in Poland.

Curve B in fig. 6 shows the net growth of the number of small businesses, i. e., the balance of newly opened and liquidated businesses. The actual number of active units is smaller as some businesses suspend trading (curve C). It is hard to say how often the suspension is a prelude to liquidation.

It is known that not all the new businesses and not all those that had operated earlier were sufficiently efficient in the new conditions. Those that had to fold down were replaced by better ones. This was a new phenomenon on Poland's

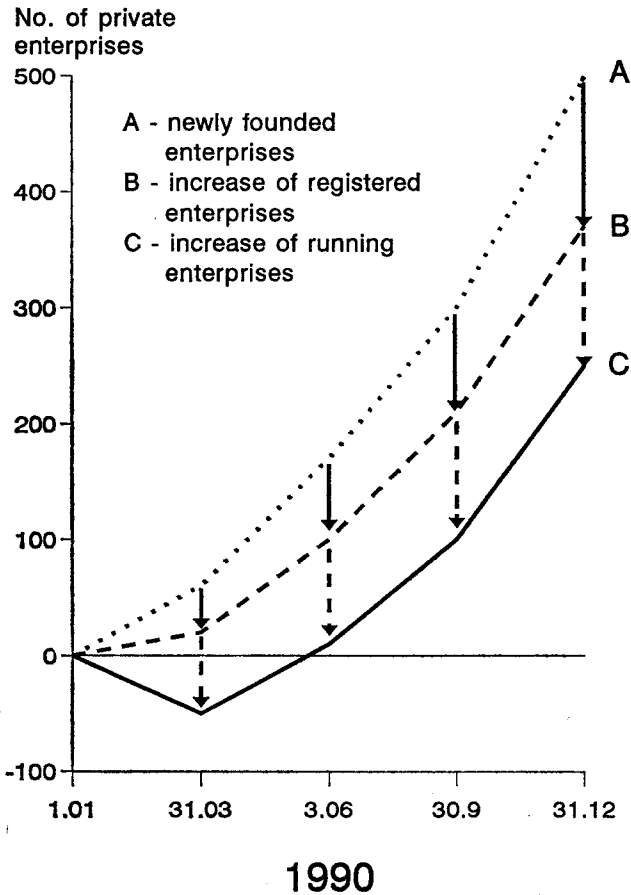


Fig. 6 — Number of private enterprises by newly founded, closed down and suspended in 1990.

Source: own elaboration based on the REGON system.

economic scene as until recently there were practically no bankruptcies and very little economic mobility. Small private businesses effectively accelerate the restructuring of the economy as a whole and of individual industries, breeding a new class of businessmen and entrepreneurs.

In this context, it is worth taking a look at the regional variations in the development of small businesses in Poland.

8. REGIONAL VARIATIONS IN THE GROWTH OF SMALL BUSINESSES

The analysis of regional variations in the development of small businesses run by natural persons was based on the *percentage increase in the number of such units active in the years 1989-90*, with 1989 serving as the base year. Depending on the type of a region and especially on its overall economic potential, a different pace of growth of small businesses was observed. The index used is a net one, taking into account the liquidated firms and those which suspended trading and is therefore somewhat lower than the actual number of new businesses, cf. A and C curves in fig. 6. If only new businesses are taken into account, the resulting list closely reflects the generally known ranking chart of Poland's regions in terms of economic development: Katowice voivodship accounted for 10.3% of new firms, Warsaw for 8.5%, Poznan for 5.4%, Lodz for 5.0% and Gdansk for 4.0%. The same voivodships accounted for the biggest proportion of liquidated businesses. The order was somewhat different with regard to the number of firms suspending operations: Warsaw voivodship was followed by Katowice, Cracow, Lodz, Wroclaw and Szczecin.

However, in order to eliminate accidental fluctuations or factors that are only exert a strong impact for a short period of time, especially given the lack of stability in the initial phase of the transformation, the index was based on curve C from fig. 6. This introduced some order to the available information and made it possible to attempt to define the new trends in regional variations, cf. fig. 7C, which is a synthetic approach.

The fastest growth of the number of new small businesses, over 50%, occurred in 1990 in Legnica voivodship (64%),

Katowice voivodship (62%), Lublin (59%) Wroclaw (58%), and Szczecin (50%). On this basis, it is possible to say that the growth of the number of such firms was a rule accelerated by the existence of big state owned enterprises engaged in the extraction of raw materials. The big growth was concentrated in western and central Poland while the lowest growth was recorded along the eastern border.

This is an empirical confirmation of the thesis that the development of small businesses is facilitated by the attainment of a certain level of socio-economic development by a given region. A good illustration of this hypothesis is provided by the disaggregation of fig. 7A to handicrafts alone, which, if the circumstances are right, can be a springboard for the development of production on a bigger scale.

In general, fig. 7A indicates that medium and high indices of growth of small businesses were recorded in areas with low population density and a low level of economic activity, regardless of geographical location. The lowest growth was recorded in Zielona Gora voivodship, which lies along the western border, in Pila and Konin voivodships and in the voivodships situated along the northeastern and eastern border.

Fig. 7A appears to signal the saturation of most regions with handicrafts activities or the appearance of barriers to growth. In the period in question, the growth was very slow: in some areas, the number of handicraft firms actually declines but even in regions with moderate growth, the situation was not much better, especially when it is considered that those regions included Katowice, Warsaw, Poznan, Czeszochowa, Leszno, or Torun voivodships. This should be interpreted as a sign of the unused possibilities of handicrafts, whose activity was suppressed by the monetarist policies paying no heed to its negative effects also for the private sector. The accumulation of a significant handicrafts potential in the above regions was blocked, on the one hand, by the recession in industry, with the lack of orders and severing of cooperation ties, and on the other by the drop in the standard of living of many social groups and the flooding of the market with imports.

As was mentioned before, many handicrafts businesses which survived the command economy were liquidated in the

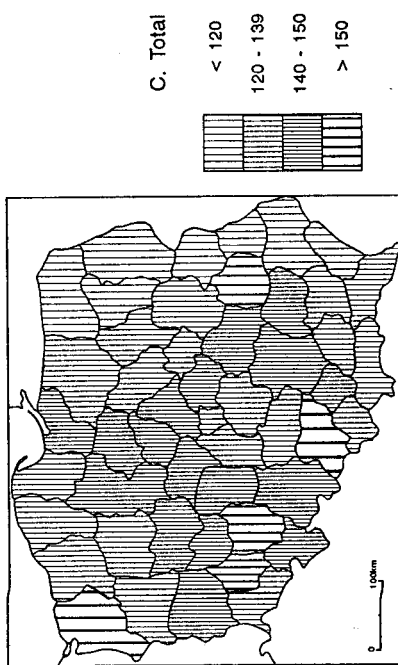
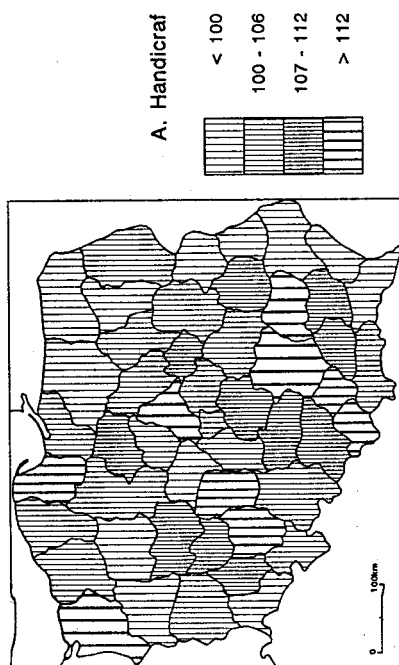
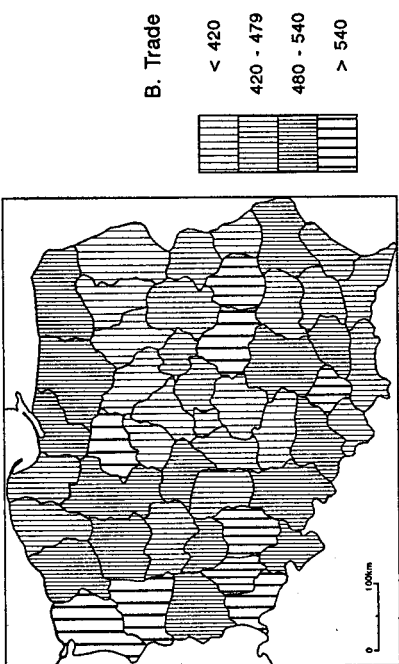


Fig. 7—Percentage of growth of small business establishments in 1989-90.
 Source: own elaboration based on the REGON system.

wake of the sudden introduction of draconian market economy rules. The liquidation of such businesses, many of which had a tradition going back many decades, was a dramatic outcome of their failure to adapt to the changed conditions. In these circumstances, the question was asked again and again whether it was really impossible to find other solutions or employ a different strategy of the transformation of the economic system. These were not rhetorical questions because a similar situation obtains in the private sector of farming.

Among the regions with the highest growth, the number of handicrafts businesses rose by 12 % or so while the corresponding figure for trading companies showed a more than fivefold growth (540 % during twelve months, fig. 7B). The regions with the highest indices all happen to border on the eastern German *Laender*.

The western border was opened immediately after the pulling down of the Berlin wall and, despite subsequent temporary restrictions, the principles of local and regional cooperation of border regions and local traffic were defined here faster than in any other border region, with a treaty on friendship and cooperation being signed on June 17, 1991. These moves led to a growth of private trade on a scale hitherto unknown. Poland became an attractive shopping venue, especially with regard to food.

The eastern regions were also an area of animated trade. However, with the absence of international treaties and of political and economic stability in the Soviet Union, Lithuania, Byelorussia and the Ukraine, the predominant form of trade was that practised by «tourists», which bore a closer resemblance to smuggling than to legal activity. It can be assumed that the eastern border has also become an important area of enlivening of regional development in Poland although this was dominated by deformities ensuing from the unclear political situation. As normalisation makes headway, one should expect a growth of the number of registered small firms which previously made up the black market.

In a democratic system, the state border can be a factor contributing to accelerated regional growth. For example, the towns of western Poland have seen an influx of petty

traders from other parts of the country selling goods and providing services for the benefit of visiting German customers.

The lowest rate of growth of the number of small businesses engaged in trade was a fourfold growth compared to 1989; it occurred in a horizontal belt in central Poland, beginning with Wloclawek and Plock voivodships and stretching to the border with Byelorussia. These were mostly regions with low-grade soil and the lowest productivity of farms, with industry catering to the needs of farmers (nitric fertiliser factory in Wloclawek, combine harvester plant in Plock) and a predominant role of state industrial enterprises specialising in production for the Soviet market.

There will be no detailed region-by-region analysis in this paper. However, on the basis of fig. 7B, it is clear that record high indices of growth of small commercial operations occurred throughout the country, which should be seen as a peculiar Polish characteristic at an early stage of structural transformations.

Fig. 8 recapitulates the tendencies in spatial differentiation of the development of small businesses. It shows regional variations expressed by the ratio of suspended or liquidated operations to new ones. Low indices attest to stable development because relatively few establishments were liquidated or suspended trading, compared to new businesses.

The lowest indices occurred as a rule in a meridian belt in south-western Poland, embracing the biggest towns and industrial regions, with the exception of regions with obsolete industry and high unemployment (e. g., Lodz or Walbrzych). A high index was a sign of low stability of the new businesses in regions lacking good conditions for the development of small businesses. These occurred mainly in peripheral border regions, especially in the east.

On this basis, it is possible to formulate the hypothesis that both a closed state border and general poverty of a region caused by lack of investment can effectively frustrate the efforts to start small businesses. For private enterprise to develop, there must be a minimum level of prosperity so that the new initiatives could strike root and then transform the structure of the region. In many cases, a low standard of living proved to be a serious obstacle.

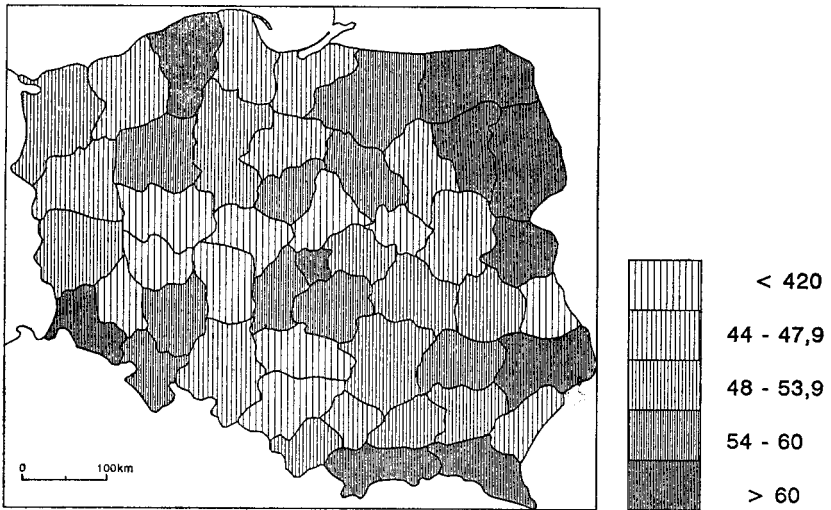


Fig. 8 — Ratio of number of private enterprises which were closed down and suspended to number of founded private enterprises in 1990 by regions.

Source: own elaboration based on the REGON system.

The crushing of the monopoly of rural trade led to the opening of new sale outlets, typically located in farmers' private homes. New beer bars were often situated under huge umbrellas or in makeshift premises, often in hastily adapted tool sheds along major roads. Undiscriminating and not too affluent customers could buy all kinds of goods, provided they were not deterred by the anonymity of the producers of the food offered and spartan sanitary conditions. This picture of the country can be seen from car windows but only the spatial analysis of regional statistics makes it possible to establish in which regions there already is a favourable climate for the development of small businesses and in which such activities still encounter serious obstacles.

It can be said that Poland already has the first stage of growth of small businesses behind it; for the next stage to follow, it is necessary to introduce the indispensable corrections and set in motion suitable regional policy instruments.

9. CLOSING REMARKS

The paper has to deal with many subjects at once because it examines structural transformations at an initial phase, when it is especially difficult to formulate unequivocal judgments. The Polish information system has not been sufficiently adjusted to describing the new reality. Nevertheless, an attempt was made to embrace a wide range of changes and their determinants on the basis of the available statistics so as to be able to pinpoint the endogenous and exogenous factors.

The paper points to a number of phenomena characteristic of structural transformations. It can be said that there is a positive correlation between the development of the private sector and the economic potential of a given region. This is a consequence of a tendency to concentrate economic activity. However the kind of activity preferred in a given period by the private sector — in this case trade — is also important.

The interest in trading was particularly marked among small businesses. This is perfectly understandable, given the recession and the much smaller capital requirement involved in trade. Nevertheless, this trend attests to the weakness of restructuring processes in Poland as it guarantees the petrification of state ownership and production, already weakened as they are both by the recession and the government's privatisation policy. Inevitably, the problem of restructuring of state enterprises, their commercialisation and gradual ownership reforms is becoming central to the success of structural transformations. The faith in the possibility of spontaneous transformations on the basis of market forces alone has proved to be illusory.

The impressive growth of small businesses is also exerting an influence on the economy although it should not be overrated because of the small scale of the operations (they employ 1.6 persons on the average) and the predominance of trade. On the other hand, the scale and ubiquity of small businesses plays a great role in overcoming psychological barriers and paving the road for the whole privatisation process.

The creation of an institutional network for the private sector very often exceeds the mental capacity of the people who, for two generations, were told to forget about looking

after their own needs themselves, about resourcefulness and enterprise. This caused immense losses that will be hard to repair. The transition from the philosophy of an active to a passive life requires a change of habits, ways of reacting, and the development of a new ethos. Therefore it is not surprising that so many people feel lost and possibly also deceived as they experience the shocks the transformation brings with it.

The Poles, similarly as the residents of other East-Central European countries, demanded change, hoping for the advent of an era of prosperity. They find it hard to accept that it is first necessary to lay foundations for a civic society and then rebuild everything that had been destroyed during 45 years of rule subordinated to a utopian doctrine.

On the other hand, commercial law partnerships and specially the dynamically growing joint ventures are an important element of market economy in Poland. The latter exert an evigorating influence on local and regional economic patterns, making it possible to use the available physical as well as human potential. Commercial law partnerships, not all of which enjoy a fine reputation with the public, create a chance of the most efficient accumulation of the capital indispensable for the development of an efficient private economy. The problem boils down to finding a sensible equilibrium between industrial and trading activity.

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RESUMO

O Papel dos Factores Endógenos e Exógenos no Desenvolvimento Regional O caso da Polónia. Este artigo trata dos processos que ocorreram na Polónia em 1989-1990, em consequência dos fortes estímulos de reestruturação económica gerados pela aproximação à Europa Ocidental. Esses processos respeitam à constituição de um sector privado e ao desmembramento da economia planificada e podem ser analisadas no quadro do balanço entre um espaço centralizado mas descentralização do poder, com a crescente autonomia do poder local e empresarial.

A dimensão internacional dos processos políticos teve importantes impactos no período de transição no qual se assistiu a crescimento nas regiões ocidentais e estagnação nas do sul. A autora avança a hipótese de que este factor exógeno de política é transformado de modo diferente por cada região em factores endógenos devido às respectivas diferenças em termos culturais de tradição e património. Por outras palavras, demonstra-se que os factores endógenos são localmente afeiçoados pelo contexto sócio-cultural responsável pelo respectivo sistema de valores. Quanto mais pequenos são os conelhos mais importante se revela a herança cultural na dimensão local e regional do desenvolvimento económico

ABSTRACT

Role of Endogenous and Exogenous Factors in Regional Development: a Case of Poland. The paper focuses on the border regions which have undergone the strongest restructuring stimuli generated within the integrating Europe. The paper deals with the spontaneous phenomena and processes which occurred in 1989-1990. One can describe it as making the private sector or dismantling the command economy through dissemination of entrepreneurial attitudes. Also it could be perceived as a constraint between the centralized space and decentralized power, e. i. increasing a self-government competence.

The international dimension has introduced the strong impact on political power which in the period of transition is generating the economic growth in the western borderlands, stagnation in the southern borderlands.

A hypothesis is put forward that the exogenous political factor is transformed by every region into endogenous factors in a different way because of variation on the tradition and patrimony defined in terms of the cultural anthropology. In other words, the endogenous factors

are shaped by socio-cultural background, e. i. network, which generates a given value system. The smaller municipality the more important is culture heritage in the local and regional dimension of economic development.