BETWEEN DOGMAS AND REALITIES: THE TRANSITION TO A MARKET ECONOMY IN POLAND by JACEK TITTENBRUN

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Poland's experiment in turning socialism into capitalism, now entering its fourth year, is at the crossroads. The aim of this paper is to explain how this came about and to offer tentative conclusions on the direction in which Polish society seems to be headed. These are not purely academic questions, since they raise political and moral passions. Ideally, of course, the social scientist should be completely detached. The present writer tried throughout his professional career to escape the intellectual prison of ideology. Just a's formerly he did not succumb to an official ideology espousing the supposed advantages of “actually existing socialism” / read: neo- stalinism /, so now he is careful not to get caught in the trap of a prevailing pattern of thought which is uncritically devoted to a free- market capitalism.

Of course, social analysis can never be so antiseptic, or value- free, as the above argument may suggest. By highlighting certain phenomena at the expense of others, by wording his / her argument one way instead of another, by making unavoidable critical evaluations, one’s social analysis becomes coloured by one’s values. The ideal of full objectivity is even more difficult to attain in the case of studying one’s own society.

An American or Canadian social scientist conducting his/her research in an exotic East-European country is in a happier position. He/she does not have the same degree of concern, the same kind of involvement in the problems of the society which he/she studies. He/she begins his/her research with a relatively open mind. This luxury is denied to the sociologist, economist or political scientist when he/she is studying his/her own society. particularly when that society is passing through a phase of massive change.

If this paper has an irreducible political and ideological aspect, it is also based on the assumption that only an interdisciplinary approach can adequately tackle the issues considered. No science can, or should, fence itself from other sciences. The academic division of labour between the various social sciences both leads to, and is founded on the artificial separation of the particular aspects of social life from one another, causing social scientists to see only within their respective institutional boundaries. The transition to a market economy is a total social process whose sociological and political aspects are no less relevant than the economic aspects. The writer believes that one's scientific curiosity, breadth of vision and depth of inquiry should not be constrained by this kind of boundaries. Such a unified or mixed approach is also needed, as we shall see, in dealing with the question of periodization of Poland's "post-communist" history.

The State

There is no general theory of a systemic transformation of the kind being implemented in Poland and other East European countries. This is not to say, however, that one cannot offer any theoretical and historical suggestions that are of considerable concern and from which such a theory can be built in the future.

Before considering the prospects of capitalism in Poland / or, more broadly, in Eastern Europe /, one should answer the following question: What capitalism? Is Poland prepared to embrace the model of classical capitalist development? And if not, what are other, non- classical roads of capitalist development which are open in Poland?

What is meant here by the classical or primary capitalist model? This model is based on an analysis of the historical transition from feudalism to capitalism in a number of Western European countries/ England. Holland, France, etc. / According to this model, various elements of capitalism emerge within the framework of feudal society. Then the bourgeois political revolution abolishes the feudal order. paving the way for the replacement of feudalism by a new economic and social formation, the capitalist one. The classical model could also be termed "capitalism from below." This designation does not deny that the State in the primary-model countries furthered the expansion of the capitalist sector. But in the secondary-model countries / Germany, Japan etc. / the State was not only an accelerat- ing but a necessary factor of the growth of capitalism. This “capitalism from above” was due to the initial retardation of the ensuing necessity of speeding up the process of evolution.

In later decades and centuries the need for the State to engage in the process of capitalist construction became even more pronounced. Capitalism in countries which missed the train of market development simply lacks the necessary historical time for organic “classical” evolution. Countries where capitalism is more advanced gain enormous competitive advantages over those more backward. According to the Wallersteinian theory of global systems, one should distinguish the core or centre and the margin or periphery of the world capitalist system. It is true that in certain cases there are also advantages to backwardness. The more backward country does not have to repeat all the processes of scientific, technological and industrial development undergone by the more advanced nations. Instead it may be able to bypass a number of stages of development by learning from abroad the very latest inventions and methods of production. This is true as far as it goes. This kind of “compressed” development, however, presupposes, at the very least, an adequate level of basic and social infrastructures, training of the labour force to enable its members to tackle modern technologies etc. And this, again, refers us back to the State, since the provision of social and economic overheads belongs to the Government’s typical functions. Indeed, the only instances of countries that have managed recently to enter the club of “core” or advanced industrial nations are those / e. g. the “Asian tigers” / of direct state interference.

And there’s the rub; the Polish State is weak, both objectively and subjectively, so to speak, and thus unequal to its tasks. The

present Polish parliament is composed of 29 parties, which paralyses the process of decision-making, essential to the efficient functioning of the State, thus compromising the very idea of parliamentary democracy. The Parliament’s sluggishness and indecision are not the only results of its political fragmentation. As the experience shows, parliamentary decomposition makes it extremely difficult, if not impossible, to ministers. Each successive government is based on a platform more like quicksand than a solid political foundation.

What is more, the first Solidarity-led Government might have been weak, but at the same time it was popular. The subsequent governments have been still weak but increasingly unpopular, owing to both the politicians’ behaviour, characterized by internal strife and obscure squabbles, making for a deep chasm between the political elite and the common people, and massive disillusionment with the result of the successive governments’ economic policy / of which more will be said in the later section of the paper/. The popular authority of the Solidarity camp fell to ever deeper lows. One of the first signs of disillusionment with Solidarity was the outcome of the presidential election in the winter of 1990. An obscure expatriate businessman Stanislaw Tyminski outpolled the then prime minister of the Solidarity-based Government Tadeusz Mazowiecki. While Lech Walesa won 75 per cent of the vote in the second round, a subsequent public opinion poll showed that his stand was below that of General Jaruzelski, the last Communist leader. In the election to the Parlia- ment in the winter of 1991 the government parties received just 16 per cent of the vote, less than the former

Communists. Moreover, fewer than half of Poles bothered to go to the polls, and this low turnout tells a lot about the mood of the electorate..

The State is also too weak to build an efficient civil service, not the least because of its operating on the basis of the principle of an old boys’ club, closely resembling the old nomenklatura system / or the over-extended spoils system /; responsible administrative positions are filled by the members of a narrow elite whose “connexions” and loyalty to their respective party rather than efficiency or training is their principal qualification. The State is also too weak to create a coherent legal system, not to mention its enforcement. This also applies with an even greater force to that pillar of every modern State, i.e. the tax system.

The weakness of the State is exposed by the proliferation of various civil disobedience movements and paramilitary organizations. whose often unlawful activities weaken the State’s fragile structures even further. What is more, the Government itself can resort to unconstitutional means, as the final days and hours of the Olszewski govern- ment clearly show. Things came to such a point that exactly on the third anniversary of the historic parliamentary elections of 1989 a politician from outside the Solidarity camp, a leader of a peasant party being a successor to the United Peasants’ Party, an erstwhile ally of the ruling Polish United Workers Party, was designated Prime Minister.

And there is also another important reason for the failure of the State to fulfil the directive role of intervening in and guiding capitalist accumulation. This lies in the first and second post-communist govern- ments’ liberal ideology.

The adoption of this nineteenth-century outlook on economics, and particularly on the role of the State is perhaps justified psychologically, but less so economically. In the former respect, this adulation of laissez faire was motivated by an understandable desire to reject socialism ideologically and psychologically. A nostalgic and doctrinaire liberalism, which idealizes the economic system of free private enterprise and free competition, and the entire regime of liberal individualism and laissez faire or very limited government, was regarded as the most emphatic and unequivocal negation of the former system. Wedded to its tenet of a totally free and unhampered market, the successive governments refrained from any intervention in the economy’s structure and refused to conduct any intentional industrial policy. They did not even try to develop a coherent and positive programme for the regeneration of Polish industry, apparently for fear that it will smack of “communist” central planning, which has recently become a dirty word. The Government only retained fiscal policies and the role of a “night watchman” over the free play of market forces.

According to this free-market doctrine, unless the Government played a very limited role in the economy, the forces of the market could not work themselves out so as to allocate resources efficiently, and the individuals could not effectively pursue their economic self- interests. It is evident, however, that this argument assumes the existence throughout the economy of full and effective mobility of all factors of production, out of less and into the most profitable or remunerative industries, occupations and locations. In other words, the doctrine of laissez-faire presupposes the absence of any barriers impending such transfers. This assumption of a very free, flexible and self-adjusting system consisting of highly mobile and adaptable people and resources, all having access to all opportunities and certain to respond to the most attractive ones lies at the heart of the liberal ideal. But as even Adam

Smith knew, this conception has never been a very realistic portrayal of any actual economy. This was true even in Britain, the home of economic liberalism, where for a series of historical reasons the “ideal type” of free competition was most clearly met. Even less can it be applied to any modern, highly developed capitalist economy with its oligopolies, transnational corporations, labour unions and a wide scope of interventionist governmental policies. Highly monopolized, lacking efficient capital and labour markets and banking system, an inflexible economy, such as the Polish one, fits this idealized picture to an even smaller extent.

As a result of the failure to develop any concept of the develop- mental state necessary in all countries that need to develop rapidly in order to catch up, inherited from the previous economic system structure of the economy with its overemphasis on the heavy industry and underdevelopment of high-tech and consumer industries remains virtually unchanged. Because of its dogmatism, e.g in 1990 the Government did not use $5 billion of trade surplus to restructure and modernize Polish industry. In this context it should be noted that according to an estimate, investing in one or two years in Polish industry $150 trillion / about $10 billion / would set it on its feet/ Gazeta Wyborcza Feb. 22, 1992: 4/.

This is not to say that the Polish State has been thoroughly non-interventionist in point of fact, it is fair to say that the Polish State has been deficient in the character of its economic intervention rather than its extent. While the State has evaded the need for large-scale reconstruction of many areas of Polish industry thus encouraging the preservation of old structures instead of guiding their modernization, it has acted through demand management and denationalization. Extremely reluctant to intervene in the supply or production side of the economy, the Government recognized inflation as the main enemy.

Inflation and the International Monetary Fund:

The fight with inflation was the essence of the State’s stabilization policy based on an IMF-supported adjustment programme. Debtor countries are usually expected to combat inflation. Such a fight is the most important part of the IMF’s conditionality requirements. But does the IMF-prescribed cure for inflation work in a post-communist economy such as the Polish one?

The theory behind the IMF’s remedies seems to be based on the evidence from the industrial countries. It is assumed, firstly, that inflation is caused by wage increases which are not offset by product- ivity gains and thus raise the cost of production. The reason for this discrepancy between. wage and productivity increases may lie either in union power or in labour shortages, which induce employers to lure workers from other industries by higher wages. If productivity does not raise, management has to pass these wage and cost increases on in increased prices.

On the other hand, it is argued that wage hikes lead to increased demand for goods, which is inflationary. Thus, wage increases may cause both cost-push inflation and demand pull inflation.

To contain inflation, not only the growth of wages has to be controlled, but also social security, welfare benefits and other transfer programmes ought to be reduced. The belief that this kind of govern- ment spending is inflationary is based on the notion that people are being paid while they do not produce anything. Thus the income in people's pockets adds up to more than the supply of consumer goods available for purchase, and prices rise accordingly.

More generally, to stop inflation the Government has to "put on the brakes" Namely, it is assumed that an inflationary economy is operating at very nearly full capacity. Demand is pressing on supply. which is another way of saying that too much money is chasing too few goods. As a result, prices are tending to rise. The upward pressure on prices will continue unless the aggregate expenditures can be reduced through curtailing Government spending or tightening up the money supply / by, e. g., raising interest rates /, thus removing the purchasing power from the economy.

However, the application of these anti-inflationary policies not to a full-blooded market economy but to a "transitional" one has brought the effects opposite to those intended.

The first round of price shocks at the beginning of 1990 reduced sharply the aggregate demand. However, this reduction in purchasing power showed up in the form of reduced production rather than lower prices. Most Polish enterprises are operating at low levels of plant utilization. Their production is characterized by high unit costs. Enterprises faced with declining sales-the time economic theory says they should cut prices-cut back production, which increased their unit costs. To protect themselves from going bankrupt, enterprises raised prices.

Meanwhile, the Government introduced its restrictive monetary policy combined with the administrative controls on the growth of wages/ignoring the fact that the cost of labour accounts for a fraction of the cost of the product, while elsewhere in the world it can be well over a half of it. The demand for consumer goods continued to fall. Companies reacted to it by even higher price raises. Inflation continued in spite of spending cutbacks, and production kept dropping.

Thus the Government's anti-inflationary policy produced stagfla- tion. Something like a market equilibrium has been achieved, but it is very shallow and fragile, rhe reason being that it has been attained by means of reducing the volume of effective demand while the sources of inflation inherent in the economy as such remained intact. What is more, the recession brought about by the Government's economic programme is adding new inflationary pressures. Many State enter- prises are on the verge of bankruptcy. Suffice it to say that 44 per cent of State-owned enterprises are running at a loss/Wprost 40, 1992: 16. In the first seven months of 1992 the average Polish enterprise lost eiglit zlotys on every 1,000 zlotys of products sold / Zycie Gospodarcze 38, 1992: 1/. As a result, there is an enormous budget deficit. This necessitates budget cuts which involve reducing the " still remaining subsidies, entailing increases in prices of fuels, energy, trucking and rail rates etc.

Other things being equal, as economists like to say, credit stringency and wage controls should help ease inflation. But in point of fact those "other things," being the reality of a post-communist, neither planned nor market economy, are not equal. Many structural and institutional characteristics of such an economy are not reflected in standard economic textbooks. One can mention here Poland's inefficient and backward financial system, high material-and energy-intensity, the absence of the labour market/there can be no mobility of the work- force if only because of the shortage of housing / as well as of managerial know-how and what may be called the market culture, etc. Therefore, conventional anti-inflationary prescriptions are not able to get to the root of inflation in this kind of economy.

Similarly, the applicability of the term recession to Polish conditions can be called into question. In Poland there is still no fully-fledged market economy, and thus it is incorrect to speak of a business cycle. Whatever would we call it, however, the consequences of a helter-skelter move to the market are appalling.

The economy became locked into a downward spiral of falling investment and declining profitability and efficiency, rising unemploy- ment and falling levels of demand while the successive governments looked on doing nothing about it in the apparent hopes that eventually the mysterious and benign operation of market forces would lead to recovery. What actually happened, however, was that low wages, high unemployment, cuts in Government spending etc. depressed domestic demand so much that enterprises, not only public ones, could not find a market for their products. Poland became effectively a de-industrializing country.

The IMF has only forced excessively harsh economic austerity conditions on Poland, but thwarted the entire transformation programme. The adjustment programme has not only failed but sets back the transition to capitalism. Privatization is brought to a halt, because people are short of money. The use of bank loans for buying shares in companies which are being privatized is out of the question in view of high interest rates; the yearly rate of return from such shares should be in excess of 50% just to pay the interest due. “Commercialization” of housing will not work, since people cannot afford the skyrocketing apartment prices and rents. The imposition of charges for some benefits under the health service, instead of giving them free, or any other dents in welfare expenditures meet with protests, and so forth.

What is more, the recession, contrary to expectations, has not brought about any “creative destruction” in that it has not produced either an improvement in efficiency or a change in the economy’s structure. In the absence of a coherent industrial policy, demand

management of a deflationary nature appears to have been a grossly inadequate stimulus to industrial restructuring. Poor efficiency has not been eliminated, the main reason of bankruptcies or bankruptcies of or near-bankruptcies of State enterprises being not their bad perfor- mänce but an excessively stringent credit and tax policy. Modern enterprises are in dire straits more often than those that are technologically obsolete because they have to pay back expensive investment credits and pay a higher “dividend” / a tax on assets based on their historic cost multiplied by the inflation rate/. According to one estimate, at best 40 percent of decline in output can be regarded as involving useless, poor quality or uncompetitive production, but 60 percent resulted form an excessive decline in the population’s income and the premature and excessive liberalization of imports/in keeping with another IMF-fostered canon of free trade / Zycie Gospodarcze 22, 1992: 61. According to another one, the share of inefficient production amounted to only about 15 per cent / Dzis 6, 1992: 25. Similarly, in the case of Polish farming, the owners of highly specialized, modern farms were hit by the prohibitively high interest rates, while a greater possibility to survive was shown by those running self-sufficing traditional farms.

In the case of State-owned firms, dividends together with other taxes and skyrocketing interest payments adds up to more than an enterprise's profit. In fact, the tax burden on State firms is, on average, larger than their average gross profit by 26.4%. as of 1991/Zycie Gospo- darcze 28, 1992: 5/. Being squeezed by the Government tight money and fiscal policy, State-owned firms hang on somehow, however. They have found ingenious ways to keep going in various kinds of nonopera- ting or nonrecurring income, such as the sale of assets or hard currency, i. e. / inflation / profits, in extending credit to each other / by selling goods on credit or lending cash / or finally in stopping to pay suppliers and bankers, and even the taxman. Suffice it to say that the level of State enterprises' indebtedness to the central budget is estimated at nearly Zl 54 trillion or almost 25 times greater than gross profits over the first five months of the year / The Warsaw Voice, Aug. 23, 1992: B4/. Overtaxed, cut off from credits, weighed down with heavy debts, deprived of markets / contracted because of the suppression of demand, thousands of State-owned firms are lingering on.

Thus, the Government's policy backfired on it. In the case of the State sector, the Laffer law came into effect. With more and more State firms teetering on the brink of bankruptcy State revenues plummeted from 37% of GNP in 1986 and 32% in 1990 to 26.5% in 1991, with GNP smaller compared with 1989 by about 20% / Zycie Gospodarcze 22, 1992: 13. In 1991 the budget deficit reached 3.8% of GNP/Zycie Gospodarcze 23, 1992: 5, far beyond the target agreed on with the IMF. Owing to this, talks with the Fund, and further loans, were suspended. In this sense, the Government's pro- capitalist policy, ironically, has not been rewarded by the leading capitalist institution; funds which could be used to further the development of the private sector, are not forthcoming and an agree- ment with the Paris Club on partial write-off of

Polish huge external debt, which could greatly ease the country's transition to capitalism, is suspended. According to the Government's forecast, the budget deficit at the end of the year could reach 8-9% of Poland's GNP, instead of 5% permitted by the IMF / Gazeta Wyborcza July 29, 1992: B1/. According to the IMF, the Government underestimates the size of the budget deficit, as it will amount to Z1 107 trillion / or Z1 41.5 trillion more than originally planned / rather than Z1 85 trillion/Zycie Gospodarcze 37, 1992: 2/.

Meanwhile, the Polish Government has another grave debt-related problem, that of the banks' huge bad loans. It is estimated that such credits account for about 30% of loans incurred by State enterprises, and their total value amounts to a staggering Z1 100 trillion or 7.5% of Poland's GNP / Gazeta Wyborcza June 25, 1992: 5/.

It is only recently that, under public pressure, the Government announced a draft proposal for a new law on reduction of bad debts. The Government wants to use Poland's stabilization fund as a basis for issuing long-term bonds which are to be transferred to the banks in order to increase their capital. Then the banks would be able to sell their debtor companies' debts, to buy their shares in exchange for liabilities, to forgive part or all of the debt, to postpone its repayment or to grant new loans. The stabilization fund will be used for interest and principal payments. The project raises serious doubts, however. First, it is by no means certain that eighteen Western States which contributed to Poland's stabilization fund will agree to prop up banks. The prerequisite for their consent is an agreement with the IMF, which, as noted above, is still to be signed. Second, owing to a large number of enterprises wanting to have their debts reduced, a great many of new securities will flood the market, so their price will go down. On the other hand, there will be little demand for these securities because of the shortage of money with potential investors and their reluctance to buy shares of weak companies.

Even more formidable problem is provided by the existence of huge interfirm debts/ZI 969 trillion, as of the end of May/. Under these conditions, the Government must think twice before allowing any firm to go bankrupt, since one such case could provoke a chain reaction of bankruptcies across-the-board, leading to a surge in unemployment, which could drive desperate people to the streets.

Apart from forced trade credits, State firms try to save them- selves by barter, ie. the direct exchange of goods for goods. Thus, the policy aimed at speeding up the transition to the capitalist market has produced instead an economy which is degenerating into what amounts to primitive tribal exchange.

Our discussion so far can be summarized by saying that Poland's programme of a transition from a centrally planned to a market economy was based on three dogmas: a laissez-faire attitude toward the economy, an almost exclusive focus in the stabilization policy pursued on the fight against inflation and wholesale privatization. To state that these linchpins of the Polish course to capitalism are characterized by dogmatism seems to me justified because of the arbitrary assumption that Government control and ownership on the other are the source of all economic ills. Deflation and anti-interventionism were discussed above. Let us now turn to the third element of the market reforms / which itself may be construed as part of the withdrawal of the State from the economy /.

The Private Sector and Its Underside

Judging by sheer numbers, the Polish private sector flourished. At the end of 1991 there were 1,420 thousand private businesses compared with 1,135 thousand a year earlier. At the end of June 1992, 1,523 thousand private businesses employed 2,800 thousand people/The Warsaw Voice Sept. 9, 1992: B7/. The vast majority of these, however, are examples of self-employment. The number of medium or large enterprises / employing over 20, and in construction over 50 people/ is only about 3,500 / Polityka 22, 1992: 3/. For all its desperate efforts to promote the creation and growth of private businesses, the Government was not in a position to prevent their mass-scale failures; under the impact of a prolonged and savage recession, generated by the very Government's economic policies, as least 300,000 private businesses went under / Wprost 13, 1992: 45/. One consequence of this was the development of the illegal side of the private sector.

Virtually all private businesses have their "grey" or "black" underside: uncontrolled tax evasion, capital flight/ the amount of money which went abroad recently is estimated at at least $ 2 billion (Nie 17, 1992: 3), and a habit of under-reporting payrolls and understating revenues and profits. Working "off the books," an untaxed, unrecorded and illegal production of goods and services, has become a way of life for the Polish private sector. Suffice it to say that according to a conservative estimate 20% of businesses do not pay their taxes, and the number of unregistered businesses is greater than the number of State enterprises, which still account for 75% of industrial output / Wprost 33, 1992: 45. It has been estimated that the black economy is equivalent to 10-30% of those sales which are registered for tax purposes / Zycle Gospodarcze 4, 1992: 9. Apart from taking advantage of a host of legal and other gaps and inefficiencies, these informal business activities can be regarded as a defence not so much against high taxes as such as the private sector’s taxation is very lenient-54.9% of gross profits in 1991, compared with 126.4% of those in the State sector (Zycie Gospodarcze 28, 1992: 5); in the same year the private non-agricultural sector. employing more than 26% of the total working population, accounted for merely 3% of budget revenues (Gazeta Wyborcza Sept. 29, 1992: 12)/ as against astronomical interest rates and slack demand endangered by the Government-induced recession. Avoiding tax and social-security payments enables many private enterprises to cut costs and remain competitive.

Of course, one should not underestimate the “counter-cyclical” effects of the black economy. The devastating impact of the current recession or depression has to a degree been muted by the vast and ever-expanding underground economy. The growth of the illegal side of the private sector goes a long way toward explaining why, in spite of the high official level of unemployment, there are still no riots in the streets. The damages caused by the underground economy clearly outweigh the benefits which might flow from it, however.

Far from being a useful lubricant to the official economy, the black sector in fact undermines and paralyses it. The underground economy is exclusively a cash economy, and this habit of settling all accounts in cash is, of necessity, spreading to the entire private sector. Such merchandise-for-cash transactions, of course, can hardly be regarded as an attribute of modern capitalism. When money is skipped from hand to hand, the possibility of fraudulent transactions is much greater than in cash-free business, with real sales and income being concealed. Added to this is the fact that the money in question is frequently not being paid, as private businessmen cheat each other. All those pathological phenomena slow down monetary circulation and create discontinuities in economic turnover, not to mention the fact that they make it difficult, if not impossible, for the Government and the banks to control the economic processes and money circulation and to conduct monetary policy. Notes, for instance, are virtually non-existent in Poland. Overissued promissory notes abound, as a result of which the payees do not want to accept them. They would be willing to use bank acceptance / involving a bank putting its credit behind a draft/, but, in turn, the banks do not want to issue letters of problems with collecting their dues.

It is also this huge economic underground that accounts for the virtual lack of interest of private businesses in offering their shares for public subscription. Their owners simply are unwilling to make public certain embarrassing information about their business. Thus, the black economy hampers the growth of the capital market in

Poland.

Rare honest enterprise owners are driven out by their unscrupulous fellow businessmen, and they face an alternative: going bust or going black. If fraud, smuggling and other black activities were to become a model of conduct of Polish businessmen, this would not augur well for the future of Polish capitalism. The growth of the under- ground sector has been widely hailed as evidence of the development of entrepreneurial virtues. But to base “the building of capitalism” mostly, if not exclusively, on crooks and wheeler-dealers is a lost proposition indeed. The logic of the market should not be confused with the logic of the black market, and learning the latter does not amount to learning the former.

The irregular practices that permeate Poland’s economy not only contribute to the economic and financial anarchy, inefficiency and backwardness but also exert a far-reaching damaging impact on Polish society as a whole. Systematic cheating undermines all trust between people and between people and Government. It destroys respect for the nation’s laws and regulations as well as it erodes the moral climate of society, generating rampant public cynicism. In such conditions of civic indiscipline and lawlessness, what capitalism will Poland be able to build? If anything, this would be a Latin American-style, e.g Argentinian, capitalism.

Privatization and the Stock Market

For all the importance attached by the Government to the above discussed privatization from below, or “small privatization”, its over- whelming priority has always been denationalization. The reasons for this scale of priorities are not hard to find. Privatization from below is, of necessity, a slow process. Turning of thousands of existing State firms into private ownership seemed to promise to create a property owning society almost overnight. According to the ambitious Government plans, by the end of 1993 a half of the State sector will have been privatized. Is this target realistic?

Just in the case of other aspects of the Polish capitalist restoration, the curse “let not thy left hand know what thy right hand doeth” takes its toll on Poland’s privatization plan. What was initially meant to be the main route of privatization, by selling the State-owned firms’ shares to the public, has proved to be the most difficult. This most elegant, British-style way of privatization has yielded meagre results so far. The nascent Warsaw Stock Exchange has nothing to boast about; at the time of writing it has just 15 companies listed. Some 60,000 investment accounts have been opened, and there are a few thousand active market participants/Zycie Gospodarcze 23, 1992: 9: Polityka 20, 1992: 6/. All in all, the shares listed on the Warsaw Stock Exchange are owned by just 200,00 individuals, and the value of these shares amounts to a mere $ 200 million/Forum 34, 1992: 12; Zycie Gospodarcze 23, 1992: 9/. Compared with their initial issue prices, shares of 10 companies lost in value. In real terms, the market prices of all but two enterprises are below the issue prices. This of course hardly encourages new investors and new companies. Dividends paid did not offset these capital losses. Only two companies paid substantial dividends, in the case of four companies the dividend was notional, three others chose to reinvest all their profits, and four companies reported deficits.

Thus, the stock exchange fails to fu’ fil its economic functions: attracting and channeling savings into investment. This of course slows down the whole process of so-called capital privatization. For would-be capitalists to make their cash surpluses available to others, they must feel confident that it is in their own interests to do so. When they do not see much prospect of receiving decent dividends and/or capital gains, they will ask themselves what point is there of taking the risk which the acquisition of shares inevitably entails. People, if they have anything left at all after paying their bills, would do better to put that extra money into a savings bank. All in all, Poles invest in securities only 1% of their savings/Gazeta Wyborcza May 30-31, 1992: 4/

The reason for this slight interest of the public in “playing the stock market” and the consequent low volume, liquidity and efficiency of Poland’s capital market is not difficult to determine. It is of course the continuing depression with its concomitant fall in living standards. Salaries and wages received by most Poles are so low that they do not leave anything available over and above what is required for the immediate necessities of life. In 1991 the average per capita income in employee households amounted to Z1 971,000 and expenditures- to 851,000; in employee-peasant households-931,000 and 721,000 respectively; in peasant households-870,000 and 740,000; and, finally, in pensioners' families-948,000 and 910,000/Wprost 33, 1992: 15. These figures show that the income available to persons for saving is meagre.

It is for the same reason that the Polish stock exchange lacks big institutional investors, which dominate the capital markets in modern capitalist countries. Companies lack money to settle their accounts, let alone to make a high-risk equity investment. The condition of the Polish banks is not much better. Pension funds, investment or unit trusts are still a long way off. Thus, one should not count on the

institutions' involvement in providing funds with which to finance the development of Polish capitalism.

Looking at the Polish capitalism's predicament from another angle, the overall economic strategy aimed at the acceleration of enterprises backfired. The Government has pursued savage deflationary policy deliberately designed to cut demand. This cutting into incomes and living standards, combined with a huge drop in profits and a loss of creditworthiness of 4.300 enterprises / as of the end of June 1992/ Zycie Gospodarcze 31, 1992: 7/ resulted in that there are no buyers for most of them, and the supply of companies which are to be privatized greatly exceeds the demand for them. A case in point is the lift of 400 State-owned enterprises selected for accelerated privatization, which had to be cut down by a half, because 200 enter- prises of those chosen turned out to be broken / The Warsaw Voice Nov. 10, 1991: B2/. According to the

Deputy Minister of Ownership Transformations, if the present trend continues, soon all assets to be privatized will be insolvent assets / Zycie Gospodarcze 2, 1992: 8/ or ruins, to put it more bluntly, and consequently the number of unsaleable firms will increase even further.

The immediate prospect for most State firms is their collapse rather than finding a buyer. When they do find such a new owner/in most cases, their own workforce/, this change in the legal status does little to improve their economic situation. In fact, the vast majority of newly privatized companies labour under difficulties similar to those experienced by the public sector: their sales, profit and profit rates are falling/Zycie Gospodarcze, 23, 1932: 5/

Capitalism Without Capital

All this, of course, brings into question a mammoth programme of mass privatization designed to solve the problem of capitalism without capital. After taking stock of the tiny savings / still diminished, by the way, due to the Government's own deflationary policy / with which to finance the purchase of the State assets, the Government must have realized that it would take years to place most of the economy in private hands/ granted that people would want to use their savings for this purchase /. It has been estimated that Poland's stock of personal savings amounts to no more than 15% of the book value of State enterprises / The Warsaw Voice Dec. 8, 1991: B2/. The total amount of credits available from the Polish banks is about $ 13 billion Prywatyzacja 5, 1992: 7. A seemingly natural way of evading this obstacle was suggested. Why not simply gave enterprises away? This would create a nation of capitalists in the short time.

However, the programme has proved to be strong on rhetoric but light on action, so to speak. The reasons for this are not far to seek; while in 1990 189 firms selected for mass privatization earned $ 614 million after taxes, in the first six months of the next year they made only $ 173 million and in the whole year just $90 million. Whereas their profits were sreadily falling-every fourth firm made losses their debts were growing: from $265 to $ 365 million / Gazeta Wyborcza May 27, 1992: 4/. The Government has got caught in a trap of its own making. With the entire State sector collapsing. many firms transformed under the mass privatization scheme will in all likelihood go bankrupt, discrediting the whole programme. People's expectations and hopes, aroused by a massive propaganda campaign, will be disappointed. Giving away-shares / in fact they will be sold for the nominal sum of Z1 300,000, or about 10% of the average monthly salary of deeply troubled, stony broke enterprises will not give them much needed capital. And without new investment capital they probably will not be able to survive.

Coca-Colonialization

That investment capital, as well as also needed technological and managerial know-how could be provided by foreign capital. In actual fact, however, foreign investment is conspicuous by its absence. While Western businessmen hail the restoration of capitalism in Poland, they are not putting the money where their mouths are. Polish politicians and economists were quick to proclaim that privatization will open the door to the massive influx of foreign capital. Yet the process of privatization is well under way, and the promised flood has shrunk to a mere trickle.

The above-mentioned pundits' claims about the speed of transi- tion free-market capitalism as the central issue for Western investors are contradicted by the Hungarian example. Although no shock treatment whatsoever has been attempted in Hungary and its privatiza- is proceeding very slowly, the country managed to attract $3 billion of $4.7 invested in Central Europe. The share of Poland in this capital pool amounts to just $700 million/Wprost. 29, 1992: 44/. Foreign investment per capita is in Hungary ten times that in Poland/ Zycie Gospodarcze 26, 1992: IV. In the middle of 1991 there were 7,000 joint ventures in Hungary and in much larger Poland-only 2.290/Polityka 1. 1992: 11/. According to the Institutional Investor magazine, Poland’s creditworthiness is very poor/25 points, as measured on a scale of 0-100/, while Hungary’s credit rating is much better/41 points/Wprost 16, 1992: 18/.

The reason for the lack of interest on the part of Western investors cannot lie in legislation. Over the past few years the Polish authorities relaxed or abolished controls on foreign investment and the repatriation of profits. There are no limits on the maximum amount of foreign investment and 100% foreign ownership is allowed. There are no restrictions with regard to employing foreign citizens in top positions in firms with foreign participation. Such firms are exempted from all taxes for the first three years of operation, and these tax holidays may be in many cases extended for another three years, etc. Overall, Polish legislation in the field of foreign investment is more liberal than the legislation of most, if not all, East and Central European countries.

More to the point are such stumbling blocks for foreign investors as the worn-out and inadequate infrastructure, especially telecommuni- cations, or the still high burden of interest payments resulting in that Poland is all the time on the verge of State bankruptcy. The legal infrastructure also leaves much to be desired; what serious business- men would be willing to invest in a country where firms are unable to recover claims from other companies? More broadly, foreign investors are discouraged by the presence of a vast economic under- ground owing to which, as a Polish businessman put it, “the Polish market is in total disarray; more than a half of all consumer articles are more or less illegally traded. It would be hard to imagine that a company taking its first steps in Poland would be able to create a business plan in situation where the goods it is to manufacture are already being sold illegally. The prices of such goods are substantially lower since no customs and taxes have been paid for them…without introducing some sense of order to the customs system, without closing gaps in the frontiers-which is in the interest of the national budget-foreign investment is out of the question” / The Warsaw Voice July 19, 1992: B2. Corruption is rife in every part of the bureaucratic machine. The continuing economic crisis leads to the frequent changes in Government with the result that it is common for an investor to negotiate repeatedly with new officials, the talks restarting from the very start again and again. Poland is still in a grip of a severe recession, or better, stagflation as inflation continues. It is also for this reason that Poland’s potential advantage in the form of low wages fails to attract foreign capital. As Commerzbank Economics Department puts it, “wage levels are low, but given the overall state of Eastern Europe’s economies, this competitive advantage cannot be exploited at present”/ The Economist August 17, 1961: 60%.

The very Government policies and their concomitant hardships cause demonstrations, strikes and blockades of the roads. Industrial disputes are flaring up around the country. Such an atmosphere can hardly mak: Poland a favoured investment option. Put bluntly, Western capitalists do not want to invest in Poland until they are sure the workers can be kept in their place, namely, down. “Who will buy a company where the employees are on strike?” /Seddon 1990: 503/.

Thus, it was more than a grain of truth in Lech Walesa’s accusation in his speech to the Council of Europe in Strasbourg that “the West was supposed to help us but instead it has only drained our markets” / The Warsaw Voice March 22, 1992: BS/. It is true that Western firms see Poland mainly as a market for selling their products. And they can claim success in this regard; foreign goods account for as much as 80% of articles being sold in Polish shops and supermarkets. This Coca-colonialization is but one more phenomenon likening Poland to the Third World.

With plenty of money to be earned without any investment, such tiny investments that are made are earmarked mostly for what may be called Rosinenpickerei, picking the raisins out of the cake. Some of these “raisins” are the Western firms’ competitors. For instance, ASARCO wants to take over the Polish copper industry. The English have been eager to buy Poland’s sugar factories, aiming reportedly to close them as quickly as possible because of the competiti- veness of Polish sugar / The Warsaw Voice Oct. 13, 1991: B2/.

And Western firms want of course to buy these “raisins” as cheaply as possible. For instance, Gerber purchased 60% of the share capital of the Rzeszow Fruit and Vegetables Processing Works Alima, Central Europe’s largest producer of baby foods, for just $ 11.3 million. What is more, on the basis of relevant regulations, Gerber has been exempted from the income tax. This tax exemption is worth just as much as the amount paid for the Alima shares.

The policy of Western corporations consists in buying up companies, retaining only their immediately profitable pairs and scrapping the rest. Thus ABB, a Swedish-Swiss company, after securing control of nine Polish enterprises at knock-down prices scrapped, among others, the enterprises’ vast array of social services: kinder- gartens, nurseries, holiday homes, housing estates, clinics, lodging houses for the workforce etc Polityka 23, 1992: 4/

Capital inflow, bringing with it new technologies and business skills, is essential for closing, or at least narrowing the technological gap and the associated managerial gap between Poland and the advanced West. And time flies; pursuant to an association agreement with the European Community, in 1995 Poland must begin lifting its customs duties, which are to be abolished completely within the following five years. All indications are that this transitional period is not sufficient for the Polish economy to modernize and improve its efficiency. This modernization requires investment, but domestic savings which could be channelled into productive investment are meagre, and foreign investment is slow in coming. It should be noted also that the association agreement fails to provide for any specified amount of financial assistance. What is more. Poland and other East European countries are “seeking access to EC markets at a time when the Community is setting higher technical and environmental standards as part of the 1992 programme. Technologically unsophisticated and heavily polluting Eastern European firms will find it difficult to compete within these parameters”/Williams 1991: 158-9/. Therefore, it is to be presumed that after the borders are opened, “the cold blast of competition” will wipe out the whole sectors of the remnants of the Polish economy.

On the other hand, the sectors of the Polish economy which could be most competitive, such as agriculture, textiles, cement, coal, copper, iron and steel, and chemicals, will face considerable non-tariff barriers to trade in the form of quotas, anti-dumping measures,stringent sanitary restrictions and the like. For instance, the quota on beef for 1992/4,000 tonnes/is lower than Poland's actual exports in recent years/Zycie Gospodarcze 10, 1992: 12/. There is a wide gap between the advanced West's free trade rhetoric and the common protectionism in practice. As Williams points out, "the willingness of the EC to open its markets to new sources of imports…is highly problematic as the products in which the East has some comparative advantages are precisely those which are most sensitive in the EC: textiles, footwear, steel, coal and agriculture"/1591: 158/. Even according to Government simulations, the growth of imports from the EC to Poland will be by 40% larger than the increase in Poland's exports to the Community/Gazeta Wyborcza July 2, 1992: 4/.

And even if the European Community could be forced into practising the free-market economics that it preaches, this would not make much difference. Poles should not cherish any illusions that the rich Western club will be ever open to them. The developed countries will never consistently export their most advanced technologies thus keeping Poland and other East European countries in a state of technological dependency/Carchedi 1991: 286/.

Such technologies will not be transmitted by direct investment of multinational corporations either. A case in point is ABB, the world leader in electrical engineering and the biggest foreign investor and employer in Poland, which "limits its exposure in Eastern Europe by minimising the cash it commits to each venture. Instead, it donated modern but already depreciated machinery-old by western standards, but years ahead of East European equipment”/The Economist June 29, 1991: 70/. In other words, Poland’s dependent growth will, of necessity, be based on obsolescence, discarded in the advanced West machinery, and, as a consequence, it will always remain one or two ages behind the technology predominating in the leading economies. Technological transfers through foreign trade or direct investment will not be able to set in motion a process of self-sustaining growth leading o a high technological development/Carchedi 1991: 286/ and enabling Poland to enter the club of “core”/as distinct from “marginal”/indus- rial societies. This is corroborated by the following estimates.

According to a recent study, to raise the amount of productive capital per worker in Eastern Europe to that of the West within ten wears, about $ 1.5 trillion a year of investment would be needed/ Collins, Rodrik 1991/. According to the study, the region can expect to receive at best $ 90 billion a year, and at worst $ 30 billion.

In my opinion, the authors err on the optimistic side. While Eastern Europe certainly needs Western investment on a scale wider than that of the Marshall Plan for Europe after Second World War/ which involved the transfer of about $ 300 billion in today’s prices (Haynes 1991: 77), the world economy is not expanding like it was after 1940. Instead the West, too, is plagued by recession. Moreover, “in 1945 the United States dominated the world economy and could therefore afford to encourage recovery safe in the knowledge that its own economy would benefit substantially. Today economic power is much evenly distributed and the situation more competitive with no state prepared to give another a free ride… each state tries to push another to the front while telling everyone how committed they are to helping their “eastern brothers” / Haynes 1992: 77-8/.

Moreover, according to the study cited, the lion's share of the money will go, for reasons which are obvious, to eastern Germany. Suffice it to say that the total amount of capital transferred to eastern Germany in 1991/about DM 160 billion / was larger than Poland's GNP and 135 times the amount of foreign investment in Poland / it is relevant to note that eastern Germany is little more than a third of Poland. Even so, it has been calculated that to close the prosperity gap between the two parts of Germany / as measured by GNP per capita / within ten years, eastern Germany would have to grow at an impossible annual rate of 17% / assuming the growth rate in western Germany of 2%/ Wprost 28, 1992: 15. Using the same methodology, it turns out that in order to catch up with the EC/average GNP per person is now about $ 15,000/ within 16 years, Poland GNP per head equals $1,700, as of 1990/- which lacks eastern Germany's preferential access to one of the world's richest sources of investment capital-would require the annual growth rate of 17%. With more realistic growth rates of 3%, the catching up will occur in 223 years! Wprost 28, 1992: 15/..

The Managerial Revolution, Polish Style

By far the most successful, in numerical terms, the path of privatization, based on the liquidation of enterprises and sale or lease of their assets, has its darker side, too. Of 1249/or 16,1% of all State-owned enterprises/-mostly small/757 enterprises employed less than 200 persons, and 305-201-500 persons (Prywatyzacja 8, 1992: 3)/ privatized or being privatized/as of the end of June 1992/, 707 ones were technically bankrupt Of the remaining 542 firms the overwhelming majority were leased, mostly to their employees/Prywatyzacja 8, 1992: 3. Among other things, relatively high variable rentals paid by the lessee companies push them towards bankruptcy/Prywatyzacja 6, 1992: 5: In a sample of 171 companies/of the 542 ones mentioned above/, only 11.7% maintained or raised the level of their exports in the first half of 1991 compared with 1990 / Prywatyzacja 1992: 24/. Their average gross profits in the first six months of 1991 amounted to 32.5% of those in the former year, and their net profits-to 31.2%/Prywatyzacja 1992: 25/. The margin of profit, i.e. the net income to sales/excluding the turnover tax/fell in these six months by 5% on average, or almost by a half/Prywatyzacja 1992::51.

As to the structure of ownership in the companies concerned, on the face of it, they are predominantly employee-owned. In 42% of the firms, a company founded by the workforce owns 100% of the shares, and in 30% employees hold more than 51% of the shares indivi- dually/Prywatyzacja 1992: 9, 13/. Were these firms in fact worker- owned and controlled, this would collide with the aims of the Government privatization policy. According to an official view, this form of ownership “has rarely worked in the West and has been a disaster in Yugoslavia”/Manasian 1991: S15/. Workers will seek to increase their current income, consuming profits instead of reinvesting them, etc.

In point of fact, however, the firms under discussion are not found to have a majority of shares held by hourly employees. A case in point is Pollena-Ewa, a manufacturer of toilet goods. According to a plan of the firm’s privatization, all employees were to acquire 70% of its share capital, including 50% by Pollena-Ewa top management/Życie Gospodarcze 49, 1991: 14/.

More generally, according to the Supreme Board of Supervision’s study of 88 enterprises, it was, as a rule, incumbent managers who initiated privatization, installed themselves as executives of newly founded companies as well as acquired controlling interests in these companies/Życie Gospodarcze 42, 1991: 7/.

To this end, they would often exploit tax-favoured foundations.State enterprises would give foundations sums of money which would be then lent back to the donors at an interest rate which could be charitably low. With low-interest or even interest-free loans received, employees, and especially managers, could then purchase their companies’ shares. For their services, foundations, or more precisely their founders and trustees, would receive compensation. For instance, the management of the Lodz Chemia loaned themselves and certain key employees Z1 5.9 billion, or the entire 1990 profit of the firm through the medium of a “non-profit” institution, which took for its services ZI 400 million/Gazeta Wyborcza Oct. 24, 1991: 3/. Moreover, senior management, together with trade union officials and employee council members/46 persons in all/hold preference shares, having 5 votes each! Życie Gospodarcze 50, 1991: 101. These multiple voting shares, combined with their interests in the company, ensure that the incumbent management is safe in its control.

Thus, it would be more accurate to describe the companies in question not as worker-owned but as management-owned and controlled. This is confirmed by yet another study of 115 companies privatized by liquidation. According to this study, in the employee-owned companies/ all shares of which are owned by the workforce/employment decreased by 46 on average from the time of the buyout while in the remaining companies-only by 25/Życie Gospodarcze 2. 1992: 91. Employee ownership is usually regarded as a defensive measure aimed at preventing the loss of jobs. Thus, if the former companies were really, worker-controlled, it would be rather peculiar for the owners and controllers to vote themselves out of their jobs. Another piece of evidence supporting our foregoing contention is the study's finding that in the so-called employee-owned companies it was most often the managing director who suggested privatization/zycie Gospodarcze 2. 1992: 9/. Among 491 companies which were leased to their employees, in 344 there is a group of "active investors"/recruited, in all likelihood, from management/who own more than 20% of these firms share capital/ Życie Gospodarcze 30, 1992: 10/.

From the viewpoint of the Governmental sponsor and advocate of privatization, what is effective management control has many advantages to it. While employee share ownership generally leads to a restriction on the tradability of shares and hampers indirect control by outside parties, management buyouts, as concentrating equity ownership in the hands of incumbent managers, reunite owner- ship and control, and provide a powerful source of motivation and constraint/Filatotchev, Buck, Wright 1991: 47.

So far so good. The problem is that the workers of privatized companies, just as the population at large, bitterly resent the route of privatization under consideration. At the end of 1991, only 15% of the employees interviewed, supported privatization/Życie Gospodarcze 19, 1992: 8/. They oppose privatization because they clearly see who its main beneficiaries are, and what abuses and shady insider dealings are connected with this allegedly workers' ownership. The rank-and-file feel commonly that in the process of ownership changes they are expropriated rather than enfranchised/Zycie Gospodarcze 19, 1992: 8/.

This corresponds to growing disillusionment with privatization among the general public. While in 1990 and at the beginning of 1991 only every eighth respondent felt the privatization was running too fast, at the end of the latter year every third one said so/Gazeta Wyborcza Jan. 17, 1992: 2/. In August the latter percentage rose to 38% Gazeta Wyborcza Aug. 12, 1992: 5/. While in a poll conducted in August 1991 the majority/55%/declared support for ownership transformations/The Warsaw Voice Sept. 15, 1991: 5/, several months later only one in three respondents supported the idea of privatization/ The Warsaw Voice Oct. 27, 1991: 8.

While in the West it is possible for the employer to use small chunks of ownership to influence workers' motivation and work attitudes, without in any way threatening the overall economic order, in Poland/as in other East European countries/the matters are not that simple. Forty-odd years of the existence of the so-called all- social/albeit distorted/ownership of the means of production could not but transform deeply people's ways of thinking and behaving. Among the Polish workers the tradition of self-management movement, based on the idea of worker control and common ownership, is still alive. Many sections of the Polish working class see employee ownership as an end in itself or a principle of economic organization rather than as a means to some end, least of all the building of capitalism, especially of wild, inhuman, corrupt variety.

In not recognizing the widespread existence of such difficulties, the authorities blundered. They wasted an excellent chance to give workers the feeling that they have a stake in the ongoing transforma-

tion. Many workers initially embraced the concept of privatization as leading to employee ownership. It is only that they became frustrated because of the course taken by the process of privatization. Workers today have been stripped of any illusions about privatization and the myths of a share-owning democracy are fading fast in the face of massive redundancies and lack of any favourable changes in the traditional social relations in the workplace. Instead, even this limited workers' participation that was introduced under the former regime, has become curtailed still further.

As noted, at first many workers looked to the new, Solidarity- led Government as "theirs" and hoped it would look after their interests. The initial euphoria of victory over the old regime was used by the Government to push through its programme of capitalist transformation. Enthusiasm has soon melted away as the costs of transition, and their unequal distribution, have become apparent. The policies of the successive governments have had the effect of mobilizing almost all sectors of the workforce to strike and protest. On the turn of 1991 the country was swept by a massive wave of strikes and protests against the course of reform. This was a clear sign that the barriers of social endurance burst. With that the first stage of Poland's systemic transformation, as seen in sociological terms, that of relative social calm, came definitely to an end.

Between laissez-faire and Interventionism

This widespread frustration and dissatisfaction created an opportunity for the third post-communist Government, headed by Jan Olszewski. The new Government's harsh criticism of the old one was welcomed by the general public. The new cabinet saw more or less clearly the weaknesses of the previous leaderships' economic policies. Most importantly, the new Prime Minister stated that the belief in "the invisible hand of free market," characteristic of his predecessors, proved elusive in reference to the public sector and the private sector alike. He said: "Unfortunately, the invisible hand of the market very often turned out to be the hand of a racketeer reaching for State money" The Warsaw Voice March 8, 1992: 3/. He emphasized that the costs of reforming the economy must be spread out more evenly.

The Government also acknowledged that the most urgent need is to overcome recession. This move from fighting inflation to fighting recession, generated by the deflationary policies of the first stage of the transformation process and from laissez-faire to State intervention- ism can thus be regarded as defining economically the beginning of the second phase of the process. Putting it in still another terms, the transition from the first to the second stage of the transformation process involves the replacement of liberalism or monetarism with Keynesianism.

It is important to explain in what sense this transition is under- stood here. In its narrowest sense, monetarism is the theory that controlling the amount of money in the economy would control inflation; but underlying and associated with this belief is the idea that the role of the State should be reduced and the economy left to the "beneficial" effects of market forces. Poland's stabilization programme was not strictly monetarist in the first sense as it relied not only on restricting the money supply but also on two other "anchors": restraining wage increases/through the so-called excessive wages tax/and fixed exchange rate. It is relevant to note that the former element of income policy holding down increases in public-sector pay is incompatible with the Government's free-market principles. The main goal of income policy in turn leads to restriction of effective demand and so coincides with the goal of deflationary policy. On the other hand, a monetary attack on inflation is essentially a Keynesian attack in that it works in principle by a reduction of aggregate demand accomplished through a reduction of aggregate borrowing.

Monetarist policies reduced real incomes, cut public expenditure and dragged the economy down cutting both output and jobs. Keynes argued that if there were idle resources-unemployed labour and unused machines-the State could expand the economy by increasing demand/ which would stimulate output/, making investment more profitable. By pumping additional money into the economy, that is, the Government can stimulate new production both directly and indirectly, thereby pulling the economy out of recession.

But, of course, just as monetarism has little application to the period of transition from a centrally planned to a market economy, So there are quite a few objections to be leveled at the feasibility of a Keynesian-style programme in conditions of such a transitional economy.

Much of the equipment now idle is obsolete, and much of it is in sectors producing undesired products of poor design and quality. Many goods that people want are not available from Polish producers. Therefore it is likely that stimulation of demand would be met by rising imports/in 1991 as much as 34.7%, compared with 21.5% in 1990, of imports was accounted for by consumer goods (Zycie Gospodarcze 20, 1992: 1), and so jobs would not increase proportionally to rising demand. In the short run at least, consumption may restrict investment. Furthermore, it is not investment as such that is important, but in what regions of the country it takes place, in what sectors of the economy, in what areas of technology, and so on. There are many micro-economic, econometric or sociological tools/market research, simulation techniques etc./which could be used to estimate the effects of increased demand. The Government, however, perhaps because of their associations with notions of industrial policy and planning did not use them.

The most frequent argument, however, against the “breakthrough” announced by the Olszewski Government was that an increase in the budget deficit would push inflation up. Some economists argue that increasing the budget deficit and printing new money need not lead to an intensification of inflation, because the money could be exclusively used, e. g. investment credits and subsidies for exporters. However, say certain other economists, the exporters will use the funds acquired to pay their domestic suppliers and soon the money will take on a life of its own, fuelling inflation. On the other hand, if the Government intends to keep the money stock constant, it must borrow by selling bonds. If they are bought by the public, the borrowing is not directly inflationary but has a dampening effect on other forms of household savings such as saving accounts and shares. The fiasco of previous issues of treasury bonds/in 1990 it was assumed that the sales of Government bonds will yield Zl 4 trillion but the actual proceeds amounted to only Zl 163 billion (Życie Gospodarcze 16, 1992: 5)/ indicates, however, that the bulk of them will have to be purchased by banks. But financing the budget deficit through purchases of Govern- ment bonds by commercial banks crowds out other potential borrowers, especially enterprises; it reduces the pool of savings available for investment and helps to maintain high interest rates which limits the anti-recession impact of the Government fiscal policy.

Under the pressure of these criticisms, not the least from the IMF/whose managing director stated that “The worst-case scenario is Poland will not be able to regain control of its finances which could mean the return of hyperinflation…this would mean… the lengthening of the process of transformation” / The Warsaw Voice May 31, 1992: B2/the Olszewski Government abandoned many of its plans and presented a programme which could hardly be regarded as a break- through. It would be more accurate to describe it as a continuation of the previous economic policy with some rather weak and inconsistent anti-recessionist elements. The Prime Minister and his cabinet proved to be much stronger on rhetoric than on action. The Christian-national politicians which composed the core of the Government coalition were much better qualified for the role of McCarthyists than that of Keynesianists/or Friedmanites, for that matter/. As a result of this predilection to the political circuses/which were meant to distract public attention from the sorry state of the economy/, not one important economic problem has been solved, and the next Government faced the same dilemma: a continuation of the previous course, which has clearly outlived its usefulness if any, or, an imperative move to the second stage.

The next wave of strikes in the summer forced the Suchocka Government to change course and adopt at least some measures aimed at satisfying the strikers' demands, The workers demanded not only pay increases but also Government assistance for State enterprises and a clear statement on their future. In response, the Government offered a pact on State enterprises, which, among others, provides for wider participation of workers in their employer firms' privatization, including permanent employee representation on the supervisory boards of these firms, fot tripartite negotiations between the Government, employers and trade unions on levels of pay rises free of the "excessive" wages tax instead of this level being set by the Ministry of Finance, for debt reduction agreements of banks with debtor companies and for the suspension of the above-mentioned "dividend." It remains to be seen, however, whether these policies will amount to "a realistic programme to get out of the crisis"/The Warsaw Voice Aug. 30, 1992: 3/demanded by the unionists. The problem is that these Government proposals, amounting to an attempt to win back the workforce's support for the continuation of economic reform may come too late and be their potential beneficiaries as only half-measures,

The pact is only a vague outline of an anti-crisis programme. It should be clear from our earlier discussion that Keynesian thinking based on stimulation of demand by fiscal and monetary means is inadequate. You cannot just spend your way out of a recession in the conditions of a transitional economy whose price system is still not efficient enough to solve the crucial problem of resource allocation. The Polish economy is in need of a fundamental restructuring. Leaving this to the demand mechanism alone would not only take a lot of time but also entail enormous costs. As is well known, microecono- mics is absent from the purview of Keynesian economics and policies. What is needed, therefore, is “Keynesian-plus” or microeconomic policies supplementing a general tax, expenditure or monetary policy. The Government can make a positive contribution to economic growth through a whole range of policies in such fields as infrastructure, the regions, training etc., and more directly, through industrial policy, subsi- dizing research and development, fostering selected industries in the form of tax and investment incentives and giving support in export markets. The central feature of the most successful industrial policies worldwide has been the concentration on certain sectors. The precondition for such a policy of selective growth is an overall strategy of long-term development of the economy. Only then any danger of, for instance, increasing State subsidies to prop up “lame ducks” will be avoided. The central role of the Government in stimulating large changes in the structure of the economy, in organizing structural transformations which involve new methods, equipment, training and attitudes will require a whole new philosophy of the functions of the State and thorough reorganization of the ways and means of Government action.

Notes and References

A slightly different version of this paper has been presented at the Second EACES General Conference in Groningen on “Problems of Transforming Economies”/ September 24-7, 1992.

1. It is opposite to note that according to an estimate investing in one or two years in Polish industry Z1 150 trillion/about $ 10 billion/would set it on its feet/Gazeta Wyborcza Feb. 22, 1992: 4.
2. There can be no mobility of the workforce if only because of a shortage of housing.
3. 3. The amount of money which went abroad recently is estimated at at least
4. $2 billion/Nie 17, 1902: 31.
5. 4. In its narrowest senso, monetarism is the theory that controlling the amount of money in the economy would control inflation; but underlying and associated with this belief is the idea that the role of the State should be reduced and the economy left to the “beneficial” effects of market forces. Poland’s stabilization programme was not strictly monetarist in the first sense as it relied not only on restricting the money supply but also on two other “anchors”: restraining wage increases/through the so-called popiwek tax/and fixed exchange rate. It is relevant to note that the former element of incomes policy holding down increases in public-sector pay is incompatible with the Government’s free-market principles.
6. 5. For instance, the IMF’s managing director, Michael Camdessus, said: “The worst-case scenario is Poland will not be able to regain control of its

finances which could mean the return of hyperinflation…this would mean…the lengthening of the process of transformation” /The Warsaw Voice May 31, 1992: B2/. It is somewhat ironic that in the discussions of Bretton Woods in 1944 which established the IMF a leading part was taken by Keynes, who, after all, broke with the dogma of the balanced budget.

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