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Privatisation Policy and Industrial Policy in Poland in the Period of Transformation

by

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Privatisation Policy and Industrial Policy in Poland in the Period of Transformation

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Abstract: The transformation of centrally planned economies needs privatisation and a co-ordinated industrial policy. This paper presents an overview of the legal basis, tools, and outcomes of privatisation and industrial policies in Poland in the nineties.

1. Introductory remarks

At the onset of transformation the Polish economy differed in two aspects from other similarly developed economies. On the one hand there was no legal and institutional basis for market economy, on the other hand the structure of Polish industry was deeply disproportional. Thus, transformation involved both establishment of new institutions of market economy and radical change of the existing industrial infrastructure.

The first task was either to establish institutions which had not existed in a centrally planned economy but were fundamental to market economy (e.g. a stock exchange) or to remodel some institutions which had fulfilled their particular role for central planning (e.g. a central bank). Further, it was necessary to learn how to use these institutions in order to carry out the new economic policy (Okólski, 1994).

The other task was related to the fact that the centrally planned structure of the economy did not meet the needs of a market economy. Thus, the share of industry in the GDP was excessive as compared to commerce and the services sector. In industry, the sector of the first stages of processing (fuel and power industry, metallurgy) was overdeveloped at the cost of manufacturing of final products. As far as final products were concerned, too many were obsolete and internationally non-competitive (Lipowski, 1995).

The two tasks were obviously interconnected. The aim of creating an open market was, among others, to force structural transformations in economy. However, this was disputable as far as Polish economists were concerned. There were opinions that enterprises should undergo structural transformation spontaneously, they should be adjusted gradually, in particular market conditions and by means of a rational economic policy. The major task for the state would then be to have quick and thorough privatisation since it is not possible that enterprises controlled by the state bureaucracy or internal pressure groups (trade unions or other workers' representations) could respond rationally to market impulses. However, the state made no decisions regarding large scale allocations, thus indicating that no foundations for such decisions had been established yet and that they depended largely on the current balance of political power.

On the other hand, without negating the need for privatisation (although rather slower and more complete privatisation), it was stressed that restructuring of the economy was not possible through only bottom-up initiatives. It was indicated that the state should become more involved, its role not being limited merely to carrying out economic policy and privatisation. There were calls for active industrial policy, i.e. modification of allocations made on a large scale. There were arguments that the scale and speed of changes required was far beyond the capacity of individual companies.

In fact, in the nineties the state did implement both privatisation and more or less co-ordinated industrial policy. In this document I shall present both ways in which the state influenced the structure of Polish economy. I shall present various paths of privatisation and also point out various attempts of direct influence on allocation of resources, particularly through programmes developed for individual sectors.

2. The process of privatisation in Poland, the tools and outcomes

Privatisation in countries transforming their economies, understood as changing the structure of ownership of the GDP, is a twofold process: it is both transformation of the state sector and spontaneous growth of a new private sector. Privatisation of state-owned enterprises can be done through their sale by various methods (equivalent distribution of property) or through disposal (non-equivalent distribution). In order for these processes to be effective, however, a well formed institutional and legal basis must exist. In Poland legal provisions for selling the assets of state-owned enterprises, i.e. for *privatisation of the equivalent character*, were laid out in the Act of 13 July 1990 on privatisation of state-owned enterprises. Several amendments were introduced subsequently by a new Act of 30 August 1996 on commercialisation and privatisation of state-owned enterprises, which replaced the former act. However, due to the period of validity, the Polish privatisation process was based mainly on the previous act. Especially that the new act did not alter the methods of privatisation applied until then. The act of 25 September 1981 on a state-owned enterprise, amended subsequently several times, is another legal document regulating the sale of state-owned enterprises.

The so called *general privatisation* is regulated by separate provisions. General privatisation is based on distribution of the state property (thus, it is not equivalent). The basis is provided by the Act of 30 April 1993 on National Investment Funds and their privatisation.

The legal basis for *spontaneous privatisation*, i.e. establishment of new private enterprises, was laid by the Act of 1 January 1989 on economic activity. This act formalised the freedom of economic initiatives. However, practical application of the act was possible only after the introduction at the beginning of 1990 of a packet of legal acts which liberalized the economy. Since then private entrepreneurs had access to production factors. It should also be mentioned that a considerable part of the new private sector operates outside the legal framework, as the so called "informal sector" (Bednarski, 1997).

Institutions responsible for privatisation in Poland are: the Parliament, the Council of Ministers, the Minister of Treasury (formerly the same role was fulfilled by the Ministry of Privatisation, now liquidated) and the founders of enterprises (voivods or ministers). The Parliament supervises privatisation and lays down legal provisions. The Council of Ministers is responsible for developing the policy, which is implemented by the Minister of Treasury (previously the Minister of Privatisation). The Minister of Treasury controls the Agency of Privatisation (still in the process of establishment). The founding organs initiate or approve local privatisation projects.

It should be stressed that alongside government organs the process of privatisation involves various organs within an enterprise (the management board, the company council, staff meetings). These organs can put forward a motion for privatisation or approve a motion submitted by the government, although the new act prevents any attempts on their side to halt privatisation.

It must be mentioned that so far no legal basis has been provided regarding restitution of property, i.e. *reprivatisation*. In this case the transformation is based upon instances of transgression in implementation of nationalisation acts.

The above legal infrastructure provided three main paths for the sale of state-owned enterprises, i.e. equivalent distribution of property: capital distribution, direct distribution and liquidation.

Capital privatisation takes place in the case of large enterprises in good financial condition. Capital privatisation is divided into two stages. At stage one, called commercialisation, a state-owned enterprise (i.e. an enterprise to which the act on a state-owned enterprise applies) is changed into a Treasury company, i.e. into a joint stock company or a limited liability company, whose all shares remain in the possession of the state. Thus, an enterprise is not really privatised but from the moment of transformation its operation is regulated by the provisions of the Commercial Code.

A stage two, i.e. real privatisation, the state sells its shares to various purchasers. This is done through tender based on public announcement or through negotiations held by the invited bidders. The employees of the enterprise are given particular concession. The previous act provided for the purchase of up to 20% of the shares of the Treasury by the employees at half price. In accordance with the new act the employees can obtain up to 15% of shares free.

Table 1 shows the scale of capital privatisation at the end of each year.

Table 1: Capital privatisation in the period 1990-1996

Year	Enterprises transformed into companies of the Treasury	Companies of the Treasury privatised
1990	58	5
1991	250	22
1992	172	24
1993	156	48
1994	206	35
1995	236	26
1996	153	24
Total	1231	184

* Another 512 companies were transferred to National Investment Funds.

Source: Ministry of Treasury

As can be easily seen, even if general privatisation is taken into account there is a great discrepancy between the number of companies of the Treasury established and the number of enterprises actually sold to private owners. As it is relatively easy to change the legal status of a company formally, it is much more difficult to sell a company and the process is slower. The situation of these companies of the Treasury which have not been privatised has stabilised since they are of particular importance to national economy. They are not being transformed for the time being (as provided by a special Act of 5 February 1993 regulating this issue) but they are either restructured financially or liquidated or go into bankruptcy or await sale.

Thus a whole category of companies has been created. The firms have a relatively stable status as companies of the Treasury. This is contrary to the intentions of the authors of the first privatisation act, who considered a company of the Treasury as a temporary and transitional unit until the shares are sold to private entities. Life has verified this postulate. Consequently, Polish economists entered into a dispute over the usefulness of mass commercialisation, i.e. transformation of all state-owned enterprises into companies of the Treasury. This solution has been dropped altogether, although for a great number of entities this long term status of a commercialised state-owned company was unavoidable. This was due to the fact that there were no improvements in the operation of the companies of the Treasury as compared to traditional state-owned companies (Bednarski, 1995). Thus, a new structure of management, in which a company council was replaced by a supervisory board, did not eliminate internal conflicts. Staff representatives were not able to release the tension, which only strengthened trade unions, competing with each other. The existing conflicts strengthened workers' fears about future privatisation. However, even promotion of workers' participation did not help to erase numerous conflicts.

As far as employment and wages were concerned the situation in the companies of the Treasury did not differ from the general situation. While dismissing employees social criteria were taken into account in order to protect the old staff. However, the whole structure of employment was far from modern. As long as privatisation seemed to be soon, wage policy was rather restrained and emphasis was put on protecting employment. When the change of ownership was being delayed, companies tried to make up for the relative downfall in wages, there were, however, no drastic breakthroughs. Similarly, salary systems were not altered very much and no particularly expansive incentive systems were promoted.

As far as short term organisational and production adjustments are concerned, the companies of the Treasury turned out easily adaptable. Thus, the structure of enterprises was being changed in order to promote market-driven departments, while the social network was limited or commercialised. Production concentrated on goods sought in the market and the technology was adapted accordingly. It must be mentioned that although the companies of the Treasury were rather successful, their development, in comparison to staff companies or privatised companies, was much slower, even though initial selection was based on similar assumptions. This shows that commercialisation has brought about no particular advantages.

As far as long term adaptation is concerned the evaluation is even less favourable. The feeling of temporariness, the lack of strategically minded owner, insufficiency of funds for new investment and obsolete machinery, often mean de-capitalisation and gloomy outlook for the future.

Only privatisation of a company of the Treasury, i.e. the sale of the majority of the shares, changes its situation (Bednarski, 1996). The position of managerial staff consolidates, while the position of staff representatives weakens. However, the employees' tension does not lessen, their concern about the security of their employment remains, their hopes of raising wages deflate and the fear about employers' new requirements grows.

As to the issue of employment, either the dismissals which began earlier continued or, if the company prospered, the number of the staff remained unchanged or even increased. However, even when dismissals continued, care was taken to minimise social tension and protect those people who had no alternative sources of income. After the completion of the process of privatisation the wages would usually grow in order to improve the atmosphere. Later, the management showed more caution in this respect. All in all, despite external market pressure, privatised companies were very much controlled as regards employment and wage policy, and showed much respect for the interests of the staff.

By that stage organisational changes and short term product adjustments were already completed in the companies which underwent capital privatisation. This was usually the main criterion while selecting a company for sale and facilitated the process.

As far as long term investment policy was concerned the situation was diverse. As a rule, enterprises invest their own resources, which in many cases limits the scale of an undertaking and, consequently, the possibilities of future expansion. Companies co-operating with a powerful external investor, usually foreign, able to afford large long term investments, are an exception.

Thus, success of the process of privatisation depends on whether the process is finalised or not, i.e. whether a company is commercialised and, eventually, the state shares sold to private investors. However, this is by no means sufficient. It is necessary to find a powerful leading investor who can bring external capital to a company, new technologies, management system and markets. When these conditions are satisfied capital privatisation is successful.

Direct privatisation involves financially sound small and medium size enterprises. The ownership is changed in one of the three ways: the whole enterprise or its part is sold, an enterprise joins another company or is leased for a specified period. Due to its scale this type of privatisation is extremely important for the economy. Table 2 shows it.

Table 2: Direct privatisation in the period 1990-1996

Year	Sale commenced	Enterprises sold
1990	31	2
1991	418	180
1992	270	293
1993	198	232
1994	125	238
1995	107	109
1996	169	189
Total	1318	1243

Source: Ministry of Treasury

The so called company lease dominates (over 67% of the transactions), which has grave social consequences. 20% of the transactions involve sale, and merely 6% - bringing in the property to join another company. The company lease involves establishment of a company, usually by the majority of the employees of the firm which takes out a lease on the property of the enterprise. After the term of the lease expires it is possible to purchase the property from the state. The state facilitates the process lowering the interest on outstanding payments in relation to the market interest rate.

From the social point of view, transformation of state-owned enterprises into staff companies raised both fears and hopes. The hopes were related to expectations of a more favourable for the employees path of transformation, effected with the approval and co-operation of the staff. At the same time there were fears of inefficient and weak management and the favouring of short term consumption interests of the staff at the expense of further development. The reality verified these fears and expectations (Jarosz, 1995).

It turned out that staff companies were internally relatively stable. The main social groups active formerly had to come to agreement on the future tactics. Owing to that the position of the management was never questioned and the rights of the staff were generally respected. At the same time it can be observed that the managerial staff or external investors tended to establish strong ownership groups, usually together with another firm with which they had co-operated previously. Thus, this type of privatisation often, even though after a long time, leads to establishment of a typical private company.

Irrational activities, from the point of view of effectiveness, were feared regarding employment and wages. However, no such activity was noticed within the companies surveyed. The pressure of the market was too strong as was the fear of bankruptcy. The same relates to wages. They were only slightly more dynamic than the average. Staff companies seemed to be able of mid term adjustments. This refers both to their organisational structure and to adaptations in the area of production. Long term adjustments were generally slight, which was due to the lack of the vision of the company and insufficiency of funds to make investments. In the case of staff companies the issue was particularly grave since they had to pay lease instalments, however, not being owners of the property, they could not take up credits in lien.

All in all, the results have been encouraging, especially that nowadays this method of privatisation is regarded as the most effective. However, new instruments must be developed in order to shorten the time required for adaptation of these companies to market economy and secure more capital for them, even at the cost of lowering their already modest contribution to the state budget.

From the social point of view the least favourable form of privatisation is *liquidation due to economic reasons* as provided by the Act of 25 September 1981 on state-owned enterprises, Article 19. Liquidation applies to these units whose economic situation is poor. Liquidation means that an enterprise ceases to exist both as a legal entity and a physical unit (its assets) (Dabrowski, Kaminski, 1996). Table 3 below shows this process.

Liquidation is effected through the sale of the assets of an enterprise and expunging the enterprise from the register of state-owned enterprises. The creditors are paid before the remaining assets go to the state treasury. Social implications of the process are that all the employees of the enterprise are dismissed, which is particularly severe if an enterprise is liquidated in the area of high unemployment or if it is the only enterprise in the area.

However, in the long term perspective, liquidation is economically and even socially rational. It means that uneconomic and loss-making entities are liquidated and their assets are transferred to private, potentially profitable, units. This in turn means that new income and new jobs are created.

Table 3: Liquidation as provided by the act on state-owned enterprises

Year	Commenced	Completed
1990	18	0
1991	522	19
1992	317	67
1993	225	100
1994	163	117
1995	113	93
1996	47	168
Total	1405	564

Source: Ministry of Treasury

Unfortunately, the main drawback of this form of privatisation is inadequate efficiency of the procedures applied. In 1996 the procedures were completed in only 40% of cases, although fewer new companies were introduced into the scheme. This was due to numerous difficulties with selling off property - industrial and residential buildings, holiday centres - which was not attractive and its ownership status was not clear. Consequently economic use of the resources available was delayed.

Non-equivalent privatisation is entirely different. Here a specified part of the state assets is given to the public. In this way two goals are pursued simultaneously - social and economic. The social aim is to enfranchise the public, who contributed to the growth of national resources, avoiding the restrictions related to share purchasing. The economic aim is to facilitate privatisation, avoiding the barriers posed by capital shortages and the complications of property valuation. However, this form of privatisation raises serious doubts. As opposed to equivalent privatisation, no income is generated for the assets sold. (In 1995 the income from privatisation amounted to 3.2% of the state budget). This part of the overall income is particularly important considering the attempts of the government to decrease the budget deficit and fulfil the high expectations for the social role of the state. On the other hand it is feared that owners created through distribution of property will not be able to control privatised companies effectively. These new owners are unable to invest additional capital, or introduce improved technologies, management systems or new markets.

The Polish programme of general privatisation is an attempt to use all the advantages of mass enfranchisement and, at the same time, to compensate for all potential drawbacks of this process (Kostrz-Kostecka, 1995). Hence, the leading role of the National Investment Funds, founded especially to serve this purpose. Their structure is similar to that of closed-end investment funds. Each of these funds plays the role of a shareholder in a particular group of enterprises. Simultaneously, the public are allowed to hold shares issued by the National Investment Funds, but not directly by the companies. In Poland 15 such funds have been established for 512 firms participating in the programme.

Formally, in the light of the above mentioned legal regulations, the funds are joint stock companies, 85% owned by the public - programme participants, and 15% by the Treasury. The funds are managed by Supervisory Boards, which appoint Executive Boards. A special role in the National Investment Funds is assigned to the so called managing firms, i.e. international consortia of institutions with vast experience in the area of management, such as banks or law and consulting firms. Appropriate contracts give them extensive managerial power. Their remuneration is proportional to the growing value of the fund they manage. This system should improve professionalism in managing the funds, although it also breeds conflicts between the managing firm and other organs of the fund.

The key issues to be tackled in relation to the funds were the issues of their assets and ownership. The Treasury contributed 60% of the shares of each company belonging to the fund. The remaining shares were divided between the staff (up to 15% free) and the Treasury (25% of the reserve). As a result of distribution of the 60% of the shares between the funds, one fund would obtain a counterfoil block of shares (33%) in a leading company. The remaining 27% of the shares were divided equally between the remaining funds. Thus, each National Investment Fund is a shareholder in all the companies participating in the programme, however it has a counterfoil block of shares only in some of them. Allocations were made through drawing in several rounds.

Transfer of ownership to the public is broken into two stages. First, all adult Poles, having paid appropriate handling charges, obtain share certificates. Share certificates are bearer securities. They are not assigned to a particular Fund but give their holders the title to participate in the programme of general privatisation. As such they do not provide the holders with the full rights of a shareholder but only with the evidence of the title to shares. At the further stage share certificates are exchanged for shares of the National Investment Funds. One share issued by each Fund is exchanged for one share certificate. The whole process of exchange is costly (an investment account opened in a broking house is a prerequisite), therefore it is expected that the majority of citizens will simply sell their share certificates. Thus, general privatisation will not lead to public shareholding. These will rather be large capital groups which will take over the shares of the Funds and, subsequently, the control over these funds.

Although general privatisation has only begun recently, it can already be observed how the executive boards of the Funds act in relation to individual companies. Two different attitudes have been assumed (Romanowska, Solarz, Wawrzyniak, 1996). The first promotes such a financial structure of the Fund which allows on maximising the value of the Fund through sale and purchase of companies. These are companies whose return rate on the capital invested is the highest with the minimum risk. The other strategy involves restructuring of the companies which have been selected at earlier stages, i.e. improving the quality of these companies and not changing them for better companies. Also, the activity of the Funds, their effectiveness and ability to co-operate are diverse. This diversity is reflected in the prices of shares of individual Funds. However, evaluation of the effectiveness of Polish general privatisation from the economic point of view has only now begun. From the social point of view, the active interest the public has shown regarding share certificates, can be regarded as a success.

However, as far as the restructuring of the ownership structure of the GDP is concerned, the key importance is assigned to privatisation by means of establishing new private enterprises from scratch. The legal infrastructure outlined above and the access to production factors have resulted in an entrepreneurship boom, which is shown in Table 4.

Table 4: Number of economic units in the private sector

Year *	Commercial law companies	Foreign capital companies	Enterprises of physical entities (thousand)
1989	12 122	429	813
1990	33 239	1 645	1 135
1991	47 690	4 796	1 420
1992	58 218	10 131	1 630
1993	66 391	15 167	1 609
1994	69 284	19 737	1 713
1995	74 299	24 086	1 693

* As of 31 December.

Source: Central Statistical Office and Ministry of Finance.

Unfortunately, the boom is subsiding, which is most visible in the case of the smallest entities (Bednarski, 1994). Thus, the barriers to establishment of new companies are in fact the greatest barriers to privatisation in Poland. The first barrier is posed by a limited number of potential entrepreneurs. This role is usually taken on by well educated men who have gained experience working in state-owned and private enterprises, and who seek both high income and self-fulfilment. In order to attract more people to the idea of entrepreneurship, an appropriate publicity and training campaign is required. However, such campaigns in Poland are not yet effective enough.

Another key factor for establishment of new companies, alongside the existence of an entrepreneur, is capital. Future owners encounter major problems accumulating sufficient capital. They usually invest their own savings, money earned abroad or borrowed from the family and friends. Banks play only a minor role due to the fact that they demand security for a loan and charge high interest. Hence, many businesses commence operation with a very small capital, which can jeopardize their existence. The chances to multiply the capital out the profit are slim as the profit made by these companies is usually not big enough. Since the competition is very strong, small firms cannot raise prices to match the growing costs. Thus, it is due to the size of private companies and the lack of modern facilities that the effectiveness of these companies is not impressive and the potential to enter new markets limited.

Another obstacle to development of companies is posed by limited markets. Companies do not adjust their production to the demand and marketing activities are infrequent as they are considered as expensive and ineffective. Hence, small companies sell their goods in local markets only and are dependable on a small number of clients. In addition they have to overcome stiff competition with the companies of the so called "informal sector", which evade taxes and various charges. Due to insufficient capital it is difficult for small companies to reach new clients, including foreign clients. Taxes are not a major obstacle to development of small and medium size private enterprises. The average income tax paid is low despite a rather high tax rate. This is a result of notorious instances of understating income by means of overstating direct costs. Only the amount of social insurance contribution is regarded as a formidable obstacle. The greatest flaw of the tax system is considerable changeability of regulations, which does not allow an enterprise to follow one lasting development strategy. Bureaucracy at various levels of state administration does not speed the matters for companies.

Promotion of Polish small entrepreneurship must be closely connected with financial support for the existing and newly established private companies. The easiest, although the most expensive, method of promotion are tax allowances or preferential credits for investors. Training for both the staff and the owners of private companies is another important issue. However, financial contribution towards training activities is necessary. It is also necessary to establish an appraisal and recommendation system in order to recommend the most effective training. Great importance is assigned to local initiatives, such as creation of incubators of entrepreneurship. These initiatives are aimed at facilitating establishment of private firms by means of providing them with office or production line space, equipment, administrative services and counselling. Development of small and medium size enterprises will only be possible if various supporting activities are launched and co-ordinated at the national and local level.

To summarise, it should be said that Poles have seized the opportunities provided by the state regarding development of private enterprises and succeeded in entering these areas of economy which have been opened to them as a result of the transformation. However, much less favourable evaluation can be made as regards privatisation of the state property conducted by the state administration organs. The programme of general privatisation has been developed too slowly and its scale is not sufficient to meet the needs. The speed of capital and direct privatisation is much too slow considering the needs of the economy. Inactivity of relevant state organs and social conflicts are much to blame here. The absence of an act on reprivatisation is also unfavourable for the process of privatisation in Poland. Reprivatisation can be very effective but does not take place. On the other hand, ambiguity as regards ownership rights results in checking or slowing other privatisation procedures. All in all, much more active and effective role of the state in the process of privatisation should be postulated.

3. Industrial policy

Industrial policy, understood as regulation of market allocation processes (Wellisz, 1994), has threefold objectives. They are derived from the theory of economy, or from foreign experience and the specific character of the transformation. Among theoretical assumptions the phenomenon of market failures has been pointed to, and especially the phenomena of imperfect competition, external effects and transformation asymmetry. When analysing foreign experience, the economic success of the Far East countries, particularly Japan, where the state assumed a very active role, was highlighted. The scale of structural adjustment necessary for a success of transformation and the scale of required concentration of resources in the most developing fields of economy were underlined (Sadowski, 1996).

However, these attitudes were criticised by advocates of limited industrial policy of the state. It was said that market failures can be compensated for in a different way, for example through direct intervention of the state. Several surveys were indicated questioning the leading role of the state industrial policy in the economic success of the Far East countries (recent developments even challenge the sustainability of this success). Despite the large scale of restructuring the state has no objective instruments at its disposal in order to be able to single out priority sectors. The state is liable to act under pressure of political groups, branch lobbies, and consequently to allocate resources ineffectively (Noga, 1997).

There were also compromising concepts of industrial policy (Kotowicz-Jawor, 1997). Any activities aimed at supporting various sectors are treated here mainly as auxiliary tools. Dominating activities involve stimulation and support for innovations initiated at the micro-economic level and attempts to increase capacity of enterprises for accumulation.

The conflicts outlined above resulted in launching industrial policy by the Polish government. Its primary role was to indicate general preferences of the government and to implement programmes for individual sectors. On the other hand the policy focused on granting individual privileges to selected entities, mainly for political reasons. The two directions are characterised briefly below.

One of the forms of industrial policy of the state was *public announcement in governmental documents of the sectors which had the greatest potential for development.* The Ministry of Industry and Commerce prepared two relevant documents in 1993 and in 1995. In the first document the selection of the sectors with the greatest potential for development was based on statistics. The sectors were selected on the basis of their existing or potential competitiveness. The other document stressed modernity of the sectors and their impact on modernisation of industry and improvement of the structure of industry as well as potential for profitable export. In the years 1995 and 1996 the ranking of the sectors in the processing industry was published, based on formal criteria. The ranking indicated the chances of expansion of the products of a given sector on the international market as well as the effectiveness and growth of Polish enterprises in this sector. However, the above documents did not have any tangible effects in economic practices (Lipowski, 1997b). This was due to the fact that no significant governmental financial support for these sectors was planned. It was envisaged that the government would support the sectors through favourable customs policy, credit guarantees, promotion and search for appropriate financial partners. However, even these few activities were not implemented firmly. This might have been caused by the fact that the government was not convinced about the adequacy of the concept. Thorough restructuring of the government and the departments responsible for economy at the beginning of 1997 might have affected the policy as well. As it was, the activities were primarily of informative character, indicating the preferences of the government. This could have had some influence upon foreign investors, although these circumstances were by no means decisive or ultimate. The policy implemented by the government could not please the advocates of radical state intervention as regards allocation of resources. Neither could it lead to quick restructuring of selected sectors. Hence, various projects in individual sectors were launched simultaneously, funded partly out of the state budget.

Sector policy was implemented in selected fields, particularly in infrastructure, raw material and investment sectors, which were regarded as strategic for the needs of the national economic system. Excessive employment, outdated infrastructure, high pollution, deficient internal structure, financial difficulties, high prices of products and social conflicts were characteristic of these sectors. All these enterprises belonged to the public sector.

The programmes had a number of purposes. Some researchers classified them as anti-crisis, adaptation and development programmes (Blaszczyk, Borowiec, Antczak, 1997). Anti-crisis programmes were aimed at healing these sectors which were in deep economic crisis (mining, ship-building, sugar and arms industry). Adaptation programmes were to prepare certain sectors for expansion (metallurgy, pharmaceutical industry, petrochemical industry). Development programmes were implemented in sectors with a potential for generating high profit (telecommunication, gas engineering). Looked upon from a different angle (Lipowski, 1997a), programmes of one type were aimed at reduction of the manufacturing potential and modernisation (mining, metallurgy). Programmes of the other type were aimed at development and modernisation of a particular sector. On the whole, the goals of a programme depended on the market potential of a given branch of industry, as well as on its technological level. Furthermore, due to strategic character of these sectors it was crucial to assess self-sufficiency of the Polish economy in a given field in a highly competitive economy. At the moment, when Poland is preparing to join the EU, all programmes of restructuring must also be accession driven.

The outcomes of the programmes varied. As an example of a dismal failure one can regard the attempt to restructure Polish coal mining (Karbownik, 1997). Since 1993 four individual programmes were launched. Earlier, in 1990, there were several unsuccessful attempts to make mines self-dependent and the idea was dropped three years later. Negative gross financial balance sheets have not changed since 1991 and consequently, indebtedness of the sector increased, which also has to be regarded as a failure. This was caused by the fact that the overall production of coal was not reduced to match the demand (among others unprofitable export was not discontinued) and unprofitable mines were not promptly closed. Despite decreasing the number of employees, the efficiency was far behind international standards. The government was not able to enforce its plans and as a result was compelled to amortize taxes and grant donations, particularly to pay overdue social security contributions. No attempts have been made to privatise the mining sector. In the latest plan the same goals have been set as previously and considerable amount has been allocated to pay due commitments and liquidate some mines. There is, however, no mention in the plan of effective tools enabling to reach the goals regardless of the conflicting interests of workers.

A partial success has been achieved in metallurgy, although implementation of the programme did not avert entirely all potential dangers to the branch (Brzóska, 1997a). One programme, developed by a Canadian Consortium, was launched in 1992 and updated in 1995. The success has been reflected in positive financial balance sheets since 1994, although in 1996 the profit was very small. Still, the indebtedness of the sector, especially long term, is very high. Relatively satisfactory indices have been due to the reduction of some commitments, also these by the state budget. Nonetheless, some of the goals planned in the programme have been achieved. Employment has been reduced without any collective redundancies. The excessive production has been brought down, without closing any plants, which is particularly significant, considering the importance of steelworks in the local labour markets. Considerable technological changes, such as modern methods of heating steel, have been introduced. Owing to these improvements effectiveness of work has increased and environmental pollution factors have been limited. The programme has been implemented in 30%. However, its further implementation might be hindered due to financial problems and reduction of customs allowances with the view of the European integration. It is also worth mentioning that the process of privatisation in metallurgy has already begun, although its results have not been very conspicuous yet.

Relatively successful programmes include the programme of restructuring of electrical power engineering (Brzóska, 1997b). Formal documents laying out the policy of the state in this sector were drafted late. A document "Objectives of power engineering policy in Poland until 2010" was published only in 1995 and "De-monopolization and privatisation of electrical power engineering" in 1996, nevertheless a distinct sector policy had been pursued much earlier. Financial situation of the sector, which generated net profit every year, was stable, with growing receipts and equally balanced commitments and liabilities. The major aims of the policy included ensuring the security of the country as far as electrical power was concerned, substantial improvement of ecological standards, reorganisation of the electric energy market and organisational and financial restructuring of plants. The security is provided when the supply of electric power exceeds the demand, when domestic materials are used and the prices are relatively low, yet controlled entirely by the state. Connecting the Polish power system with the Western European system in 1995 was also of vital importance. The level of emissions has already been substantially reduced, although the whole process of reduction in accordance with the international standards will not be completed until 2010. Large investments in the area have boosted effectiveness. It should be stressed that these were own investments and credits and no financial support was granted from the state budget. Positive intervention of the state concentrated mainly on reorganisation of the market and laying down a legal basis for the sector. The reorganisation involved establishment of separate phases of generation, transmission and distribution, with the second phase playing a central role to the sector restructuring policy. The majority of the companies were granted the status of companies of the Treasury. A modern legal basis for the sector of electrical power engineering was created, opening the opportunities for its de-monopolization and privatisation. The major drawback of the policy in this area is the fact that privatisation, although planned, has not been commenced so far.

It is difficult to determine why the effects of the programmes for individual sectors were so varied. A number of factors can be pointed out: determination of responsible government organs to implement the reforms, qualifications of the managerial staff in a given sector, resistance from trade unions, financial situation in a given sector and technical infrastructure at the beginning of the period of transformation in 1989.

As has already been mentioned above, alongside long term industrial policy, i.e. ranking industry sectors and developing restructuring programmes for these sectors, the state demonstrated its preferences through *granting special privileges to selected areas of production or enterprises, at the discretion* of appropriate authorities. The privileged areas or enterprises were offered better conditions for operation. Departures from generally observed rules were sanctioned in relation to the privileged areas (e.g. regarding payment of taxes). The first kind of privileges were given in the area of international dealings. Protecting individual branches by means of imposing bans on export or import results in the situation in which some sectors face stiff competition with foreign businesses, while other sectors are protected. Thus, through customs privileges, countervailing charges or bans on import, special protection was provided for, among others, agriculture, car industry, metallurgy, mining and petroleum industry. However, no protection was given to fodder and printing industry. But customs duties were liberalized for selected importers in pharmaceutical and cable industries, electronic engineering and railway rolling stock manufacturing.

Similar privileges regarding export and import were given to international concerns restructuring selected enterprises. The privileges included tax exemption or lowering environment protection standards. On the whole, these privileges secured a dominant position of selected entities in the Polish market. Particularly car manufacturers and manufacturers of telecommunication systems took advantage of the special protection offered (Lipowski, 1997b).

The above activity of the state cannot be regarded as generally unreasonable. Decisions based on partiality can be made in order to rescue certain branches or enterprises as they allow these branches or enterprises to survive in a period of transformation or to obtain external support. However, it is to be questioned to what extent preferential support is justified objectively and to what extent it is a result of political lobbying. Moreover, there is no data available regarding the expenditure of the privileged branches and enterprises - for restructuring or direct expenses. If the latter is the case, an enterprise will certainly request additional allocation from the state budget.

Nonetheless, the privileges discussed were a consequence of deliberate decisions of central authorities and, therefore, were reasonable. However, when an enterprise requests ex post payment of debts to the state, it is clearly concerned about its own interests at the expense of the whole society. This is, unfortunately, rather common in Poland, as illustrated in Table 4.

The above enterprises have run the deepest debts. However, several hundred enterprises are in debt to the state. As far as 19 principal debtors are concerned the total debt is 2,836.4 million zl. The state earmarked additional 2,771.9 million zl to support these enterprises. Summing up we arrive at the figure of 5,608.3 million zl. The debts include outstanding taxes and social security contributions. Financial support takes the form of tax reliefs and donations. The situation outlined above shows partiality of Polish industrial policy. Taxes are collected strictly from some tax payers, while others are allowed to incur debts, which are in fact interest free loans, and are subsequently amortized. The criteria applied in implementation of this policy are not economic but are determined by political power of debtors. This leads to re-distribution of income from effective to ineffective entities, with no hope for restructuring of the latter. These are usually large public plants which are beneficiaries of this policy. Private enetrprises find themselves in a very unfavourable situation. Their taxes and social security contributions are collected much more rigorously, though not always entirely successfully.

Table 4: Enterprises indebted to the state (as of the end of 1997)

Company	Debt to the state budget (million zl)	Support from the state (million zl)
Bytomska Spólka Weglowa (Bytom Coal Company)	462.6	387.3
Rybnicka Spólka Weglowa (Rybnik Coal Company)	402.0	123.6
Gliwicka Spólka Weglowa (Gliwice Coal Company)	329.5	161.7
Katowicki Holding Weglowy (Katowice Coal Holding)	308.0	258.7
Nadwislanska Spólka Weglowa (Nadwislanska Coal Company)	304.5	418.0
Rudzka Spólka Weglowa (Rudzka Coal Company)	234.5	136.4
Polskie Górnictwo Naftowe i Gazownictwo (Polish Oil Mining and Gas Engineering)	230.7	171.2
Zaklady Przemyslu Ciagnikowego "Ursus" ("Ursus" Tractor Manufacturers)	195.5	380.2
Jastrzebska Spólka Weglowa (Jastrzebie Coal Company)	78.4	422.1
Zaklady Koksownicze (Coking Plant)	61.6	3.1
"Przyjazn" – Dabrowa Górnicza	61.6	3.1
Bobrek Steelworks in Bytom	54.0	2.7
Stalowa Wola Steelworks SA	32.4	185.2
Zaklady Tworzyw Sztucznych Pronit (Pronit Plastic Manufacturers)	27.5	4.6
Wytwórnia Sprzetu Komunikacyjnego – Swidnik (Transport Equipment Manufacturers in Swidnik)	24.3	24.4
Batory Steelworks SA	23.1	3.0
Wytwórnia Sprzetu Komunikacyjnego - Mielec (Transport Equipment Manufacturers in Mielec)	22.6	71.4
Radomska Wytwórnia Telefonów (Telephone Manufacturers in Radom)	20.1	2.0
Przedsiebiorstwo Tworzyw Sztucznych ERG (ERG Plastic Manufacturers)	13.2	16.0
Radom Thermal-Electric Power Station	11.7	0.3
TOTAL	2,836.4	2,771.9

Source: Ministry of Finance

In the light of the above, we can attempt to evaluate industrial policy of the state, i.e. the purposefulness of reallocation of means through the market. Implementation of selected restructuring projects for individual branches seems unavoidable. Yet the number of branches selected for restructuring and budgetary support is limited to absolute minimum. This is due to the fact that no more public funds can be earmarked for this purpose without harm to the dynamism of the whole economy. On the other hand, the funds should be concentrated and allocated to some narrow goals, which will enable to achieve the aims of restructuring and not only to prolong operation of ineffective companies. Restructuring programmes should be launched together with programmes of monitoring of expenditure of public funds, so that restructured branches could become financially self-sufficient in a short time.

Privileges should be granted to various branches of industry or enetrprises cautiously, and mainly to these enterprises or branches which are likely to become self-sufficient in the near future.

At the same time funds allocated to the above aims should be limited each year lest the number of activities outlined above should exceed the necessary minimum. But it is absolutely detrimental to show partiality towards some tax payers and tolerate and eventually amortize outstanding tax payments. This results in waste of public funds and undermines discipline in economy. Government privileges for some entities are naturally expected by other entities as well and, consequently, evaluation of enterprises based on their position on the market is pointless.

Ranking of enterprises on the basis of their development potential seems to be of little significance too. Nondiscriminating stimulation of entrepreneurship and growth of all economic entities is much more effective. This can be done by means of tools which include innovation investments, research, information and education systems. These should be the main directions of the state intervention in economy, departing from industrial policy understood as direct influence on market allocation.

4. Conclusion

The above processes, i.e. spontaneous adjustment of enterprises to the requirements of the market (induced by privatisation) and restructuring controlled by the state, altered the structure of production and export. However, researchers' opinions on the subject vary considerably. Some point to positive elements (Lipowski, 1998), indicating that in the period 1992-1995 (i.e. from the onset of economic growth) production of high degree of processing was much more dynamic than industrial production as a whole. For example, the dynamism of coal production was 0.98, electrical power - 102.9, steel - 113.9, while the dynamism of industrial production as a whole - 134.5. At the same time industrial export to developed countries was growing in relation to total industrial production. This was simultaneous with a decrease in export of low-processed goods and an increase in the export of high-processed goods. The decrease in the number of branches uncompetitive in the international market can be noted as a positive development. At the same time the number of neutral, from this point of view, companies increased, however, the number of competitive branches also decreased. Research shows an increase in the export of heterogeneous goods to scattered markets and a decrease in the export of homogenous goods to segmented markets as, for example, metallurgical products (Marczewski, 1997).

There are different opinions, too, also based on statistics (Karpinski, Paradysz, 1997). These authors point to the decrease in the period 1989-1992 in the output of high-technology industry in relation to total industrial production, not balanced even by an increase in the following years. Although the level of high-technology industry in Poland in the eighties must be criticized, the changes brought about at the beginning of the transformation were dangerous. The above authors point out that the highest flexibility of export in relation to production was achieved for products for which the demand in the world markets was falling, the lowest flexibility in the precision engineering industry. It is also worrying that 62% of enterprises employing more than 6 persons do not export any goods. These analyses lead to the conclusion that although the changes to the structure of industry have been positive since the beginning of the economic growth in 1992, they have been rather slow and started at a very disadvantageous level of development. Thus, a question must be asked again about the relation between activities facilitating restructuring launched by enterprises (privatisation) and activities undertaken by the state, i.e. non-market re-distribution of funds.

It must be said that further re-distribution between enterprises by means of the state budget is not possible in Poland. Taxes are already high and a further raise would only lead to lower productivity and lower stability of the Polish currency. At the same time social commitments of the state are extensive and it is difficult to reduce them. Thus, Polish industry cannot be re-constructed only by means of reallocation of funds. However, essential programmes for individual sectors can be strengthened or promotion of innovative ideas and investment in companies launched by limiting the support for enterprises which do not pay taxes or social security contributions. Thus, putting aside the above accusations against industrial policy, underlining the lack of definite objectives for the government which is, therefore, likely to be influenced by political criteria, it must still be said that budgetary cuts prevent any radical industrial policy of the state. Therefore, enterprises must take a leading role in restructuring.

However, active involvement of the state is still necessary. The state has to ensure that enterprises respond to various signals coming from the market and that these signals inform correctly about the valuation of production factors. The first condition will be met when the majority of enterprises are private, with a structure promoting a strong, leading owner. In economies which are being transformed this is a prerequisite for quick and successful privatisation policy of the state.

Appropriate market information during the process of transformation is also related to active policy of the state. As has already been mentioned, market economy institutions must be built in order to conduct successful economic policy. Particularly, certain appropriate institutions in the financial sector must be established, such as a good network of commercial banks and an independent central bank, a securities market and insurance companies, anti-monopoly institutions, institutions ensuring transparency of the market, effective organs of central and local administration. Such a structure is a prerequisite for an effective money, fiscal, exchange or trade policy. Thus, controlled industrial policy of the state related to non-market re-distribution of funds does not suggest that the role of the state in the economy is any lesser. On the contrary, establishment of institutions and appropriate application of instruments regulating the economy requires a great amount of effort and good qualifications on the part of various administrative bodies.

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