JOURNAL FÜR ENTWICKLUNGSPOLITIK

herausgegeben vom Mattersburger Kreis für Entwicklungspolitik
an den österreichischen Universitäten

vol. XXIII 1–2007

APPROACHES TO GOVERNANCE

Schwerpunktredaktion: Bernhard Leubolt

mandelbaum *edition südwind*

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Journal für Entwicklungspolitik XXIII 1-2007, S. 98-124

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Central Eastern Europe in the Global Market Scenario

Evolution of the System of Governance in Poland from Socialism to Capitalism

1. Introduction: from actually existing socialism to capitalism

It has been generally assumed that the changes that occurred during the 1990s in Central Eastern Europe resulted almost entirely from the shift from centrally-planned to market-oriented economy system. Following Gorzelak (1996), it is possible to look at the post-socialist transformation as a shift from a Fordist to a post-Fordist organization of economic, social and political life. This shift was not possible in a system separated by economical and political barriers from international competition. Once these barriers were removed, the old patterns of economic production could no longer be maintained and new patterns of socio-economic and political organization begun to shape a different reality.

Whether it is true that there are several resemblances between the transformations process characterizing CEECs during the 1990s and those that occurred in the Western world 30 years ago, it must not be forgotten that the "ideological" factors characterising the starting point for these changes, as well as the answer developed by the different governments in order to manage the process, have been completely different, attributing an evident post-socialist flavour to the process itself. Thus, beside the similarities with a transition towards a post-Fordist reality, the post-socialist transformation presents peculiar elements that cannot be noticed elsewhere and represent the direct consequence of the shift from socialism to capitalism. In 1990, when the process was at its start, the reform could be compared "with the building of a new house on old, crumbled foundations, without a detailed plan and with only one third of the materials available. Nevertheless the house had to be built as quick as possible and has to look exactly like uncle's large and beautiful house only known from pictures." (Paul 1995). This quotation helps us to understand the atmosphere of political and decisional uncertainty characterizing the first years of the transition, when CEECs had to operate with no blueprint for the structural changes needed in order to shift from "plan" to "market".

This paper is an attempt to shed some light on the transition from actually existing socialism to capitalism, analysing the transformation in the Polish system of governance, as it evolved from a socialist model towards a scenario characterised by the acceptance of a new market-friendly approach.

The first part of the text will describe how the application of the theoretical principles of soviet-inspired centrally planned economy led to the consolidation of a typical government structure, underlining the role of the main agencies at the different territorial levels.

The second part will concentrate on the interrelation of the different dimensions characterising the transformation period. After presenting the macroeconomic reform and the general patterns of transition, the focus will shift to the evolution of the governance system. The different forces structuring the model that emerged during the 1990s will be analyzed, from foreign investments to national capital, from the role of the state to the difficult resurgence of the local level, in the light of a framework increasingly influenced by international forces where the state, continuously claiming to play a passive role notwithstanding, has been actively shaping Polish reality in favour of the international capital, following a strong neoliberal approach.

2. Government structure in communist Poland: strong hierarchy and weak horizontal integration

After the access in the sphere of Soviet influence, Poland adopted a centralized economic model based on the development of heavy industry to foster rapid economic growth. The main goals of centralized economic planning were (Conti 1985):

– the reduction of the gap between urban and rural areas;
– the reduction of the socio-economic development differences between regions;
– to avoid as much as possible economic and social contact with western nations;
– the organization of a centralized economic development that left little room for market influence;
– the creation of the basis for a future *socialist society* by education and propaganda.

The adopted economic approach led to the establishment of a specific government/governance configuration that can describe the Polish socialist reality very well (see figure 1).

The structure of foreign trade was mainly dominated by import/export relations inside the COMECON area (in 1980 Poland more than 60% of importation/exportations were from/towards other COMECON nations, while only 26% involved the European Community, with Germany as the main player, see Gorzelak 1996). Economical relations with other European and Western countries were very limited until the 1980s. Nevertheless, since the second half of the 1970s, due to a change in the central government's attitude, foreign investments began to operate within Polish borders (cf. Part 6 for more details).

The centrally planned system of economic development and resources distribution was characterized by a strong hierarchic national planning system, based on economic planning at the national and regional level, on national plans for the localization of settlements, and on the physical planning at the regional, urban and intra-urban levels.

Two sets of considerations can be made (Shaw 1985). The first concerns the different agencies and the relation between them. The shortage of resources led to a sort of struggle between different pressure groups, mainly the state administration, the communist party organization (whose priorities where strongly influenced by the Soviet party), and the state enterprises (that were subjected to the COMECON). The second consideration concerns the role of these pressure groups at the different scales. In line with the strong hierarchical flavour presented before, the central level of all three groups was the dominant one, and the local the less important. All the economic goals were agreed upon at the national level, and afterwards implemented by decisions on settling different economical activities, labour forces, housing, following a rigid top-down approach guided by the needs of different ministries and put into practice by the regional and local planning offices (Sykora 1999). Planning offices, enterprises and the Party, despite the weak horizontal integration, interacted in a strongly integrated vertical way and constituted a crucial factor providing local communities with all kinds of economic and social services needs. They had their own shops, schools, sports teams, medical care, were helped during construction of infrastructure and during the harvest, etc. (Conti 1985).

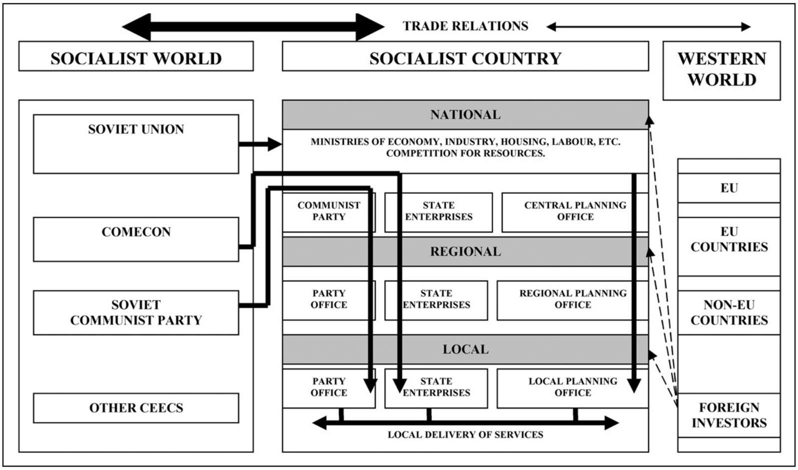

Figure 1: Governance framework configuration in Socialist CEECs
(Source: own elaboration)

The hierarchical structure described above contributes to explain the limited role played by local communities, where functions were mainly performed by representatives directly dependent to central authorities, due to the lack of any form of local self-government. This complete *hibernation* of local peculiarities coincided with a substantial negation of the concept of locality itself and inhibited bottom-up organization of locally led development processes (Gorzelak 1998).

After the initial successes in the transformation of the extensive growth model of the 1950s and 1960s (in the period 1950-1969 Polish GDP grew by 250%, mainly due to a 8.5% yearly increment in the industrial production. Conti 1985) into an intensive growth model based on rationalization and savings, during the second half of the 1970s growth figures began to decrease, while the economic restructuring proved to be slower than expected (as shown in table 1), leading to what Kornai (1980) labelled "an economy of shortage", that eventually ended up with the paralysis of the system (Kornai 1990).

Economic sectors' employment share	**1947 National Plan's forecast for 1980 [%]**	**1961-1980 Long term Plan's forecast for 1980 [%]**	**Real Situation in 1980 [%]**
Agriculture	25	25	32
Industry	30	35	33
Services	45	40	35

Table 1: Economy restructuring: discrepancy between plan and reality
(Source: Dawson 1987)

3. Macroeconomic reform and general patterns of transition

The post socialist countries of Central Eastern Europe began their socio-economic and political transformation with the burden of their socialist heritage. Obsolete production structures (41% of the Polish GDP in 1989 was still generated by state owned heavy industry, see Gorzelak 1996), underdeveloped technical infrastructure (in 1989 there were 82 telephones per 1000 people, and 69 km of roads per 100km^2, see Szul/Mync 1997), and low level of technological, organizational and managerial advancement (39% of households having a car, 3% with a personal computer, see Gorzelak 1998), could be mentioned as the most important negative characteristics. A well educated labour force (with more than 50% of the population at working age having concluded secondary education, see Gorzelak 1998), high level of social security and strong development of social infrastructure were definitely strong assets characterising the legacy of the previous historical period.

Soon after the end of communism, the introduction of a market economy and the attempt to adapt to the new system took shape. Without any blueprint to refer to, the opinions of the experts about the best strategy to follow were often conflicting.

Two approaches were identified: the first stressed the necessity to realize the macro-economical reform as soon as possible, in order to quickly elevate the living conditions of the population towards western levels by rapid privatization, administrative decentralization, transition towards global market prices and reduction of state aids (Lipton/Sachs 1990).

The second one believed in a more „political" transformation path, affirming the need for a semi-protectionist approach allowing a "softer" transition in which the population and private enterprises had the possibility to adapt to the rules of the new economic model (Murrel 1993).

Although the argumentation of the second group of theorists were more far sighting, Poland decided for the so-called *shock therapy* (a drastic anti-inflationary program combined with a fast liberalization of the economy), underestimating its social costs (Parysek 1993).

As Gorzelak et al. (1994) point out, different approaches were chosen in the other post-socialist countries, ranging from the less radical and more pragmatic Czechoslovak programme to the more cautious Hungarian macro-economic policy of a "soft landing" into capitalism. Those differences notwithstanding strong similarities emerged in the pattern of economic problems being experienced (cf. table 2 for the situation in Poland).

Categories	1989	1990	1991	1992	1993	1994	1995	1996	1997
GDP	100,2	88,4	93,0	102,6	103,8	105,2	106,5	106,1	106,9
Industrial production	99,5	75,5	92,0	102,8	106,8	112,1	109,9	108,3	110,8
Agricultural production	111.0	99,7	106,8	87,7	108,8	89,2	117,8	99,1	101,7
Exports	100,2	113,7	97,6	97,4	98,9	118,3	116,7	109,7	113,7
Imports	101,5	82,1	137,8	113,9	118,5	113,4	120,3	128,0	122,0
Foreign Investments	73,3	809,0	185,0	233,0	253,0	109,3	195,0	142,0	109,0
Fixed capital formation	97,9	89,4	95,6	102,3	102,9	109,2	126,0	120,3	120,2
Inflation	351,0	686,0	171,1	142,4	134,6	130,7	126,8	119,8	113,3
Unemployment rate	/	6,3	11,8	13,6	13,7	16	14,9	13,2	10,5
Consumption	/	6,3	11,8	13,6	13,7	16	14,9	13,2	10,5

Table 2: Economic development trends in Poland 1989-1997 (Previous year=100%) (Source: Roczniki Statystyczne – Statistical Yearbooks 1990-1998)

One of the main worries of the different governments was the creation of the economic and legal conditions needed to attract foreign investors. Poland represented the largest potential market, thus the Polish government worked hard to create an institutional framework for foreign and domestic capital (cf. Parts 6 and 7).

The process of economic restructuring has proceeded, although not as fast as assumed, throughout the 1990s, and presented two different dimensions:

- The collapse of several enterprises, which has not always reflected the real economic situation and growth potential, but often has been the result of external conditions (eg. the collapse of traditional markets).
- The growth of old firms and the fast establishing new economic units, mostly in progressive economic sectors, mainly due to foreign investments.

Agriculture was the sector most exposed to foreign competition, which Polish agriculture had to lose out to, mainly due to its ineffectiveness and to an almost total collapse of large state-owned agricultural enterprises. The constant decline in agriculture has been replaced by a very high growth of the share of tertiary activities, reflecting a sort of rationalization of the overall economical structures (see table 3).

Sectors	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Industry	41,0	43,6	39,2	39,6	33,4	32,2	28,9	27,1
Construction	9,6	9,5	10,9	11,2	6,6	5,7	5,2	5,3
Agriculture	12,2	7,3	8,4	7,3	6,6	6,2	6,6	6,0
Other	37,2	39,6	41,5	41,9	53,4	55,9	59,3	61,6

Table 3: Creation of the GDP in Poland 1989-1996 [in %]
(Source: Roczniki Statystyczne – Statistical Yearbooks 1990-1998)

Transformation effects on the labour market were dramatic, with pauperization and unemployment hitting wide strata of the population. The decrease in the number of jobs due to the economic recession manifested itself from the very beginning of the transformation period. The total number of lost jobs in Poland in the period 1990-1993 amounted to over 2 million, and in 1994 the unemployment rate reached 16% of the economically active population.

The economic reform worsened the social situation by not guaranteeing maintenance of the standards of living to most of the workers, mainly due to the growing polarization of incomes and in the precariousness of jobs. In contrast with the socialist period, when the society was characterised by strong egalitarianism, income differentiations grew exponentially, with the richest 20% of households achieving an income per capita 6 times higher than the poorest 20% (Gorzelak 1998). Moreover, state subsidies for several social services, such as recreation, child care, health care and retirement were withdrawn almost entirely (the *social insurance system* and *pension system* reform started in 1996 and concluded in 1998 (Gorzelak 1998). This caused a shift from a situation in which supply of social infrastructure and social services was granted, to a situation of privatisation of those services and of growing impossibility to benefit from them due to the high costs (Gorzelak et al. 2001).

4. The interrelated dimension of transformation

The macro-economic changes described above are the point of departure to portray the changes characterising the governance structure that developed in Poland through the transformation period. This will be done by taking into consideration the main structuring forces together with the reasons that led to following specific paths of reform during the 1990s.

At the beginning of the 1990s, the weak policy priorities given by the Polish government to pivotal themes like planning, regional and local policies, social services, etc. (Sykora 1999) have often been assumed as the litmus test of a neoliberal-driven transition characterised by a sort of withdrawal of the state, in a scenario where the dismantling of the old structure has been rather fast and its substitution with a new institutional system of government happening in a slower and much more complex way.

Nevertheless, the collapse of the old communist structure did not limit the influence of the state on economic and development issues: only the mechanism changed (Paul 1995; Shields 2004). Even though central economic planning was reduced considerably and the mono-political power of the communist party was replaced by democratic structures, the state played a strong role in the reform, as it has had the main resposibility for bringing in market-friendly forms of governance that constituted the main feature of post-socialist Polish reality.

In the Polish scenario of transformation, instead of the state-driven top-down arrangement peculiar of the previous system, governance began to take place within policy networks where the state's role began to consist of the coordination of the actions of the different private actors involved. The transformation from planning to governance shows how the state, far from becoming "powerless", remained a crucially important political subject (cf. Part 7), aligned to external actors such as the EU, the international financial institutions, the main business actors of the richest countries (cf. Part 5).

The growing influence of market forces in this scenario led the state to establish a friendly operational environment for capital, and to progressively dismantle the welfare/development system. The foreign trade structure shifted from east to west-centred (mainly Europe-centred), and foreign direct investments began to massively colonize the new economic scenario through the privatization of formerly state-owned productive apparatus, leaving few places for local private capital to develop and operate (cf. Part 6). Beside the growing influence of international agents and the shift in the role of the state, local agents also gained importance due to ongoing processes of devolution of competences; nevertheless their resultant role was undermined by the scarce financial autonomy (see Part 8).

The assumption that legal, economical and political reforms have been interrelated will be kept in mind while describing Polish transformation from actually existing socialism to capitalism. Several different elements will be presented, in order to shed some light on the evolution of the system of governance (see figure 2): both internal and external forces will be examined in the light of the described macro-economic reform: international influences, foreign investments and development of internal capital, the role of the state and the paradoxical situation of the local dimension.

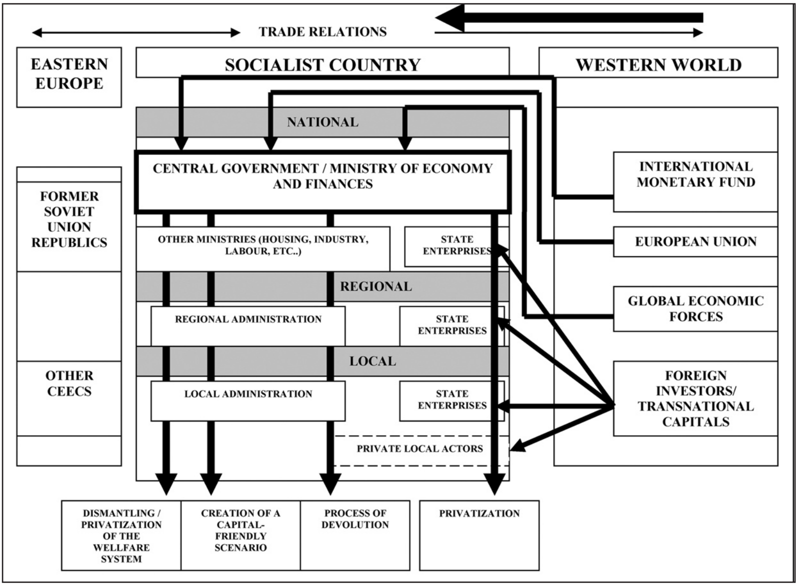

Figure 2: Governance framework configuration in Post-socialist CEECs
(Source: own elaboration)

5. The importance of the international context

In the majority of studies concerning Poland, the transition process has usually been constructed as "national", explaining the events occurring as predominantly domestically motivated through re-establishing national autonomy after the USSR collapse (Lipton/Sachs 1990). The international influences has seldom been considered as a main driving force, while it is evident how the international scenario has been crucial in driving Poland (as well as other CEECs) through the transition period, limiting possible open options and strongly embedding the decision-making process (Shields 2004).

The international context has always been of crucial importance for Poland. Before 1989 the Eastern European Scenario was dominated by the enforced economic relations within the COMECON. After 1989, and the access to the western market economic model, Poland had to promote its own development inside a less structured – but more complex – international scenario, increasingly influenced by international multilateral institutions (Harvey 2005).

Within this scenario, the significance of the European Union for Poland played a crucial role in influencing the transformation path. Polish desire for EU membership was mainly motivated by three main expectations (Piazolo 2000), namely (1) the expected transfers from the EU budget, (2) the improvement of conditions for trade with the EU, and (3) the enhancement of the "credibility" in undertaking economic reforms (the effectiveness of far-reaching changes depending on the willingness of the economic agents to alter their behaviour in the direction required by the reforms). As underlined by Piazolo (2000), ever since the prospect of accession becoming real, the transition started to assume a growing European flavour, as accession into the EU was always linked not only to the adoption of the EU's vast *acquis communautaire*, but also to political conditionality in the establishment of a functioning market economy.

Also the International Monetary Fund (IMF) had a role in the macroeconomic reform: giving its approval to reform policies promoted by the state and guaranteeing credits and loans, it contributed to ensure the necessary economic stability for commercial institutions and foreign investments to operate. Therefore many organizational steps were undertaken by the Polish state (see Part 7) at the beginning of the transformation in order to adapt the institutional network to market economy aligned with EU and IMF requirements.

	Poland	Czech Republic	Hungary	Slovakia
Export structure in 1989[1]				
European Community	26	35	38	26
CEECs	51	37	32	51
Others	24	28	30	24
Export Structure in 1992				
European Community	42	50	48	22
CEECs	41	20	22	66
Others	17	30	30	12

1) in 1989 Czechoslovak structure for both Czech Republic and Slovakia

Table 4: Export structure by main foreign markets [in %] (Source: Gorzelak et al. 1994)

A strongly Euro-oriented perspective also led Poland and other CEECs (excluding Slovakia) to limit economic relations with each other, and left scarce place for trade relations towards non-EU countries, virtually completely dismantling the strong trade and support structure consolidated under the COMECON (see table 4).

Nevertheless several doubts related to the EU and the IMF's role due to the growing imbalances often caused by their prescriptions arose (Szul/Mynk 1997; Gorzelak et al. 2001; Paul 1995). When it came to taking the hard measures in the period of transition, the Polish government often used the need to obtain IMF approval and to respect EU Accession Treaties as a cover excuse to undertake the most controversial steps.

As Rodrik (1989) affirms, to embark on reforms formally agreed with the EU or the IMF, in order to enhance their credibility, strongly reduces the scope of governmental manoeuvring and flexibility in arbitrarily changing the policies. Thus, it can be said that the main directions of Polish development have necessarily been embedded in a wider international system, in an era characterised by international agents overcoming permeable national borders and configuring the material basis for political processes (Rosenau/Czempiel 1992).

6. Foreign direct investment in the Polish "capitalism without capitalists"

After the beginning of the transition period, with the end of the central control over the market, a growing number of western enterprises started to relocate their own productive structures in the ex- socialist nations. The entrance of foreign capital on Polish markets could be divided into three different time periods.

Before 1989: since the 1970s, several Western enterprises tried to penetrate the iron curtain and to locate part of their production in CEECs, taking advantage of the Polish government consensus on the benefit of Foreign Direct Investments (FDI). Several franchising and licensing agreements followed larger firms operating in the region (i.e. ZPT Krakow have produced Marlboro cigarettes under licence since 1973). The equivalent of a chamber of commerce, InterPolCom, was set up in 1977 to facilitate foreign direct investments that in 1986 amounted at $100 million (Sklair 2001). Nevertheless several attempts of "opening up" (i.e. Gierek's import-led growth strategy of the 1970s), the socialist structure inhibit the possibility of a massive colonization of the Polish economic system, limiting the foreign capital intervention to the creation of small businesses, while large production was permitted only under franchising or licensing agreement (Shields 2004).

The period from 1989 to 1991/1992 was characterised by prudent industrial investment, mainly operated by mixed groups, aiming at testing the characteristics and the stability of the new market together with the financial atmosphere, the real possibility to re-export profits, the potential delivery market, the political stability, and the cost and quality of the labour force (Michlak 1993). The role of the state had been crucial in this period, as it undertook, often with the support of the IMF, the organizational reform necessary for a proper functioning of the new economic model. Among those worth a mention are: lifting the limit on the size of private firms, elimination of the legal limitation hindering private entrepreneurship, elimination of the 49%-limit of foreign participation in joint ventures, establishment of the Ministry of Ownership and Transformation (dealing with privatization), opening of the Warsaw stock exchange (in 1991), reorganization of a former institution giving obligatory concession for foreign investments into the Polish Agency for Foreign Investments, with the specific task to promote Poland among foreign investors and facilitate their intervention with financial deregulation (Szul/Mync 1997).

A third period, after 1993, witnessed the jump into the stage of multinational enterprises and the number of investments saw an exponential growth together with a complex diversification of the investment fields (Blazyka 2001). The state enhanced legislation aiming to the provision of generous incentives like tax holidays and tariff and quota protection in accordance with the Custom Law of 1989 and the 1991 Law on companies with foreign participation. Due to the exponential reduction of bureaucracy and to the increasing legal protection for FDI, particular sectors of the economy were gradually transformed from state-owned monopolies to transnational capital monopolies, in a process where privatization, instead of bringing about competition and de-monopolization, perpetuated and exacerbated market domination and concentration. (eg. Fiat and General Motors dominated the automotive sector after negotiating state protection from competing imports, see Gowan 1995).

Hence, foreign capital began to enter practically all sectors and branches, its most visible presence being in the car industry, trading, food industry, furniture, consumer electronics, and since the second half of the 1990s banking and financial services became the new trends of investment (Szleszynski 2006).

Country	**1991-1993 Capital invested [m$]**	**Country**	**1995 Capital invested [m$]**
USA	1050	USA	1702
International org.	245	International org.	871
Italy	220	Germany	512
The Netherlands	210	Italy	378
Germany	203	The Netherlands	353
Austria	195	UK	319
France	180	France	275
Sweden	80	Austria	246
UK	78	Sweden	140
Switzerland	40	Switzerland	121

Table 5: The biggest foreign investments in Poland by countries (Source: Rzeczpospolita 1995, based on data from the Polish Agency for foreign investments)

In the beginning of the transformation (see table 5), the main amount of foreign capital invested in Poland came from USA and international organizations (i.e. the IMF, the World Bank, the EBRD, etc.), and this situation lasted until the end of the 1990s. Despite the poor presence of European capital in the early period, by the late 1990s the share of foreign investment in Poland increased in favour of European capital in, and as of the end of 2004 74% of all investments in Poland was coming from EU15, with France, Germany and the Netherlands on top (Szleszynski 2006). The total amount of foreign capital inflowing to Poland continued to grow exponentially until the present (see table 6).

Inflow of foreign capital in Poland 1976-2005 [m$]									
1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
6	5	25	30	10	18	14	16	28	15
1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
16	12	15	11	89	291	678	1715	1875	3659
1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
4498	4905	6365	7270	9343	5714	4131	4589	12873	7724

Table 6: Inflow of foreign capital in Poland 1976-2006
(Source: Central Statistic Office)

Favoured by a specific legal framework appositely created by the government, foreign capital played a crucial role in the privatization of the state-enterprise apparatuses during the transformation.

Two main forms of privatization were used: *privatization by liquidation* and the so-called *capital privatization*. There were two types of *Privatization by liquidation* (Gorzelak 1998):

- Liquidation on the basis of the Article 19 of the Law on State Enterprises (1981): Under this procedure a state-owned enterprise, if in difficult economical conditions, could have been sold or leased, in parts, to private owners.
- On the basis of Article 37 of the Law on Privatization of State Enterprises (1990): In this case a state-owned enterprise was liquidated by selling or leasing, to a single buyer.

Capital Privatization, based on Article 5 and 6 of the Law on Privatization of State Enterprises, was based on the following procedure: a state enterprise became a company wholly-owned by the State Treasury and then issued shares. When over than 50% of the shares were sold to private owner(s), the enterprise was considered to be privatized. In many cases the shares were offered at the Warsaw stock Exchange.

By 1997 some two-thirds of the original number of 8441 state-owned enterprises, at the end of 1990, had already begun the process of ownership transformation. In one in every four state enterprise this process was completed. By the end of 2004 some 7165 state enterprises were privatized (including 1852 through closure) constituting 85% of the entire amount.

As it has been shown above, during the 1990s, the main aim of Polish legislation was to eliminate constraints to foreign investment, as they have been considered an essential element for economic recovery (Fischer 2000). Nevertheless, evaluation of the real impact of foreign investments on the economy is not uniform. Their effect on the development of different regions can be considered in a positive way due to their contribution to renew or to revitalize through privatization processes in a great number of declining state enterprises and consequently to contribute to maintaining a decent level of employed labour force, as well as to modernize obsolete production processes.

The negative effect could be summarized as follows (Paul 1995; Shields 2004):

- The main part of private profits generated by foreign initiatives is re-exported outside national borders and does not contribute positively to affect Polish development.
- Foreign promoted activities are usually easily relocated once the economic context is no longer favourable.
- Profit-based goals of foreign investors are often contrasting priorities of the newborn local governments, but rarely the latter group is given enough contractual and operative power in order to influence the decision of the former one.

It is also important to point out (see table 7) that foreign investments have been spatially selective. They hardly targeted regions affected by structural decline processes and depressed areas, and interested mainly in those areas already affected by economic growth, widening the gap between rich areas and regions lagging behind.

Voivodship[1]	Number of registered companies with foreign capital		
	In absolute numbers	Poland=100	1991=100
Warsaw	6818	34.5	436
Poznan	1294	6.6	337
Gdansk	1272	6.4	339
Katowice	1268	6.4	436
Szczecin	1045	5.3	369
Wroclaw	1029	5.2	520
Krakow	752	3.8	392
Lodz	677	3.4	333
Zielona Gora	454	2.3	437
Opole	442	2.2	574
Poland	10131	100	412

1) Data refer to the old administrative division of Poland in 49 Voivodships. Since January the 1st 1999 Polish administrative reform divided the nation into 16 new territorial units.

Table 7: Companies with foreign capital in Poland, by regions 1996
(Source: Central Statistic Office)

Whereas in Western Europe large-propriety owners created the institutions of the market economy, in Poland and other CEECs one of the main aims of transition was to promote private ownership through mass privatization. Following Eyal et al. (1997) it is possible to note that, whenever the state decided to conduct the process of transformation by the rapid creation of the legal and institutional framework necessary for a market economy to work, this led to a scenario where the existence of a new market institution was combined with the relatively scarce presence of national propriety owners (see table 2 for a comparison between the growth's rate of foreign investment and the formation of national fixed capital in the country).

The resulting "Capitalism without capitalists" derived from the attempt to fast-construct a new economic system from elements of the old, a sort of capitalism built *with* the ruin of socialism (Shields 2004). This model is characterised, rather than by real capitalists, by a complex network of cross-ownership, self ownership and ineffective small shareholding via investments funds connected with state-owned banks (Stark 1996), with a new "power elite" controlling the command positions of political, cultural and economic institutions. Therefore, a new "Polish bourgeoisie" in an economic sense remains unfulfilled in a scenario where the only distinct owners are the state and foreign capital (Eyal et al. 1997).

Even if a first wave of national capitalists emerged during the 1980s, when the Polish government favoured first attempts of privatization and the creation of small businesses, partnership with foreign capital was often the main condition of the emergence of new economic subjects, as almost no capital was present to undertake private investment on Polish territory. The conditions provided by the state during the transformation period, favourable to foreign investment due to continuous deregulation, in fact constituted a strong inhibition for the formation of a solid national entrepreneurial class. Where it did happen, the relatively young formation and the limited financial capital, most of the time, led to the impossibility to compete with the foreign counterpart on international markets as well as on their own territory.

7. The role of the state …

It has been commonly assumed that the transition process transforming the Polish economic system from centrally-planned to market oriented was characterized by a withdrawal of the state from economic intervention. Instead the path followed presented a high degree of state intervention: as Shields (2004: 133) affirms, "one of the ironies of transition is that despite the collapse of state socialism the role of the state has not necessarily diminished, instead the nature of state intervention has changed". Occurring in the context of contemporary capitalist world order, the Polish approach to the transition has been strongly influenced by several international forces (as already stressed in Part 5). In this scenario, state intervention in Poland has been reconstituted in favour of international capitals.

Particular state apparatuses assumed the role of the leader in the sphere of production and finances, like agencies directly connected to the national economy, such as Ministry of finances, began to influence the role of the Ministries of industry, labour, housing, and progressively subordinated their needs to the one of international economic forces.

The minimal state philosophy adopted in Poland, characterised by a *laissez-faire* rhetoric hiding strong government interventions in favour of capital, nationally found a strong justification in the resurgent cultural beliefs in self-reliance and individualism, caused by 45 years of attempting to impose uniformity (Sykora 1999). The slogan "the less government the better" was used in order to support abolition of taxes on foreign capital, to phase out Social Security systems in favour of the privatization of historically public welfare sectors. While progressively dismantling the welfare system, the state intervened through specific policies to attract new investors and to provide the necessary rules for guaranteeing them the needed operational freedom. The increased power of capital has not necessarily removed power from the state. It was the nature of state intervention to change, intervening in this intensification process and taking care of the interests of the international capital in order to benefit from further investment and reach faster overall economic growth.

Examining the economic and the political as distinct moments part of the same totality, it is possible to understand how the state performed a neoliberal economic project through the harmonization of fiscal, monetary, industrial and commercial policies in order to fully enable the functioning of international capitals. Public intervention played a very important role in this process (as it appears clear analysing the legal and institutional reforms described in Part 6), as political and economic leaders did not consider public involvement itself to be inappropriate, but rather that it was a specific type of public intervention that was unwanted, specifically social services-oriented ones. In this direction moved the already introduced reforms of the pension system, as well as the lack of corrective measures to fight constantly increasing social and spatial polarization.

The adopted approach to the transformation projects its shadow on the present situation. Unemployment is still one of the major issues: peaked at

16% in 1994, it dropped to around 10% in 1997, due to the stabilization of the economic situation after the negative effects of the firsts years of the shock therapy, and since then it has been raising steadily towards the 20% of 2001 (Central Statistic Office). The government didn't develop any answer to the problem. Instead, it farther contributed to reduce the state benefits for unemployed (Shields 2004). Also the devolution of several welfare competences to local communities, as it will be shown in the following part, constituted an intervention actively discriminating social welfare and contributing to worsening the already dramatic spatial polarization effects of the transformation.

8. … and the local paradox

During the 1990s it was possible to witness a transfer of competences to regional and local levels that meant the introduction of new governance principles in development strategies and the chance for local communities to begin to face the new challenge of the self-determination of their development path (Sykora 1999).

In 1990 the *gmina* (township or commune) became the basic territorial unit of self-government. Several competences were delegated from the central level to the gminas, i.e. primary and secondary education, pre-school care, basic health care and social security. Despite of having the same duties, the structure of the budgets of the different gminas are strongly differentiated, and in the case of rural townships situated in eastern and northern parts of Poland, as well as in declining regions, state subsidies constitute the dominant component (Gorzelak 1998). Therefore the rising enthusiasm concerning possible future actions of local development notwithstanding, numerous structural difficulties, mainly caused by the attitude of the central government, still undermine the possibility for local actors to perform their roles and can be summarised as follows (Cotella 2006):

- The lack of incentive programmes and financial help to the municipalities from the central government didn't provide the former with the financial independence necessary to accomplish their duties. This resulted in a worsening of the social situation in the local areas already lacking self-financial means.

- Central government, aiming to attract foreign direct investments in order to promote overall economic growth, did not promote any kind of regulation to protect local public and private actors from asymmetrical relations with strong foreign economic powers. Instead, the adopted reforms moved in the opposite direction, i.e. towards further protection of the interest of the international capital, in order to improve the conditions for them to operate in Poland.
- The privatization of large state enterprises, representing in the socialist period the main welfare agents at the local level, led to a deep fracture in the social structure. The delivery of public services, so strongly dependent on those structures, has to be completely reorganized with several services being privatized.

The described situation shows how the transition path adopted by the state, aiming at the production of the ideal conditions for international capital to operate and to perpetuate itself within the new context, did not produce an equal devolution of development possibilities to the local level.

Hence, the transition process proved to be strongly spatially selective and only those centres that were able to attract capital fluxes, and to offer valid guarantees to private investors, ended up with benefits. This situation led to two contradictory phenomena: on the one hand the consolidation of new "pulling" regions, on the other hand the inertial resistance to any transformation of the regions characterized by structural inertias (heavy industry, extended agriculture, etc.). Internal and external economic forces described above favoured the emergence of a new spatial structure, strongly different from the one characterising the socialist period, and presenting new "strong" and "weak" regions (cf. among others: Paul 1995; Gorzelak et al. 2001).

Whereas it is possible to identify isolated centres presenting relative prosperous conditions (presence of high skilled labour force, infrastructure, services, particular historical background, etc.), it has been hard to promote a diffused "local development mentality" (Cotella 2006), due to the scarce resources of local authorities, to the lack of small and medium private capital and to the "swimming with sharks" game derived from the presence of strong Foreign capital.

9. Conclusions

Several elements show that the transition period has not been an autonomous economic process. Capitalism did not fall on Poland fully formed from the sky in 1989. The state has played the role as the architect in the transition process, establishing new "rules of the game" in order to embed Polish economic systems into a wider scenario characterised by the presence of strong international forces. Two main dimensions can be underlined:

- The state contributed to the enforcement of logics and laws of capital accumulation by the provision of the necessary stability for the new market economic model to work.
- The removal of state-centred planning, the deregulation of enterprise welfare, the changing taxation from a charge on the enterprises to one on workers contributed to impose the cost of transition on labour and to the dismantling of the welfare system developed under the previous historical period.

The transition path adopted in Poland had deep transformative effects on the system of governance. In the socialist period, the long-term objectives of overall economic growth and in spite of the rigid top-down structure and the weak horizontal integration among sectors, the society was the object of a complex system of service delivery and redistribution operated by both state apparatuses and state enterprises. Even though the original theoretic planning objective to diminish the gap between urban and rural areas and between the levels of development of the different regional realities was soon given up as economically unrealistic, the decentralization of industrial production and the creation of a strong welfare system contribute to the achievement of a sort of social and spatial re-equilibrium.

The post-socialist governance system proved to be still strongly state-centred and influenced by international forces (before the COMECON and the Soviet Union, now the EU, the IMF and the international capital). Nevertheless, the state reorganized its role: from leading the economic development and delivering the benefit deriving from the economic growth in form of redistributive policies, it started to sets the rules for new players to play the game and to guarantee national economic growth inside a wider international scenario, playing as a biased referee that favoured the interests of capital.

This new role could be seen as Janus-faced, strongly intervening in favour of capital but following a *laissez-faire* rhetoric when referring to the "redistribution of benefits" to the whole society. This attitude resulted in a substantial subordination of local interests to the international dimension, and degenerated in growing phenomena of both social and spatial polarization.

In conclusion, nevertheless many of the conditions that negatively influence Poland's economic development potentialities nowadays could be imputed to the heritage left by the socialist system, it is evident how growing spatial and social disequilibria are a direct consequence of the neoliberal approach adopted during the transformation.

The increase of goods and services available notwithstanding, escalating job insecurity, decreasing in real wages hitting weak social categories, growing unemployment, depression of the agricultural sector, lowering of employment conditions have been the real flavours of a transition path that had as a main result the pauperization of the working class.

Whereas international capital, new managerial elites and financial advisors are the winners of the transition, local communities, working class and socially weak groups have been definitely the losers, as their interest are more and more unheard in a governance system strongly entwined in a wider scenario increasingly influenced by international forces.

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Abstracts

The article attempts to analyze Central Eastern European Countries (CEECs) focusing on the restructuring of governance and on the evolution of the complex network relations constituting the framework for decisional processes concerning economic, social and territorial development in Poland. The evolution from the highly hierarchical structure of the pre-1989 period towards the governance model characterising the transformation period will be looked at as a process increasingly embedded in a scenario dominated by international agents such as international financial institutions, the European Union, international capitals. It is possible to affirm that the presented transformation did not coincide with a withdrawal of the state, but mainly with a process of restructuring of apparatuses and hierarchies, following the guidelines of the neoliberal approach. The claimed neutral position of the state, guaranteeing complete freedom to the market, while provoking the dismantling of the socialist welfare system, implied a strongly biased behaviour as the state provided the necessary framework for new economic mechanisms to freely reproduce themselves.

Der Beitrag behandelt anhand des Fallbeispiels Polen die Restrukturierung von *Governance* in den Mittel- und Osteuropäischen Ländern sowie die Entwicklung von komplexen Netzwerkbeziehungen, welche den Rahmen für Entscheidungsprozesse bezüglich wirtschaftlicher, sozialer und territorialer Entwicklung darstellten. Die Transformation der stark hierarchischen Strukturen der Zeit vor 1989 hin zu einem *Governance*-Modell wird als ein Prozess betrachtet, der zunehmend in ein Szenario eingebettet ist, das von Internationalen Akteuren wie z.B. den internationalen Finanzinstitutionen, der Europäischen Union oder dem internationalen Kapital dominiert wird. Es wird gezeigt, dass die Transformation nicht mit einem Rückzug des Staats einherging, sondern mit einer Restrukturierung der Staatsapparate und Hierarchien nach neoliberalem Muster. Ein als „neutral" positionierter Staat garantiert Marktfreiheit, während das sozialistische Wohlfahrtssystem demontiert wird. Dieses staatliche Verhalten erweist sich als notwendige Rahmenbedingung für die freie Reproduktion der neuen ökonomischen Mechanismen.

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