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Unions' Role in Privatisation and Prospects for Workers to Become Owners in Hungary

Trade union participation in privatization

Ever since privatization began in Hungary, trade unions have tried to have a part in formulating privatization policy. They pursued a privatization policy and practice making it possible to represent and also to assert interests of workers.

The trade unions accepted the need to dismantle state ownership but insisted that this process must be determined by rationality rather than political motives. They saw guarantees for this in laws that would be enacted to regulate privatization. Before such laws were passed, conciliation talks would be held with trade unions. An interesting feature of Hungarian privatization is that transformation and sale of enterprises before August 1992 had taken place on the strength of laws that were passed prior to the change in the social system. During that period, the Government attempted to assert its ideas by modifying some of the laws.

The unions' uniform position was that the laws laid down in the Labour Code were not sufficient to allow workers to play a creditable role in the process of privatization.

On the national level, the National Conciliation Council established a separate committee to deal with privatization questions and to elaborate the relevant laws. This is the forum where tripartite conciliation involving the Government, Employers and Trade Unions is possible.

With his conciliation method, the unions demanded from the very outset that worker participation be established institutionally. But negotiations and conciliatory discussions proceeded slowly while the transition and privatization process quickened. Among trade union confederations, the MSZOSZ (National Confederation of Hungarian Trade Unions) decided there was a need to put more pressure, so it called a warning strike on a fairly broad scale in the summer of 1991. That action also played a role in forcing the Government in September 1991 to acknowledge workers' right to present their position and to clear up employers' and the State Property Agency's information and conciliation obligations. On the basis of a proposal put forward jointly by Hungary's seven trade union confederations, the Prime Minister was motivated to appoint one person to the Managing Board of the State Property Agency whose job it was to represent workers' interests when decisions were being made.

From that time onwards workers have had an inalienable right to voice their opinions whenever their enterprises are about to be converted to a company or privatized. The unions did not accept that state of affairs as final. They continued to demand a comprehensive legislative package and the working out of a clear-cut State and Government strategy. The uncertainty of the situation at that time is clearly indicated by the fact that the relevant Parliamentary Resolution on Property Policy Directives - which topped the agenda of the legal regulation of Hungarian privatization - had not been passed by 1991 and the Resolution for 1992 too was passed only as late as in autumn 1992. It is these resolutions that must determine the main direction of privatization, preferential property purchasing terms for workers, and allocation of proceeds from privatization.

From the beginning of 1992, legislative work on privatization has taken momentum. By the end of the Summer Session, Parliament had adopted a Privatization Acts package. These laws contain more favourable participation conditions for workers than earlier laws. We are certain that this favourable change was a result of the trade unions' resolute and consistent efforts. Under the new legislation, before any workplace is converted to a company or before it is privatized, a plan must be drawn up setting forth ideas on social welfare, employment and conditions of property ownership by workers. These issues and questions shall be brought to the attention of workers, who have a right to submit their written opinions and to attach them to the transformation plan. With this method, opinions of trade unions will be forwarded to the decision-making administration body.

The sale of or other use of enterprise welfare funds may take place only with the agreement of the unions, which is remarkable accomplishment in our view (this right is guaranteed in the Labour Code which came into force on July 1, 1992).

Legal conditions provide possibilities primarily for local unions at enterprise level. This is quite important because, on the one hand, adverse consequences can be eased and, on the other hand, this opens up possibilities for the elaboration of concrete forms of worker ownership. However, these possibilities do not provide trade unions with the opportunity to influence the selection of an investor, to determine the privatization strategy or to formulate comprehensive industrial branch ideas.

National conciliation institutions play as important a role as before. Apart from the Conciliation Council, industrial branch conciliations are playing increasingly a bigger role. During the past few months some industrial branches have become more active. As a result, bilateral agreements have been established between some unions and the State Property Agency and between unions and the relevant Ministries on cooperation and joint interpretation of tasks pertaining to privatization. Also, a growing number of Collective Agreements set forth cooperation rules between employers and trade unions during the course of privatization or conversion to a company.

This is a significant change in procedure because Hungarian privatization is based on centralized decisions, so it is impossible to maintain a situation in which decision-making and the conciliation of interests are separated from each other.

How workers can become owners

During preparations for the 1990 elections, all significant political parties declared to pursue the cause of workers' ownership of property. It soon became evident that the Government's privatization ideas included no "romantic" solutions - either the popular idea of share holding or complete reprivatization. In Hungary, a business-based type of privatization has become practically the absolute ruler. Parliament has also accepted this direction, which is now the governing principle of all laws and resolutions concerning privatization. This principle obviously implies that workers themselves must purchase property if they wish to become owners.

As it is now, the Hungarian solution stands wide apart from solutions designed and implemented in Eastern European countries. In Hungary, the opportunity to take possession of property at a preferential rate is a possibility offered to employees but not to citizens. Yet even this possibility is limited because employees can become owners at a preferential rate as a rule only while the transformation is under way at their own workplace. So, employees in sectors where privatization cannot take place (such as the civil service or some public utilities) are automatically barred from such preferential purchases. Another barrier is that these preferential-rate purchases are linked to the sale of state-owned property. This means that employees of companies owned by local government bodies cannot become purchasers. Even employees of cooperatives are in a special situation.

The unions firmly stand to the view that if the workers are to become owners, there is a need for satisfactory preferential rates and for credit schemes linked to the particular privatization techniques.

In privatization, then, employee ownership is now clearly a subordinate factor. So far, 80% of privatized state property has gone into the hands of foreign investors and only 2% is owned by employees (even including purchases made by managers). If you consider, moreover, that only 10% of state property has so far been sold, you will see that employee ownership plays a tiny role in Hungary today. The trade unions are doing their best to take advantage of every opportunity to improve that ratio. In the legislative process, the unions have all along demanded property acquisition techniques that are well-placed in market economy. These efforts have helped widen the range of possibilities that are emerging today. As already mentioned, this year's version of the Property Policy Directives has ushered in a relatively favourable system of preferential rates for employees. Accordingly, employees can buy shares or parts of business firms at 50% discount on a three-year payment plan.

Furthermore, so-called special worker shares can be issued. In this case, the discount is 90%. Employees may acquire 10% of the capital when such shares are issued.

Lastly, there is a preferential credit scheme which enables employees, i.e. a company established by them, to purchase state property or shares in such property. This type of credit, called Existence Credit, gives employees a chance to buy shares (property) at places other than his/her place of employment. Such purchases have indeed been reported, but this "E" Credit is being used primarily to become self-employed rather than for workers to buy shares.

Ever since first steps were taken to change the social system, the attempt to introduce in Hungary the ESOP system which is well known from English-speaking countries has topped the agenda. The unions early recognized the significance of this system, and for this reason they supported all efforts aimed at enacting such a system. Finally, after two long years of preparatory work, Parliament adopted the Workers' Partial Ownership Program in June 1992. As only a short time has elapsed since the law was introduced, we can present no summary of experience in this line. Yet even at this stage it is clear that despite its many virtues the penetrating force of this law will be less pervasive than many people expected. The main reason is that Hungarian state enterprises and transformed companies report low profit margins and the Program requires a fairly high profit level before it can be launched. Another difficulty is that the banking sphere is not really willing to offer preferential credit schemes.

A Government Committee has summed up the experience of the first two years of the Hungarian privatization concluding that the process has slowed and that foreign investors' interest has slackened. Influential circles inside the Government hold that a breakthrough is required in order to accelerate privatization in Hungary. These circles are of the opinion that state property can be dismantled faster mainly via stirring domestic demand. This would include consistent application of existing techniques for employees to obtain property and the elaboration of new favourable structures.

The trade unions support this endeavour in principle and wish to play a constructive role in the elaboration of details

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Privatisation and Industrial Policy in Transforming the Economy

1. Introduction

The transformation in Eastern Europe has so far produced many positive responses: rationing and queues have disappeared, inflation rates have been reduced substantially, stronger and partly convertible currencies, and many new small private businesses have emerged. This process has not been accompanied, however, by the expected supply response from the state-owned enterprises' sector. On the contrary, those enterprises have failed to adjust to the new situation actively - i.e., by reducing costs, increasing efficiency and looking for new outlets. Instead, they adjusted to the hardening of the budget constraint in a passive way - by reducing output and trying to exercise their traditional monopolistic position. In the present situation, though, they became exposed to the impact of foreign competition. The result has been a deep and protracted recession characterised by, among other things, strong import penetration and structural unemployment.

There seems to be broad agreement that, in the long- run, privatization of state-owned enterprises should ensure that costs of production are minimized and output mix is determined in response to market signals. In the short-run, however, privatization does not offer a feasible solution for enterprises with a stock of capital that is frequently obsolete, capable of producing goods of poor quality only, facing fierce foreign competition, and heavily in debt.

The interaction of all these adverse factors not only pushes individual enterprises to the verge of bankruptcy but also poses a threat that whole branches of Polish industry may disappear even before their prospective comparative advantage can be identified. Understandably, then, the call for industrial policy has become wider and - on the part of state-owned enterprises - more desperate. A shift towards industrial policy may lead to reactivating arbitrary methods of allocation and reinforcing branch lobbies typical of the system of interest representation traditional in the socialist economy with its inflationary bias.

Therefore, the main objective of the paper is to analyse the compatibility and complementarity between privatization and industrial policy in the context of the systemic transformation in Poland.

2. Which capitalism for Poland?

As recently as in August 1989 there was much optimism about the chances of a relatively painless transition to a market economy. This optimism was shared by many economists both in the East and the West. It was believed that, since too much comprehensive control of the economy led to the economic failure of the socialist societies, a reversal of this trend should put them back on a path of self-sustained growth. Economists were, of course, aware of differences in the macroeconomic situation of individual East European countries. For some countries, like Poland or Yugoslavia, drastic anti-inflationary measures were regarded as inevitable. In general, however, there seemed to be a broad consensus among economists, policy makers, aid agencies, and Western governments regarding the crucial building blocks of an effective programme of transition towards a market-oriented economy. Controversies were limited to the proper sequencing of the reform measures.

Practical implementation of the reform package has so far been largely disappointing and hence has undermined the initial optimism. Some basic questions which should have been asked two or three years ago are being asked only now. Understandably, the most important question concerns the economic and social costs of the transition process so far. Did they have to be so high in terms of production losses? Looking back, more and more economists seem to have doubts. As Olson (1992, p. vii) observes, the common view that transition from one set of economic arrangements to another inevitably reduces output is not necessarily true. In his view, major changes in economic institutions and policies do not regularly cause national income to drop. He offers examples from contemporary history to make his point and asks, "But why should a transition from communism to a market economy be more difficult than the transition the other way?" (p. viii). Also Flemming (1992, p. 262) wonders why the costs of transition must inevitably be high: the fact that the planned economies were inefficient implied that there were potential Pareto improvements in resource allocation. Those general considerations add to the current, much more detailed, debates about the costs and benefits of transition which have taken place in all countries concerned.

Looking at former socialist countries as a fairly homogeneous entity and stressing similarities rather than differences was intellectually fascinating because it suggested there was a logic to the transition process. Too often, however, this logic was understood in a simplified way. It was assumed that once certain conditions are fulfilled, the market mechanism will pop up like the imp from the bottle. But as Olson rightly stresses (1992, p. viii), "a thriving market economy is not, contrary to what some say, simply the result of 'letting capitalism happen' - not something that emerges spontaneously out of thin air." His remark seems to reflect a growing awareness among the Western scholars that some important national dimensions and determinants of the transition must have been neglected in both analysis and policy recommendations.

A strong case against "cookbook capitalism" and in favour of a "plurality of transitions" is made by Stark (1992). He maintains that "capitalism cannot be introduced by design in a region where the lessons of forty years of experimentation by a rational hand have made the citizenry cautious about big experiments" and supports this skepticism with three sets of reasons. In his view, the emphasis in research should shift "from preoccupation with 'one best way' to scientifically manage the transition to a more analytic strategy deliberately attuned to diverse institutional configurations differing across the country cases not in degree but in kind." At the same time Stark rejects what he calls a myth of "starting from scratch - which implies that the collapse of communism has left an institutional void - and introduces his own "path dependency" approach instead. This approach is more or less explicitly adopted by other authors as well. As Scott (1992), for example, observes in his analysis of the consequences of the transition for foreign trade and investment, "the new structures to be put in place as the sine qua non of a successful transition to a market economy will have to be built using much of the bricks and mortar of the old edifice."

The "path dependency/plurality of transitions" approach suggests that each country can, and perhaps should, look for its own model of capitalism to be aimed at. Economic history seems to support a case for plurality. Porter (1990, p. 623) argues, therefore, that "while there are some broad principles and policies that will benefit almost any national economy, it is a mistake for any nation to follow too closely a model of economic development created for another nation." Stark's approach does not preclude looking for some blueprints at a less abstract or less universal level.

As discussed elsewhere (Wojtyna, 1991), a lack of a clear vision of the future model of capitalism may be dangerous in the sense that it may lead to a hotchpotch or hybrid system reflecting a short-lived inertness and political compromises. This danger is particularly strong in Poland after the 1991 parliamentary election which produced a fragmented political scene with 28 parties represented in the Sejm.

So, which version of capitalism should be imported and confronted with a legacy of "path dependency" in order to build a new, tailor-made economic system? This choice is very urgent as "problems are not waiting for analysts' solutions; decisions currently being made may lead to an evolution with irreversible consequences" (Clauge 1992, p. 2).

Looking at the options offered by the market economies, one can see that the present situation differs significantly from that prevailing only a couple years ago. In the 1980s the image of capitalism was strongly influenced by "a collaborative capitalist internationalism led by the ideological triumvirate of Ronald Reagan in the United States, Margaret Thatcher in the United Kingdom, and Yasuhiro Nakasone in Japan" (Phillips, 1992). Paradoxically, behind this ideological smokescreen another process was developing at the

same time - the growing differentiation between two basic models of capitalism. Those models which Thurow (1992) calls Individualistic vs. Communitarian forms of capitalism are commonly referred to as Anglo-Saxon vs. German-Japanese variants. Although this distinction is sometimes exaggerated, it nevertheless reflects some important diverging patterns within real-world capitalism which have recently been observed in spite of apparent uniformity at the rhetorical and ideological levels.

Thurow (1992) gives the following description of the differences between the two systems: "America and Britain trumpet individual values: the brilliant entrepreneur, Nobel prize winners, large wage differentials, individual responsibility for skills, ease of firing and quitting, profit maximization, and hostile mergers and takeovers. In contrast, Germany and Japan trumpet communitarian values: business groups, social responsibility for skills, teamwork, firm loyalty, industry strategies, and active, growth- promoting industrial policies. Anglo-Saxon firms are profit maximizers; Japanese firms plan a game that might better be known as 'strategic conquest' - they are more focused on market share than on profit."

From our point of view, the most important difference between both variants concerns methods of corporate control. In Germany, banks are the controlling shareholders; in Japan, the company's main bank and suppliers. The Anglo- Saxon variant operates on the assumption that strong walls between the financial and productions sectors should be maintained which in practical terms means that most financial institutions like commercial banks are not allowed to own a controlling stake. In this system it is the market which through a threat of hostile takeovers oversees the managers.

At the present stage it is not easy to decide which model would suit the post-socialist economies better and which model will actually prevail. With capital markets almost nonexistent and banks hardly performing nay of the central functions there can be no neutral framework for competition to decide this question. Therefore we agree with Cooter (1992, p. 94) that instead, it must be answered by law and policy. The "path dependency" argument would suggest that the German-Japanese model is more likely to emerge because institutionally the banking system is much stronger than the infant capital market. This does not mean, however, that the former in its present shape could solve the problem of the corporate control. And as the experience of developing countries shows it is not obvious that adapting existing institutions is easier than creating new ones (Krueger, 1992, p. 220). So there seems to be a trade-off between the probability and desirability of different systems' emergence.

The "which capitalism?" dilemma may be looked at from other angles as well. One of the promising lines of research into the "comparative advantage" of different models of capitalism is linked with the debate on corporatism. Although a few topics in this debate overlap to some extent with the individualist vs. communitarian capitalisms controversy, some of its insights offer a new perspective within which possible options for the transforming economies can be analysed. As the work of Bruno and Sachs (1985) and Calmfors and Driffill (1988) reveals, the best performance was observed in the countries with either very centralized (e.g. Austria, Sweden) or very decentralized (e.g. the United States) system of wage bargaining. At the same time the former have a more equal income distribution.

One could argue that given the weight attached by Poland and other East European countries to their membership in the EEC, a search for a future model of capitalism should be Community-oriented. Strategically, aiming at "EC capitalism" would probably be the best solution. In practical terms, however, it is very difficult to define its essence, particularly in a time of post-Maastricht controversies. Should it be linked with views and opinions represented by the Commission? If for example the Commission states in one of its important documents (EC, 1991, p. 13) that "flexible, innovative, knowledge-intensive industry requires strong social cohesion" and "employee information, consultation and participation in decision-making facilitates structural adjustment by securing confidence in business decisions and assisting the rapid introduction of new working methods and the redeployment of human resources within the enterprise," should it be assumed that in the "EC capitalism" there is not much room left for the Anglo-Saxon solutions? These are of course basically rhetoric questions. Nevertheless, in our view Poland's future full EC membership should be considered a major guidepost in any serious discussion about the model to aim at. In Hungary, for example, joining the EC stands as a sole long-run aim in the structure of government policies (Hare and Revesz, 1992). But given the rapid pace of changes in Eastern Europe since 1989, isn't it fair to say that the "path dependence" concept should also be applied exclusively to this recent past (irrespective of the whole socialist legacy)? In other words, hadn't the decisions being taken in mid-1992 already been predetermined by decisions made during the previous three years? Are some of the post-socialist countries already on either the Anglo-Saxon or German-Japanese paths, which would be difficult to reverse?

After the initial period of spontaneous privatization Poland moved to a policy centered largely on selling medium- sized and large industrial enterprises through initial public offer. This British-style privatization helped to set up a capital market but was incapable of quickly privatizing many large firms. Over time more and more enterprises have been privatized through "liquidation" - a method that usually involved high employees' involvement and hence could hardly be linked with the "individualist" variant of capitalism. By the end of the first quarter of 1992 only 32 enterprises were privatized through "capital" privatization (either through public offer or through the sale of property or stock to selected important investors, usually foreign firms). At the same time there were 1,123 enterprises privatized through

"liquidation" (mainly the small ones, though). Therefore, what in 1990 might have looked as Poland's firm move towards the Anglo-Saxon system, became much less so only a year later.

So far neither of the prevailing forms of privatization has been strong enough to determine the future model of capitalism in Poland. A decisive battle is still before us; its result will be largely dependent on whether implementation of the mass privatization scheme is successful. It is obviously much too early to formulate a final verdict; after all, we should judge the government policies by actual effects and not by intentions. At the same time, however, the preparatory steps already taken suggest that the mass privatization schemes will be continued. In Poland, with Janusz Lewandowski - the main architect of the mass privatization programme - back in charge of Ministry of Ownership Transformation, that process is unlikely to be reversed.

To the best of our knowledge, Stark (1992) is the only author who made a systematic attempt to link a comparative analysis of strategies of privatization in the four Eastern&Central European economies (Czechoslovakia, Hungary, Poland and former East Germany) with possible forms of capitalism which may emerge as a result. The most interesting is a comparison between Czechoslovakia and Poland because both these countries are involved in mass privatization schemes which in spite of some similarities differ substantially. According to Stark, "the Czechoslovak economy appears to be heading in the direction of raising investment funds through markets (typical of the Anglo-American system) rather than through the Japanese-German system in which banks play a more central role in monitoring and directing the performance of their creditor firms." On the other hand, after analyzing the Polish case he concludes that "in place of the Czechoslovaks' imitation of Anglo-American practices, the Poles seem to be looking to models in Germany and Japan."

In Stark's view, the diverging pattern of privatization strategies is closely linked with "path dependency," and more specifically, with distinctive "paths of extrication" from state socialism - "reunification in Germany, capitulation in Czechoslovakia, compromises in Poland, and electoral competition in Hungary." In those different "paths of extrication" an important role is played by the attitudes taken by the respective societies towards the state and the market. As Stark aptly observes, "if the German state leadership trusts the state to remake the society, the Czechoslovaks trust the market to remake the economy, and the current Hungarian leadership distrust the market while being distrusted by the society, Poland is that case where to keep the trust of society the state must win society's faith in the market." And hence in his view, "in Poland the citizen voucher system is a means of legitimating the market."

The distinctive strategies of privatization will undoubtedly have strong impact on the future shape of capitalism in the reforming economies. But much too often the transformation process is reduced to privatization alone.

3. Can privatization solve all problems?

When the programme of economic reforms was launched in Poland, privatization did not rank very high on the agenda. Understandably, stopping hyperinflation was given the highest priority. But at the same time the conviction seemed to prevail that if stabilization efforts are closely synchronised with price liberalization and opening the economy to foreign competition then the resulting hardening of the budget constraint would force state enterprises to a positive supply response. However, enterprises did not respond to the new environment as expected and as it was later confirmed by surveys conducted at the microeconomic level, "macroeconomic stringency and price liberalization, while necessary, are insufficient to induce firm-level change" (Pinto *et al.*, 1992).

Once the costs of stabilization in terms of a deep and lasting recession became disturbingly clear, there appeared an urgent need for some remedies. According to the new conventional wisdom, which started to dominate not only the government's views but also a debate among economists (both in Poland and in the West), a key to success lies in accelerating privatization. This is not to say that a stress on privatization was basically misplaced or simply wrong. But a mistake was made by regarding privatization as a cure for all ills. This in turn was reflected in a characteristic sequencing pattern: enterprise restructuring is only to take place after privatization by the private investor.

By the end of 1991 it had become obvious that instead of quickening the pace of privatization actually slowed down. The Government found it increasingly difficult to pretend that the problem of state enterprises does not exist. There was a growing pressure for the government to supplement the privatization programme with an active policy towards the state enterprises. This pressure has intensified during 1992.

It is not surprising that faith in privatization as a panacea for all problems became fashionable among some influential groups of economists and politicians in the post-socialist societies. It is much more striking, though, that this optimism was shared (if not encouraged) by many Western experts and advisors. In the light of the existing evidence from privatization in market economies this optimism should be more guarded. As Stevens (1992) concludes in his overview of privatizations across OECD countries in the 1980s, "in terms of achieving such aims as wider share ownership, income redistribution, and reduction of trade union power, the empirical evidence suggests that privatization is an unsuitable policy instrument, principally because there exist more effective policy alternatives for attaining each of these goals." These goals are of course of secondary importance only and hence cannot be used as main arguments in the debate. The key goal of privatization is to improve the efficiency of the economy. This goal is usually derived from the property

rights theory of the firm which suggests that public enterprises should perform less efficiently and less profitably than private enterprises. But neither of two basic approaches to the question (firstly, a comparison of the performance of privatized companies pre- and post- privatization, and secondly, a comparison of the performance of public and private enterprises) offer the clear-cut evidence in support of this hypothesis. It seems to be supported by the evidence only in the situation when both types of firms operate in competitive markets (Stevens, 1992).

Recently, the government has often been criticized for letting the privatization process degenerate into an objective in itself. Some authors even maintain that the basic methodological assumptions underlying the privatization program are almost identical with those which guided the economic reform in the early 1980s (Zych 1992). It was believed then that the basic reason fro a low efficiency of the economy lay in the lack of autonomous decision-making on the part of the state enterprises. Once the higher autonomy is granted - the argument went - efficiency will increase automatically. Now it is assumed that all publicly owned enterprises are inefficient by definition; once they are privatized, efficiency will rise immediately.

The critics usually raise the point that privatization is not good by itself; it can be judged as such only when it leads to higher efficiency. So far, however, privatization has been regarded by most enterprises as a best short-run measure to delay adjustment. This has been possible mainly because privatized enterprises could take advantage of a more favourable tax system than that prevailing in the state sector. In general, much too often privatization was treated by enterprises as a substitute for a program of development. And as Majak (1992) observes, efficiency of privatization at the firm level can be guaranteed only by a good business plan. But at the macro level there are no easy solutions. If the government chooses to be pragmatic and not obsessed with privatization, it may opt for corporatization of the state enterprises instead. But as the Polish experience reveals, corporatization has not led to any increase in efficiency, mainly because it was regarded by the management as a transitory solution. Uncertainty about the future status of an enterprise effectively shortened the time-horizon in decision-making and discouraged cost-reducing measures. Sometimes, however, a lack of a real owner is suggested as an explanation of the disappointing performance of corporatized enterprises. Unfortunately, the empirical evidence is much too scanty to offer a more conclusive answer to whether the already privatized enterprises outperform both the corporatized and state-owned firms. A few studies conducted so far have revealed no significant changes in the behaviour of enterprises following the privatization. Most enterprises have tried to take advantage of the restructuring measures undertaken already before privatization started. There have not been drastic cuts in employment but in many cases large cuts were made in anticipation of privatization. Profitability has fallen significantly but mainly due to adverse external conditions (for details see IBNGR, 1992).

If we accept that privatization must not be treated as an autonomous objective, the problem still remains what (if any) is the ultimate goal to which it should be subordinated. "Higher efficiency" appears as a natural candidate. The expected efficiency gains can be divided into: 1) productive efficiency, 2) X-efficiency, and 3) allocative efficiency. Alternatively, privatization can be analyzed as an element of a broader strategy. The second alternative seems more promising. But is it possible to identify any such strategy?

One possible solution is to think of privatization as part of a re-industrialisation strategy. It has frequently been said that East European countries are not underdeveloped but "misdeveloped." In either case, if these countries are not to be trapped in a low wage, low skills, low quality position, decisions have to be made now about likely paths to development and re-industrialisation (Hughes, 1991). Earlier misdevelopment means that much stress must be put on restructuring. And a time factor is crucial here because during a period of a massive recession and large public sector deficits a competitive advantage in terms of relatively high levels of education and skill (Hamilton and Winters, 1992) is likely to disappear. Privatization may contribute to the restructuring (particularly through starting up firms in new branches) but only in the longer-run. And even fast privatization does not necessarily mean fast structural change (cf. Sinn, 1992). Therefore, re- industrialisation of Eastern Europe depends largely on the extent to which state-owned enterprises will be able to improve their performance through re-organization and investment.

For reasons mentioned above, changing the legal status of state enterprises through corporization is highly unlikely to contribute to restructuring. This skepticism is confirmed by a recent study by Kaliszyk (1992) in which restructuring plans submitted by sixteen corporatized companies have been analysed. Old habits still prevail: for almost all companies restructuring means simply increasing investment, mainly in technologies, without caring much about possible outlets. "Let's produce first and think what to do with it later" is still a common attitude. At the same time, the companies under study continue to attach more importance to quantity of output rather than to its quality.

Recently, more authors have been inclined to take a view that privatization may not be sufficient as a restructuring device and hence should be treated as a part of a broader strategy. This shift has been largely due to the discouraging results of the "leave it to the market forces" approach. Siebert (1992) in his analysis of East Germany's transition argues that "with respect to existing firms ('*Kombinate*'), three aspects, though interrelated, must be distinguished: establishing legally independent organizational units, achieving economic efficiency and setting up private ownership." He then suggests

four groups of measures which are required to make existing firms efficient. Rausser (1992, p. 327) makes it clear that privatization must not operate in isolation from other parts of a reform strategy. He argues that "privatization, in and of itself, cannot be expected to achieve efficiency. Only if a privatization policy is jointly determined with an anti-monopolization or antitrust policy, a trade policy, as well as a foreign investment policy, can one expect the proper environment for the emergence of a vibrant market economy. All of these policies must be designed and implemented hand in hand." Hare and Revesz (1992) treat privatization as one of the four most important areas for microeconomic reform, the other three being industrial policy, the capital markets and the labour market.

Another, though related, group of arguments in favour of regarding privatization as a part of a broader strategy or structure comes from some important traditions in microeconomics and theory of organization such as transactions cost analysis, agency theory, portfolio theory and theory of regulation. Those different but complementary strands of analysis focus on what is usually referred to as the ownership vs. control or corporate control problem. This line of research emphasizes the role of internal and external incentives and constraints in firm's behaviour. When applied to post-socialist economies it suggests, broadly speaking, that privatizing state property without establishing effective mechanisms for control over management is unlikely to lead to substantial increases in efficiency. As Mayhew and Seabright (1992) point out in their interesting analysis, "in spite of the emphasis in all the former command economies upon privatization, (...) the question whether enterprises are publicly or privately owned matters much less than the question whether their future owners can implement adequate control mechanisms, and whether the other components of the control structure are also playing their part." There are other important parts of the control mechanism such as the banking system, the bankruptcy law, legislation on workers' control and product market competition which in the absence of capital markets and advanced privatization process may effectively influence enterprise behaviour. Put differently, effectiveness of ownership changes can be much enhanced by explicit attention to the other aspects of the corporate constitution that regulate the relationship of the managers of enterprises to the owners and "alternative stakeholders" (creditors, workers, creditors).

The relative autonomy of changes in ownership and in corporate control does not mean, however, that adopted forms and methods of privatization will not have important consequences for the future structure of power inside companies. Particularly, institutional investors are unlikely to relinquish any control that they exercise over the boards of directors during the privatization process (Cooter, 1991, p. 94). As we can see, important aspects of "path dependency" or irreversibility are inherent in the transition period.

A final argument against the alleged "omnipotence" of privatization stems simply from a point made by Winiecki (1992, p. 273), who otherwise strongly emphasizes the role of ownership changes, that "there are many ways in which privatization could go wrong, quite apart from opting for 'capitalism without capitalists' or some 'third road'."

As we can see from the above discussion, privatization seems unlikely to solve by itself may important problems faced by the economies in transition. Most authors find it necessary to supplement the macroeconomic policies and privatization programs with some direct measures even though not all of them are willing to refer to them explicitly as elements of industrial policy.

4. Is industrial policy an answer?

Debate about industrial policy is very confused largely due to definitional problems. An actual definition of industrial policy may be as difficult to formulate as it is prevalent in practice (Audretsch, 1991). Broadly speaking, industrial policy can be understood as an attempt to encourage resources to move into particular sectors that the government views as important to future economic growth (Krugman and Obstfeld, 1988, p. 254). Its concept usually embraces both specific measures (such as sectoral aid) and general assistance (investment aid, trade policy), as well as direct intervention by the state as a producer or purchaser. Those measures can be used both to support ailing sectors and to promote "sunrise" industries. If the former situation prevails, we can speak of a "loser-driven" industrial policy which implies political lobbying aimed at gaining protection for dying industries. In the latter case, which is much more future oriented and involves strategic thinking, we can say that a policy is "winner-driven."

The 1980s saw growing disillusion with industrial policies mainly because they usually yielded disappointing results compared with the efforts made. For example, they proved largely ineffective in safeguarding jobs. As the experience of the OECD economies shows, the employment trend in declining sectors has not differed significantly between countries irrespective of the policy options adopted (OECD, 1989, p. 141). Their implementation was very often guided by social and political objectives which gave rise to the growth of subsidies and other protective measures. As a result, competition and market signals were distorted which led to growing inefficiency reflected in the increasing fiscal burden.

Growing criticism against industrial policies was not limited, however, to the way in which they were implemented. The traditional theoretical arguments in their favour became also increasingly called into question on the grounds of uncertainty in respect to criteria for both determining policy and measuring performance. According to those arguments, the government should encourage the growth of 1) industries with high value added per

worker, 2) industries that have a "linkage" role with regard to other industries, 3) industries that have future growth potential, and 4) industries that have been targeted by foreign governments. As Kruger and Obstfeld (1988, pp. 255-8) show, however, all those criteria, while reasonable on the surface, are badly flawed. In their view (based on the analytical framework they developed), activist government policy needs a specific kind of justification - namely, it must offset some preexisting market failure; the popular arguments for industrial policy do not meet this criterion. In the course of the 1980s, however, some new, more sophisticated arguments which escape criticism of being inconsistent with rigorous economic analysis were put forward. According to the first one, governments should promote industries that yield technological externalities. The other, based on imperfect competition, is the strategic policy argument that says that governments can help domestic firms seize monopoly profits from foreign competition.

Dissatisfaction with both theoretical underpinnings and practical results of industrial policies did not lead to their complete disrepute. Instead, in the early 1990s we are witnessing a renaissance of the concept.This renaissance is particularly surprising in the U.S. where "as recently as eight years ago, the idea of industrial policy was rejected by both parties and thoroughly discredited in American political culture" (Phillips, 1992). However, the new policy proposals hardly resemble their predecessors. One can actually speak about a qualitatively new approach to goals and instruments of industrial policy. The main elements in this shift in the underlying philosophy (and to some extent already reflected in practice) can be summarised as follows (EC 1991; Phillips 1992; OECD 1989; Porter 1990; Thurow 1992):

- Industrial policy should be aimed at increasing national competitive advantage which is determined by interaction between (1) factor conditions, (2) demand conditions, (3) presence of related and supporting industries, (4) firm strategy, structure and rivalry.
- The main responsibility for industrial competitiveness must lie with firms themselves; governments cannot create competitive industries; firms must do so. But the first should be able to expect from public authorities clear and predictable conditions for their activities.
- Government policy does affect national competitive advantage, both positively and negatively. Government's proper role is to push its industry to advance, not provide "help" so industry can avoid it. Its policy must provide an environment in which any industry can prosper if firms are innovative and achieve high productivity.
- Industrial policies must facilitate, rather than delay, necessary adjustments also by enhancing their social acceptability and by rendering them economically less hazardous for those concerned. Promoting occupational mobility by improved training systems, devising appropriate instruments for financing innovative firms, and tackling discrimination between sectors

by removing barriers to entry in over-protected markets, can all contribute to these objectives.

- The quick, easy role of government (subsidy, protection, macroeconomic management) are either insufficient or counterproductive. Sectoral policies of traditional, interventionist type do not form an effective instrument to promote structural adaptation; if nevertheless adopted, they have to be consistent with general principles of industrial policy. They can work for some time but they inevitably entail the risk of delaying structural adjustments and thereby creating job losses in the future.
- Industrial and macroeconomic policies must act in a mutually reinforcing manner; both require a high degree of consistency and transparency which should have the strong positive effect on manufacturing investment, typically requiring longer-time horizons.
- An effective industrial approach can be built around three axes: 1) maintaining a favourable business environment, 2) implementing a positive approach to adjustment, 3) maintaining an open approach to markets. Different instruments adopted within such a coherent approach can in turn be grouped in the following sets reflecting stages of structural adjustment: 1) prerequisites required for structural adjustment to get under way, 2) catalysts, which act on the willingness of business to undertake adjustment in reply to pressures and opportunities, 3) accelerators, which further develop structural adjustment.
- Strategies should be industry-led; groups of companies, not government civil servants, propose the technologies that should be pushed. Governments do not provide more than 50% of total funding. Companies have to put together their own consortia so that the government is not subsidizing a special favourite.
- Two broad complementary thrusts can be distinguished: reducing intervention in product markets and bolstering adjustment capacity in factor markets. The potential rate of upgrading in an economy is set by the rate at which the quantity and especially the quality of factors improve. To achieve high productivity, firms must have access to an improving pool of advanced and specialized human resources, scientific knowledge, economic information, infrastructure, and other factors of production. Factor conditions must also encourage firms to upgrade their competitive advantages over time.
- Upgrading of skills must take place throughout industry and should not be restricted merely to so-called high-tech industries. The distinction between 'high-tech' and 'low-tech' industries is losing its importance. A high level of educational attainment represents the foundation for the necessary level of human capital which advanced economies require.

The change in the philosophy is far-reaching indeed. It is actually so far-reaching that doubts arise whether "industrial policy" is still an appropriate term to denote this new package of objectives, instruments and principles. To a large extent the new vision of industrial policy is antithetical to the traditional approach. It is well reflected by the following remark in the EC Commission's proposals for European industrial policy for the 1990s (EC, 1991, p. 15): "such an industrial policy is anything but a policy of laissez-faire." Although it is quite surprising to see the Commission in the role of a major proponent of laissez-faire, this new situation should rather be regarded in terms of a shift from traditional interventionist functions of the state towards its metaintervention (see Wojtyna, 1991). At the same time it is interesting to confront this strategic vision of the Commission with its every-day practice in import policy.

But to what extent is this new vision relevant for the reforming economies of Eastern Europe? One could argue that there is a good coincidence in the sense that those economies started to reconstruct themselves exactly when the new approach to industrial policy became available. According to this view, by starting from a "tabula rasa" position, those countries could take advantage of applying the brand-new approach imported from the West. But is this approach applicable in the East European circumstances?

To some extent the new approach was implicitly implemented in Poland during the Big-bang period of the early 1990. Unfortunately, "to some extent" in this context means "in a caricatured way." It was believed that the changes in the behaviour of enterprises, similar to those expected by proponents of new industrial policy, could be achieved through a restrictive demand policy alone. In our view, adopting the "new approach" means metaintervention and this in turn requires a very strong state. At the same time, the "new approach" involves well-developed markets, another prerequisite absent in the transforming economies. How can one search for a market failure as a justification for industrial policy measures when most markets are still in embryonic form?

The problem of the relevance of "the new approach" for the post-socialist countries can be largely reduced to some basic questions: is the approach universal in the sense that it should be applied irrespective of level of development? What is more important: a general level of development or maturity of the market mechanism? Do post-socialist countries resemble more the advanced Western societies or developing countries? An attempt to answer these questions is of course far beyond the scope of this paper. But they are nevertheless crucial because it would be good to know at least whether economists in Eastern Europe should not focus exclusively on studying development economics as long as it seems to be offering a fairly distinctive set of conclusions and policy prescriptions.

In the literature on new industrial policy not too much has been said so far on the applicability of the concept in the countries other than advanced market economies. Porter (1990), however, makes some comments which can be of relevance for post-socialist economies. He observes for example (p. 671) that "government has the greatest direct influence on national advantage in the factor- and investment-driven stages." But "as the nation aspires to move beyond early investment-driven to the innovation-driven stage, firms must increasingly become the prime movers" and "the government's role must shift to almost exclusively indirect one" (p. 672). But a question arises again at what stage the "misdeveloped" economies actually are. Another relevant comment regards the infant industry argument. In Porter's view (pp. 665-6), protection of infant industries can be justified and effective in countries lacking well- established competitors in an industry in which strong foreign rivals are present. At the same time he warns, though, that it is a risky policy which works only under some conditions (presence of effective domestic rivalry and the potential for a favourable national "diamond;" a limited duration of implementation).

In the context of our analysis it is also worth noting that in the discussed literature on the "new approach" privatization is not mentioned at all.

As it has already been said, the "new approach" would have to be applied in the reforming economies given a certain "path dependency." Broadly speaking, the formerly socialist economies have had quite a good tradition in pursuing industrial policies. Some authors even argue that "the case of Eastern Europe provides one of the most striking examples where a consistent and far-reaching set of industrial policies were applied over a long period of time. These policies were effective, in that they resulted in the desired impact on the industrial structure" (Audretsch, 1991). Indeed, the concept of industrial policy is so comfortably vague that in a sense the whole system of a command or planned economy can be described as an experiment on a grand scale in its implementation.

Even though it contradicts the prevailing economic ideology, the post-socialist countries operate a de facto industrial policy to the extent that they decline to allow "market forces" to result in the rapid closure of most loss-making state-owned enterprises (Hughes and Hare, 1992). In this old-style, "loser driven" policy the government attempts to find ways of keeping enterprises going through subsidies, extended credits (which usually merely increase the already accumulated non-performing enterprise debt), and tax reliefs. At the same time, however, there are also elements of a de facto industrial policy which are much closer in spirit to the "new" or "winner driven" approach. Mayhew and Seabright (1992) identify four main tools, in addition to the process of privatization, to influence industrial structure directly. First, there is a disintegration of existing large firms. Second, there is encouragement of entry into the market by foreign firms. Third, there is encouragement of foreign trade. Fourth, there is encouragement of the establishment of new firms (since incentives here are actually aimed at establishing private firms only, this tool should rather be regarded as a form of privatization).

It may be worthwhile to stimulate a structural change by measures other than privatization because slow restructuring itself carries dangers of getting stuck in the situation in which the old sector never shrinks and the new sector never gets going. As Begg (1991) shows, there is no unique optimum solution regarding the pace of privatization or structural change. In his model the choice between rapid privatization and slow restructuring depends upon the relative productivity of newly created and state-owned enterprises, and on the costs of adjustments. Very much depends also on to what extent the government is able to solve the time-inconsistency problem by making the irreversibility of privatization credible.

As we can observe throughout the region, some forms of industrial policy have been continued from the socialist past due to inertial forces and socio-political considerations, some new forms have been implemented and yet anther forms are being recommended.some recommendations come in negative form - what should not or must not be done; they usually require discontinuing some specific, often sector- oriented, measures.

Many of the recommendations which are positive in nature are in line with the "new approach." Audretsch (1991) does not see any reasons why Neumann's (1990) advice for the West, "from the point of view of the evolutionary approach, industrial policy should aim at keeping the process of discovery going" should be less true for Eastern Europe. Audretsch himself stresses the importance of two areas for a pro-active industrial policy: 1. directing massive investment into improving the industrial infrastructure, 2. development of human capital. The "new approach" is very evident in recommendations by Pinto *et al.* (1992). In their opinion, industrial policy should be designed to facilitate the transition to fully functioning markets by: addressing state enterprises in the transition to eventual privatization; speeding up the creation of factor markets for labour and capital; creating a favourable and welcoming climate for foreign investors; providing training and technical services to firms in marketing, finance and management; introducing tax reform and disseminating market information.

In some cases adoption of the "new approach" is reflected in looking for some market failures that justify industrial policy measures. Begg's (1991) paper is based on this attitude. It nevertheless leads to some recommendations which are more traditional in spirit. In his view, the rationale for industrial and employment policy should take into account two considerations: discrepancies between private and social valuation; and politics which must recognize the effects of intervention today on anticipations of intervention tomorrow. Therefore, while Begg accepts using some forms of subsidies as an emergency measure (and hence the second-best policy), he strongly emphasizes that they should be declining over a specified and short horizon.

There seems to be a broad consensus among the Western commentators that industrial policy measures should be aimed at enhancing the international competitiveness of Eastern European countries. Given "path dependency," however, it is impossible to pursue this goal without addressing at the same time the problem of picking the winners and losers. Determining which firms should survive and which should not is probably the most difficult economic and political problem for governments of Eastern Europe. The decision can hardly be avoided or even postponed because in time of a deep and lasting slump there is a very high risk that short- term liquidity problems could force the closure of firms which are viable in the long-term (while other enterprises may survive for longer than they should). The evidence from the slump strongly suggests that, at least at this stage of market mechanisms' maturity, recessions are a poor mechanism of selection.

The governments have, therefore, search for a compromise solution which would allow them to select winners and losers without at the same time getting involved in discretionary and arbitrary decisions which could trigger industry-wide lobbying and bargaining. In other words, it is a search for an objective criterion of selection. The problem is very complicated indeed. As the German experience shows for example, in Treuhand's activity five different criteria for assessment of firms' viability can be distinguished (Siebert, 1991).

Hare (1991) and Hare and Hughes (1992) have advocated subordinating industrial policy to some objective criterion for selection. In their pioneering work they try to assess competitiveness of different branches of industry in several East European countries by re-calculating their value added in terms of world market prices. Some results are quite surprising and counterintuitive. The calculations show for example that the most competitive branches in one country are rarely the most competitive elsewhere. This result is striking given not only a similar pattern of industrialization after World War II but also a similar place in the international division of in labour. before the war. In the case of Poland it is not clear why for example animal products rank very high among the least competitive industries whereas at the same time animal feed branch ranks second among the most competitive ones.

At this stage it would probably be much too early to use the results as a basis for concrete policy decisions. Nevertheless, we are deeply convinced that this line of research should be strongly encouraged. The most urgent task is to obtain confirmation of the results on the least efficient branches (the so called "value subtractors"). The German experience could be of assistance here since Treuhand uses a similar concept in assessing the viability of firms. Another urgently needed line of research regards disaggregating the branch data so that the coefficient for individual enterprises could be computed as well. It is very important given the large intra-branch differences typical of the command economy.

In Poland, a lack of official and objective data on competitiveness contributes significantly to uncertainty and hence to apathy (or at best to the shortening of time horizons in decision-making) at the enterprise level. There seems to be

a climate of secrecy surrounding the future of different branches and individual enterprises partly due to frequent changes of governments and partly to a clash of competence between different economic ministries.

Andrzej Zawislak, Industry Minister in Bielecki's Government, prepared no program of industrial policy although, when taking office, he declared that this should be his most important task. He prepared just an outline policy which was presented to Parliament only the day of his resignation. The outline virtually foresaw arbitrary intervention in individual enterprises on an ad hoc basis. Henryka Bochniarz, who replaced him in the office, started with a large-scale analysis of prospects of different industries and individual firms. The work was not completed, though, because after half a year a new government was formed following the election. In the interview she gave afterwards she said that had they been given two or three more months, the effects of ministry's efforts to design a concept of industrial policy would have been visible. In her view, in every branch there are good and bad enterprises; in general, only 10-15 per cent of enterprises can manage on their own, 20 per cent should be closed down and the rest requires some form of assistance. In the first months of 1992, under Jan Olszewski's government, a "secret ranking list of enterprises" was prepared. Yet again, the government did not survive long enough to implement its views on industrial policy in practice. It is unclear how the concept of industrial policy will develop under Hanna Suchocka's government which is based on a coalition of parties with very differing views on the role of the state in the economy.

The hapless attempts to launch industrial policy in Poland confirms an important role played by the political process. It is also characteristic that in the public debate very little has been said about a need to find an objective criterion of selection. Very often detailed proposals are made without even touching this crucial aspect. Most of the proposals offer a mixture of "loser-" and "winner-driven" policy measures. For example, in the important report by The Polish Economic Association (PTE, 1991), in the chapter on "active industrial policy" there are many recommendations which are in line with the "new approach." At the same time, however, in other chapters which deal with industrial policy implicitly (on policy towards state-owned enterprises, on trade policy) there are also proposals which are defensive and protectionist in character. It is worth emphasizing that the authors of the report are in favour of "subordinating the scope and main directions of privatization to a process of restructuring of Polish industry aimed at increasing its competitiveness on world markets" (p. 26).

5. Can privatization go hand in hand with industrial policy?

A broad conclusion which emerges from the analysis so far is that neither privatization nor industrial policy taken separately can effectively address, let alone solve, the complicated problem of transition of state-owned enterprises to the market economy. But isn't it possible to look for some more innovative approaches which could bridge the gap between those two artificially separated areas? Poland launched some privatization schemes which seem to offer an alternative. As we shall see, only a few months ago a continuation of those schemes was seriously in danger. Now, with a new government, there is a chance that they are not closed episodes of merely historical value.

Before trying to define those innovative approaches we have to fit them in some classification system. In spite of many attempts aimed at constructing a fairly universal, "theoretical" system of classification of methods of privatization (see for example Hinds 1990; Dhanji and Milanovic 1991), most authors use their own, ad hoc typologies. Very often those typologies are fully descriptive in that they follow actual methods adopted in individual countries. But even with respect to a given country classification schemes differ and lead to confusion. We do not aspire to design any broad classification scheme; we simply try to put some order into different forms of privatization which can be identified in Poland.

First we have to distinguish between re-privatization, de-nationalisation of existing state owned firms and starting up new private firms. Usually privatization is meant to denote de-nationalisation and we accept this view. So within privatization in the narrow sense (denationalisation) we can distinguish between programs (strategies) and paths (techniques). Presently the following programs can be identified:

- privatization of individual enterprises (case-by-case privatization),
- mass privatization,
- sectoral privatization,
- restructuring privatization.

In each program different techniques can be applied:

- initial public offer,
- direct sale to a selected buyer,
- liquidation (bankruptcy, management/employee buyout, contributing assets to a newly established company, leasing etc.).

So by techniques we can understand formal, legal procedures which lead to a transfer of property rights. It is interesting to note that in the Polish privatization law of 13 July 1990 only techniques (but not programs) were specified.

Sectoral and restructuring privatizations are programs based on an explicit link between privatization and industrial policy. Sectoral privatization was officially launched on 22 July, 1991. In this approach the most suitable technique of privatization and restructuring for a given firm is to be determined by a detailed study of a given sector's structure and performance both domestically and abroad. The process involves several stages. In the first stage, the Ministry of Ownership Transformation selects sectors and after consultation with other ministries and state agencies prepares a description of a task for the main sectoral advisor

(basically Western consulting firms). In the next stage the main advisor is selected through a bidding process. The main advisor (in cooperation with some subcontractors, if necessary) prepares a sectoral study which comprises both industry blueprint and analysis of a situation of all individual enterprises in a given sector. The main advisor is then expected to sell large chunks of stock of each firm to a selected active investor.

Preparation of a sectoral study is a very complicated task since the resulting recommendations have to take into account different criteria and factors such as long-run trends in demand and competition on the international markets, protection of Polish ownership on the macro scale, concentration and monopolization, economies of scale and structure of production costs, product mix and quality etc. (cf. Sekula, 1992). The analysis has to be based on an interactive relation: on the one hand, to understand individual companies requires understanding a given industry (sector) but on the other hand, sectoral data is usually available only through companies. There are other challenges to be met:

- a need to resolve a potential conflict between the micro- and macroeconomic perspective (e.g. interests of particular companies vs. interest of a sector as a whole; interest of one sector vs. another),
- a ned to structure a process which incorporates the input of all relevant parties.

Since analysis and privatization preparations must go in parallel (privatization path follows directly from industry blueprint) and since all enterprises in a sector have to be covered at the same time, a substantial effort for a sectoral project is required even for advisors with high expertise in a given industry.

Potentially, sectoral privatization offers many advantrages:

- helps to identify development priorities and key success factors in a sector,
- provides policy makers, managers and workers with a clearer view of the future of an enterprise within a sectoral and hence reduces uncertainty and opposition toward privatization at the enterprise level,
- allows policy makers to base privatization of individual enterprises on a tight industrial logic,
- provides a comparison between Polish and Western industry and estimation of needs for foreign investment,
- attracts investors also to small companies which otherwise would be unable to justify the use of outside advisors,
- helps to optimise proceeds and investment commitments by setting up an open and competitive process for enterprises and providing a strong base for negotiating with foreign investors,
- by focussing on active investors contributes to solving the corporate control problems,

- by selling enterprises to strategic investors supplements scarce government resources.

There are of course also potential disadvantages and risks. First, although sectoral privatization reduces the degree of arbitrariness in picking winners, it does not eliminate it completely. It is the government that selects sectors for privatization after all. The choice is verified by the market in that there must be demand for enterprises which are for sale. However, a consulting firm may be willing to complete a sectoral project even though an offered price is very low. Very much depends on the incentive system for consulting firms. Second, a process of selecting active investors has to be closely coordinated with the Anti-monopoly Office. It is very important to prevent the sale of different companies to the same foreign firm. Even if this condition is met, there is still a danger of future takeovers leading to a much stronger monopolistic position of a foreign firm. Third, preferences for a sector's development may sometimes not be in accordance with an individual company's best interest.

As long as enterprises are going to be sold mainly to foreign investors, also general doubts about the role of foreign direct investment have to be raised. A debate about the role that foreign direct investment can play in restructuring, about the scale and time frame of foreign investment requirements, and about the absorptive capacity of the capital-importing countries is still unsettled (Scott, 1992). Even though multinationals have recently had a much better press than in the 1960s or 1970s, there are still good reasons for caution. As Porter (1990, p. 679) warns, "a development strategy based solely on foreign multinationals may doom a nation to remaining a factor-driven economy." He emphasizes that capital-importing countries should be choosy about potential investors; for example "those multinationals should be cultivated whose rationale for locating in a nation goes beyond basic factor considerations" (p. 680).

Many economists writing about Eastern Europe also seem to share this scepticism. As Hughes (1991) for example observes, "the presence of multinational enterprises and joint-ventures may act as a stimulus to domestic firms or it may result in market segmentation where domestic firms, if they survive at all, supply the down-market segment of the market" (we will later confront this view with a concrete case of sectoral privatization in Poland).

When sectoral privatization was launched, 34 sectors (mainly industrial branches) with 173 enterprises were selected. It is not clear why these and not other sectors were selected. As noted above, in the mid 1991 the analysis of a state and prospects of different branches was not even started by the Ministry of Industry. It is interesting to compare those 34 sectors with Hare's (1991) results on the least and most competitive segments of the Polish economy. It looks as if the Ministry chose a "random procedure of picking both losers and winners."

On the one hand, among the 34 sectors we can find some of the most competitive industrial branches as identified by Hare: e.g. food concentrates (the highest rank of all), tobacco products, confectionery, machine tools, technical glass, household chemicals and cosmetics, vessels and ships, bearings. On the other hand, we can find the following selected sectors on the list of the least competitive branches: potato products (the highest rank of all), cement, meat products, cables, fruit and vegetable products, sugar processing, paper and pulp. So from the point of view of Hare's results a fairly random sample of sectors was selected to start the program. Arbitrariness consisted only in choosing this rather than other random sample. But probably some other criteria were used by the Ministry.

Sectoral privatization is still at the very early stage. The only completed case so far is household chemicals and cosmetics or, more precisely, detergents. The sectoral study of detergents was prepared by the renowned consulting firm Bain and Co.

In Western Europe and detergent industry is dominated by four major producers - Procter & Gamble, Unilever, Henkel, and Benckiser which jointly account for 80-90 per cent of the market. The high concentration ratio reflects economies of scale (a minimum size of an efficient plant, R&D intensity and experience in marketing and sales). Recently the leading firms consolidated their position on the Italian and Spanish markets by taking over some of the local producers.

Until the 1990s the Polish market was less concentrated - it was divided among nine enterprises belonging to the Pollena association. In terms of productivity level all the enterprises are well below their Western counterparts (production per worker in tons 2-4 times lower)> At the same time lower prices do not fully compensate for lower quality and poor packaging. Therefore, unless the local market is protected, prospects for the Polish producers are gloomy. The sectoral study showed that the Pollena enterprises would not be able to compete with four major Western firms (a sharply increasing share of imported detergents during 1991 left no illusion)> Therefore Bain & Co. recommended selling three of the Pollena enterprises to different Western firms. In Bain's view, in the long-run t his solution should guarantee a fairly competitive market and survival of six Pollena enterprises. In the alternative scenario, in which Western firms build their new plants in Poland and/or import, there would be room for only two or three Pollena companies in the longer perspective. As a result, a plant in Bydgoszcz was sold to Unilever, and plant in Raciborz to Henkel and a plant in Nowy Dwor Mazowiecki to Benckiser with investment commitments of 20, 17 and 5 million dollars respectively.

Restructuring privatization is the second innovative approach trying to link privatization directly to industrial policy. Unlike in sectoral privatization, however, in this approach emphasis is placed on an individual enterprise and hence it remains an open question to what extent a sectoral dimension will be included in the analysis in each particular case. Another difference is a much more decentralised procedure involved in restructuring privatization. In keeping with the slogan "first restructure, then privatize," this approach emphasizes creating financial incentives that encourage managers to take the initiative in restructuring themselves, rather than wait for central authorities to act (Slay, 1992). By stressing restructuring prior to privatization this approach resembles, at least in spirit, the British philosophy of privatization of the early 1980s. Also unlike in the case of sectoral privatization, the basic "rules of the game" were presented in a well-organized document (see "Prywatyzacja restrukturyzacyjna" 1991).

In this approach a "managerial group" plays the crucial role. it is a broad term covering both individuals and legal persons (e.g. banks, consulting firms, other enterprises, managers of a given firm who set up a partnership), domestic and foreign, which participate in a competitive bidding process for the best business plan or restructuring plan. An incentive system for a managerial group consists of three elements: a) a fixed salary, b) yearly bonuses in terms of dividends, c) a special bonus for restructuring and sale of an enterprise. The third element is particularly important - it is assumed that this bonus equals 30% of a difference between an initial valuation of an enterprise and its final sale price. The whole procedure is split into eight consecutive stages:

1. Independent consulting offices prepare company's business profile.
2. Supervisory boards or employee councils announce a tender for the best restructuring (business) plan.
3. Managerial groups prepare restructuring plans.
4. Restructuring plans are sent to supervisory boards and employee councils for initial evaluation.
5. Ministry of Ownership Transformation follows a four-phase competitive procedure.
6. A supervisory board, acting on behalf of Ministry of ownership Transformation signs a business contract with a managerial group.
7. A supervisory board supervises a restructuring plan.
8. A managerial group prepares a sale and a special dealer group executes it; in a new ownership form Treasury's stake must be below 50 per cent - otherwise the whole procedure has to be repeated.

Restructuring privatization was launched only in fall 1991, i.e., in the final months of Bielecki's government. Therefore this sprogram did not have time to gain momentum or reach a critical mass before personal and conceptual changes in the Ministry of Ownerhsip Transformation took place. There are, of course, potential threats inherent in the program's implementation. For example, the difference between an initial valuation and a final sale price, which constitutes a base for managerial group's bonus, may reflect some external factors rather than its efforts and contribution.

When Tomasz Gruszecki replaced Janusz Lewandowski at the Ministry of Ownership Transformation in the beginning of 1992, both sectoral and restructuring privatization fell into disfavour. In Gruszecki's veiw, given the limited means of the Ministry, a pragmatic attitude should be taken in that attention should be focused on two "fronts:" mass privatization and reprivatization. In some interviews he admitted that sectoral privatization was practically suspended and made some unfavourable comments about its effects so far. Gruszecki's negative attitude towards sectoral privatization seems to have been inconsistent with some other elements of his broader view on necessary changes in the economy. For example, he stressed on several occasions that the Ministries of Ownership Transformation, Industry and Trade, Housing and perhaps Foreign Economic Cooperation should be merged with the Central Planning Office in order to establish a Ministry of the Economy, which would act as a "single decision-making center." This "holistic" and "integrating" view on the institutional change strongly contrasts with his reluctant approach to sectoral privatization which in fact is based ona similar unifying philosophy. An emphasis put on sectoral privatization could have been used as a rationale for implementing the institutional reform.

After Hanna Suchocka's cabinet was formed in July 1992, establishing a Ministry of the Economy has become less likely for the time being because liquidation of some ministries would destroy a delicate balance among seven political parties represented in the coalition. At the same time, however, with Janusz Lewandowski back as a minister of ownership transformation, a revival of sectoral and restructuring privatization can be expected. Actually, his first weeks in office have already shown the first signs of this revival - the paper industry is going to play a model example to be followed by meat-processing and shipyard industries. In order to compensate for the time lost Lewandowski seems to be determined to sell individual enterprises to foreign investors even though transactions concerning other companies in a given sector have not yet been completed.

6. Concluding remarks

In this paper we have tried to highlight the importance of interrelations between privatization and industrial policy in the transformation process. During three years of experience in reforming the post-socialist economy in Poland it has become clear that there are no easy ways of moving to a market economy. Economists still lack answers to some basic questions such as whether the deep recession was caused mainly by demand- or supply-side factors. Their knowledge in other areas of transformation is also very fragmented and inconclusive. But they know at least that a country-specific, tailor-made transition is a good thing. More and more economists seem also to subscribe to the view that initially too much hope was attached to privatization as a certain and complete cure for all ills. They would be now more inclined to think of privatization as one of several means which may contribute to setting up an effective system of incentives and corporate control. This suggests in turn that industrial policy, in spite of many potential dangers, may support privatization in pursuing this objective in the short-run.

We are convinced that sectoral and restructuring privatizations should be strongly encouraged as innovative approaches aimed at establishing explicit link between ownership transformation and industrial policy. We are of course fully aware that these two approaches cannot provide the main solution to the dilemmas of transition. In the Polish circumstances characterised by a fall in purchasing power of the society on the one hand, and by caution on the part of foreign investors on the other, a privatization process based exclusively on commercial terms will not work. At the same time, however, these innovative strategies provide a unique testing ground for all crucial trade-offs, dilemmas, constraints and potential solutions inherent in the transformation process (ownership vs. corporate control, role of foreign investment, search for an objective criterion for restructuring etc.). Given the relatively low risk involved, it would be unwise not to take this opportunity of reducing uncertainty inherent in the transformation process.

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From Management Buy-Out to Restitution: Merits and Drawbacks of Privatisation Methods

I

1. Since it came into force two years ago, the Polish Act on Privatizing State Enterprises has been a subject of continuous debate and dispute about its virtues and disadvantages. Actually the whole discussion is being conducted in an atmosphere of unfair criticism of those in charge of privatisation for conditions in which the Polish economy used to work in the past. The impact of those previous conditions is still seen in the economy, in legislation, and in social structure. Ever since the end of World War II, state ownership was proclaimed and furthered as the fundamental form of ownership in Poland. The state sector, called „socialised economy," was granted separate status in Polish legislation and was strongly privileged in business, and even though that status did change to some extent as time went by, it proved to have had strong roots. It was rooted in all domains of public law, even in the apparently neutral civil law. For example, a category of business organisations called „unit of socialised economy" survived in the Civil Code up to only a short time ago. Or, the code included a provision establishing what was called unity of state ownership, a stipulation that „the state alone holds inalienable right of national property." Or, some regulations, for whatever reasons, established contractual relations between different parties, but only for the socialised sector, barring natural persons from such relations (as was the case of construction contracts).

I am saying all this to put estimates of privatisation and of its relative efficiency into perspective. It should be clear that effects of privatisation do not depend solely on the Privatisation Act but also on the economy's inherited and new conditions.

The fact that the transformation involves basically a privatisation of *state* property is itself significant, in that it is an „attempt" on the existence of what for many years used to be the most cherished form of property ownerhip. State enterprises used to be, and still are, not so much the „core" as the „trunk" of national economy. As the new State Enterprises Act came into force early in the 1980s, it looked like nothing short of a revolution, mainly by giving enterprises a measure of independence from the administration, by setting up a system of management bodies, by introducing rules on resolving disputes between parent bodies and enterprises etc. Ten more years had to pass before it was recognised that state enterprises are an anachronism. But there is a hazard of oversimplifying things there.

The legal structure of enterprise maybe affected, if not damaged, mainly be the linkage of the terms „enterprise" with „state." State ownership, of course, is less suitable than any other as a potential foundation upon which to build efficient economic structures. But I am sure the structure of enterprise will ne neededin some areas, as in municipal services (public utilities) or wherever the government will desire to conduct monopolistic deficit operations. Transformation of everything into stock companies does not warrant economic development. A better idea is to admit as many different categories of business entities, this by adapting legal structures to different kinds of business activity. Such an approach would, first, encourage legislators to admit new kinds of business entities, and, on the other hand, forestall the simplistic view that limited-liability or stock companies, however important they may be, are the only entities called to do business.

2. Privatisation, as pointed out before, involves only state enterprises. But actually other entities are also being „privatised," in isolation from the Privatisation Act. That was what happened in the case of a previous so-called „small privatisation" programme in which people took over shops, service outlets etc. Different adjectives are used to describe privatisation schemes in Poland, such as small, large, individual, civic, mass, sectoral, direct, indirect, through capitalisation, through liquidation. The Privatisation Act concerning state enterprises actually provides for two lines of privatisation:

a) privatisation through selling stock or shares to third parties in a single-shareholder Treasury-owned company founded from a transformed state enterprise, or

b) privatisation through selling an enterprise (or organised parts of its estate), contributing an enterprise (or organised parts of its estate) to a partnership, turning over for use an enterprise (or organised parts of its assets) as a result of the enterprise's liquidation.

If this distinction, which follows from articles 18ff and 37ff of the Privatisation Act, is referred to the above-used adjectives, it will be seen that distinctions such as that between direct and indirect privatisation may be misleading. It is difficult to recognise as direct privatisation a situation in which a company founded in keeping with article 37.1.3 (turning over an enterprise for use against payment) becomes owner of property which is subject to a hire lease contract after five or ten years. But as far as I can see, those general formulations are designed primarily to distinguish between the

two main privatisation tracks provided under the Privatisation Act.

Now, given the above-mentioned regulations, the Polish system of privatising state enterprises can be said to rely on two possible procedures:

1) changing the legal status,
2) liquidation.

In either case, the enterprise disappears as a legal person and so is struck of the register of state enterprises. In either case, different methods are used to prepare the privatisation, and the successive stages of the process are different too. As I see it, neither case, i.e. transformation or liquidation, can be justifiably be viewed as privatisation; each of them is just a road towards privatisation. In a case of transformation, the owner changes *de iure*, whereas liquidation results in the closure of an enterprise and in consequence in the owner being changed too. One consequence of the involved structure of national property that was the law throughout the post-war years (art. 128 in former Civil Code) was that it was very difficult to determine exactly the owner of an enterprise's assets. Despite the many new regulations enacted since then, repercussions of that state of affairs are visible to this day.

From the point of view of kind of ownership (state property), nothing changes, but from the point of view of subject the change is quite fundamental. Estate items an enterprise was endowed with at its foundation as well as those it added in the course of its activity again become property of the Treasury. In the Civil Code, state enterprise and the Treasury are two different legal persons that are not mutually responsible for each other's obligations (Civil Code art. 40 & 34) and which are linked solely by the kind and origin of their respective property.

It is only the second stage, following transformation or liquidation, should be called privatisation. In such cases, state property is taken over by entities outside the state ownership structure. Privatisation involves a change of owner, but also ensuring that state ownership is replaced by a different form of ownership, namely private ownership.

Exactly when can one speak of real privatisation? Does privatisation come about at the moment of selling stock (shares)? Or at the moment of concluding a lease contract, a sale contract for part of the assets? Or just when the Treasury becomes partner to a company (art. 37.1.2)? The circumstance alone that an enterprise has been struck off the register does not seem a sufficient reason to recognise that privatisation has been effected. In my view, it is legitimate to speak of privatisation when ownership relations have changed to a point beyond which the Treasury can no longer influence decisions of the new owners after most of the property it held before has been sold.

The Ministry of Ownership Change, Privatisation Ministry for short, takes the moment of striking an enterprise off the register as the turning-point. It should be realised that in many cases (mainly when contracts are for the use of assets) companies founded by employees will be unable to take over the estate they use, and that then the estate would be „restored" to the Treasury.

The proposed distinction is mirrored in binding regulations. Within the method resulting from transformation (cf. 1 above), there are the three possibilities:

1) acquisition of stock or shares through tender bids,
2) acquisition of stock or shares through a public offer, and
3) acquisition of stock or shares through negotiations pursuant to public invitations.

Acquisition through tender bids is subject to Privatisation Ministry rules. It can be done in written or oral form. Bids are submitted in writing, and subsequently that offering the best price is chosen. A contract is concluded by notifying the bidder that his bid has been accepted. Oral bidding, or auction, requires that an offer to sell is communicated orally (at a moment a stock or share price is called) and subsequently accepted (at the moment the deal is knocked down to the highest bidder).

A public offer indicates the buing price and sets a time limit for which the tenderer's obligations (Civil Code art. 66). So, a party communicating its intention of buying stock or shares subject to the conditions named in the offer will conclude a contract.

In the case of negotiations taken up pursuant to a public invitation, a contract is concluded when the parties involved reach agreement on all provisions discussed during the negotiations (Civil Code art. 724).

Privatisation through liquidation, in turn, has also three variants:

1) an enterprise or organised parts of its estate is sold,
2) an enterprise or organised parts of its estate is brought in as a contribution to a company, and
3) an enterprise or organised parts of its estate is turned over for use against payment.

In the first of these cases, selling an enterprise as a whole is effected in keeping with art. 55.1 &55.2 in the Civil Code, which stipulates the sale of the entire body of material and nonmaterial property components for the conduct of business operations. Selling part of an enterprise's estate may imply that the estate left over after the enterprise's liquidation will have several owners. It may also come about that the Treasury will be among the owners, as it will hold estate that could not be sold.

The contribution of an enterprise or organised parts of it to a company is at the same time one form of selling it. This possible privatisation track will always create situations in which the Treasury becomes a partner to the newly created company. This brings back the question whether a procedure involving the Treasury as a partner with a controlling interest or a majority stake, or as owner of a single-shareholder company, can really be recognised as a method of privatisation? The Privatisation Act's art. 37.1.2 sets no

obstacle to that. The undelrying itnention of privatisation, of course, is to allow for contributing enterprises to companies with the participation, for example, of employees of the liquidated enterprise, or of foreign capitalists. If the company should remain no more than single-shareholder Treasury-owned, it would make little sense to contribute assets to such a company. So, tt would really be a bit far-fetched to talk of privatisation in such a case, for in that case we would have to do with no more than a step on the road towards privatisation.

The third possibility, i.e., turning over an enterprise to its former employees for use against payment, is the most common form of using estate of a liquidated enterprise. That is done on the strength of a contract with the Treasury which may be for any of three possibilities:

a) leasing,
b) unspecified (a kind of leasing contract),
c) turn-over for use.

Hire seems singularly unfit as a foundation for legal relations between a company and the Treasury. Hire can only concern objects (Civil Code art. 659) whereas an enterprise's assets also involve rights.

This completes my remarks at this point, as I am going to take up the above issues in my discussion of the relative virtues and disadvantages of privatisation methods.

Apart from these, there is the question of liquidation of enterprises on account of their bad financial standing (art. 19.1.1-3 of the State Enterprises Act) or because of organisational changes (art. 19.1.4 of that act). The term „liquidation privatisation" is sometimes used to describe the procedure described in the State Enterprises Act.

In my view, this case does not qualify at all as privatisation in a sense of an deliberate undertaking. Liquidation of an enterprise on the strength of the State Enterprises Act rather than the Privatisation Act is a consequence above all of a bad fiancial situation. As a result of such a liquidation, the estate remaining after the closed enterprise can either 1) be used as a contribution to a company's assets, or 2) sold.

Apparently, then, when liquidation is effected on the strength of the State Enterprises Act, there is no way its estate can be turned over to a company founded by its employees. There is one more important difference. The State Enterprises Act speaks, when describing liquidation, of estate that can be sold or contributed to a company as *estate (or its part) remaining after the liquidation,* whereas the Privatisation Act speaks in that connection of estate that can be sold, contributed to a company or turned over for use as *the enterprise or organised parts of its estate.* Now this is an important difference. In the former case, there is talk of *estate,* in the other case, of the *liquidated enterprise.* The Civil Code (art. 44) describes estate as property owned along with ownership rights. Accordingly, estate does not embrace obligations, but only assets without liabilities. When speaking of the sale of a liquidated enterprise, for example, the situation is different. In this case, under the Civil Code (art. 55.1.5) the enterprise consists also of obligations (charges, liabilities), which means both assets and liabilities are involved. There will be no need to meet debts in that case, because the enterprise can be sold along with its debts. This distinction has important legal implications.

II

Applying slightly different criteria, we can distinguish the following possible privatisation procedures:

1) Acquisition of majority stake in a single-shareholder Treasury-owned company by persons from outside the enterpise (e.g., foreign capitalists, third parties).
2) Acquisition of controlling interest or majority stake in a single-shareholder Treasury-owned company by employees or managers (director, his deputies) of the transformed enterprise.
3) Acquisition of controlling interest or majority stake in an „emploees' company" which hires, leases, or uses the enterprise's estate through its employees or managers.
4) Sale of an enterprise to a company founded by employees (with controlling interest or majority stake held by the enterprise's management bodies).
5) Sale of an enterprise to third parties or to a company of outside investors and employees.
6) Contribution of an enterprise to a company involving the Treasury and employees, or the Treasury and third parties, or the Treasury, employees and outside investors.

While other privatisation methods, these seem to be the main ones.

1) Sale of stock (shares) to third parties leads to direct privatisation of state property. The Privatisation Act uses the unfortunate term „making stock accessible" (to which I come back later on). It is to be asked, therefore, if art. 19 of the Act was intended to effect the completion, or just the beginning, of the selling of stock or shares in two years' time? However imperfect the provision may seem from the legislative point of view, there can be no doubt that the legislators intended the sale to be completed within two years. When employees of a transformed enterprise, for whatever reason, do not buy stock or shares in amounts large enough to give them a say in running the company's operations, the bulk of stock or shares goes to outside investors, Polish and foreign buyers.

2) In this situation, the enterprise's employees, especially the managing bodies, will have a prominent part in running the company. This particular possibility is actually encouraged by the Privatisation Act which gives

employees of a state enterprise that has been transformed into a company a right to buy up to 20% of the total stock or shares at preferential terms (art. 24). The preferential buying holds good for management staff and other employees together. Employees under that provision are required to pay 50% of the price set for natural persons buying the stock or shares on the first day of selling. Preferential terms expire one year after the day they are offered for sale. Employee preferential terms, then, include the following provisions:

a) paying 50% of the value of stock or shares,
b) one-year freeze on stock (share) prices, while prices for others may change,
c) stock can be bought for a period of one year, unlike for others.

Apart from preferential purchases, employees can of course buy stock (shares) on the same rules as other parties. Stock is distributed among employees in keeping with an earlier-approved schedule.

3) Privatisation by turning over the enterprise's estate for use against payment is definitely the most popular of all possible methods. The idea is to make the estate of the enterprise (or organised parts of it) available to a company created by employees. The Privatisation Act sets forth the following rules in connection with this particular method:

a) The application for liquidation and the turn-over of estate for use against payment shall be approved by the employee council after consulting employees at a general meeting.
b) A company shall be founded which should basically be joined by most of the liquidated enterprise's employees.
c) Only natural persons shall be admitted as partners (legal entities may join if the Privatisation Ministry issues issues a permit).
d) The company's stock shall not be smaller than 20% of the founding capital and the liquidated enterprise's own fund.

The term „basically" in point 2 above implies that in some cases a company may consist of a smaller number of employees, especially when a general meeting approves that or when the company has not been founded within two months since approval of the application.

A limited-liability (or stock) company set up in that fashion concludes a lease contract or a contract unspecified in the Civil Code, called leasing contract, or else right of use is established. The unspecified „leasing" contract includes a reservation stating that on expiry of the contractual period the company shall have a right to buy the enterprise it uses and with the value of disbursements made on account of using the enterprise being booked as contributions towards the eventual selling price. The price agreed on the day the contract is concluded shall be the binding price. The Treasury's proceeds then consist of two items: the payment of part of the enterprise's value, and an extra payment which is the compensation for using the estate.

As pointed out before, this particular privatisation procedure takes a long time to complete. Partners become owners only after paying the last instalment. The most frequent situation in that procedure is that employees make up a majority of partners to the company. The pattern of the company's capital may be different, ranging from majority stakes held by employees having no part in management through to cases of management staff holding all the powers. Nothing of course stands in the way of an outsider takig voer a majority of stock or shares in the company, as long as conditions described in art. 38 are met.

The above-mentioned companies are often called „employee companies," or there is talk of „employee stock ownership." This particular category of companies is of particular importance to employees as the mildest form of ownership transformations, which has a number of extra advantages (to which I shall come back later).

„Employee company" is not a very fortunate term though. It denotes no particular type of commercial company but only points to the fact that 1) partners to the company shall be enterprise employees, and that 2) the company has been founded for the purpose of using the estate of the liquidated enterprise.

But a specific combination of different provisions from the Commercial Code may in some cases distinguish that particular company from „ordinary" companies. The term „employee company" is used in three meanings:

1) as a company in which a majority of stock or shares (more than 50%) is owned by employees,
2) as a company which has most employees of the liquidated enterprise as partners (whether or not it represents a majority capital),
3) any company which has employees as partners (even only a few, cf. art. 38.2 of the Privatisation Act).

Perhaps emplyoees' companies should not be spoken of in a general sense but only in the context of the Privatisation Act. Whereas „employee stock ownership" implies a majority stake in a company, the term „employee company" will perhaps be used more meaningfully when referring to the situation provided for in art. 38 of the Privatisation Act, namely a company using the enterprise's estate and founded precisely for that purpose. The term „employee company," accordingly, can be used to denote the following kinds of companies:

1) companies in which the stock (shares) are held exclusively to employees and none of them holds enough stock (shares) to make decisions inside the company,
2) companies in which the stock (shares) are held exclusively by employees but where some employees (e.g., the management) have a majority stake enabling them to control the company's decisions, and
3) companies in which stock (shares) are held partly by employees (a

majority or a small group) and partly to owners outside the company and where one of those groups have a majority stake which enables them to control the company's decisions.

So, we can speak of employee companies, employee-management companies and management companies. Which of these is chosen depends on whether or not employees can collect 20% of the total value of the founding stock and the enterprise's own fund. As long as employees can freely choose, they will of course pick the model they believe holds potentially the best advantages for them, namely the variants under points 1 or 2. But should it turn out that outside funds are indispensable, then variant 3 will be chosen. As said before, looking at the variant one by one you will notice some obvious advantages in each. So the choice should always be individualised.

As to variants 4, 5 and 6, they are all derivatives of certain privatisation techniques, except for legal implications (such as buying the estate rather than using it). Mutual ownership relations can be compared with those discussed under points 1-3 (for example, applying the same preferences as in the case of stock or share acquisition by employees, cf. art. 24 of the Act) in cases when the enterprise or an organised part ofits estate was was brought in as a contribution to the company (art. 24). After all, the law nowhere forbids to found a company involving employees and the Treasury, or one founded by employees for the purpose of buying the enterprise. That, of course, is also a company founded by employees except that I attribute the wording „employee company" to one which uses the enterprise's estate.

III

One of the privatisation methods in Poland will be what is called „mass privatisation." The long public debate about that idea now seems finally closing. Mass privatisation is to unfold in the following stages:

1) chosen enterprises are transformed into single-shareholder Treasury-owned companies,
2) their stock is turned over to National Wealth Management Funds,
3) 60% of stock is offered to adult citizens against a small fee.

As there is no binding legislation to regulate this method yet I am not going to comment on that.

IV

Much of what has been said of mass privatisation holds also for reprivatisation. Reprivatisation, or the restoration of property to former owners, is not yet regulated by legislative acts. Reprivatisation will undoubtedly be one of the methods of restoring private property in Poland. But faced with a host of yet unsolved problems it is difficult to say anything definite on its range or extent in future. It has been observed, though, that „it may be more sensible and, in some cases, faster, to carry out the privatisation programme and subsequently to pay off former owners than to put through reprivatisation" (E. Savas). Considering Poland's formidable budget problem in the foreseeable future, the government may be in no position at all to pay former owners off in cash. In many cases, however, former owners have succeeded in getting their claims to what is now state property officially recognised.

V

The two years that have passed since the Privatisation Act became effective had furnished evidence to justify first conclusions. The two years are long enough a period to recognise different privatsiation methods for their possible merits and faults. It is of course easier to criticise things than to create them. So, in trying to identify privatisation's relative merits and disadvantages we should underscore its very fundamental merit of its being a coherent juridical and economic concept which fosters hope for a fast privatisation of state property after making a few corrections.

The merits of „employee companies," in which are employees have majority stakes, are self-evident. It should be pointed out that this particular method does the following things:

1) it eases internal disputes (clashes between employees and the management),
2) it raises the employee's status from that of hired hand to that of shareholder,
3) it triggers people's initiative,
4) it ensures extra income from dividend,
5) it gives employees real influence on managing the company.

As for methods which allow foreign investors to join companies, the following merits should be pointed out:

1) they set the stage for a company's future development by launching long-term actions,
2) they set up efficient wage controls,
3) dividend is not being distributed right away,
4) funds are being set aside for investment and development.

The best variant probably would be to link employee participation with the company's management by expert staff, who should also have an interest (not necessarily a dominant one) in the company. But since merits will undoubtedly become evident when the privatisation programme has been put through, let me just point at some of its disadvantages, because if they are moved out of the way at an early enough stage privatisation will only benefit.

1. Legal barriers (dirawbacks)

Most of the issues involved in the Privatisation Act are closely linked with the legislative flaws of that act. That involves the use of ambiguous, sometimes undefined, terms (as „making available" in articles 1, 19, 24), or of excessively laconic or imprecise formulations. More than once, regulations turn out to be badly structured or generally lacking a desirable norm (e.g., a general regulation of leasing contract). In some cases no clear distinction is maintained between legal terms (as that between „estate" and „property").

Another provision the Act lacks is one that would permit privatisation through limited commercial partners known in German law as *Kommanditgesellschaften* (which seem to have no equivalent in US or UK law), or of „parallel" companies. Both the one and the other option could furnish interesting alternatives to privatisation methods known now.

The Privatisation Act provides for only two types of companies feasible under the privatisation programme, namely limited-liability and stock companies. Considering the vital importance of capital inputs in either case, that is perfectly understandable. But practice has shown that confining privatisation to stock companies actually impedes the process. This happens especially to property which is of little interest to the company as a whole.

A *kommandit*-type limited partnership requires the existence of at least two partners: a limited partner (*Kommanditarist* in German), who is not liable beyond the fund brought into the partnership, or one who brings in a definite fund as a contribution, and one general partner who is liable with all his property. The general partners (*Vollhafter* in German, who may be the company's employees) are in charge of current operations, representing the enterprise and playing an active part in it. The limited partner (the *Kommanditarist*,or the enterprise) is basically a passive partner supplying the corporate estate or assuming responsibility for it.

As I said before, this kind of company could be particularly interesting to employees, because they could use factory space, warehouses, facilities etc.

A „parallel" company is a case of employee companies operating side by side with the state enterprise which continues to work. The employees either can operate independently as their own partnership or go into partnership with the enterprise. In the former case, „parallel" companies act as leaseholders or lessees, in the latter the enterprise brings into the partnership a contribution in kind (e.g., a factory hall, a building, ownership rights etc.). But art. 19.1.4 of the State Enterprise Act actually bars such possibilities. For if more than a half of an enterprise's estate is composed jointly of stock or other titles in a company, bonds, or estate turned over for use to other persons on the ground of civil contracts, then such an enterprise is subject to liquidation. Even so, I am sure the possibility of parallel companies should not be ignored in the future.

Another major barrier to privatisation, in my opinion, is the Privatsiation Ministry's wrong policy of not taking advantage of art. 38.1 of the Privatisation Act (which authorises the ministry to authorise legal entites to join an employee company). Such companies, of course, should be founded by employees as a matter of principle. However, practice has shown that many employees just do not have the necessary funds and this is a major obstacle to privatisation. So, rather than admittign legal entities to become involved in that particular privatisation method, the Privatisation Ministry is blocking it. Of course, this should hold only for situations in which the legal entity has minority interest in the company. The ministry's incomprehensible attitude has demonstrably inhibited privatisation in a number of cases.

A next obstacle is the formalistic requirement of prior establishment of legal status of immovable estate. This is an involved process which is bound to take a long time, and so it is bound to defer privatisation. As said before, the Privatisation Act significantly lacks a regulation providing for direct privatisation. Given the methods which are being used in Poland, almost every programme is bound to be implemented in stages.

The afore-mentioned gaps in the Privatisation Act are another impediment. Let me point at just one matter which potentially breeds a lot of coflict in the companies. In the case of liquidation of an enterprise, there is no provision (like that in art. 9.3 in the Privatisation Act) saying that in the case of getting employing as member of the board of the transformed enterprise the enterprise director is not entitled to six-month severance pay. This creates an absurd situation in which the director, who as board chairman often gets paid over 100 million złoty, is the only person who really benefits directly from privatisation. That provokes justifiable anger among employees.

Lack of regulations concerning strategic investors is another fault of the legislation. This holds both for the „capitalisation" and the „liquidation" methods. Investors are reduced to passiveness, as they have no possibility of starting privatisation processes or taking part in them. That may prove a significant deterrent to would be investors.

All methods moreover have the same fault of rigidly including the enterprise's own fund, which is a fund worked out by the work force, in the enterprise's aggregate booked value. Employees do resent this approach.

For want of space I cannot dwell here on a detailed discussion one by one of different privatisation methods. Let me only state the simple fact that decision-making has not been decentralised to this moment (for example, by devolution to local branches). Privatisation is still basically a centralised exercise.

2. Barriers (drawbacks) of privatisation methods

Privatisation in Poland is marked by a paucity of methods. Those which are used should prompt efforts to devise new ones. This is not to say that there is no desire to look for new privatisation possibilities, for that is undeniable (the idea of mass privatisation is a case in point), but it is too bad that too few possibilities have been created for employees willing to buy stock or shares of their companies. The following things have been recommended in the public debate:

1) enabling employees to take over, in some cases, enterprises against a symbolic fee, or even entirely free of charge,
2) in cases of indebted enterprises, the government should pay part of the price for the buying company,
3) introducing a more flexible leasing system,
4) offering tax allowances in buying stock or shares,
5) creating a different system of preferences for employees or investors.

3. Financial barriers

A fundamental problem at this stage of privatisation is a shortage of financial resources among the population (employees, the community at large), which hampers the pace of privatisation. In theory, of course, it is possible that foreigners buy out all the wealth of the nation. This is a preposterous idea though. Nor is it a feasible idea to hand out everything for love. The best way perhaps is to look for methods enabling employees (citizens) the purchase of stock or shares. A lack of any major preferences for managers or employees (e.g., in companies leasing estate) is putting yet nonprivatised enterprises in a very difficult situation. It may turn out that those who have already managed to get their enterprises privatised, often taking advantage of opportunities to create different funds inside their enterprises which were subsequently turned over to employees, have done best thing. If that has been done, they have avoided many problems and shortened the road to privatisation. Funds used for the acquisition of stock or shares were in many cases tapped from the enterprise's own resources. A very serious disadvantage consistently defended by the Privatisation Ministry is, in the case of leasing contracts, the setting of an excessively high minimum initial capital (20% of the founding capital and the enterprise's own fund). Such a threshold is unattainable even when participants from outside the company are involved. This matter could be made contingent, for example, on the enterprise's employment figure and its book value. Enterprises with short payrolls but of value going into billions of złoty are in an utterly different situation than those with a large work force but poor finance.

Also, the practice of setting very high extra fees for using the estate of liquidated enterprises causes a major problem. That particular method has causes a great deal of disenchantment, for in many cases it has been used mainly in order to evade the dreaded extra wage increase tax and as a loophole to get away with wage increases. The whole undertaking thus became largely fictitious. The extra charges as a rule do not produce the anticipated wage increases. Such knowledge is a powerful disincentive to enterprises that are only in a stage of studying possible privatisation methods.

4. Social barriers

The slack interest in privatisation has also a social aspect. Here are some factors belonging in this category:

- employees fear losing their jobs,
- fears of having no say on management,
- deferment of profit distribution,

Last but not least, there is also the factor of employees fearing they may lose privileges they now enjoy (e.g., low-interest funds, nonreimbursable grants etc.).

Psychological barriers are coupled with the afore-discussed disadvantages of different privatisation methods.

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Trade Unions' Attitude to Privatisation

New expectations

This conference is taking place shortly after the Polish government concluded talks with employers' organisations and trade unions on its idea of a "pact on state enterprises." The resulting agreement, the government had declared, would bring about above all two things: it would boost the role of trade unions in privatisation programmes, and it would set forth rules for negotiations at central government level on wage increase ceilings. I am not familiar with the concluding documents of the talks, but I dare to say the agreed points will take a long time to become the law in Poland, to say nothing of the time it will take to put them into practice. Even so, the fact alone that such talks were held at all is good news - at a time all the efforts to build a new social order in Poland during the past several years have produced so few encouraging results - it is a sign at least of a growing understanding that the programme of transformation "from the top down" is all but stranded. Perhaps it also signals a turn in the government's overall approach?

It will be recalled, of course, that this was the first such an event since the Round Table talks in the spring of 1989. It will also be recalled that even the fundamental political concept - at the time Solidarity elites were unexpectedly hoisted to power - the idea, and subsequently the programme, of building a private free market economy in a short time, was devised by a small ruling group who imposed it on society. What came to be known as the Balcerowicz Plan was adopted by Solidarity *without any prior internal debate or without the government seeking agreement with "its own" Solidarity*. Lech Wałęsa, then Solidarity Chairman, had approved the Balcerowicz Plan even before it was presented in detail. Wałęsa did so not so much as an impatient reaction so typical of him but out of conviction that, as he put it then, radical economic reform was irreconcilable with strong unions (Lawiński, 1989). That was true in particular of the emerging Solidarity-80 union, to say nothing of the post-communist OPZZ confederation. So, the apparently victorious Solidarity was submitted to a "shock therapy," which moreover caught it by surprise. Despite that, Solidarity took it on its shoulders to shield the government's painful policies, even though it had had no part in designing those measures. Despite its involved rhetoric, the OPZZ at first was inclined to accept it tacitly the government policy. Solidarity-80 stood alone as an outspoken critic of the government line.

The architects of the "shock therapy" promised that "fundamental changes [of the economy] will be coming in 1990 and 1991" (Programme, 1989), and claiming that in half a year's time "we'll begin to scramble up". But the economic, social and consequently political consequences of the shock therapy turned out to be much more incisive than envisaged in official predictions. Moreover, it was becoming increasingly obvious that the transformation was going to be a long process. That and the outstandingly persistent tactics of tacit consent, along with accusations that the delay is caused by society's post-communist way of thinking and managers' deliberate procrastinating tactics, combined to weaken the position of trade unions and to cause a lot of frustration, confusion and disenchantment in society. Solidarity, which put itself behind the government policy, came off with the worst bruises.

The last time Solidarity - or, more properly, its leaders, with growing opposition from rank-and-file members and low-ranking officials - resolved to protect the government programme was during a wave of strike actions in the summer of 1991. Solidarity then distanced itself not only from the other unions which backed the actions but even from the striking workers themselves. Solidarity paid a high price for that, having to shoulder accusations of betrayal and even taking the humiliation of seeing some of its works leaders being driven out of factories on wheelbarrows by infuriated striking workers. That triggered a series of press reports announcing "the end of the era of Solidarity" (Marciniak, 1992).

But things do not seem much better on the government side, either. It is precisely that tactic of counting on the people's "tacit consent," which unavoidably led up to a dismantling of trade unions (unwittingly, at best), created a situation in which economic reforms are being pushed through against the will of a majority of society. The press, even the most pro-government one, speaks of a "dead end," a "cul-de-sac," a "vicious circle," to describe the situation. Professor J. Szczepański perhaps supplied the best term when described the present state of affairs as "two helpless sides in a draw." Only in such a situation will you see, as we did (Gadomski, 1991), political parties being praised publicly for bravely shedding their platforms the morning after voting day, or hear weird ideas being put forward seriously, such as the recent call for putting together a broad parliamentary coalition in order to enforce the reforms even against the majority of Polish people (Gadomski, 1992).

So, the latest talks can be seen as an unorthodox attempt to break out of the vicious circle, to overcome the situation of "helpless sides caught in a draw." Even if they fail in a first go, the talks are a signal of taking a new road, that of transformation based on *consensus*, on a *social contract* agreed in negotiations with representatives of major social groups. If that is so, this also means the

government is beginning to realise it can draw much of its strength from its partners' strength and support, rather than from attempts to weaken them. Clearly, then, the previous government line of pushing for a "revolutionary transformation from the top down" has clearly depleted its potentials.

The truth that no radical social change is conceivable without support from a majority of society should be widely recognised especially in Poland, with its latest history involving the biggest mass movement in this century - the Solidarity movement - the earlier worker revolutions, or two social contracts with communist authorities that had no precedent or match anywehre else in Soviet bloc countries (the August 1980 agreements and the Round Table deal). Even its more remote history, with its national insurgencies and well-developed working-class awareness in the inter-war years, is a significant factor. That accounts for the well-known paradox of inter-war Poland which had an advanced social welfare system and wages close to those of France or Germany yet which lagged far behind these countries in terms of per capita personal income. So, Polish society's social aspirations now are not just a remnant of communism, as official propaganda has it, but a "heavy burden of the nation's past" (Jedlicki, 1991).

The pact's pitfalls

The debates about the proposed "pact" are therefore encouraging, to some extent, but then they also breed unfortunately serious doubts. The "pact's" architect himself, Labour Minister Jacek Kuroń, publicly said the idea perhaps turned up too late in government circles by one and half or two years, and he wondered if the nation's rift between the ruling and the ruled can eventually thwart the deal. Yet the pact itself holds a few pitfalls, the most dangerous of which is probably the one about privatisation. True, the pact does give trade unions, or, in a sense, the work force, an active part in deciding the actual form of privatisation. It does that, but at a steep price.

The work force (and its representatives) can autonomously decide which form of privatisation it prefers. But this chance holds only for three months after the agreement's conclusion. If the work force fails to make up its mind during that period, the decision belongs to the government. The work force is required to make several thousand decisions of fundamental importance for an enterprise's future in a matter of just three months. Such decisions would have to be made during a disastrous recession and under what still is a destabilising very high inflation rate. Most state enterprises are virtually close to insolvent, but as public finance is a shambles, they have virtually no chance of getting standby credit arrangements large enough to help them out of their difficulties. Suppose moreover the work force would like to consult their choice with specialists, to commission studies, and to use the findings to hold a referendum. Where can they find so many specialists, lawyers, economists, finance managers at a short notice? No less time-consuming may be an effort to find a "strategic investor," Polish or foreign, which the union may view as a precondition for choosing the best of several possible privatisation procedures.

Another significant factor is the unions' lack of experience in their new role. The afore-mentioned "tacit consent" tactic made them feel relieved of a duty to work out their own transformation platform, including a privatisation programme. The diversified experience gained in Western countries and modern ownership theory have brought to light a medley of forms and degrees of "ownership rights distribution." For different reasons, not least because of often one-sided interpretations of Western doctrines and practices, Poland was left with a very curtailed choice of ownership forms. It often boils down to an either-or between state or private property. Even cooperatives, which look back on a proud tradition in Poland, were classed wholesale with the private sector. In fact, in its July 1990 Privatisation Act Parliament struck off cooperatives from a list of potential owners of privatised state enterprises. But what is at stake is a gamut of group and intermediate forms of ownership, and different degrees of privatisation.

In the first stage of the privatisation programme, employee participation packages in the style of American ESOPs were quite popular among unions and selfmanagement bodies, as indeed among the work force at large. Many versions of ESOPs adjusted to Polish conditions were put forward in no time. At that time Poland still had a vigorous employee participation movement, which had its own journal (*Tygodnik Robotniczy*, replaced by *Zmiany*), its own institute (Cooperative Research Institute for Employee Selfmanagement, SIBSZ). But the unsympathetic, sometimes openly hostile, attitude of the authorities and their advisers (Lipton & Sachs, 1992) towards the movement and towards employee companies brought them eventually to fall. Had the authorities taken a different attitude, the movement did have the potential to become an important supporter of reform.

Now the authorities seem to be changing their perception of the idea of employee companies. The current Prime Minister, Ms. Suchocka, acknowledged their positive nature in her inaugural speech before Parliament several months ago, even though she brought down their virtues to the circumstance that they reduce tension which arises in the privatisation process. The government now also proposes certain tax allowances for employee company leasing. Liberals (Winiecki, 1992) are urging the government to warrant full transferrability of shares in employee companies right from the beginning. The idea behind that is, of course, to dock those companies of one of the most essential features of their Anglo-Saxon original, clearly anticipating their early erosion. But even if

the authorities eventually do turn a favourable eye to the movement and its institutions, it will take a long time before they are reborn and before the many misconceptions are explained away.

Equally important is a more general question of participation in management. To forestall misunderstandings, I am not trying to speak out in defence of the particular form of employee councils which were created as a result of a compromise the government reached with Solidarity in 1981, even though no economic or sociological research has confirmed allegations that of those councils turned out to be the main obstacles to restructuring and privatisation plans. But the ultimate purpose of clamping down on them now is clearly to eliminate, or reduce to insignificance, all other forms of employee participation in management. Both the above-mentioned privatisation legislation and the "pact" provide, in return for dissolving employee councils, for the election by the work force, of one-third of supervising boards of so-called commercialised firms, which are interim organisations with a status of single-shareholder treasury-owned companies towards future privatisation. As for the idea of co-determination in prvatised firms, the government has up to now been rather vague. But above all it ignores many Western findings [Blinder, 1990] which indicate that precisely this specific form of participation - via membership in supervising boards - is most likely to leave the work force increasingly indifferent and uncommitted. More promising are management participation forms which are linked directly with the work place. But the draft acts which make up the projected "pact" say no word about that. Surprisingly enough, there has been no word from the unions to demand that.

On the other hand, there are good enough reasons to worry about a tendency towards a restitution of centralised management, a strengthening of the government's executive powers over privatisation programmes and thus over the economy at large (parliamentary control of government activities in that respect is being curtailed, especially of what is called privatisation through liquidation). This potential hazard involved in that has been pointed out even by officials from the ruling parties (Mażewski, Mażewski, 1992). So, the initial participation of employees and their union representatives could be used to curtail it drastically at a later stage.

All this seems to point at the possibility that the "pact on state enterprises" in the government's version is one more desperate attempt to put through a hasty privatisation programme. This view is perhaps confirmed by Lech Wałęsa's repeated calls (recently too) for "privatisation at lightning speed, if need be, even compulsory" (Wałęsa, 1992). It is odd that Wałęsa and many other leaders are recommending fast privatisation as a remedy for the recession, while it should be clear that such a new Big Bang is bound to disorganise the economy, or even put it into chaos, and so worsen the crisis.

Privatisation is a social process

Because similar ideas are fostered, or are even put into practice, elsewhere in post-communist countries, let us take a look at several transformation issues in a historic and theoretical perspective.

a) *Possible models*

Polish and Czechoslovak authorities claimed there was no alternative to a shock treatment. That supposedly was the only path away from communism to genuine real (American-style) capitalism. The title of a recent publications by a Polish author, *There is no "third road"* (Malecki-Tepicht, 1992), puts this in a nutshell.

Initially, that was a justified approach to some extent because of reform tactics (as some politicians believed shock treatment to be a prerequisite of success). As time went by and not only the general public called for changes but the government saw itself forced to actually introduce them, the authorities' stubborn allegiance to this idea made society feel increasingly disenchanted and dissatisfied with politics and politicians. This particular perception about a lack of any alternative, which ultimately implies that there is no choice at all in shaping a new social order, not only has survived to this day but surprisingly has been embraced even by many union leaders.

Even some clear-minded liberals have doubts about a supposed lack of alternatives. So did Ralph Dahrendorf, the British academic who previously sat on leadership bodies of the (West) German liberal party F.D.P. Here is his message addressed (in a book) to a Polish leader: "The road to freedom is not a road from one system to another, but one that leads into the open spaces of infinite possible futures, some of which compete with each other. Their competition makes history. The battle of systems is an illiberal aberration. To drive the point to me with the utmost force: if capitalism is a system, then it needs to be fought as hard as communism had to be fought. All systems mean serfdom, including the 'natural' system of a total market order in which no one tries to do anything other than guard certain rules of the game discovered by a mysterious sect of economic advisers" (Dahrendorf, 1990: 37).

So, if we were to concede (a bit perfidiously) that indeed "there is no third road," then only in the sense that there are infinitely many third roads. Germany's *soziale Marktwirtschaft*, the tripartite corporation system in Austria, the Swedish model, and more recently the Japanese one, are only the most renowned "apostasies" from capitalism in its classical form. Even the Anglo-Saxon world knows significant differences there, which are seen clearly when you look at constitutional systems of Canada, the USA, the UK or Australia.

b) *Speed*

The pace of change is another factor to choose. "The Great Transformation" has become a term often used when speaking of post-communist countries. It is the title of a book by Hungarian economist Karl Polanyi who studies the emergence

of market economy and subsequently capitalist economy. In leading Western European countries, it took centuries to arrive at such a state of affairs. The United States needed less than a century. Now, towards the end of the 20th century, that process can probably be shortened to a couple of decades. Above all, it is now possible to speed up economic growth and modernization, at least in some countries. Michael Prowse pertinently observed that: "By today's standards, the UK's Industrial revolution was rather inefficient. Starting in 1780, the UK took 58 years to double its per capita income. In modern times, South Korea did the same in just 11 years" (Prowse, 1992).

This must have been the reason for the Prime Minister, Ms. Suchocka, to call to tighten belts in order to "double GDP in ten years' time," as the daily *Gazeta Wyborcza* put it. The problem is this proposition holds a potential misunderstanding, and so a hazard. At about the same time, *Rzeczpospolita* reported that "the exodus of Polish computer scientists, physicists, chemists and biologists continues" and that "one in four scientists" had abandoned research to switch to other jobs recently. This is just one piece of evidence of the last several governments' approach to education, cultural services or health service spending The above-mentioned "*Financial Times* columnist pointed out that the Korean miracle would have been impossible without proper treatment of what he called the "human capital." Here is what he wrote: "The acceleration partly reflects access to modern technology. But social policy also plays a role. If South Korea had paid as little attention to the education and health care of workers as Britain did in the 19th century, it would have developed less rapidly. By building human capital, poverty alleviation adds to, rather than subtracts from, a country's growth potential" (Prowse, 1992).

But let us not dwell on the question of speeding up economic growth. Let us only make the otherwise self-evident point a defence of spending on education or health service is not a defence of privileges gained under communism but a defence of accelerated economic growth. Let us go back to the question of speeding up the transformation, an issue overgrown with a lot of myth and illusion. Transformation can be accelerated, no doubt about that. But that is possible only to a limited extent, because the transformation issue cannot be reduced to organisational or legislative changes that can be done "with lightning speed," even though legislative bodies or administration offices have only limited capacity. The most important thing is that the transformation implies a need for changes in attitudes and behavioural patterns, and that, for one, is a slow process. Spain, of course, needed three decades to prepare its economy for integration with Western European markets. That happened despite the fact that Spain, which already then was incomparably more a free market economy than any of the post-communist countries, had all the "infrastructure" of a private economy right from the beginning. Even West Germany, a unique case in many respects, a country which benefited from what was then a large-scale assistance programme under the Marshal Plan, needed at least ten years to shake off the burden of war economy (Feinstein, 1990). Wasn't it a show of arrogance on the part of the Polish and foreign architects of the Balcerowicz Plan when they purported to create a Western-style market economy in a matter of two to three years? They claimed to be able to do that in a country with a ruined market infrastructure, an over-dominant state sector, a country which inherited from pre-war times only a small capitalist sector, mostly state-owned defence manufacturers. The case of Poland, accordingly, was not one of just restoring a private free market economy but one of developing such an economy against a backdrop which was largely pre-capitalist. So, with the possible exceptions of Eastern Germany and the Czech Republic, transformation is bound to be a prolonged process in all post-communist countries.

Conclusions

1. All that has been said here on the transformation of the state as a historical and social process holds of course also for privatisation. Changing an estate's legal status or ownership is the easy part of the job. Changing behavioural patterns and motivations is the difficult task, and one which by its nature takes a long time to complete.

So, if privatisation is viewed as a less or more massive campaign, either as an all-at-once transformation of the entire state sector into treasury-owned companies, or as its "voucherization," such a way of thinking just continues the disastrous traditional perception of the economy as one big battlefield. That usually has little in common with an honest desire to find the real owners. Indeed, such programmes often amount to switching from one form of "nobody's" property to another - in this case, to anonymous property. This is essentially what the "voucherization" programmes now implemented in Czechoslovakia and Russia are all about. The Polish so-called Mass Privatization Programme now in Parliament looks much like those two, except that it is fortunately narrower in scope. That plan basically provides for handouts (for symbolic fees) of ownership titles to several hundred factories to practically all adult Poles, that is, to 28 million people.[1] Suppose that such an operation does not have to begin with a state sector but with several hundred private firms. Wouldn't it promptly be decried as purely a socialist (or communist) undertaking. Liberals would hurry to point out that if millions of people own a thing nobody owns it. In fact, they would argue, such a thing isn't

[1] Remarkably enough, in French (and in Spanish) Western stock companies are called anonymous, *les sociétés anonymes*. But more importantly, they have come under fire precisely on account of their anonymity. In some countries, notably the UK, such companies are already being transformed, even though there they are operating in a "sea" of small and medium firms held by individuals or families and they have to compete in what is an advanced market economy.

really property at all. Such critical charges against the idea of "mass privatization," would they indeed be made, could hardly be discarded as unwarranted, especially in view of a tendency towards recentralizing management. Governments which deny having any industrial policy or intervening in the market are actually committed to state socialism in their conception of ownership transformation. They have been called "etatistic liberals," and they deserve it.

2. Both a first experience of the transformation and the above arguments seem to justify the following conclusion: there is a big difference between stabilizing anti-inflationary measures and a "Great Transformation" of an economy. While it is perfectly all right to consider the relative advantages and adverse effects of a step-by-step transformation versus a shock therapy on stabilization and anti-inflationary policies, there can be no doubt that the "Great Transformation" is bound to be only an evolutionary socio-historical development. It cannot but must take radically more time than it was held in 1989. Desperate attempts to reach the goal through "shortcuts" will no doubt increase dramatically the cost of the transformation, and so achieve the opposite thing, namely slowing down the process.[1]

3. If transformation is a long-lasting process, the trade union policy of leaving it to the government and to Parliament to determine the transformation programme must be recognized as a bad mistake. It leads to what a specialist on industrial relations has called "the jungle of pluralism, a state of affairs advanced capitalism has already discarded after it became clear that the battle of individual or group interests is no guarantee of socio-economic equilibrium" (Morawski, 1992: 18). In the Western world, the United States probably remains the only nation not to have rejected that idea altogether yet. In its post-communist edition, this "jungle" shows in the government being chaotically put under pressure and in blocking necessary changes. Instead efforts should concentrate on finding ways of easing the cost to society and the economy of the transformation and of a more equitable distribution of that cost.

On the other hand, since the unions can show no such programme, they are easy prey to critics accusing them of opposing the reforms. For example, when unions voice doubts about such or other privatisation scheme they are presented to the public as enemies of privatisation as such. Whatever platform unions put forward, it is bound to clash with interests or arguments advanced by the authorities or other groups pursuing opposite interests. It is also clear that as they will be willing to surrender some of their demands should that be the

[1] A well-known Hungarian-born U.S. economist has noted, "We will have to reckon for the next two decades with *dual* economy (...) and with its two constituent parts: the state and the private sectors" (Kornai, (1989) 1991, 101). While he was an advocate of "surgery" in the case of stabilisation policy, Kornai believed it was "impossible to institute private property by cavalry attack, [for] Embourgeoisement is a lengthy historical process" (ibid., 54).

price of a compromise. But then, the general public will know and understand the price of the compromise. Should a compromise be impossible, would-be partners to an abortive agreement will never be able to present union leaders as "anti-communist bolsheviks of Solidarity extraction" (Winiecki, 1992), for example. The lack of a comprehensive transformation programme based on a social contract breeds xenophobic feelings against foreign capitalists. Many workers still associate the dreaded "jungle" of chaos and uncertainty with foreign capitalism. Their view of capitalism is still that in its American version, but one that had existed in America till the 1930s.[1]

4. The fast pace of privatisation is often being justified by a need for restructuring the economy. That is undoubtedly a favourable factor in many cases, maybe in most cases. Not always, though. France's technological and organisational restructuring of state steel corporations is perhaps the best case in point recently. It was precisely this ownership form that the Mittérrand government skilfully used to put through the modernization in an efficient manner. The French experience, however, holds yet another important lesson for the unions. As the main union confederations pronounced themselves unequivocally against the restructuring schemes, yet failed to come forward with any alternative, it was the employees that were ultimately at the losing end (mainly the almost uncontrolled growth of redundancies). Britain's notorious coal mining conflict is another case in point. On the other hand, steel restructuring schemes in Sweden or Austria, where trade unions were involved cooperating with employers and the government, speak in favour of a social contract which must necessarily involve a social policy programme. In those countries, employees never boycotted restructuring schemes for they knew all along they would get help in retraining and finding new jobs, or else they can count on damages or decent early retirement packages.

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[1] Such perceptions are to some extent fostered by statements some Polish politicians make. Leszek Balcerowicz's remarks are significant in that respect. He said, for example, "As I watch different countries I realize that many faults attributed to capitalist economy result from the circumstance that those economies just are not enough capitalistic. Interventionism, protectionism, regulation of markets, licencing, strong trade unions and political instability are typical features of such economies (Balcerowicz, 1992). This latest credo of his casts light on the idea behind deferring decisive political economic choices to a remote future. If the country manages to keep to the tough principles not contaminated by any compromise, then Poland will be able to create a more genuine and purer capitalism than that created in the West. Some proponents are openly calling for a repeat edition of a "primary capital accumulation" known from the beginnings of capitalism. Clearly, then, Milton Friedman did have some success (in the autumn of 1990) in persuading Poland's political elites to follow the 19th-century model of American capitalism rather than a more modern one, contaminated by "over-protectionism."

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The Road from Command to Market Economy: The Privatisation Issue [1]

Privatisation, next to stabilisation, is a decisive and probably the most daunting component of transformation of former centrally planned economies into market economies. In a sense, the transformation amounts to shifting responsibility for economic activity from the public to the private sphere.

Privatisations of small or medium enterprises, which can be sold to interested parties (if need be, supported by credit arrangements), present generally no insurmountable problems. Reprivatisation can also play a part there, especially if it can be put through quickly and in a fair fashion, even though potential problems that may arise in that process should always be borne mind. Another point that seems to win broad support is that founding new private companies deserves to be supported in every possible manner. Yet when banks keep to really tough credit policy, this principle often gets compromised in practical business.

Large enterprises, the overwhelming part of former centrally planned economies, present a different picture though. Shortage of funds rules out selling those enterprises at home. Foreign investors, above all big international corporations, are interested in buying some enterprises, so privatisations along that line do happen and are going on. The problem is foreign buyers are certainly not going to look closely at all enterprises. But then, of course, an all-out sale of industries to foreign buyers is the last thing a country should desire as that would make the national economy too heavily dependent on foreign companies.

Faced with these difficulties, some countries are designing their privatisation programmes in an unconventional previously unknown fashion. The basic idea behind those plans is to distribute the state-owned productive capacities free of charge among citizens (as coupons or shares). In a second stage, the enterprises privatised in that manner would be entrusted to Fund Management bodies representing the shareholders. Now this particular privatisation pattern does seem to hold a hazard of viewing privatisations as an end in itself rather than a means towards a radical improvement of business efficiency.

There is good reason to fear that the anonymous new owners and the Fund Management bodies may turn out to be even less efficient as administrators of the wealth than the state administration used to be. The masterminds behind the unconventional distribution methods, the champions of the latest edition of *social engineering*, should perhaps read carefully Helmstädter's sensible observations on privatisation at large, "Private ownership of property can be struck off with a swish of a pen, but try to restore it. Liquidation of private ownership is not a reversible process, for an *intricate catch effect* of destroyed business reactions and experiences stands in the way. "It is this catch effect of old expropriations that paralyses socialist countries today, however resolved they may be to go back to 'bourgeois production relations'" (Ernst Helmstädter, "Eigentum und Kapitalwirtschaft in der Ordnungspolitik," *Ordo* vol. 42, 1991, p. 249).

Critics have charged the unconventional privatisation programmes are superficial, for they are unlikely to produce positive tangible results, while at the same time jeopardising significant slices of productive capital. That is why then tend to propose privatise also the big state industries in a usual fashion, even though such a process is necessarily going to take several years. So, the big state enterprises are going to be around as important components of national economies for some time yet. The important thing to do in this situation is to set up in those enterprises modern management systems that yield to evaluation from the point of view of market economic criteria. That kind of management would also be designed to disentangle the big enterprises particular constituents and to restructure them, in a way, to prepare their future privatisation.

In that job, the former socialist countries can perhaps take advantage of certain lessons other countries have learned in privatising state industries (Austria is a case in point). A clear policy on the future of nationalised big enterprises in the reform countries is a priority job for the authorities, critics argue, and one that is utterly missing in strategies those countries are now following in practice.

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[1] This is part of a lecture presented during the Alpbacher Wirtschaftsgespräche conference on Aug. 24, 1992.

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Privatisation and Labour Autonomy: The Polish Case

I am positive that a meaningful transformation policy must include systemic provisions ensuring labour autonomy as one of its significant features. This demand is justified by different reasons: economic, for such autonomy gives people motivation to work more efficiently and creatively; social, as a substantial part of society are prompted to improve their standard of living; and political, as employees can meet their aspirations and back radical capitalist market reforms.

A tendency towards geater labour autonomy, in different extents and different forms depending on local conditions, was observed in all advanced economies as well as elsewhere. The Commission of the European Communities has actively worked towards that, pronouncing itself in favour of the idea in many official documents, including a July 1991 special resolution urging member countries to enact legislation encouraging redistribution of a part of corporate profit among employees (what is called profit sharing system) as well as different share ownership schemes. Some advanced countries, notably Germany, have adopted legislation guaranteeing employee representatives seats on management bodies of large and medium companies (the *Mitbestimmung* system), and they developed stock ownership schemes benefiting employees.[1] In English-speaking countries, the 1980s saw employee ownership to grow fast in the form of Employee Stock Ownership Plans (ESOPs), which was spurred by preferential conditions set up in tax and other legislation. Multi-tier schemes of active employee participation in decision-making processes along with a strong linkage of their material situation to results achieved by their enterprises or plants have been developed in Japan and, therefrom, to other South-East Asian countries.

In Poland, the economic situation and official privatisation programmes are making the case for labour autonomy an ambiguous, generally rather unfavourable, undertaking. This, in my opinion, calls for broader reflection as well as radical remedies.

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[1] See B. Błaszczyk, *Uczestnictwo pracowników w zarządzaniu przedsiębiorstwami w krajach Europy Zachodniej*, PWE, Warsaw, 1988, and the same author's *Własność pracownicza i pracownicze udziały kapitałowe w krajach gospodarki rynkowej*, Fund. im. Friedricha Eberta, Warsaw, 1992.

1. Participative management

Industrial democracy, or employee participation in running enterprises or its constituent plants, is in unsatisfactory, or indeed bad, shape today. Current practices and official recovery concepts alike are hampered by many weaknesses.

Employee councils, designed as they were in a "different epoch," and operating in most state enterprises run in keeping with so-called general rules, were becoming increasingly out of step with the new situation and new currents. Those councils are a flawed form of participation, as it breeds no strong motivation for efficiency and so may hamper management. That is so because of the legal status of the employee council, which is put on a par, in some cases even above, the director as a managing body in enterprises under the binding legislation. No less important, however, is the circumstance that employee councils were linked up to ill-devised corporate management conditions, a fault post-Communist governments have been unable yet to make good. After 1989, especially in 1991-92, selfmanagement bodies saw their position weakening dramatically because of the economic crisis in which many enterprises found themselves, the forced privatisations, and also the sceptical (if not openly hostile) climate the government and many political parties created about employee councils. In more and more enterprises, employee councils probably ceased to play any major part.[1]

To what extent employee councils pressed for restructuring and modernisation of their enterprises to adapt themselves to market economic conditions has yet to be found out. Some studies seem to point to employee councils as an active and positive factor in those developments at an early stage of the transformation, in 1990[2]. The same factors probably caused the role of employee councils shrink in subsequent years, and the councils themselves were becoming increasingly conservative and consumption-oriented.[3] Ever since the transformation was launched, the more active among employee councils and their affiliated organisations (the so-called Network, *Sieć*,

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[1] See W. Pańków, "Autodestrukcja reformy," *Przegląd Społeczny* 1992, No. 5, p. 14f, and L. Bar, "Rady pracownicze o reprezentacji pracowników przedsiębiorstwa," *Zmiany* 1992, No. 7-8.

[2] For example, J.M.Dąbrowski, M. Federowicz, A. Levitas, *Zachowania przedsiębiorstw państwowych. Pierwsze półrocze 1990*, Instytut Badań nad Gospodarką Rynkową i Prawami Własności. Gdańsk-Warsaw, 1990, and by the same authors, a similar report for 1991. Also, M. Belka, A. Krajewska, B. Pinto, "Adaptacyjność przedsiębiorstw do wymagań gospodarki rynkowej," *Gospodarka Narodowa* 1992, No. 4; W. Caban, "Wpływ instrumentów gospodarki rynkowej na efektywność przedsiębiorstw przemysłowych," Zeszyty Sygnalne INE PAN 1990, No. 47, and by the same author, "Funkcjonowanie przedsiębiorstw państwowych w procesie urynkowienia gospodarki," ibid. 1992, No. 56.

[3] W. Pańków, op.cit., p. 15ff.

of big industrial enterprises, the Union for Employee Ownership, UWP) were staunchly pro-reform and even radical in their demands. But their endeavours produced disappointing results. The official 1991 plan to introduce management buy-outs, which actually began in a few enterprises, was generally a sound idea, but it was doomed to fail as an all-embracing solution, not only because of its small scale but also because it addressed a very small sector of the economy and the social group behind it was too small.

The work force and employee councils were granted a right to present their position on the privatisation of enterprises whether through capitalisation and liquidation, except - and I think justly - for liquidations caused by losses anbd insolvency. However, these are just contingent rights which can be repealed in either case of privatisation route by the Council of Ministers or by court order. That, by the way, was the general policy drift the Bielecki-Balcerowicz government declared in its programme documents in 1991. In newly founded Treasury-held companies, a device the authorities clearly have viewed as an interim arrangement, employees can, but do not have to, appoint one-third of supervising councils, but only as long as the Treasury holds over one half of stock. Later, the composition of the supervising councils is determined in keeping with general rules set forth by the Commercial Code and the company charter in each case.

A comprehensive and informed appraisal of employee councils's position on the ownership reform and privatisation of enterprises is no less an open question than their previously debated role in the entire framework of adjustment changes. The evidence at hand justifies the contention that employee councils as a rule did not block ownership changes initiated by the government or by managers including the conversion of enterprises to single shareholder Treasury-owned companies as a step conductive towards eventual privatisation. In many a case, they initiated and championed such changes. They acted the way they did for different reasons. On the one hand, they certainly want to avoid relatively higher budget charges, in particular the notorious *popiwek*, or extra wage increase tax, which hamper or bar a "justified" wage growth. That way, employee councils are goaded into accepting privatisation. On the other hand, some councils must have hoped for more efficient management, foreign investment and perhaps other benefits that could beef up their enterprises and so the work forces' prospects. It was only natural for employee councils and their leaders to support the idea of employee ownership of property and, where that was legitimate, also employee owned or leasing of companies.[1]

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[1] A study the Polish Academy of Sciences Institute of Economic Science conducted in 20 state enterprises involving 1,400 employees in March and April 1990 disclosed 35.3% of workers, 55.3% of employee council staff and 58.5% of Solidarity leaders to be in favour of employee ownership as the most desirable form of ownership relations. M. Jarosz, A. Jawłowski, "Dylematy prywatyzacji przedsiębiorstw i

Participation in management at shop floor level also comprises, of course, the relatively many labour cooperatives with governing bodies elected by the work force.[1]

But many have found themselves in critical financial shape, and many of their members are still lack a sense of sharing responsibility for the cooperative assets and their group property. For various reasons, many cooperative members are now pondering conversion of their firms to commercial companies.

No less important, indeed more so, is the question of called shop floor or group participative management, one that works at "grass roots level," in workplaces in different foms, say as autonomous job teams, autonomous working gangs or groups, quality watch groups etc. Along with wage schemes, above all with a radical change of "philosophy" of management and of boss-rank worker relationship, this development is spreading in market economies and is increasingly often considered one of the main roads of development of human capital. In Polish enterprises at this stage, this is a sporadic development only, mostly as isolated short-lived experiments.[2] It is to be hoped that the growing efficiency and property changes will stir managers' interest in participation in workplace management. A lot also depends on the attitude and involvement of government and union institutions, which may help strengthen shop floor participation by promoting the idea and, backing and organising competent help in what is likely to be arduous road of its implementation.

2. Employee democracy and the State Enterprises Pact

What is called Pact on State Enterprises, prepared by Hanna Suchocka's government and approved by representatives of trade unions and employer organisations in the spring of 1993, may change the situation dramatically.[3] The basic idea behind the Pact was to overcome the indecision of successive

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partycypacji pracowniczej," Zeszyty Sygnalne INE PAN 1990, No. 58. That pattern of preferences did not change a lot in the following years (cf. M. Jarosz, M. Kozak, P. Kozarzewski, M. Markowski, *Społeczne aspekty prywatyzacji przedsiębiorstw państwowych*, Warszawa, 1992, typescript). They account for the relatively great popularity of privatisation through liquidation and of employee leasing.

[1] At the end of September, 1992, there were 2,562 cooperatives in industry, 996 in construction, 282 in transports,, 4,867 in housing and municipal services,, and 540 in other nonmaterial services. Many cooperatives were organised as labour cooperatives (i.e., production establishments). Apart from these, at the end of 1991 Poland also had 2,100 agricultural cooperatives.

[2] Cf. S. Rudolf, *Grupowe formy pracy. Procesy wdrażania*, Krajowa Agencja Robotnicza, Warszawa 1989.

[3] For the Government-proposed text of the Pact see the monthly *Prywatyzacja* 1992, No. 9.

post-Communist governments which had done nothing "to change essentially the ossified state industries system." As the government put it, the Pact is essentially "a proposal for the work force and the management of enterprises to join actively in deciding their future and so to ensure the most rational transformation of enterprises and of the national economy."[1]

The work force of state enterprises represented by union delegates or deputies elected in referendums from among union candidates was to say which way to transform their enterprises they preferred. Basically, the transformation amounted to privatisation. In big enterprises, i.e. those with over 1,000 employees, that were financially solvent, the work force could choose from among four variants of further restructuring: sale to a big investor; selling stock in public offering; management or employee buyout; entrusting a control portfolio to a bank or management fund, say a pension management fund. The first three tracks are of course privatisation tracks.[2] As for the fourth possible track, its character is unclear, because rules of operation of mutual funds have yet to be defined precisely. For example, in cases such as those envisaged in the current mutual fund act[3] or the government bill on Treasury shares funds, the fourth possibility would also essentially be a privatisation track, because a trustee managing the stock could sell them in public trading to maximize the value of property or to make the best profit.

Enterprises that have lost solvency, on the other hand, after they have concluded agreements or accords with creditors providing for a recovery programme and a specific privatisation track, would be transformed into companies and then privatised. Management buyouts and a step-by-step takeover of most stakes by managers and employees along with the enterprise's recovery seem to be typical elements of this particular road. Each of the variants provides for 10% of the entire corporate stock to be distributed free of charge among the work force. If the work force representation fails to choose a restructuring track, the enterprise is subject to compulsory transformation into a Treasury-owned company and its future shall be decided by the Ownership Changes Ministry or the enterprise's founding organ."

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[1] Jacek Kuroń, Labour Minister with the Suchocka Government and previously also under Tadeusz Mazowiecki and one of the initiators and architects of the Pact, had this to say, "Employees in these [state] enterprises should be given autonomy, given a chance. They should get a proposal that will make them masters [of their enterprises]. The best time to do that was in the autumn of 1990. Already then it was clear to me ... that apart from political democracy we need employee democracy. The problem was, we didn't know how to do that." *Gazeta Wyborcza* 1992, No. 189.

[2] Except unlikely cases of control portfolios being bought out by cooperatives based on nonprivate, i.e. indivisible group property.

[3] Act on public trading in securities and mutual trusts dated March 22, 1991, *Dziennik Ustaw* 1991, No. 35.155.

In enterprises giving jobs to fewer than 1,000 employees, the takeover of property of the liquidated enterprise by an employee company (with employees holding a majority stake) through lease or hire is, as before, the main form of restructuring. Under the Pact, lease conditions will be eased, mainly by more favourable deadlines for companies to collect the required capital, better terms both for buyout and takeover of the enterprise by the partnership.

Further Pact provisions designed to strengthen the position and interests of employees include the following:

- strengthening the role of collective agreements between unions and employers at different levels as far as they concern the "substance of industrial relations." Also, a National Negotiating Commission composed of government officials, employers and union representatives will be appointed with its main job being the determination of quarterly wage increase indices not penalised by extra tax;
- yearly protection of former workers' council members against redundancy after transforming the enterprise into a company;
- raising in the Mass Privatisation Programme[1] total maximum value of stock taken over freely by employees, that is, their benefit, from 100 to 200% of average yearly wage in the national economy.

Documents and information I have been able to study provide no clear picture of the situation of employee representation in companies' supervising councils. The relevant provision in the Pact states that "In all *privatised* enterprises, employees shall appoint one-third of the number of members of supervising councils" [italics mine]. What is "privatised" to mean? The government in its September 1992 draft amendments to the Privatisation Act keeps the previous regulation unchanged, i.e. the work force is entitled to electing one-third of members of supervising councils of companies founded from state enterprises, as long as the company is 50-plus percent Treasury-owned. In November that year, Labour & Social Policy Minister J. Kuroń described as "probably the most important" proposal in the Pact "the establishment of the principle of work force representation in supervising councils of *private* enterprises" [italics mine].[2] This seems to indicate that the Pact intends to grant employees a right to have their own representation in company councils even after the Treasury has sold more than 50% of shares of privatised companies. From the standpoint of participative management, that would make a fundamental change indeed, should it actually come about.

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[1] Mass Privatisation is a term applied in Poland to a plan providing for the distribution, for symbolic fees, of 60% of stock of 600 relatively big and well-doing enterprises (in the first year), to all adult Poles. A government bill on that matter was submitted to Parliament in September 1992.

[2] J. Kuroń, "Z nadzieją o Pakcie," *Gazeta Wyborcza* 1992 (Nov. 12), No. 266.

Employees would have to pay a steep "price" for all these benefits, though. They would probably have to abdicate one of their most important rights in ownership reforms of their enterprises, namely the right to have a say on whether or not the enterprise was to be transformed into Treasury-owned companies and so opening it up to various possible privatisation tracks. The work force autonomy provided for in the Pact looks very much like a hasty (3-month) and, in my view, debatable choice from the four privatisation variants envisaged in the government programme.[1] The choice is to be made in an area narrowed down by government decisions exempting some industries from privatisation programme while putting enterprises on the Mass Privatisation programme. Government draft regulations appended to the Pact, that on Mass Privatisation and the amendments to the 1990 Privatisation Act, are dotting the i's. Under these projected laws, employees' former right of say on whether or not a company should be privatised would survive only in privatisation through liquidation which is not caused by the enterprise's crisis and which holds only for relatively small enterprises.

In my opinion, it would be difficult to find a pragmatic justification for such a drastic restriction of employee participation, a right which was accorded in 1990. As already said, the two years of the Privatisation Act's enforcement has furnished no evidence of employee prerogatives hampering privatisation. This is happening in an outdated economic system of state enterprises, with worker institutions clearly ill-prepared for their new role. A policy seeking to impose government wishes on employees in as vital an element as privatisation procedures is, in my view, a precipitate move, which reduces employees once again to a status of will-less subjects and which, in the final reckoning, is bound to harm the transformation itself. Even worse, this may be happening as "the image of privatisation continues to worsen"[2] and an enduring attachment of employee and other groups to non-private ownership, as found in opinion polls.[3]

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1 In my view, this particular right of choice is debatable in that it bars the real owner, i.e. the Treasury, and its executive bodies from making decisions. Treasury agencies undoubtedly can and should consult employee representatives and be open to suggestions from them. But they should not surrender their basic prerogative as owners, which requires expertise and excellent information and usually has macroeconomic implications.

2 This quotation is in fact taken from the afore-mentioned highlights of the Pact. CBOS, a Warsaw-based polling organisation, found in a September 2-7 1992 survey involving 1,153 respondents that "only 24% respondents found privatisation at large to be a good thing, compared with 26% saying it produced more damage than benefit" (*Gazeta Wyborcza* 1992, Oct. 3-4. The same paper said in its Sep. 16 edition that CBOS findings from successive survey indicated that "as the reform is going on, the approval rate for private ownership of property is falling."

3 A CBOS survey of July 1992 on attitudes to state vs. private ownership disclosed 60% respondents to be in favour of exclusive state ownership of big industrial establishments, 29% of banks, 13% of wholesale distributors, 10% of small industrial plants. 29% said a mixed state-and-private ownership was the best model for big enterprises, 60% for banks, 61% for wholesale distributors, and 42% for small industrial plants. Big should be state-owned, as *Gazeta Wyborcza* put it on sep. 16, 1992. In a survey of (237) managers of big enterprises in June 1992, employees' reluctance towards privatisation resulted from fears that (a) the work force will have no say on how the enterprise should be run (31.2%); (b) the enterprise's closure for economic reasons (22.7%); (c) takeover by foreign buyers in order to push out the competition (16.5%); (d) a buyout or taking control of the enterprise by foreign buyers (14.2%); (e) takeover for a lower than real value (8.0%). Cf. M. Jarosz *et al.*, *Społeczne aspekty prywatyzacji przedsiębiorstw państwowych*, Warsaw, 1992, typescript, p. 25f.

However, is it a responsible position to defend employees' right to co-decide enterprises' transformation into Treasury-owned companies as a first step towards privatisation and raising corporate efficiency, if such companies are evidently far from perfect? I am wholeheartedly in favour of such policy, but only if, along with the privatisations, those state enterprises that are not being converted to companies are also being radically reformed in their economic and social frameworks. I have discussed this matter elsewhere,[1] pointing at the efficiency potential represented by both the managerial and–possibly–the employee dominated forms of "non-corporate" state enterprises. The fact that employee councils and state enterprises are, as institutions, in a crisis now is not good enough an argument to deny their economic significance or their right to "fight for survival" all that, of course, in a market economy, with all actors involved in equitable and fair competition, and with all extra allowances or preferences cancelled, especially in relations with the central budget. Under these assumptions, why shouldn't employees or their democratically elected representatives be able to decide whether a public enterprise on which their future depends should be converted to a company and opened for privatisation if the Treasury as its owner deems it fitting, or should it function as a reformed state enterprise for a shorter or longer time. I think that when facing such choices employees, aware that certain sensible general conditions are fulfilled, would mostly be more than willing to be guided by microeconomic efficiency as a criterion.

Three more points before I conclude this matter.

Arguments in favour of giving employees a say on converting state enterprises to companies do not challenge the government's right to order the conversion even after consulting the work force (employee council) in a nonbinding way (the 1990 Privatisation Act authorises the government to do that in its Art. 6[2]). The really important thing in this connection is that the

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1 Cf. my contributions, "Polish Economic Reforms and the Dilemma of Privatization," *Comparative Economic Studies* 1991, No. 2, and "Przekształcenia własnościowe. Punkt wyjścia i propozycje," *Zeszyty Sygnalne INE PAN* 1992, No. 62.

2 Privatisation of State Enterprises Act, July 13, 1990, *Dziennik Ustaw* 1990, No. 51, and 1991, No. 60.

special mode should apply solely in truly warranted cases, and that decisions made against the will of employees should be limited to exceptional cases named in the relevant regulations.

If employees' rights are not expanded in the Pact, say to authorise them to appoint a minority group (say, one-third) of supervising councils, such an expansion of rights should then be demanded. Experience gained in democratic capitalist economies speaks in favour of that. That provision should apply to major companies, say with payrolls over 500 or 1,000, regardless of their ownership status or industry in which they belong.

Employee participation at company level in smaller enterprises is still an open question. This has become a particularly urgent issue recently as the union movement is splitting and becoming weakened, and in a situation where employees in many enterprises, especially private ones, have no organisation that would represent their interests or aspirations. This is really a hard problem. To find a solution to it–not necessarily a legislative one–all details and implications will have to be pondered. Whatever solution may eventually be found, it must in no way affect the internal logic or dynamism of private companies.

3. Employee ownership

Employee ownership (employee-owned stock) is another debatable development. It does have the potential to become an economic basis to motivate employee for efficiency and to strengthen work force autonomy. At the same time, employee ownership can bar excessive inequalitities in property ownership and income distribution, and it can round up widespread work force support for radical system changes. Apart from above-mentioned labour co-operatives, two ways of developing employee ownership as a component of privatisation are now in operation in Poland.

One, as part of so-called privatisation through capitalisation," is the right employees of privatised enterprises have to buy up to 20% of shares at prices reduced by a half but no more than to a definite sum total of price preferences. Beside that, employees can buy further shares on general rules. In its mass privatisation programme, the government proposes to turn over 10% of shares to employees free of charge along with redoubling the sum total of benefits.[1] As far as can be seen, by end-September 1992 minority

1 The above-mentioned draft Law on Mass Privatisation and National Investment Funds raises the previously used ceiling on benefits for employees of 100% product of average yearly wage in the national economy by the number of employees of the enterprise to 200%. This is justified, rather oddly, by the fact that there are substantial differences between values of property held by companies participating in the Mass Privatisation Programme." I discuss this matter in "Rozdawnictwo publicznego majątku - racje za i przeciw," *Gospodarka Planowa* 1992, No. 12.

employee participation schemes had been founded in most of the 43 single-shareholder Treasury-owned companies that were privatised in individual procedures, and two had been sold 100% to employees (leveraged buy-out schemes).[1]

Under the State Enterprises Pact, three important changes would be introduced, all faourable to employee participation. First, employees' right to buy up to 20% of a privatised enterprise's shares at half the nominal price would be replaced by a right to obtained 10% of shares free of charge. This particular change would probably have positive aas well as adverse effects, yet most employees would welcome it. Putting down a relatively big amount of money on shares under previous regulations is often a largely insurmountable barrier, even with generous instalment sale conditions. Secondly, apart from the mass privatisation programme, "management or employee buy-out" would be recognised as one of four main privatisation variants applicable to solvent enterprises. That would probably create a better aura for employee ownership, in addition to certain credit arrangements and other terms that would give this variant a chance to be used broadly. Thirdly, management buy-out, which is the main privatisation track envisaged for nearly insolvent entèrprises, provides for a possibility of increasing employee participation up to 40% of shares free-of-charge as the enterprise's financial standing improves. In the situation that is likely to arise, that may become an important and massive incentive to boost efficiency as well as to expand employee ownership.

Another form, the dominant one up to now, has to do with the "privatisation through liquidation" track, except closures caused by loss or insolvency. It provides a possibility of turning over corporate assets or their parts for "payable use" by a company which a majority of employees have joined and which owns at least 20% of the liquidated enterprise's assets. The requirement for a majority of the work force to join the company may be lifted, however, a move, incidentally, strongly advocated by people in charge of the Privatisation Ministry in the Bielecki-Balcerowicz government. Payable use of assets in practice amounts to lease contracts with employees involving reduced price buy-out, with the reduction amounting to interest on the nonrepaid part of the assets up to a certain ceiling (30%). The Pact, as pointed out before, provides even more generous allowances, mainly deferring deadlines for companies to contribute their own capital, buying out assets, taking over the enterprise as their property, and assigning part of the repayment to investments. By the end of September 1992, employee lease contracts were concluded in 628 enterprises, which was 78% of all enterprises on this particular privatisation track. It should be pointed out, however, that sizeable

1 The two are limited liability companies: Zakłady Mięsne Inowrocław meatpacking plant and Budokor construction in Warsaw province.

equity blocks were in the hands of what are called outside investors, that is non-employees, already at the end of 1991.

The Pact in its proposed form may have advantages, but let me point at some limitations it has.

In the former privatisation track, preferential sale (or free turnover) of shares to employees appears to be something like a "reward" for backing privatisation. Apart from the afore-mentioned exceptions and the privatisation variant set forth in the Pact, on whose future scope and role little can be said for sure at this stage, this particular form of privatisation gives organised employee groups few possibilities to control, as owners, the management. Moreover, in that variant employee participation is likely to be eroded as employees will be selling their shares while not buying new ones.

The second variant, in turn, is marked by financial limitations and a high degree of uncertainty. Employees will be able to us it if they, first, can scale the high fence of 20% capital barrier, a daunting job even should the announced allowances indeed be granted. Secondly, it will all depend on the permission of founding organisations, which in certain periods may prefer a "fast sale" to outside buyers.[1] Employee lease admittedly does have potential economic weaknesses, as pointed out in government and other documents, mainly stemming from the burden of interest and repayment weighing heavily on the enterprises finances. The hazards of employee lease include the threat to insolvency and limited investment capability.[2] As in the former variant, here too employee ownership is a likely to become eroded. Also, it should be realised that neither the first nor the second variants guarantee any real chance for ownership to employees who were not embraced by the original "endowment" operation.

In this situation, as I see it, we should address the question of supplementing the current privatisation variants with a modern system of

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[1] Despite great efforts and official pressure, only 13 enterprises had been sold in "fast sale" procedure by the end of 1991. Both supply and demand were slack. Cf. a Central Planning Office (CUP) report, *Informacja o sytuacji gospodarczej w 1991 r. wraz z elementami prognozy ostrzegawczej na 1992 r.*, Warsaw, January 1992, p. 27.

[2] None of these weaknesses has made itself felt so far, at least not to the extent of becoming a problem, the Privatisation Ministry holds. As the Pact was being negotiated with union leaders, Privatisation Deputy Minister Jerzy Drygalski told the press that "most of the 650 employee companies that have signed lease contracts for their enterprises are working well and investing a lot" (*Gazeta Wyborcza*, November 5, 1992). J. Macieja and A. Sołtysik, who surveyed a large group of lease companies that had emerged from liquidated enterprises previously controled by the Industry & Commerce Ministry, found less encouraging results though. Cf. *Przekształcenia własnościowe w obrębie Ministerstwa Przemysłu i Handlu*, Warsaw, 1992, typescript.

always open path of developing employee ownership which has proved its use in many market economies. Such a system would have to leave open a chance of own shares to most employees now and in the future, regardless of how much they are earning or how much they have put by as savings. This system should have the following essential components: a holding-type employee mutual fund (ESOPs in the United States); an agreement with the company management to pay part of the corporate profit to employees to enable them to buy shares; availability of shares; and the possibility to take out loans for that purpose (leveraged buy-out). I think Poland should follow the example of many countries that have introduced tax and credit incentives to encourage the introduction and development of such a system.[1] That would serve both corporate efficiency and more general political objectives. I also think that in companies where the Treasury holds majority stakes introduction of such a system on the demand of a majority of employees could be mandatory for the company board. Elsewhere, such systems should be entireyl optional, i.e. employees and the management alike would have to state their interest and consent.

This is certainly no easy system to install, especially not for employees. They would have to accept something like constant "compulsory savings in favour of "their own" enterprise along with the risks that usually goes with that. How fast such a system would spread in Poland today is difficult to say. It seems though that even if indispensable conditions are met that would not be much more than an experiment, which wouldn't make it economically or socially any less important.

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[1] Rules and procedures of ESOPs in the United States, where they were born, and encouraging results of such companies, are presented in detail by R. W. Smiley, R. J. Gilbert, *Employee Stock Ownership Plans*, Prentice Hall, new York, 1989. The recession has slowed the impressive development of American ESOPs in the previous ten years. But it changed nothing in their substance. Cf. "The Rush to ESOPs-Employee Ownership," *Business Week*, May 15, 1989, and National Center for Employee Ownership, *Employee Ownership Fact Sheet*, Oakland, 1990, as well as National Calmber Foundation, *Study on ESOPs*, Washington, 1990. Employee ownership also developed in many Western European, Latin American and East Asian countries. H. Miyazaki says that "nearly all Japanese companies listed at the stock exchange have ESOPs," even though they differ somewhat from their American prototype (they are not as closely tied to a pension system and they rule out company board members). H. Miyazaki, Employeeism and the Spirit of Japanese Capitalism, Osaka University (typescript), 1992, p. 41. Current issues of ESOPs were discussed as "Employee Ownership," *Financial Times Survey*, March 24, 1992. See also H. Thomas, "ESOPs. Building up the Team Spirit," *Financial Times*, December 3, 1992.

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A Summing-up of the Warsaw Seminar by a German Union Official

Reports and contributions presented during the Warsaw seminar seem to justify the following conclusions:

1. As a consequence of the former command management and since the disappearance of the Eastern European (Comecon) economic region all Eastern & Central European economies are either extinct or close to a breakdown.
2. The transformation of Eastern & Central European economies into social market economies has not yet come about, either because there are no feasible concepts of industrial policy that would be conducive to that goal or because previous ideas or policies have failed.
3. Mistrust and rejection of any kind of state control of the economy or of business are strong and widespread. On the other hand, many enterprises and institutions continue to be state-run.
4. All-out privatisation of state property is seen as the cure-all, the way out of the crisis. Many politicians view Thatcherism and Reaganomics as a rough yet necessary treatment that will put the economy back on its feet.
5. Sale (i.e., privatisation) of enterprises, rather than letting them operate in a market environment, is seen as an efficient way towards a healthy budget.
6. Many models are being used to privatise the economy: from joint ventures through to selling enterprises to employees. Those undertakings are partly backed by long-term credit.
7. Propositions towards socially-oriented market economy providing for a sound division of economic power and influence into a private sector, a public and cooperative sector as a corrective policy tool and a competition, and public or state welfare security and social policy checks and balances, are rarely being put forward.
8. Employees and their unions should have no decisive say on transformation policies (they do not); some of them are still trying to find an objective and a position for themselves in the new situation.

9. If they want to have a say on the transformation, trade unions must not only strengthen and organise themselves as a major factor on the political stage but also spell out their own positions. Their positions are determined by work force interests and are geared towards a social and democratic market economy.

Transformation for the people

1. Transformation of society and economy towards a market economy organised along social and democratic lines must be oriented towards the people and freedom and prosperity as their interests, and it must not put the omnipotence of money above human wants.
2. Privatisation of state property must not be a goal in itself but a means towards market economy in a democratic society.
3. Economic power and influence on political and economic development must be distributed meaningfully. This involves the following factors:

   a. Private ownership.
   All industries producing goods or services for the market and competing against one another should be accessible to private enterprise. The market must meet citizens' (customers') wants. Private business and/or management are based on profit.

   b. Public sector.
   Public or cooperative institutions can be set up or maintained too meet their own wants or satisfy non-profitable interests. They are, for example, housing construction cooperatives, employment agencies, employee-owned enterprises. These institutions serve specific interests in that they do not seek profit but primarily satisfaction of a basic want. They can be used as efficient checks against intractable market developments.

   c. Public and state institutions.
   All responsibilities that are significant for public welfare security and for setting up a general public services infrastructure must not be submitted to ordinary market processes of demand vs. supply, capital input vs. profit expectations, as lack of profit would eventually bring production to a halt. Since such services are indispensable for a viable society to survive, the state must guarantee them. They include, next to the usual functions of the state, the health service and care of the old, traffic maintenance (motor roads, rail, air and water transports), public passenger transport services (shuttle and long-distance traffic), electricity, water supply, district heating, sewage discharge and refuse disposal, public schools and education services. Other services widely viewed as indispensable to a socially-oriented market economy included, for example, services catering to young people's needs, sport facilities, cultural services etc.
   Shortage of funds may force the state to combine different services to fund and manage them jointly, yet always under public control.

4. Privatisation must primarily be geared to release viable enterprises to operate in a market environment so they can survive in it. It is wrong policy to let ailing enterprises fall by enforcing their privatisation. It is equally wrong to adopt as a principle the idea to restore a healthy budget at any price.
5. Employees are no trivial appendix but a central component of an enterprise's work. That is why they must be the focal point of transformation from state to private ownership. Transformation blueprints must be designed primarily with a view to maintaining, at least partially, all jobs.
6. Transformation of economy and society towards a socially and democratically patterned market economy presupposes direct involvement of employees and their unions. Working people and trade unions are, as a rule, the majority in any country, which makes them objectively the most important social and economic force in society.
7. Free, independent, democratic trade unions that are not controlled by the state are an indispensable and important part of a social market economy. No market economy seeking to meet human wants can exist without them.
8. Privatisation of the economy is only "one component" of a redirection of economic and social policy. Privatisation must be linked to a comprehensive socially-oriented industrial, labour and regional policy.
9. Economic and organisational restructuring and/or liquidation of jobs must be accompanied by tangible social policy measures including, for example, early retirement schemes, retraining programmes, instruction and training, social security measures to cushion the impact of job losses. The relevant social policy plans must be designed in cooperation with trade unions and employees.
10. Codetermination, the right of employees and unions to have a say in enterprises and business companies, is no less part of transformation processes than the transfer of ownership from the state to private hands. Employees, as the decisive factor of the economy, must be able to articulate their needs fully also inside enterprises.
11. Union participation, i.e., codetermination, is also significant outside the individual enterprise, especially in critical stage of economic developments resulting from the collapse of the command economy and the transformation of the economy into a market economy. This is not to say

that trade unions should seek a presence in Parliament for themselves. One way to achieve that could be social welfare packages at local, regional and national levels agreed by governments, employers and their organisations, and trade unions. In critical situations, it is more important for partners to talk with one another, to negotiate and to assume their respective shares of responsibility than to isolate from one another.

12. Especially in critical economic situations, a prominent component of transition to democracy is to respect free trade unions' right of unrestricted activity, which is a UN-formulated human right. That includes a right of free, autonomous and unrestricted negotiation of any labour-related matters with employers and their organisations. That further includes a right, not to be restricted by state interference, to organise employees, to set up democratic organisations, to put together different forces financially and organisationally, in order to represent employee interests effectively in free negotiations and, if necessary, to put them through using trade union means.

13. Especially as dramatic changes are taking place in many countries employees are liable to be manipulated against one another. Trade unions must therefore have a right to organise themselves in free international union federations and offices for the purpose of protecting their rights across borders.