A Transitional Analysis of the Polish Economy: After Fifteen Years, Still a “Work in Progress”

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Abstract

This article takes a critical view at the process of economic change and transformation in Poland since 1989. Its describes the creation and implementation of these changes, initially referred to as the Balcerowicz Plan, in the decidedly negative context of the system of central planning. The article takes a detailed look at growth, international trade, privatization, and foreign direct investment, as well as outlining some “persistent negatives” such as transition costs, technology and infrastructure lapses, and inflation. It concludes with possible suggestions for Poland’s future as a full member of the EU, participating in the euro—perhaps as early as 2008 or 2009.

KEYWORDS: Poland, central planning, privatization
INTRODUCTION: TRANSFORMATION IN THE CONTEXT OF A CENTRALLY PLANNED ECONOMY

It has been slightly more than fifteen years since Poland embarked on its ambitious program of political and economic transformation. A synthetic review and analysis of this process seems to be in order.

A centrally planned economy is an organizational and economic system in which the factors of production (land, labor, capital, and entrepreneurial/managerial ability) are owned or are tightly controlled by the state. As such, the state makes all or nearly all economic decisions. Central planning agencies and their counterparts in the political and economic bureaucracy (known as the nomenklatura) set detailed production goals for all segments of the economy, determined inputs, and administratively fixed prices for all, or the great majority, of goods and services. Theoretically, at least, the system of central planning was designed to achieve a wide range of core political, economic, and social objectives—the most important of which was full employment—of course, always as determined by central authorities. In reality, it was often said of pre-transition Poland that “They (meaning the bureaucracy) pretend they pay us; so we pretend we work.”

By the time of the collapse of the Soviet-inspired system of central planning in “democratic and socialist” Poland in the period 1988-1989 (a system which Stalin had reportedly remarked would “fit Poland like a saddle fits a cow”) the nomenklatura system had developed into a highly centralized administrative structure—not only for national economic and political organs but also for small and medium size organizations and enterprises, which operated only as a part of a huge centrally organized and bloated bureaucracy. (The other key players in this tripartite structure were the official state or government apparatus and the Polish United Workers’ or Communist Party.) By the late 1980’s, the system of central planning had virtually elapsed into a “lunatic collage of incompetence, privilege, pandering and outright corruption,” based on a “principle of underqualification” and a “perverted practice of negative selection.” Although the system of central planning has been systematically dismantled, remnants and quite visible reminders of the nomenklatura system are still present. Not surprisingly, the role of the nomenklatura is still hotly debated in Polish society.

Unlike Czechoslovakia, members of the nomenklatura in Poland almost immediately became active in privatized businesses and banks after 1989—especially as the prospects for advancing their bureaucratic careers in the new system initially appeared more limited—in a variant of privatization that has sometimes derisively been referred to as “spontaneous privatization”—others simply brand it the “institutional theft” by the nomenklatura of state assets, apartments, property, and profitable state-owned enterprises. Members of the nomenklatura have also certainly benefited politically and economically from popular discontent that is practically unavoidable during economic reforms started under very difficult economic conditions and circumstances. As a result, members of the nomenklatura have been judged to be major “winners” in the transformation process. Ironically, the Democratic Left Alliance or SLD, the successor
to the Polish United Workers’ or Communist Party, and an outgrowth, the newly formed Polish Social Democracy, are populated by many former members of the nomenklatura and are today the mainstay of capitalism in Poland and the champion of the emerging and burgeoning capitalist business class.

The system of central planning is also referred to as the monocentric system or the command-rationing mechanism (CRM). As it operated throughout the region of Central and Eastern Europe—but most especially in Poland—the CRM was characterized by certain derivative traits that were inimical to and destructive of the three cornerstones of potential economic and political transformation. These cornerstones were the privatization process, the development of Poland’s export sector, and the attraction of significant amounts of foreign direct investment—known by the initials FDI⁴—into the Polish economy. These decidedly negative traits included administrative price-fixing by central authorities of all nature of goods and services “officially produced” in the Polish economy; isolation of domestic producers from foreign markets; enterprises’ “soft budget constraint” where the “national budget” was literally a “national joke”; and extreme monopolization in the hands of the state of everything in society that had any real economic value.

It is no surprise, then, that by 1989 and the historic “round table” that led to the overwhelming victory of Solidarity in the “semi-free” elections in the spring of that same year, the system of central planning literally imploded in Poland, and eventually in the entire region of Central and Eastern Europe, because of a combination of four interrelated factors. Despite the persistent “propaganda of success” put forth by the Polish government, and the blatherings of the Polish Communist Party, there was a:

1. Failure to create economic value and to improve the standard of living for the average Pole (recall that it often took twenty years for an individual to secure a private apartment or a private telephone);
2. Failure to provide adequate individual and organizational incentives;
3. Failure to “measure up” to comparative economies, not only those capitalist economies in the West like the United States, France, Italy, or West Germany, but also several “fraternal” socialist economies in Central and Eastern Europe (most especially, Hungary, Slovenia, and Czechoslovakia, later the Czech Republic); and
4. Failure to satisfy basic consumer needs (essentially creating a dollarization of the Polish economy through the existence of a large, open, “semi-official,” and surprisingly efficient “black market” and long lines or queues for all consumer goods). By the summer of 1988, Polish stores literally had nothing to sell on their shelves. “Special shops,” called PEWEX, had shelves stocked with all nature of goods—but only sold for dollars!.

THE ATTEMPT AT REFORM OF THE CRM

From the outset, three important questions dominated conversations concerning the transformation process: How would it be possible to create capitalism in a nation where there was neither capital nor capitalists? What should be the role of the nomenklatura and post-Communists in the political and economic life of Polish society?
And, what would the system do about workers and others most negatively affected by the transition? How would Poland attempt to answer these questions?

The attempt to move Poland from a system dominated by central planning to “some other system”—and no one was exactly sure what the new system would be—was based upon the following core assumptions:

1. The authoritarian nature of the society must gradually change into one based on administrative and bureaucratic competence, so as to weaken the decisive role of central authorities and to strengthen the role of market mechanisms in resource allocations;

2. Accepting that the system of central planning actually hampers economic analysis, and hence does not provide sufficiently accurate information for effective decision-making, the top-down “command-and-control” economy and administrative system must gradually change into a system based upon information sharing and verification, consultation, and cooperation among all segments of Polish society; and

3. The state-run society must gradually change into a full civil society, marked by community self-governance, trade and economic discipline, honest career building, and “independent individuals characterized by self-esteem, self-reliance, and self-empowerment.”

As may be imagined, because of the dual economic and political aspects of the CRM and the enormity of its negative legacy of more than forty-five years, reform of the central planning system has posed a considerable challenge from the outset and has involved a delicate blending of both political and economic considerations in the adoption of the following macro strategies first advanced by the Mazowiecki government in the fall of 1989:

1. Attaining political stability and pluralism, which would be accomplished through holding free and multiparty elections as soon as possible after the collapse of the prior closed political system; [This proved to be the easy part of transformation.]

2. Implementing a program of “real” economic reform with the evolution to a full private market economy, involving an emphasis on the development of a substantial private sector and a reduction of the state sector through a multi-track program of privatization; and

3. Creating the basic institutions of capitalism, including a private banking system, credit institutions, customs and clearing houses, currency exchanges, a private insurance system, the reintroduction of the Polish stock market, and the creation of investment vehicles like stocks, bonds, and mutual funds—all of which we take very much for granted in the West.

A BRIEF FOCUS ON POLISH PRIVATIZATION

The multi-track approach to privatization adopted in Poland has involved a myriad of concurrent, sometimes seemingly inconsistent strategies including reprivatization to former owners, the “small” privatization process, eventual privatization by liquidation, “mass” privatization, and the sectoral approach involving the creation of...
the National Investment Funds (NIFs). In this context, four main options or variants for privatization were adopted: commercial (traditional) privatization through the capital market; privatization through employee ownership (termed the ESOP option); privatization through some form of “citizenship ownership”; and privatization through institutional investors. In the first half of 1990, more than 100 state-owned-enterprises indicated their interest in participating in the privatization process. On September 27, 1990, the Ministry of Privatization undertook its first major step. Professors de la Rosa, Crawford and Franz report that the “Magnificent Seven,” a name given to the first seven enterprises privatized according to the 1990 Law on Privatization, were established as wholly-owned companies of the Polish state treasury. This group included Exbud (construction), Fampa (industrial paper production machinery), Inowroclaw (meat packing), Kable (industrial electro-engineering), Krosno (commercial and consumer glass products), Norblin (metal industrial products), and Prochnik (clothing). When the public subscription began on November 30, 1990, shares of Exbud, Kable, Krosno, and Prochnik, as well as a new firm, Tonsil (electro-acoustic equipment), were offered to the public.

Listings on the Warsaw Stock Exchange (WSE) for 1997 included 15 national investment funds (NIFS), which were initially created to implement the “mass privatization” program and to provide the necessary framework in order to restructure and privatize more than 500 state-owned-enterprises or SOEs. The history of the NIFs is quite interesting. In December of 1994, the Ministry of the Treasury established 15 funds as joint-stock, limited liability companies, wholly owned by the Treasury. During the next two-year period, the Ministry transferred 60 percent of the shares of the selected SOEs to the NIFS, retaining 25 percent in the Treasury and reserving 15 percent for employees. Share certificates were then distributed to Polish citizens—with more than 27 million Poles eligible to purchase one certificate each for twenty zlotys (approximately U.S. $7.00). One original certificate purchased on the so-called primary market could be redeemed for one share in each of the 15 NIFs. The funds began trading on the WSE on July 15, 1997. A capital market thus literally rose from the ashes of the CRM.

It is also important to note that a contemporaneous and exceedingly contentious issue remains that of reprivatization. Recent attempts by some German nationals to pursue claims against Poland for compensation for expropriations carried out in Poland in the period following World War II seem now to have been foreclosed. This is the conclusion reached on November 10, 2004 by the team of Polish and German attorneys headed by Jan Barcz (Poland) and Jochen Frowein (Germany). The report indicated that the question of claims was finally closed by the Declaration made in Warsaw on August 1, 2004 by Germany Chancellor Schroder who stated unequivocally that there was “no room for property claims connected with World War II and that the [German] federal government did not support individual claims.” Issues surrounding compensation for the seizure of property by Nazis and Communists have proven much more difficult to resolve.
THE FOUNDATIONS OF ECONOMIC TRANSFORMATION IN POLAND

The process of economic transformation in Poland is quite instructive and has provided a more general model for other Central and Eastern European transition economies. Conceived by the then Minister of Finance and Deputy Prime Minister Leszek Balcerowicz, the program was based on five philosophical pillars of economic transformation: (1) rapid transformation of the monocentric system of state central planning into a functioning private market economy; (2) liberalization of economic functions, especially in relation to foreign trade and foreign direct investment; (3) privatization of state-owned-enterprises (SOEs); (4) construction of an effective social safety net by reforming the pension, education, health care, and social security systems; and (5) mobilization of international financial assistance to support the process.

In the process of economic transformation, Minister Balcerowicz was aided by a well-prepared transition team consisting of Polish nationals and émigré specialists. Many of the foreign advisers were of Polish origin—so-called Polonia academics and Polonia economists. The leading foreign expert was Harvard Economist Jeffrey Sachs, who currently heads the Earth Institute at Columbia in New York City. Professor Sachs also serves as a Special Advisor to United Nations Secretary Kofi Annan on a group of poverty reduction initiatives called the Millennium Development Goals. Both Balcerowicz, who currently serves as President of the National Bank of Poland, and Sachs remain enigmatic and quite controversial figures even today in Poland.

ENTER THE BALCEROWICZ TEAM

The “Balcerowicz Team” consisted, among others, of Marek Dabrowski, later deputy in the Ministry of Finance; Stefan Kawalec, first chief adviser, responsible for financial institutions; Janusz Sawicki, responsible for foreign debt negotiations; Andrzej Podsiadlo, who oversaw state enterprises; and Grzegorz Wojtowicz, first deputy chairman of the Polish National Bank, and its chairman in 1991. All were graduates of the Faculty of Foreign Trade of the Central School of Planning and Statistics in Warsaw, Poland’s premier school for state planning and policy experts. Wojciech Misiag and Ryszard Pazura were also deputies in the Ministry of Finance. The team also included numerous foreign advisers—in addition to Jeffrey Sachs—David Lipton, Wladyslaw Brzeski, Stanislaw Gomulka, Jacek Rostowski, and Stanislaw Welisz—and Polish ones—Karol Lutkowski, Andrzej Bratkowski, Antoni Kantecki, Adam Lipowski, Andrzej Parkola, and Andrzej Ochocki. Minister Balcerowicz himself was a Professor of Economics at the Warsaw Institute of Economics. Balcerowicz had graduated from the Faculty of Foreign Trade of the Central School of Planning and Statistics—now the Warsaw School of Economics. Between September 1972 and January 1974, Balcerowicz had studied business administration at St. John’s University in New York City. In 1978, Balcerowicz presciently had established a “think tank” composed of ten young economists who met regularly to discuss and debate potential programs for economic reform. These informal meetings shaped the program of transformation adopted by the Mazowiecki government and subsequent Solidarity governments and greatly influenced all post-1989 Polish governments, whether post-Solidarity or post-communist.
Mirroring the Balcerowicz-Sachs model, Poland has undertaken the following concrete actions as the main components of its process of economic reform:

- Liberalizing prices from state control, opening up of the foreign trade regime, and formalizing and simplifying the requirements for new market entry;
- Stabilizing inflation, public finance, and foreign debt;
- Effecting changes in the economy leading to privatization of state property and to an increase in the nature and volume of international trade;
- Creating new market institutions, a commercial code, a revised tax code, private property rights, and a financial and capital market sector (perhaps, most importantly, the creation of a viable stock market);
- Remodeling and upgrading the important social-safety net, most especially, the pension, education, social insurance, and unemployment systems;
- Assuring full convertibility of the Polish zloty;
- Gaining extensive external assistance of the International Monetary Fund (IMF), and the “London” (private commercial creditors) and “Paris” Clubs (public creditors); and
- Gaining full membership in the OECD, NATO, and, most recently, the European Union (EU).

SECURING INTERNATIONAL FINANCIAL COOPERATION

Because of the sheer mountain of Polish external debt, Minister Balcerowicz decided immediately to tackle this problem. The Paris Club was comprised of nations that had financed Poland’s public debt and the London Club was comprised of private lenders, banks, and brokerage houses that had financed Poland’s private debt. The Paris Club is composed of 19 permanent members and other official creditors who have participated in some official government-to-government lending. At the start of the transformation process in the fall of 1989, Poland’s official Paris Club creditors included Germany ($5.94 billion), France ($3.63 billion), Austria ($3.60 billion), the United States ($3.46 billion), Canada ($2.64 billion), the U.K. ($1.65 billion), Italy ($1.32 billion), and Japan ($0.66 billion). Brazil, not a permanent member of the Paris Club, provided $3.0 billion. Poland’s Paris Club debt was reduced by a minimum of 50 percent—France and the United Stated agreed to a 70 percent reduction.

Poland’s private or commercial London Club debt amounted to an additional $13.2 billion in 1989. It was reduced by 45.2 percent, including a 37 percent reduction in interest and a 52 percent decrease in principal. Poland’s largest London Club creditors included Salomon Brothers Inc., BFG Bank, Commerz Bank, Swiss Bank Corp., Lloyd’s Bank, BNP, Standard Chartered PLC, Westdeutsche Landesbank, Societe Generale, Bank of America, and Dresdner Bank. Professors Bossak and Kalicki regard the agreement with the London Club as “the crowning achievement of not only long and sophisticated negotiations, but also the effect of consistent implementation of economic reforms in Poland and their high evaluation by the G-7, the Paris Club, the IMF, and the World Bank.”

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THE STATE OF POLAND’S POST TRANSITION ECONOMY: A SELECTED MICRO LOOK

What is the current state of the Polish economy? As a context, according to leading experts from the World Bank, Poland may need as much as 30 years to catch up with the rest of Europe. However, on the positive side, Standard & Poor’s recently changed Poland’s rating prospect from “stable” to “positive,” reflecting an improvement in the medium-term fiscal prospects of Poland in comparison to its earlier expectations. As we celebrate the fifteenth year of the transition from a centrally planned to a market economy, the question may thus be answered in both positive and negative terms, depending on whether the observer sees the Polish glass “half full” or “half empty.”

POSITIVE INDICATORS

On the positive side, the general economy has continued to grow at an average rate of nearly 6 percent in the previous decade, surpassing most economic predictions and the growth rates of most nations around the world. The private sector now accounts for more than 75 percent of national income, as opposed to 5-10 percent in 1989 arising from the limited private agricultural sector. Real GDP per capita experienced an increase of 3.8 percent in 2003. In 2004, the rate of increase was reported by both the Center for Social and Economic Research (CASE) and the European Commission to be 5.4 percent. (Morgan Stanley predicts a solid increase of 5.5 percent in 2005; Merrill Lynch predicts a growth rate of 5.5-5.6 percent; and the Financial Times predicted a less robust 4.5 percent increase in its 2005 forecast. Others, such as CASE and the European Commission are not quite as optimistic and report GDP growth in the range of 4.0 percent to 4.4 percent.)

The unit of Polish currency, the zloty, continues to remain steady against the dollar. In fact, the zloty has consistently appreciated since Poland’s accession to the EU. Since the beginning of 2004, the zloty has gained 17.3 percent against the dollar and 11.1 percent against the euro. The high price for the zloty, however, may mean less revenue for Polish exporters who have been a major force behind Poland’s economic growth, because an “excessively strong zloty might reduce demand for Polish goods.”

Real salaries for Polish workers increased by 4 percent (amounting to an average of $618.5 per month in 2003); Poland’s Gross National Product stood at $5,483 per capita and was expected to rise to $7,300 per capita by the end of 2005; labor productivity in the industrial sector has increased by nearly 20 percent during the past four years, with Polish trucking companies increasing their productivity in the range of 20-50 percent alone. Industrial production also grew at a 13 percent rate during 2004, as opposed to 8.4 percent in 2003. In the first half of 2004, the production of steel (once considered to be Poland’s “dead industry”) rose by 25.3 percent. Other sectors which saw substantial growth included automobile sales (+76.1 percent on a yearly basis—with Polish automobile production expected to reach 524,000 passenger cars and 126,000 delivery vans. Fiat is the largest producer, followed by Opel and VW.); sales of building materials (+58.6 percent), metal production (+43 percent), shipbuilding (+37 percent), and electronics (+24 percent). In addition, the Central Statistical Office, known in Poland by the initials GUS, indicated that 14,811 reporting Polish companies reached zl.13.4
billion in profit during the first quarter of 2004—more than four times the 2003 figure for
the same period.26 On a yearly basis, Polish companies in 2004 earned nearly zł.61
billion in net profits, almost 3.5 times more than in 2003. The sharp increase was
attributed to a “much lower increase in operating costs than revenue and a reduction in
the income tax rate from 26 percent to 19 percent.”27

In terms of international trade, Poland continues to expand its growing export
sector, especially to fellow European Union nations—further distancing the Polish
economy from its “heavy industry” orientation towards the former Soviet Union and its
Eastern European satellites. Polish exports to the European Union have literally soared
since May 1, 2004. Surprisingly, considering the dire predictions of the “Polish right,”
food exports in the period immediately following the accession were 43 percent higher
than for the same period in 2003. Sectors that saw the greatest gains were meat and milk,
especially dairies close to the German border. Overall, receipts from exports expressed
in the euro increased by 10.2 percent and exporters reported that their sales increased on a
year-to-year basis by an impressive 39.7 percent, with three-quarters of Polish exporters
reporting net profits. Exports to the European Union now account for more than 80
percent of total Polish exports. Imports increased by 33.4 percent, with 61.2 percent of
Polish imports originating from the European Union. Major export partners included (in
statistical order): Germany (31 percent), Italy (6.2 percent), France (6.2 percent), as well
as Great Britain, Netherlands, the Czech Republic, Sweden, Belgium, Russia, and Spain.
Interestingly, an increase of more than 53 percent in sales to the Russian market occurred
in 2004. Major import partners (in statistical order) include: Germany, Italy, France,
Russia, China, the Czech Republic, Netherlands, Great Britain, Sweden, and Spain.28

Recently, the importation of Polish meat products was authorized by the United States
Department of Agriculture—adding hope to increased Polish agricultural exports to the
United States.29

Considering briefly the topic of foreign direct investment (FDI) in Poland, the
economy continues to be an attractive destination for worldwide foreign direct
investment inflows—although at somewhat of a slower pace than during the peak years
of 1998-2000. UNCTAD reports that Poland is in the same category as India and
China.30 In 2003, Poland attracted $6.42 billion in FDI and the aggregate amount that has
flowed into Poland since 1989 stands at more than $72 billion. (The figure may be a bit
misleading since FDI is normally counted only from the 10 percent threshold or at the
base amount of $1 million.)31 The recently revamped and reconstituted Polish
Information and Foreign Investment Agency [PAAIZ] reported that the structure of
foreign investment has changed. In 2003, so-called greenfield projects (involving the
construction of new plants from scratch) accounted for half of FDI, while in 2002, the
figure was 37 percent. In previous years, privatization projects attracted a major part of
foreign investment.

The manufacturing sector continues to attract much needed capital, with investors
showing a continued preference for automobiles, electronics, and pharmaceuticals.
Services accounted for 55-60 percent of FDI in Poland. Foreign investors from France
(20 percent-93 companies), the United States (14 percent-126 companies), Germany (13
percent-128 companies), Netherlands (9 percent-91 companies), and Italy (6 percent-62
companies) continue to dominate the scene. Some of the leading investors for 2002-2003
included KB Bank (Belgium), EBRD (International), ITI Group (Netherlands), Credit
Agricole (France), Glaxo SmithKline (Great Britain), GAX Rail (USA), Metro AG (Germany), Guardian Industries (Spain), Carrefour (Spain), Deutsche Bank Americas (USA), Vattenfall (Sweden), Toyota (Japan), United Technologies (USA), and Ferrovial (Spain).32

Also, on the positive side of the Polish ledger have been the tremendous growth of smaller and medium-sized businesses and the rise of a truly entrepreneurial business class (not just from the remnants of the former nomenklatura). Today, there are more than 3.5 million companies registered in Poland, and 98.8 percent are considered as small and medium-size businesses (SMEs), operating with a varied capital mix.33 Franchises continue to blossom with both international brands (for example, McDonald’s, KFC, Wendy’s, Pizza Hut, Dunkin’ Donuts, T.G.I. Friday, Blimpie, Sbarro, Midas, Budget Rent-a-Car, Domino’s Pizza) and a host of local Polish companies (for example, “Pozegnanie z Afryka” [“Out of Africa”], a new specialty coffee shop franchise operating since 1992, A. Blikle—luxury cake shops, A.D. Dragowski—real estate offices, Drogerie Natura—drugstores, U szewczyka—footwear retail chain, Orbis Travel, and Zielona Budka—ice-cream shops)34 all rushing to recent exploit domestic growth opportunities. In all, there are about 100 franchise systems operating in Poland that currently employ more than a half-million Poles.

**PERSISTENT NEGATIVES**

For those who may view the situation in more negative terms, several problems continue to persist. Continued areas of concern include the poor condition of Poland’s transportation infrastructure, especially roads and highways. Poland has only 483 kilometers of highways and another 216 kilometers of divided expressways. As noted by Jan Cienski, “The rest of Poland’s 370,000 kilometers of roads includes dirt tracks, picturesque tree-lined lanes, and rutted byways—nothing able to handle the traffic of a modern European nation.”35 Membership in the European Union is expected to provide a cash infusion to speed road construction, amounting to euro 2.3 billion from 2004-2006, and an additional euro 900 million for rail improvements. Other areas concern the costs of telephone and internet services, inadequate expenditures for research and development, and a persistent perception of corruption.36 (Transparency International, an organization that tracks official corruption around the world, reports that Poland stands in 67th place (out of 146 countries) among the economies of the worlds with 3.5 points—a score which stands as the worst among all European Union member countries.) In addition, continuing lags in patent applications and the number of computers owned by schools, the sometimes confusing requirements for licenses and permits, as well as a myriad of tariff and non-tariff barriers that exist for companies that wish to penetrate the Polish market37 continue to be problematic.

While some investors fear that the continuing political uncertainty may impact negatively on FDI, political turmoil and investor fears following the resignation of Prime Minister Leszek Miller last year seems to have ebbed just a bit with the final elevation of Marek Belka to the position of Prime Minister.38 However, it has not been seen as helpful that there has been endemic instability in the important position of Minister of Finance or that the Belka government was not expected to survive past the spring of 2005. (Belka was able to finally win confirmation by the Sejm by gaining the support of
the Democratic Left Alliance (SLD), Labor Union (UP), Marek Borowski’s newly
formed Polish Social Democracy (SDPL), and the Federative Parliamentary Caucus
(FKP) of Roman Jagielinski, as well as 16 “unaffiliated” deputies. The opposition,
generally representing the “right side” of the political spectrum, was composed of Civic
Platform (PO), Law and Justice (PiS), Andrzej Lepper’s Samoobrona, the League of
Polish Families (LPR), and several members of other “right-wing” caucuses.) However,
Minister Belka announced in March of 2005 that parliamentary elections could be
expected in May, adding yet another uncertainty to both the economic and political
equations.

Inflation had remained under control in 2002-2003, but rose to 3.5-3.6 percent in
2004, spurred by increases in fuel prices, higher oil and food prices, and factors dealing
with Poland’s accession to the European Union—although the National Bank of Poland
estimates that the total effect of price changes related to European Union accession will
not cause annual inflation to grow more than 0.9 percentage points. (It may be well to
remember that inflation had reached 585 percent in 1990, 70.3 percent in 1991, finally
slowing to 43 percent in 1992.) Poland may see a rise in prices for sugar,
pharmaceuticals, fuel, coke, and construction materials, as well as radio and cable, in
2005. CASE and European Commission experts predict that inflation will rise by a
manageable 2.1-2.5 percent in 2005 and 2.3-2.4 percent in 2006.

What are some other negatives? The pension and health care systems are still in
serious jeopardy and much anticipated (and needed) reforms have again been delayed—
often for political reasons or for the lack of either Presidential or Parliamentary
leadership. Much of Poland’s eastern regions are still under the grip of high
unemployment. Pockets of unemployment may also be found in the north east, north
west, and south west (many populated by former “state-owned farms,” bankrupted by
1992), and in regions that were previously dependent on a “single industry” that was
gearied toward the Soviet Union—with the figure approaching an alarming 40 percent in
some regions. As of April-May 2005, aggregate unemployment hovers between 18-19
percent, with as much as an additional 10-15 percent of the population permanently
discouraged and no longer seeking employment. While Poland’s debt increased and
approached 51.6 percent of gross domestic product (GDP) in 2003, the Ministry of
Finance reported that Poland’s public debt actually decreased to around 50 percent in
2004. However, Poland’s investment in the state budget stands at a very low 5 percent—
hampering development and over burdening other financial sectors.

FUTURE PROSPECTS

What are the future prospects for Poland? Much, quite frankly, may depend on
settling the seemingly interminable political infighting that destroyed Prime Minister
Leszek Miller who left office last spring with an approval rating of around 8 percent. A
second factor involves the disequilibrium associated with the vetting process that has
ripped through Polish society in a sea of recriminations and uncertainty. Poland was hit
by a fresh scandal when Josef Oleksy, a former Prime Minister, Sejm Speaker, and the
chairman of the SLD, was found guilty of lying about his past as a Communist security
agent between 1970 and 1978. Lying about this matter means a 10-year ban on holding
public office.
A third factor revolves around the ability of the government to reinvigorate the privatization process—an important lynch-pin (along with foreign trade and FDI) in the process of economic transformation. Over 5,500 state-owned-enterprises have already been subjected to commercialization and privatization over the past fifteen years. However, the process certainly stalled in 2003 and the early part of 2004. Through June 1, 2004, privatization brought about zl.1 billion into the Treasury, as opposed to the zl.8.8 billion planned in the budget. (As it turned out, however, the gross revenues for 2004 may have exceeded zl.10 billion, due primarily to the high revenues received from the successful privatizations (IPOs) from PKO BP Bank and the Wydawnictwa Szkolne i Pedagogiczne (WSiP) publishing House.) In addition, former Minister Socha had announced plans to speed up the privatization process by replacing many “key people” in Treasury-owned companies—especially in so-called “strategic companies,” such as copper mining KGHM and energy firms NP, PKN Orlen, Grupa Lotos, PSE, Poludniowy Koncern Energetyczny, the BOT (Belchatow Opole-Turow) group of power plants, and PGNiG. Other privatizations may include the pharmaceutical sectors (Polski Holding Farmaceutyczny SA, Przedsiębiorstwo Zaopatrzenia Farmaceutycznego Cefarm Krakow SA) and the Polish liquor industry (Polmos Bialystok). The government also announced a plan to privatize a part of the heavily subsidized coal-mining sector, as Jastrzebska Spolka Weglowa will be offered on the stock market in the first half of 2005, Katowicki Holding Weglowy is being prepared for sale to a potential investor, and Bodanka coalmine will be linked to the Elektrownia Kozienice power plant and will be privatized through the stock market. Once the staple of Poland’s command economy, coal mining employed more than 400,000 miners and was the source of much of Poland’s hard currency. Today, the mining sector makes up only about two percent of Poland’s GDP and remarkably parallels the fate of the coal industry in the United States. Poland’s coal mines employ about 120,000 coalminers and 30 mines have been permanently closed. However, with recent privatizations in the mining sector, it may be asserted that the government’s privatization strategy was beginning to work and that the coal mining sector may yet survive!

In the second half of 2004, the listing details of the largest Polish bank, PKO BP, were filed with the Securities and Exchange Commission. However, the Treasury intended to keep a 51 percent (“Golden Share”) for itself. This strategy has been seen as problematic in the past and has dampened investor interest, as a “golden share” may be either a perpetual 50 percent plus ownership by the state or it may be a share with special voting rights that enables its holder (the Polish State Treasury) to veto certain changes in the charter of a company—even if it own only a small group of shares. The veto could potentially apply to decisions concerning a change to the substance of a company’s activities, or a division, merger, or separation of a part of a company’s property. The golden share is under sustained attack in European Union courts, as well as before the World Trade Organization (WTO), of which Poland was a founding member.

In this case, however, the privatization of PKO was a tremendous success! The initial public offering (IPO) enjoyed great investor interest and the first market quotation brought an over ten percent profit to investors, breaking several Warsaw Stock Exchange records for share turnover (more than zl.1.4 billion). The privatization of PKO was the largest in the history of the Polish capital market, attracting not only individual investors but also more than 250 institutional investors—including 99 from Poland and more than
The Ministry of the Treasury finally has selected a “privatization adviser” (the consortium McKinsey and Company Poland Sp.z o.o.) for the privatization of the Warsaw Stock Exchange itself, although the process will not be finally resolved until 2006. The Ministry of the Treasury calls for zl.5.7 billion in 2005, of which zl.4.4 billion will go to the state budget.

In addition, the Polish Market Report indicates that in 2004, the value of the Polish telecommunications market (telecommunications services, equipment production, and other investments) will rise by 13.2 percent to zl.47 billion. The main force behind the expected increase will be mobile services, data transmission, and broadband access to the internet. The Government Center for Strategic Studies (RCSS) also reports that while investment fell by more than 22 percent in 2001-2003, medium-sized and large business entities reported an increase in investment by 8.7 percent in the first half of 2004. Finally, Poland belongs to the list of European Union member nations with the lowest corporate income tax (CIT) rates. On January 1, 2004 the CIT rate was reduced from 27 percent to 19 percent.

A TRANSITIONAL CONCLUSION

May 1, 2004 provides a fitting context for a tentative conclusion. The dream of Poland’s full participation in a united Europe, first exemplified by Poland’s membership in NATO, and in Poland’s desire to become a member of the European Union, has become a reality. The formal process began in May 1990, when the government of former Prime Minister Tadeusz Mazowiecki submitted its official application for the opening of accession negotiations in Brussels. In order to join the European Union, Poland was required to fulfill stringent economic and political conditions known as the Copenhagen Criteria that were established in 1993. These conditions required that a prospective member must be a stable democracy; respect the rule of law, human rights, and the protection of minorities; have a functioning market economy; and adopt the common rules, standards, and policies (the acquis communautaire) that make up the body of European Union law.

A major step was accomplished on February 1, 1994, when Poland and the European Union, signed the European Treaty, assuring Poland’s “associated country status.” After a round of intense diplomatic and political summity, accession negotiations were completed on December 13, 2002 in Copenhagen, Denmark. It now appears that Poland was able to negotiate final terms that were favorable both to Poland’s domestic and international positions. Poland and nine additional “candidate countries” [the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Slovak Republic, and Slovenia—as well as Cyprus, and Malta] formally joined the European Union on May 1, 2004. It is also expected that Poland will be eligible to join the “eurozone,” meeting the so-called Maastricht criteria, and adopting the euro as its medium of exchange, perhaps as early as 2007—but more realistically by 2009.

In the midst of both political and economic uncertainty, as well as persistent negatives and positives, one thing is certain. Possible no one, other than perhaps Leszek Balcerowicz, the undeniable “father” of most of the fundamental economic changes that have occurred over the past fifteen years, would have envisioned the dramatic progress that has taken place in Poland. Admittedly, the benefits of economic transformation have
not been spread evenly over Polish society—and there is a widespread view that materialism, consumerism, and secularism have perverted traditional Polish society. While half of the Polish population believe Poland will benefit from membership in the European Union, more than 40 percent of Poles feel that the situation in Poland has “deteriorated,” and only one-third of Poles evidence trust in the European Union to solve their major problems—identified as unemployment and a “lack of prospects for an improved economic situation”—problems that especially effect Polish youth who may once again experience a strong desire to emigrate in the face of economic and political insecurity. Yet, as indicated by almost all accounts and an objective review of statistical data, progress has been steady, if not pronounced. As a possible indication of the progress that has been made, Prime Minister, Marek Belka, announced that approximately 300,000 jobs in public administration will be filled through competition—in sharp contrast to the situation in pre-transition Poland where “positions were often handed out on the basis of political preferences.”

Now, as a member of both NATO and the European Union (although four out of five Polish voters stayed home on election day), Poland is still struggling to recapture her past and her rightful role in the “new Europe”—a past unfortunately marred by the disappointments of Yalta, the dark days of Martial Law in 1981-1986, and the isolation of its dysfunctional central planning past. Whether or not Poland remains on the glide path to success remains as the most critical question.

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A unique and comprehensive “insider view” of the process of transformation is found in Leszek Balcerowicz, Socialism, Capitalism, Transformation (New York: Central European Press, 1995).


For a listing of the 14 remaining NIFS, see Richard J. Hunter, Leo V. Ryan & Robert Shapiro, Poland: A Transitional Analysis (New York: PIASA Books, 2004), Appendix 2, pp. 167-173 (containing funds’ addresses, web sites, and e-mail and other contacts).


For a discussion of the core transformation program from this “foreign” viewpoint, see Jeffrey Sachs, Poland’s March to the Market Economy (Cambridge, Mass.: MIT Press, 1993), pp. 45-46; David Lipton & Jeffrey Sachs, “Privatization in

16 Adapted from Hunter & Ryan, *supra* note 8, at pp. 78-80.

17 On July 8, 1997, NATO foreign ministers extended an invitation to three former Soviet Bloc nations—Poland, the Czech Republic, and Hungary—to join the alliance in time for NATO’s 50th anniversary. For a discussion of the importance of NATO membership for Poland, see Hunter & Ryan, *From Autarchy to Market, supra* note 8, pp. 162-163, 194-195, 211-212.


26 A listing of Poland’s 500 largest enterprises may be found at [www.polishmarket.com](http://www.polishmarket.com) (last visited Oct. 12, 2004).


“Invest in Poland” (Interview with Minister of the Economy and Labor Jerzy Hausner), The Baltic Panorama, February 2005, p. 4.


Reported by the Polish Confederation of Private Employers (PKPP), Warsaw Voice, April 3, 2005, p. 35.

For a general discussion of Polish franchising, with a competitive analysis, market highlights, and a discussion of market access, see, e.g., Ewa Bogdanowicz, “Franchising” (U.S. Department of Commerce), available at http://strategis.ic.gc.ca (last visited January 9, 2005).


The rating employs a scale from 10 points (no corruption) to zero (highest corruption). Out of the 146 countries listed in the rankings in 2004, 60 countries had less than 3 points, meaning that corruption in those countries is of “endemic character.” Reported in the Warsaw Voice, October 31, 2004, p. 16.


“Poland: Sunny prospects,” The Economist, September 11, 2004, pp. 46-47. The European Commission projects that inflation will decrease to 3.3 percent in 2005 and 3.0 percent in 2006.


Figures supplied by the Central Auditing Office (NIK), reported in the Warsaw Voice, July 18, 2004, p. 32.


“Privatization Plans,” Warsaw Voice (Business), April 17, 2005, p. 35.

Reported in “Phones Are Busy,” Warsaw Voice (Business), September 26, 2004, p. 28.


Official results of the National Elections indicated that the turnout was a disappointing 20.87 percent. The Civic Platform took 24.1 percent of the vote, capturing 15 seats. The League of Polish Families took 15.92 percent and 10 seats; Law and Justice, 12.67 percent and 7 seats; Samoobrona, 10.78 percent and 6 seats; Democratic Left Alliance/Labor Union, 9.35 percent and 5 seats; Freedom Union, 7.33 percent and 4 seats; Polish Peasant’s Party, 6.34 percent and 4 seats; and Polish Social Democracy, 5.33 percent and 3 seats. “Voter No Show,” The Polish Voice, No. 45, pp. 8-9 (2004). An interesting and complete chronology of Polish electoral politics since the “1989 semi-free elections to the contract Sejm,” is found in Marcin Mierzejewski, “Who Won,” The Polish Voice, No. 49, pp. 17, 19 (2004). A new political party has recently emerged—the Democratic Party—that may impact on both parliamentary and presidential politics. See also “Right turn ahead,” The Economist, February 19, 2005, pp. 27-28.