Poland's State Led Transition to Liberal Capitalism[1]

Lawrence King and Aleksandra Sznajder

Yale University

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Abstract: Poland's State Led Transition to Liberal Capitalism

Neoliberal transition theory argues that rapid liberalization and privatization will quickly lead to a transition to a dynamic market capitalist economy. Stark's evolutionary perspective critiques neoliberal prescription, arguing that the application of a "blue print of transition" will not go as intended. Instead, the institutional legacies of state-socialism are recombined by enterprise actors leading to a unique system of "recombinant property" that blurs state and private ownership and leads to unprecedented levels of firm cross-ownership and cooperation. We argue that in a crucial case, Poland, neither perspective is correct. The neoliberals were wrong that "the market" was the path to Liberal Capitalism, because they neglected the necessity of an interventionist state in managing a successful integration into global capitalism. The evolutionary account also neglects the importance of the state in shaping the choices of economic actors, as well as the pressure exerted on the state by international actors. As a result, a revolutionary system change to Liberal Capitalism, not an evolutionary transformation to a unique East European capitalist system based on "recombinant property," occurs in postcommunist Central Eastern Europe. This has major implications for the study of postcommunist capitalism, and the varieties of capitalisms literature in general.

Neoliberal transition theory argues that rapid liberalization and privatization will quickly lead to a transition to a liberal market economy. Stark's evolutionary perspective critiques the neoliberal prescription, arguing that the application of a "blue print of transition" will not go as intended. Instead, the institutional legacies of state-socialism are recombined by enterprise actors leading to a unique system of "recombinant property" that blurs state and private ownership and leads to unprecedented levels of firm cross-ownership and cooperation. Thus, rather there being a "transition" from "the plan" to "the market," there is a "transformation" from socialism to a variety of endpoints. We argue that in a crucial case for both the neoliberals and Stark's evolutionary-sociological theory, Poland, neither perspective is correct.

The neoliberals were wrong that "the market" was the path to Liberal Capitalism, because they neglected the necessity of an interventionist state in managing a successful integration into global capitalism. The evolutionary account also neglects the importance of the state in shaping the choices of economic actors, as well as the pressure exerted on the state by international actors. As a result, a revolutionary system change to Liberal Capitalism (of the late-industrializer and dependent variety), not an evolutionary transformation to a "recombinant property" based capitalist system, occurs in postcommunist Central Eastern Europe. This has major implications for the study of postcommunist capitalism, and the varieties of capitalisms literature in general.

Mainstream neoclassical economists were called on to provide the theoretical, practical, and even public relations, tools to manage the transition (an exemplar of this was the Blanchard et al. 1991; see also the outstanding accounts of Wedel 2001 and Gowan 1995 for the role of Western economists). At the same time, the massive society

transformation drew the attention of many sociologists, which is hardly surprising, since the discipline was born in an effort to understand the emergence of Western capitalism. While largely inactive in the policy world, sociologists provided early criticism of the monetarist, neoliberal and neoclassical inspired economic theory and practice behind transition economics. Possibly the most influential sociologist studying the transition (considering the dissemination of his work among sociologists, political scientists, anthropologists and economists) has been David Stark (1992, and especially 1996, Stark and Bruszt 1998). The major thrust of this criticism was that the economists thought in terms of a linear transition from a "planned" to a "market" economy, when institutional legacies and network connections determine the path-dependent nature of the transformation of the economy (1992). New property forms and integrating mechanism are constituted by the activity of enterprise actors that "recombine" various assets to create a unique postcommunist capitalism (Stark 1996; Stark and Bruszt 1998, 2001).[2]

Poland has held a special place in this debate (especially among political scientists and economists), being the first of the former Warsaw pact countries to undergo a radical attempt at the transformation of its economy. Significantly, Poland has been hailed as the

[2] Michael Burawoy has a much different account of the transition – one much more congruent with World Systems theorists (Burawoy 2001a) – that integration into the global system results first in "Merchant Capitalism" and "involution" – both which result in parasitic economic activity and thus underdevelopment. Because Burawoy's work concerns Russia, and not Postcommunist Central Europe, his argument will be addressed in the conclusion.

major transition success story, in large part because it had substantially higher rates of growth than all other postcommunist countries in Central and Eastern Europe. By the year 2000 Poland had surpassed its 1989 Real GDP by 27%, with Slovenia the closest rival with 14%. The only other countries to even record any net growth were Slovakia and Slovenia. The average of all the states was an astounding decline of 35% (EBRD 2001: 73). In much of the neoliberally-oriented literature, this relative success was attributed to the policies of Shock Therapy famously implemented by Balcerowicz in Poland.

Its relative success is therefore seen as proof that neoliberal transition policy is the very best possible. This belief is so pervasive that it is in danger of becoming what Merton called a "pseudofact" – "the socially plausible, in which appearances persuade though they may deceive" (Merton 1959: xiii). Murrell writes: "The reforms of 1990 are the best-known application of Shock Therapy. To some observers, they were very successful: admiration of the Polish reforms was apparently an important ingredient in the calculus of the Russian reformers." (Murrell 1993: 112). Indeed, for many academics, journalists and pundits, "Poland has always been considered to be 'the best student in class,' faithful follower of the IMF-created stabilization program and at the end one of the few examples of success of the IMF" (Belka 2001: 46).[3]

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[3] Although this was only really in the second half of the 1990s, while before that the Czech Republic, which pursued the first mass privatization program using vouchers, was the perceived leader (Frydman, Rapaczynski, and 1997: 87).

We will show that this interpretation of Poland's transition is inaccurate. Poland's neoliberal reform package was modified after only a year, and thereafter consistently violated neoliberal precepts. The state played the a crucial role in "constructing" Poland's private economy via various types of industrial policy, and its stewardship of the large State Owned Enterprises.

Poland's is an equally important case for Stark's theory of recombinant property. While Stark claims that different varieties of recombinant property exist in Hungary (1996) and the Czech Republic (Stark and Bruszt 1998), Poland is twice as large as both countries combined. While King (2001, with Hanley and Toth 2002) emphasized the role of FDI and domestic ownership groups created through privatization, Poland had significantly delayed privatization of large enterprises. It stands to reason that there would be much greater room for "recombinant property" because of the state's lingering ownership of the large enterprise sector. Indeed, even in Hanley, Toth and King are correct in Hungary – that FDI and domestic ownership groups, not "recombinant property" from the basis of the new economy – there might still be significant levels of recombinant property in Poland.

However, we argue that Stark also miss-specifies the role of the state when he build a model of "*East European Capitalism* that will differ as much from West European capitalisms as do contemporary East Asian variants." Rather, as the neoliberals expected, a variety of capitalism emerged that was not that different from many found in the EU. "Transition" seems like a fine word for this process indeed – as it emphasizes the revolutionary break with the past that has occurred. However, the variety of capitalism that has emerged in Poland is not completely identical to capitalism in the

“advanced core” because of its extreme dependence on the markets and investment capital from multinational corporations based in Europe (as well as the signaling activities of the IMF and the World Bank, and most importantly coercive isomorphic pressures emanating from the European Union).

Simply put, the neoliberals advocate using liberal methods, (i.e. relying on the market), in order to construct a liberal (capitalist market) society. Stark’s evolutionary-sociological approach believes that liberal methods, at least when applied to postcommunist Eastern Europe, produce a non-liberal (recombinant) variety of capitalism. We believe both formulations miss the real path of transition to capitalism in Central Eastern Europe for the same underlying reason – *both neglect the role of the postcommunist state in producing revolutionary economic change*. We will call Poland’s actual path “controlled liberalization,” in which the state is used to create a very liberal, if also very dependent, capitalist society. This is distinctive from other attempts at modernization using the state, because the end-point, or telos, is a very liberal state – a night-watchman overseeing a thriving private economy and civil society.

There are six sections to this paper. The first briefly discusses methodology. The second summarizes neoliberal transition theory, focusing on the Shock Therapy policy package. It also briefly reviews Stark’s theory of recombinant property. The third details the Polish state’s actual policies, which systematically violated neoliberal precepts – thereby disproving the neoliberal account. This section marshals data from standard comparative sources (published sources, supplemented by interviews with state elites). The fourth section provides case study analyses of Polish enterprises that both confirms the macroeconomic story with microeconomic data, and disconfirms the recombinant

property account. The fifth section establishes the contours of a sociological theory of liberal dependent postcommunist capitalism in Central Eastern Europe. In the conclusion, the theoretical implications of this analysis for a comparative analysis of postcommunist capitalist systems, as well as comparative capitalism more generally, are specified.

Methodology

In this paper we follow the sociological and anthropological impulse to study the transition to capitalism from the economic actors' perspective "in the field." This data is aimed at providing evidence that corroborates the legal-institutional/macroeconomic story and to provide grounded insight into the functioning of the Polish economy. As Burawoy and Verderey (1999) explain, the need for ethnographic/case study evidence to serve as a check on official pronouncements and government generated statistics is especially imperative in the tumultuous postcommunist environment, where we should be even more wary of the production of "official statistics" and the enactment of formal laws that are not enforced in practice.

This paper, therefore, supplements standard comparative sources with enterprise level case study data (as done in the most influential sociological accounts: see Stark 1996; Stark and Bruszt 1998; Burawoy and Krotov 1992; Burawoy 1996). By studying firms, we can look directly for the causal mechanisms that are at issue (those affecting enterprise behavior and structure). The data for these case studies consists of interviews with a small number of top enterprise actors as well as other locally published materials

about the firm. The cases were obtained through a random selection of firms within pre-determined sectors of manufacturing that span the continuum of technological level. Despite the heralding of the Post-Industrial Society several decades ago, there is very good evidence that the other sectors follow trends in manufacturing (see the longitudinal evidence of this for the US, Germany and Japan in Brenner 1998, 2001). Our research design favors breadth of cases (22) at the cost of depth (in terms of time spent collecting data in a traditional ethnographic fashion) (e.g. Burawoy 1992; 1996; 2001a). This trade-off is justified for two reasons. First, there is a grave danger of both over-generalizing from atypical cases, and, conversely, missing important outliers. With a greater chance of getting both typical and untypical firms, we have much more material to work out a theory of enterprise change. Second, since the question here is not to ferret out what the transition *meant* to the actors (as in traditional ethnographies), but merely *what happened* to firms during the transition, such intensive research was not necessary. Our selection of firms also allows for a control of potential sector effects.

Appendixes A describes these case studies.

Neoliberal Theory and the Evolutionary-Sociological Alternative

Neoliberal economists designed the radically anti-statist Shock Therapy policy package that served as a blueprint for economic change. Shock Therapy policies -- stabilization, liberalization, and privatization -- were crafted to allow "efficiency" considerations to shape the organizations of the new capitalist economies. Once the incentive structure was "correct," and the market was allowed to allocate resources, a new efficient set of organizations would replace the deformed and inefficient state-owned

enterprises inherited from socialism.[4] The model is exceedingly parsimonious: "Private ownership would ensure profit-oriented corporate governance, while liberalization of trade and prices would set free the competitive market forces that reward profitable activities. Firms would have therefore both internal and external incentives to restructure" (EBRD 1999: 298). After a relatively brief period of economic contraction, during which resources would "reallocate" according to each country's comparative advantage, postcommunist economies would enter a growth trajectory that would close the developmental gap with Western Europe.

Because of the centrality of private ownership for the neoliberal theory of enterprise restructuring, it follows that state-owned enterprises (SOEs) should be privatized as quickly as possible. Economically, neoliberals regard private businesses as vastly more efficient than SOEs. First, political factors are expected to impinge on the operation of the firm, leading to a suboptimal use of resources (e.g., firms may not shed labor as necessary, or put off other types of unpopular restructuring). Second, public ownership means that the state will continue to bail out firms in one way or the other (i.e., "soft-budget constraints" will not be hardened), and therefore firms will not survive on the basis of their efficiency. Moreover, these subsidizations contribute to inflation and thus undermine stabilization efforts. Third, state ownership creates opportunities for "rent-seeking" officials who will engage in corruption. Similarly, state bureaucrats, because they don't directly benefit from the operation of SOEs, do not have the necessary incentive structure to properly monitor the managers in charge of the day-to-day

[4] For a review, see Murrel 1993, Gowan 1995, Spenner et al 1998.

operation of the firm, providing opportunities for corruption by managers and employees. Corrupt officials and corrupt insiders further reduce efficiency.

All of these incentive-based economic arguments favor the privatization of as many SOEs as possible, as quickly as possible. For the neoliberals, however, rapid privatization was even more urgent for political reasons. Unless accomplished quickly, neoliberals like Sachs warned, "the political battle over privatization will soon lead to a stalemate in the entire process, with the devastating long-term result that little privatization takes place at all" (Lipton and Sachs 1990: 298). Managers and workers in inefficient SOEs will have an interest in derailing privatization and maintaining state subsidies and protection. It follows that one of the aims of rapid privatization is "to decrease the *political* power of the state sector" (Frydman, Rapaczynski and Turkowitz 1997: 84). Importantly, because of the great urgency of privatization, it "must take place before firms have been restructured" (Blanchard et al. xiv).

For the most prominent and influential neoliberals, such as Jeffrey Sachs, Anders Aslund, Oliver Blanchard, and Lawrence Summers, privatization could not proceed as it has in the West, where firms are sold one at a time to the highest bidder. There were simply far too many SOEs, and not enough capitalists. As a result, "If the [Polish] government becomes enmeshed in case-by-case bargaining, there will be no end in sight" (Lipton and Sachs 1990a: 298). Thus, neoliberals reasoned, a significant amount of the shares of SOEs must be given away. In addition to transferring some shares to firm insiders to buy their support for privatization, this would involve some type of "mass privatization" scheme, in which citizens would receive (or buy for a nominal fee) vouchers or coupons that could be exchanged for shares of privatized enterprises. In

addition to its speed, this solution would "gain popular support" for the transition to a private economy (Liberman, Nestor, Desai 1997: 1).[5]

The idea that some set of SOEs should continue to exist in the medium to long term was anathema, and "flies in the face of everything we know about the behavior of states around the world" (Frydman, Rapaczynski, and Turkowitz: 85). While neoliberals recognized that various market institutions would also have to be created, these would have to wait while the fundamental task of forging a system of private property and market integration was accomplished. The institutions that facilitate firm restructuring were among those postponed. Thus, the Shock Therapy policy package contained a huge lacuna: how were firms expected to find the resources for desperately needed restructuring?

Clearly, mass privatization would create owners who were devoid of the financial resources or new expertise to restructure their privatized enterprises. Moreover, the state should not be providing any investment capital, since one of the main tasks of transition was to drastically curtail state subsidies to industries. Indeed, a central goal of the transition was the creation of a state that "restricts itself to providing basic public goods,

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[5]Foreign direct investment could not be a solution, since at the beginning of the transition "countries were perceived as too risky for foreign investment" (Liberman, Nestor, Desai 1997: 8). Moreover, it was assumed that nationalism would make large amounts of privatization through FDI unpopular.

such as contract enforcement, law and order, and some regulations, and … leaves most allocative decisions to the private sector" (Frye and Shleifer 1997: 354).[6]

The neoliberals believed that capital for firm restructuring, and thus strong economic growth, would have to develop as a result of "the power of natural market forces…." Rapid liberalization (both externally and internally) and macroeconomic stability would lead to competition, which would lead to "the rapid emergence of markets for goods, labor and capital, thereby creating an appropriate environment for the massive reallocation necessary for a fundamental transformation of the economy" (Lipton and Sachs 1990b: 102, 111). While a small amount of this capital would come from foreign direct investment, most would simply arise from the efficient allocation of domestic resources: "Using the resources at hand more effectively has historically been far more important quantitatively than capital formation" (Blanchard et al.: 81).

The thrust of the Stark's sociological critique of neoliberal transition theory is that it has a simplistic understanding of comparative economic systems, and ignores the importance of institutional legacies. Weberian inspired sociologists have denied the neoliberal idea that "capitalism has a single logic…[for neoliberals] There is no viable Third Way, much less a fourth or fifth, but only a single best path" (Stark and Bruszt 2001: 2) Thus, there is not a simple "transition" from "plan" to "market" but a "transformation" to an unknown endpoint. Secondly, sociologists charge that the

[6] The phrase "some regulation" is interestingly. Presumably, a state (and not some private entity) will regulate everything that needs regulation. It implies that some regulations should be "privatized" – although this is somewhat of an oxymoron. It demonstrates the ideological commitment of many of the neoliberals.

neoliberals serving in leadership positions in the IMF and World Bank ignore the evolution of local social structure and institutions. "Assuming that they were 'starting from scratch,' [neoliberals] issued instructions for new 'rules of the game.' But the ruins of communism were not a tabula rasa, and so the new hybrid game was played with institutions cobbled together partly from remnants of the past that, by limiting some moves and facilitating other strategies, gave rise to a bricolage of multiple social logics [forming] a distinctively postsocialist capitalism…" (Stark and Bruszt 2001: 2). Using Hungary as his example, Stark argues that neoliberal policies did not create "private property" as known in the West. Rather, the new dominant ownership form, which he calls "recombinant property," is characterized by blurred firm boundaries resulting from networks of cross-ownership among firms and the intertwining of private and state ownership (Stark 1996: 1007).

As a consequence, Stark argues, firms, far from competing with each other on the market, engage in great amounts of cooperation and collaboration. Moreover, firms survive not only by performing on the market, but by receiving bail-outs and subsidies from the state. As a result, Stark argues, "property in East European capitalism is recombinant property, and its analysis suggests the emergence of *a distinctively East European Capitalism* that will differ as much from West European capitalisms as do contemporary East Asian variants". (Stark 1996: 1016. Emphasis added).

We will show that Stark's evolutionary-sociological critique of neoliberal transition theory overemphasized the role of enterprise actors, and underestimated the power of the state, as well as pressure from international economic actors (MNCs, the IMF, the World Bank, and especially the European Union) (see Hanley, King and Toth

2002). We will show that in East Central Europe, a system of Liberal Capitalism has indeed developed, complete with a separation of enterprises, market integration, and a system of Western-style private property. Still, this system is not identical to the system found in Germany, France or other advanced capitalist economies. Its difference lies in its unusually high level of dependence on foreign investment and foreign markets.

The Historical Record of State Intervention in Poland

States will seek to conceal their activities that do not correspond to the rhetoric used by dominant international actors. This is undoubtedly true in the postcommunist environment, especially Poland, given its ideological affinity with Reagan and the U.S. for its extreme anti-Soviet rhetoric and policy. Because of this fact, perhaps aggravated by the quick turnover of governments, it is very difficult to get comprehensive information about all the ways the Polish state intervened into the economy. As such, the following historical evidence in no way represents a thorough let alone definitive account of the Polish state's involvement in making a Liberal Capitalist economy. Still, we feel this evidence is clearly sufficient to disprove the neoliberal story. For despite the neoliberal rhetoric, the Polish state intervened early and often in the economy in an effort to manage the transition.

The Neoliberal Experiment

In the first year of postcommunist Poland, the government lived up to neoliberal expectations. On January 1, 1990, Leszek Balcerowicz, the first Minister of Finance, introduced Shock Therapy policies focusing on liberalization and stabilization. These

were seen as the best solution to the profound economic problems Poland faced at the outset of transition: hyperinflation as well as a huge foreign debt. Macroeconomic instability was considered to be the number one problem, which had to be solved prior to further reforms. The Balcerowicz plan had eight components. (1) Fiscal consolidation: moving the budget from a deficit of about 3% of GDP in the last quarter to rough balance in 1990, mainly through a decrease in subsidies. (2) Control of inflation through a domestic credit squeeze, resulting in high refinancing rates for banks, 36% at a monthly rate in January 1990. (3) Tight incomes policy aimed at limiting wage growth; an excess wages tax was levied on firms that paid wages in excess of a state-regulated total wage-bill growth level. (4) Convertibility of the zloty: the exchange rate was set and pegged low, making the average Polish industrial wage forty cents an hour. (5) Trade liberalization: tariff rates were decreased to an average of 10 percent and made more uniform. Pervasive quantitative restrictions and licensing requirements on trade were largely eliminated. (6) Price liberalization; while food prices had been freed in August 1989 by the communist government, the proportion of controlled prices was further decreased from 50 to 10 percent. Most remaining regulated prices, especially energy prices, were sharply increased. (7) Curtailing enterprise subsidies. (8) Privatization. Privatization was planned and debated in 1989-90 but did not form part of the initial package of reforms, being left for a second stage (Orenstein 2001: 35). However, this would be before the firms were restructured, and would take the place of a mass privatization program.

This program failed to solve Poland's most pressing problem, as inflation remained much higher than economists predicted, and got into the low 30s only in 1993.[7] Most significantly, however, the economy quickly found itself in the midst of recession, with real GDP falling by 15% and industrial output declining by 40%. The recession was painfully and directly felt by the population, whose living standards fell as its job security disappeared. In 1990, the unemployment rate rose to 6.1%, in 1991 to 11.8% and by 1993 to 15.7% (EBRD 1996). After only a year all of the planks of Balcerowicz program but the convertability of the Zloty and limitations on wage growth would begin to be reversed

The staunchly neoliberal first government led by Mazowiecki fell in December 1990 and was replaced by another Right of Center Solidarity government led by Bielecki. The new government took a much different view of the transition, one that can be termed "controlled liberalism" rather than standard neoliberalism. The defining feature of "controlled liberalism" is the use of the state to create a liberal market society (in other words, it accepts the neoliberal endpoint, but rejects the means of getting there).

The Polish state exceeded the role assigned by neoliberal theory in at least three important ways: (1) Usurping the market mechanism by selecting which firms would be extended credit, and thus survive the transition; (2) Implementing extensive industrial

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[7] The original forecasts held that inflation would be reduced from about 18-50% a month during the period of August-December 1989, to about 5% in March 1990 and about 2% a month in the second half of 1990 (Jakobik 2000: 148). Overall, inflation was in the high 200s [GET EXACT FIGURE]

policy to guide the reallocation of resources; (3) Acting as an active owner of the thousands of SOEs, restructuring them before privatizing them in competitive auctions.

(1) Usurping the market mechanism by selecting which firms would survive the transition

The market allocation of resources was central to the neoliberal model of transition. Chief amongst the tasks to be performed by the free play of market forces (the invisible hand) was the *market selection of firm survival and expansion*. From 1991 to 1993, the Polish state, through the activity of the Ministry of Industry and Trade, along with the involvement of a 100% treasury owned company called the Agency for Industrial Development (AID), as well as nine major state owned banks, decided which firms would allowed to be pushed into bankruptcy by the high interest rates of Balcerowicz's stabilization program. This was done on a case by case basis, until the legal infrastructure was in place with the Enterprise and Bank Restructuring Act of 1993, that allowed for a systematic evaluation of all of Poland's major firms.[8]

The first state institution to modify the neoliberal blueprint was the Ministry of Industry and Trade. The former Minister of Trade and Industry in the second Solidarity government believed that her role was to "behave like an owner of the over 8,000 large

[8] The following description of events is primarily based on two interviews with two of the central elites in this process. One is Henryka Bochniarz, who was the Minister of Trade and Industry in the second Solidarity government from January to December 1991. The other is Arkasiusz Krezel has been the General Director/President of the AID from 1991 forward. But we also draw on various published analyses.

SOEs" that existed at the beginning of the transition (Bochniarz 2001). Therefore, her first task was to collect information on these firms. To this end, the Ministry, working with the state owned banks "started to make an information system to see what kind of shape the firms/industries were in – and we tried to locate our industries in the world market." The government also started work on a crucial piece of legislation, *The Law on Financial Restructuring of Banks and Enterprises*, that would serve as the basis for a systematic intervention into the credit process. In the two years during which this law was crafted and finally passed (in 1993), the Ministry gave help to firms "on a company by company basis," often in response to strikes induced by managers colluding with workers (Bochniarz 2001).

In December 1990, a new organization, the Agency for Industrial Development, was formed as a Joint Stock Company 100% owned by the Ministry of the Treasury. Its function was to aid the Ministry of Industry and Trade in the task of facilitating the transition to private property and markets. The AID was empowered to give and underwrite loans, buy equity stakes, coordinate restructuring programs using its own as well as external resources, help in liquidating enterprises and managing the post-liquidation assets, as well as helping to organize and hold shares in Regional Development Agencies (Krezel 2001; Czerwinska 1995).

According to its longtime General Director and President, Arkasiusz Krezel, his organization "deals with firms in complete economic shambles. We take them, get everything in order to make it possible for them to be private. We asses the situation – if the risk is acceptable we either give loans or underwrite bank guarantees – or we do direct investment. Then we privatize after restructuring" (Krezel 2001). According to

Krezel, the agency was involved in 800 such projects as of 2001, and at the time of the interview in July 2001, had 160 firms in its portfolio.

The impetus behind the formation of the Agency was political – it sought to soften the transition by aiding firm restructuring, and to protect state revenues. Krezel exaplained: “If a firm is going bankrupt and is the only employer in region – and UE will jump to 25% instantly – we buy a piece of the company we believe will operate at a profit – set up a new firm – and employ a portion of old workforce while the firm profits.” According to Krezel, there were only 10-15 failures out of these 800 projects. Krezel emphasized that AID “ Unlike a private firm, looks not just at our own profits, but looks how a firm impact’s the state treasury.” Thus, they may buy an equity stake and try to restructure a firm to save money the state would have to pay out to the unemployed. Importantly, this organization was not advocating a statist version of capitalism, but rather a state that actively seeks to smooth out externalities from the transition. It’s ideology, at least as articulated by Krezel, was thoroughly liberal in the desired endpoint. For example, they only take equity stakes “when it is difficult to find a strategic investor.” (Krezel 2001).

The Agency for Industrial Development, along with the Ministry of Industry and Trade, and the large State Owned Banks, finally got the legal infrastructure to comprehensively deal with deciding which of the 8000 large SOEs were to be deemed credit worthy, and thus allowed to restructure their debt on very favorable conditions. The “Enterprise and Bank Restructuring Act” was finally passed in February 1993, shortly before the reformed Communist Party (now the Democratic Left Alliance), swept back into power (Krajewska 2001: 321-2, 328).

According to the accounts of Krezel (2001) and Bochniarz (2001), utilizing the data bank created by the Ministry of the Industry and Trade under the Bielecki government, the Ministry, the big state owned banks, and the AID considered the fate of all of Poland's SOEs. Virtually all large firms were in serious financial crises and unable to meet their debt obligations as a result of the severe contraction in the economy and the massive increase in the price of credit following the stabilization effort (see also Krajewska 2001: 321). These instruments of the state combined their capacities, and reviewed the credit-worthiness of all these firms. Thanks to a recapitalization of a billion U.S. dollars, the large State owned banks had the authority to reduce a firms debts for up to two years. To qualify, each firm had to have a restructuring plan that was found acceptable by the government.

According to Krezel, the healthiest 70% of the SOEs were handled by the big State banks, which extended them additional credits. The AID would take the lead in dealing with the least healthy 30%. Two-thirds were allowed to go bankrupt, and one-third were to be restructured, and then sold to a suitable strategic investors.

Thus, the state, through the bureaucratic capacity of Ministry of Industry and Trade, the Agency for Industrial Development, and the large State owned banks, stepped in for "the market" and decided which firms would be allowed to go bankrupt, and which would be given credits for restructuring. Krezel, recognizing the incongruence of what the AID was doing and Balcerwicz' declared Liberalism, described his own beliefs. "I am a big liberal – but practical – controlled liberalism – not the idealized version. The state has to play a role, to give a chance to private initiative. It needs to soften market failures – it needs to think as a super firm" (Krezel 2001).

2) The Polish state implemented a variety of industrial policies.

For the neoliberals it was held that in the vast majority of cases market-led processes were superior to state-led processes. Industrial Policy, therefore, was seen as the sin-qua non of violating market rationality. However, because of voter-backlash, only in the first year of transition, under the Mazowiecki government, was the guiding principle “the best industrial policy is no industrial policy” (Bochniarz 2001). For the next two years there was a relaxation of adherence to these principles, and various types of “controlled liberalization” took place. This included partial reversals on monetary expansion, the administration of prices, and tariff revenues as a percentage of imports (see Table 1). Still, anger over neoliberal policies remained, and no wonder, with U.E. rising and other social ills like exploding poverty.

It was a testament to this dose of neoliberalism that in the September 1993 elections, the former Communist Party (now the Democratic Left Alliance) staged a stunning reversal of fortunes, and came into power in a coalition with the Polish Peasants Party (also a continuation of the Communist era organization). With the SLD/PSL coalition government (which would last until September 1997), came a new Finance Minister, Grzegorz Kolodko, who was Balcerowicz’s Keynsian and pro-industrial policy counterpart. Declaring a new *Strategy for Poland* (in June 1994), the government actually kept in place the program (Principles of Industrial Policy) put into place by the fourth Solidarity government, and utilized the legislation passed by the Solidarity

governments to implement the grand debt clearing and credit extensions using the Law on Financial Restructuring of Banks and Enterprises.

The program was first suggested in the governmental social and economic policy program, called *Strategy for Poland*, adopted in June of 1994. This medium-term program proposed three main goals: balanced economic growth, macroeconomic stability, and individual welfare. Secondly, the document called for expanded social dialogue.[9] The Strategy assumed economic growth of 5% or better, to be financed by national savings and foreign direct investment. In terms of macroeconomic policy, it was supposed to be restrictive enough to control inflation, yet not to limit demand. Finally, the Strategy called for increased competitiveness of Polish industry (Jakobik 2000: 181-182).

There were many instruments of industrial policy proper. Consistent with sector-specific (or vertical) industrial policy, there was an increase in protection as measured by tariff revenues as a % of imports. The World Bank provides Polish data on the share of lines with specific tariffs and the standard deviation of tariff rates for 1991 and 1996. These are the types of protection that are likely to accompany industrial policy – specific protection of particular lines of products, and a less uniform rate (thus a greater standard deviation of rates). In 1996, after 3 years of rule by the Democratic Left Alliance, the share of lines with specific tariffs increased from 0% in 1992 to 5.6% [quite high by

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[9] One should note that faced with social unrest, the previous administration also tried to extend social dialogue. The State Enterprise Act, singed in February of 1993 was intended to set up tripartite councils, The pacts were never implemented, however, as the government fell by a non-confidence vote in May of the same year.

international standards (World Bank 2001: 337)] and the standard deviation went from 10.6% to 23.8% (also quite high by international standards).[10]

The first government interventions into industry was done on a case-by-case approach taken by the Ministry of Industry and Trade, as well as the Agency for Industrial Development. With the new government, there was the rise of "vertical" or sectoral-based programs. According to the government document *Principles of Industrial Policy*, these included the petrochemical, electronics, packaging, pharmaceuticals, transportation equipment, machinery for agriculture and food processing, light industry, rail and construction materials. Government support often took the form of targeted tax breaks for investment in new lines of production (granted both by the treasury and local governments), but also included government take-over and rehabilitation (such as in the Coal and Steel sectors).

One should stress that the rise of restructuring programs was a gradual process spanning different coalition, from both the "left" and the "center right" of the Polish political scene. Thus, a program of restructuring the coal mining industry was first proposed in May of 1992 in a wider document: "Proposals concerning restructuring programs of pit coal and lignite, gas, power industry, central heating facilities, and liquid fuels industries."[11] The official program was adopted in March of 1993, to be followed

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[10] For comparison sake – the Russian figures for 1997 were 0% (lines with specific tariffs) and 8.5% (standard deviation).

[11] "Propozycje w sprawie programow restrukturyzacji gornictwa wegla kamiennego i brunatnego, gazownictwa i elektroenergetyki, cieplownictwa i przemyslu paliw cieklych"

by another one a few months later. At the end of 1993 yet another proposal for 1994-1996 was adopted, while in 1996 a new extension was approved.

The restructuring plan for the steel and iron sector was laid out in a program approved in 1992, called "Studies on restructuring of Polish iron and steel processing in Poland until the year 2002."[12] The gas sector restructuring program was first accepted in 1992, along with the necessary investment plans.[13] In 1996, a plan concerning the organizational restructuring of the SOE Polish Oil Drilling and Gas (Polskie Gornictwo Naftowe i Gazownictwo) was adopted, as well as the old restructuring plan updated. Industrial policy for the power industry was initiated in October 1995 when the Council of Ministers accepted a document called "Principles of Polish Energy Policy until 2010." Other, related documents were adopted in 1996 and 1997.[14] Discussions concerning the defense sector restructuring existed already in 1992 and goals were subsequently laid out in the Industrial Policy document of 1993. A more developed program was created over the years 1994-1995, commissioned by the Ministry of Industry and Trade and accepted

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[Sectoral programs of restructuring in Polish industry 1992-1997. An attempt at assessment.] (Lipowski 1997: 33).

[12] "Studium restrukturyzacji polskiego hutnictwa zelaza i stali w Polsce do 2002r."

[13] "Program zapotrzebowania Polski na gaz ziemny do 2010 roku" ("Program of Poland's demand for natural gas until the year 2010") (Lipowski 1997: 34).

[14] In September of 1996, a program drafted by the Ministry of Industry and Trade, called "Demonopolization and privatization of the energy sector" was approved as well, and in April 1997, the "Energy Act" was adopted (Lipowski 1997: 33-34).

by the Council of Ministers in 1996.[15] The restructuring program for the oil industry was laid out in a document accepted by the Council of Ministers in 1995 and also based on the principles outlined in the 1993 document.[16] No separate program was adopted for the purposes of restructuring the shipbuilding industry, even though such was mandated by the 1993 Industrial Policy document (Lipowski and Macieja 1998: 118).

Many of the policies and programs listed above were introduced by the center-right government and continued by the communist successor coalition that came to power in September 1993. At the same time, other sectoral programs were elaborated by the communist successor coalition while building on the ideas sketched out by its predecessors. Many of these sectoral goals were restated in the industrial policy document entitled *International Competitiveness of Polish Industry 1995-1997*, which grew out of the framework economic policy document called *Strategy for Poland*.

A new industrial policy program was adopted in May 1995, called *International Competitiveness of Polish Industry: Industrial policy program for the years 1995-1997*. *International Competitiveness of Polish Industry* was based on several premises. First of all, it intended to stimulate export by constructing and supporting an institutional infrastructure that would underpin a system of export insurance and guarantees. There

[15] "Diagnoza i program restrukturyzacji sektora polskiego przemyslu obronnego i lotniczego [PPOiL] na lata 1996-1998 i do 2010 roku." ("Diagnosis and restructuring program for the Polish defense and aviation industry for the years 1996-1998 and until the year 2010.") (Lipowski 1997: 34).

[16] "Program restrukturyzacji i prywatyzacji sektora naftowego" ("Restructuring and privatization program for the oil industry") (Lipowski 1997: 34).

were also various "horizontal" industrial policies which were not sector specific. Tax breaks for exporters were also foreseen. Based on a 1994 Act, the Export Credit Insurance Corporation was set up (Korporacja Ubezpieczen Kredytow Eksportowych – KUKE S.A.), intended to insure credits taken out for export support. The scope of the Agency's activities was extended in 2000 when it was authorized to insure Polish investments abroad as well as the costs of searching for foreign markets, among other amendments. In 1995, another act was passed, which provided for state coverage of part of the export credit interest. Under a 1997 law, the State Treasury could give credit guarantees for the purchase of materials and components used in export production.[17]

Another facet of industrial policy has been the support of technological development. A 1994 decree of the Council of Ministers allowed investment expenses to be subtracted from taxable incomes, up to 50% of the latter's value. Moreover, the 1995 Industrial Policy document floated ideas for the support of technology transfer, as well as emphasized human resources training. It also stressed the goal of meeting international product quality standards.

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[17] Ministerstwo Gospodarki 2001. *Formy wspierania eksportu. (Means of export support)*. Ministerstwo Gospodarki, Department Promocji Gospodarczej. Warsaw: 2001. These laws were called: *Ustawa z dnia 7 lipca 1994 roku o gwarantowanych przez Skarb Panstwa ubezpieczeniach kontraktow eksportowych*; *Ustawa z dnia 5 stycznia 1995 roku o doplatach do oprocentowania niektorych kredytow bankowych*, and *Ustawa z 8 maja o poreczeniach i gwarancjach udzielanych przez Skarb Panstwa oraz niektore osoby prawne* (Henryka Bochniarz and Stefan Krajewski 1997) (Lipowski and Macieja 1998: 119).

Industrial restructuring was seen as crucial for increasing the competitiveness of Polish industry. In addition to the delineation of the "vertical" or sectoral industrial policies discussed already, the document also raised the issue of activities within zones of industrial concentration. Here, regional policy played an important component, in the form of the creation of Special Economic Zones as well as the Regional Development Agencies.

The legal foundation for the creation of Special Economic Zones was laid down by the October 1994 law. The zones were intended to attract investors, especially foreign ones, to regions in special need of restructuring, above all to those suffering from high levels of unemployment. The main incentive was the taxation arrangement: companies in the zones obtained tax exemption for the first half of the duration of zone's lifetime (usually 20 years). Thereafter, they would pay 50 percent of the usual tax rate.

The first zone was created in Mielec in 1995 (under the supervision of the Agency for Industrial Development). Two more zones were established in 1996 while in 1997, another 14 followed. The explanation given for such a high number of zones were their diverse purposes: restructuring of regional industry (such as industry servicing coal extraction, or of light industry), industrial diversification of regions, reduction of regional unemployment, and the development of scientific research complexes (Krynska 2000: 37-54).

We need not evaluate the effectiveness of all of these programs – although there have been various accounts (Bochniarz and Krajewski 1997: 182-191; Lipowski and Macieja: 118-119). That they may have not lived up to their most optimistic expectations, or even came close, does not discount there existence. The neoliberal policy

package proscribed active industrial policy, especially vertical or sector specific policies. Thus, painting Poland as a neoliberal success story is simply inaccurate. As a last ditch defense, neoliberals could claim that Poland's success came despite the state's weight and intervention in the economy. But this would still leave unexplained why such an interventionist state, and one with so much ownership, did not generate the non-efficiencies expected by neoliberal theory.

3) The State acted as an active owner of its SOEs, choosing to restructure them prior to privatizing them via competitive auctions including MNCs.

According to neoliberal rhetoric, privatization was supposed to be introduced as quickly as possible. One should underscore that in Poland, the reformers decided to focus on privatization only after bringing the macroeconomic situation under control. However, according to original plans, privatization was still intended to precede the restructuring of enterprises. In order to speed up the privatization process following the initial taming of inflation, plans were elaborated under the second Solidarity government for a mass privatization scheme using vouchers. The law, elaborated in mid-1991, however, was not passed until early 1993 due to the difficulties of getting enterprise employee councils to support it, as well as problems with forming the necessary coalition (Orenstein 2001). Thus, while plans for rapid large-scale privatization had been drawn up, they were not enacted because of political pressure by workers and the electorate (Kramer 1995; EBRD 1996: 165). According to Mark Kramer, "growing signs of public discontent…helped induce the government to defer its plans for mass privatization of

large enterprises (1995: 654)." The law, moreover, was not implemented until 1995-1996 and even then, it was instituted in a much reduced form, only affecting about 530 enterprises. These included mostly medium sized enterprises that amounted to only 10 percent of the productive potential of SOEs (Baltowski and Mickanowicz 2000).

Thus, the progress of large-scale privatization was stalled in comparison with other leaders in the region, such as the Czech Republic (where privatization was initially carried out through mass privatization) or Hungary (where a lot of state property was privatized to foreign investors in the early to mid 90s). The most prominent neoliberals recognized this about Poland, and judged it harshly for its deviation from the neoliberal blueprint. According to Aslund, slow, case-by-case privatization, as carried out in Britain, did not work, and "consequently, large-scale privatization in Poland failed. The foreign technical assistance provided to Russian privatization is likely to stand out as some of the most effective Western aid in support of post-communist economic transition"(Aslund 1995: 248). Similarly, Sachs and Lipton approvingly noted that "The Gaidar economic team has moved swiftly to prepare for privatization, recognizing how delays in privatization in Poland and elsewhere have undermined stabilization efforts and forestalled structural adjustment" (Sachs and Lipton 1992: 221).

Indeed, Poland has maintained a large SOE sector for years. According to Krezel (2001), after more than 12 years of transition, Poland still had 1,000 large SOEs.[18] Most typically, SOEs increasingly restructured under competitive pressures (although for many

[18] One can examine these companies, as well as private firms, at www.teleadreson.com.pl.

with government aid), and were eventually privatized to strategic investors, either domestic, or more likely foreign. This had a beneficial effect on state revenues in two ways. First, SOE taxes were "the main source of budgetary income spent on the public service sector, including investment in human capital" (Ryszard 1997: 23). Moreover, because SOEs were subject to the *popiwek*, a tax on excessive wages in the public sector, they were disproportionately taxed, and in effect subsidized the emergent private sector. Second, because firms had been restructured, when they were put up for privatization, there were typically several legitimate potential strategic owners – and thus the Polish state's privatization revenue was far greater than it would have been if the pace of privatization was faster. This is reflected in the steadily rising levels of foreign direct investment (FDI) over the first ten years, a stark comparison to Hungary's pattern, the leader in FDI in the postcommunist world. In 1991, Hungary attracted $1,459 million compared to only $117 million in Poland. In 1995 the corresponding figures were $4,410 million in Hungary, and $1,134 million in Poland. By 2000, Hungarian net inflows were back down to $1,167, while Poland absorbed $9,299 million (EBRD 2001: 89). A similar pattern exists for privatization revenues (Hungarian revenue slow down dramatically after 1995, in Poland they have steadily increased).

Liberal Dependent Capitalism

While we believe that the public record of government intervention in the economy is sufficient to refute the neoliberal interpretation of the Polish transition, we also believe that multiple methods yield more reliable causal accounts. In transition economies one must keep in mind not only the usual caveats about "official statistics,"

but also the rapid change in the government structures that record these statistics (see Flier and Hanousek 2001). Thus, we corroborate our story with an analysis of 22 medium and large firm case studies conducted in the summer of 2001. These case studies, randomly sampled within pre- selected manufacturing sectors that span the technological range, consist of interviews with one or more senior executives along with publicly available data (from the internet), and analyses of Annual Reports when available. While this data is not systematic, and thus can not be analyzed with inferential statistics, it is none the less substantial, and clearly sufficient for its task; to serve as a "reality check" for the account of recent Polish economic history provided above and provide material for theory building.

We will five present four cases, each illustrating a pattern of firm transformation consistent with our story of state-driven transition via controlled liberalization. We will also use this case study data to generate a model of Polish capitalism.

Studying the transition by taking "histories of firms" has become standard practice among comparatists, most prominently Stark (1996, with Bruszt 1998) and Burawoy (1996, and with Krotov 1992), but others as well (see Burawoy and Vedery eds. 1999; McDermott 2001; and King 2001, 2002, 2003). The idea is to study the "natural life course" of particular firms – to identify different ways that firm insiders transform their firms, or engage in what King (2001) calls "managerial strategies of transition," that collectively transform the postcommunist industrial system. Four firm trajectories are dominant among the medium and large enterprises, producing, when aggregated, the base of the economy. These are: 1) The market dependent State Owned Enterprise; 2) Late privatization to FDI after state led or supported restructuring; 3) State support to domestic

greefields leading to FDI; 4) Small private entrepreneur grown large through strategic privatization of SOEs and partnership with foreign capial. A fifth trajectory includes the medium sized firms that were privatized via the mass privatization scheme of 1995, and then listed on the stock market.

Comercialized SOEs (with the longterm goal of privatization via strategic invesors, usually foreign)

In this path an SOE that is increasingly marketized and restructured continues to function. The textile firm Optex, although still under state ownership in the summer of 2001, was market dependent, and was forced to implement restructuring in order to survive. Thus, we can call this property form "state capitalism" – because it is increasingly market dependent, but is not privately owned.

In 1989, on the heels of the Tiannamen Square massacre, Polish firms were no longer allowed to trade with China. This cost Optex 60 percent of its market. Shock Therapy also created a crisis, as their investment subsidies and credits were cut. They had a huge productive capacity, an unknown trademark, and many employees. Moreover, most of their suppliers went bankrupt, leaving one domestic monopolist who raised prices.

This director, who had been deputy director for a long time prior to the transition, was forced to restructure and reorient production in order to survive. This was made slightly easier, however, by a loan provided by the Ministry of Light Fabric after the Democratic Left Alliance came into power. To the neoliberals, this loan would be

considered anathema, the continuation of "soft-budget constraints" that would guarantee a company would not restructure.

With these funds, Optex was able to modernize all machines with labor-saving technology purchased from the crisis ridden Western European textile sector. They reoriented to the local market, decreased employment from 1600 to 1100, and paid all of their taxes. They managed to make constant investments in the production process to keep up with trends in world prices. Indeed, they spent three to five percent of their $25 million U.S. turnover on research and development – which, in addition to making their own designs, was spent on figuring out how to incorporate new technology into their factory. However, this firm had become extremely dependent on Western Europe – not for their market (they now export only 10 percent of their output), but for their inputs (80 percent of which are now imported).

Thus, this state owned enterprise, far from blocking the transition to capitalism (as Sachs and the neoliberals warned), helped make the Polish transition possible. After restructuring was initiated with a loan from the state, it supplied the state with revenue, even as it constantly upgraded and successfully competed in a liberalized market. Many large SOEs were not rapidly privatized, but were first restructured and made market dependent before being sold to strategic investors. These firms were able to successfully restructure to be competitive on the world market (or liberalized Polish market), although at the cost of increased dependence on the West.

Late privatization after restructuring to FDI

This paper company was located hours from Warsaw, the biggest company in the town of Swiecie. Like the Polish textile firm, it underwent a long period under state ownership, during which it received significant state funds for restructuring (a total of $150 million U.S.). In 1990 they exported 20 percent of their product to Western Europe. By 1995, exports had grown more than 50 percent. The company was only privatized in 1997 by a German paper multinational, which invested another $170 million U.S., allowing further expansion to Western Europe. This firm integrates the Polish economy with the Western European ones, while simultaneously making it dependent on the decision of a firm located in many countries, making decisions with its global empire, not Poland's development, in mind.

Small domestic greenfield leading to a Joint Venture

This furniture company started as a three-person firm producing garden hoses in South West Poland in 1987. Its owner, originally an engineer of wood technology, had worked as a manager in a state owned furniture factory for 10 years. He expanded the company in 1990 by establishing a network of furniture shops in Poland. With profits from this firm, he privatized a furniture factory in 1992 – the state's asking price was the servicing of its substantial debt and promising to make specified investments. A German kitchen furniture maker contacted him, and they formed a JV. The firm has made constant investment into its production process, investing some 80 million DM in 10 years, gaining and growing to where it was supplying 30% of the domestic market in built-in kitchens, 15% of wall units, and 11% of home office furniture, even while exporting 75% of production to the European Union. This firm continued to grow

through privatizing furniture SOEs, and made a public offering of shares in 1996 (and were oversubscribed by 6 times). By the summer of 2001 they employed 4,000 employees in their three factories and various trading offices, and was generating more than half a billion Zloty in revenue per year.

Small domestic greenfield leading to a FDI

The multinational Phillips entered the Polish market in 1987 as a consequence of two engineers' decision to launch a small domestic start-up to service Western consumer electronics. One workshop in Warsaw grew and expanded to other cities. Later that year, they started importing Philips and other major brands of electronics appliances for retail.

Eventually, they decided to build an assembly plant in Poland to avoid tariffs. They grew by contracting with a Philips subsidiary to produce Philips TVs for the Polish market. A manager from a state-owned TV company was hired to build a new factory, bringing many of his colleagues with him (what King (2001) called creating a "clone" company through "privatizing networks of human capital"). They located near Gdansk to take advantage of the large pool of unemployed skilled and educated labor in Gdansk, proximity to a major transport center, and, consistently with our theory, the boosterism of the local city council. The local government provided tax breaks for investments, and helped them negotiate with the state bureaucracy.

The company expanded its contracts with other subsidiaries to produce VCRs, TV tuners, and PCB boards. The Western partners supplied the technology (typically they "loaned" it to them). By 1995 the company employed 800 people, and was steadily growing. At this point, Philips bought them out, having became interested in the strong

Polish market. Low labor costs induced them to shift all their European production to Poland. By 2001 they employed 2000 people, and produced 3.3 million TVs, exporting 90 percent of their output (70 percent to Western Europe), making them the number-one player with 21-22 percent of the market. They also had 30 percent of the Polish market, and 10 percent of the rest of Central and Eastern Europe. In addition, they made 11 million tuners and 4.3 million PCB boards a year. They also brought numerous suppliers with them, who employed another 2500 workers. While they produced many inputs locally, by value they were 60 percent to 70 percent imported. The major component (the tubes) would soon be produced by a Philips company in the Czech Republic.

Thus, this TV producer in Poland started as a small greenfield and literally grew into a joint venture and then became incorporated into a multinational corporation that transferred technology, and provided investment capital and access to coveted Western markets. This was the most advanced form of capitalist property – but it definitely made Poland dependent on the investment decisions of a Western European multinational, the level of Western European demand, and imported inputs. This type of development enhanced Poland's ability to catch up with Western Europe, but at the price of increasing Poland's vulnerability to an externally induced economic crisis.

Other Paths and an Outlier

There are two other major paths of the medium and large enterprises. 5) FDI prior to restructuring, early in the transition; and 6) the small and medium enterprises that were privatized under Poland's 1995 Mass Privatization program. Path 5 is self-explanatory,

but the Mass Privatization cases deserve special attention, for it represents the neoliberal's preferred method of privatization.

We believe that it is not a coincidence that this firm, part of the mass privatization program, was the worst restructurer in the sample. Thus it provides a natural test to see what sets these cases apart and whether we have to qualify the claim about the causes of firm restructuring.

This heavy engineering company was privatized in 1994 under Poland's "Mass Privatization" program. Thirty-three percent of their shares were transferred to Fund Number 11 of the state sanctioned investment funds. Twenty-two percent went to other investment funds, 25 percent stayed with the state treasury, four percent went to employees, and the rest were sold to individual investors. As with three of the four cases in Poland privatized in this way, the Investment Fund was described as a disaster (and indeed a threat) by management.[19] The fund made no investments in the firm, and did not even guarantee their credit, so that they could obtain loans. As a result of this mass privatization, "six or seven years were lost to the firm," leaving the management with only the hope of one day acquiring a strategic investor.

According to the director, the firm was forced from the market after "Sachs' draconian reforms" (Anonymous 2001). The coal companies could not pay in cash, so they paid in coal. This, in turn, meant that the firm had to pay their suppliers in coal. They were also forced to accept non-payments from their customers, as banks stopped providing credits. They began to periodically arrange chains of debt-swaps. They

[19] The fourth firm only found the Investment Fund useful because it gave its managers the idea to issue a public offering of its stock, which raised some investment capital.

initially paid employees in coal as well, but this was eliminated as gas became the prevalent form of home heating. Thus, this firm behaved like many in the former Soviet Union – engaging in various non-monetary transactions and failing to restructure effectively.

A Model of Polish Capitalism

What type of "capitalist system" has emerged in Poland? There was no evidence of any "recombinant property" in the 22 case studies. There were many cases (15) in which there was inter-enterprise ownership, and/or partial state ownership. These do not necessarily indicate "recombinant property" as Stark describes it, as these indicators are consistent with a wide range of actual ownership relations in system with extensive corporate ownership: including all forms of vertical and horizontal ownership. The relationship between "ownership" and "control" can only be ascertained reliably in a case-by-case study – since control is a relational concept (see Zeitlin's (1974) classic statement of this.) What Stark means by recombinant property is dense cross-ownership ties tracing/facilitating intra-firm cooperation, with partial state ownership allowing for an appeal to the state as an alternative "legitimating principle," presumably resulting in recurrent state bailouts (Stark 1996: 993).

This type of ownership was present in none of the 15 firms in which some amount (no matter how small) of intra-firm ownership and/or some amount of direct or indirect state ownership continued to exist. These ownership patterns resulted from one of four different reasons. 1) Residual cross- ownership: very small amounts of share ownership exists as historical legacies, usually from reforms in late socialism in which shares in

Communist monopoly trading houses where "given" to the producing firms (typically 1-2%) – although this "ownership" conferred no real control, which still rested in the various ministries of different branches of the economy. Firms also had residual state ownership – shares that the state will eventually try to sell, but until then it will not attempt to have a hand in running the company. 2) Inter-enterprise ownership reflects the legal fiction that a company is actually a number of separate companies for tax or other regulatory reasons (i.e. radically reducing paperwork). 3) Huge SOEs with very high fixed investments are split up by the state in order to facilitate their future privatization, under the theory that no MNC would want to purchase a huge conglomerate, and they could make more money and sell it easier by breaking it up into pieces. This produced a pattern of ownership similar to Stark's "Heavy Metal" case-study (Stark 1996). But this merely represents a formal legal change, and it is an explicitly temporary property form. When it exists for a long-time, this represents either the difficulty in finding a strategic buyer, or the existence of a type of "political capitalism" in which enterprise managers are the clients of local political elites (King 2001, 2002). 4) Inter-enterprise ownership represents regular horizontal integration (purchasing a competitor to expand capacity). Overall, there were only trivial amounts of "cross-ownership" among these firms, and they described a clear separation of "the state" and "the private economy" and unambiguous market integration.

Most importatnly, the private sector, including a substantial amount of FDI, has constantly grown at the expense of the state sector. The private sector's share of the GDP grew slowly but steadily from 45% in 1992 to 70% in 2000 (EBRD 2001: 180). Rather than a unique postcommunist capitalism based on recombinant property emerging,

neoliberals would be quite familiar with what has emerged in Poland: market dependent firms with clear boundaries, employing free wage labor, competing with other firms (both foreign and domestic). Of course there were SOEs around in large number, but this is far from unusual in Western European economies. Indeed, these results extend to Poland Hanley, King and Toth's (2002) finding that in Hungary, international pressure (from IFIs and MNCs) on the state, lead to the rapid diffusion of private property, including FDI. Moreover, of the firms under state ownership, all expressed the hope that they could find some strategic foreign investor to privatize their firm. Indeed, higher taxation rates for SOEs were (and still are) reason enough to make privatization a goal.

In Weberian terms, this economy is indeed an example of "modern rational capitalism." (see Weber 1978). The state is a fairly well functioning bureaucracy with pretty high capacity, there are free and fair elections and a free press, and private actors dominate the economy. Most importantly, there is a relative separation of the political system and the economy. That is, it is possible to be a capitalist without also being seriously involved in the political system (as is the case when the economy is dominated by so-called "crony" capitalists). To summarize these features, we prefer the term "liberal capitalism" to "modern rational capitalism," because we feel this highlights the distinctiveness of this type of economy – the liberal nature of the state.

The Polish system, however, is not identical to the capitalism found in the core of Western Europe. This is because it is significantly poorer (and thus a "late industrializer"), and extraordinarily dependent on FDI and trade. As in Hungary, foreign ownership seems to be the most dynamic part of the Polish economy, disproportionately exporting and importing (Liberska 1997: 2-4). While this sector has led investment and

increases in labor productivity, it's industrial inputs have also been a major cause of Poland's large and persistent negative trade balance. Table 1 clearly shows the depth of this dependence. Of the 22 firms, all 22 are at least 30% (and typically much more) dependent on imports for their inputs and/or all of their machinery is foreign made; 15 of them were dependent for at least 30% of their market externally (and typically much more); 10 of them were dependent on the investment decisions of Western owners.

While some of the smaller European economies are probably similarly dependent, it seems possible that Poland may have a greater reliance on MNCs for technology transfer (a consequence of the outdated capital stock resulting from prior shielding from Western competition, and a failure to faze out old technology in Poland's Communist "shortage economy" [see Kornai 1980]). It also seems that more of the "commanding heights" of the Central Eastern European economies is foreign owned: banking, telecom, utilities, and high-tech manufacturing. For example, the vast majority (77.5 percent) of Polish banking stocks are held by foreigners, compared to four percent in Germany, three percent in Italy, ten percent in Spain, and 13 percent in Austria (Staniskzkis 2001: 5). Thus, Polish growth has become extremely dependent on imported industrial goods, foreign markets, and the investment decisions of foreign owned firms and banks. They are therefore extremely sensitive to exchange rate fluctuations.

Conclusion

This review of postcommunist Poland's economic history, although only a partial sketch, should be sufficient to refute the notion that Poland's relative success somehow demonstrates the superiority of neoliberal transition theory and practice. We hope to have

demonstrated that Poland's relative economic success was not a result of its greater adherence to the pure principles of neoliberal theory, is proven by the fact that the Polish state took an active role in leading the transition from "the plan" to "the market."

If the experience of Poland can be generalized, it speaks of the need for the state to actively construct a market economy that is successfully integrated into the global capitalist economy. In particular, the Polish state functioned as a substitute for a developed capital market, and provided demand and supply stimulation through its management and restructuring of SOEs, which it gradually privatized to strategic investors.

And indeed, the Polish state expanded significantly after the fall of Communism. According to Ekiert, employment in public administration more than doubled, from 69,319 in 1989 to 171, 246 in 1998. The state, far from blocking the transition, facilitated it. This is the importance of the notion of "controlled liberalization" – using a statist path to create a liberal society and economy. According to the EBRD, on a scale of 1 to 10, with 10 being the most liberal, Poland scores an 8 compared to Russia's 2(2000: 21). We agree, Poland's state is indeed "liberal" – but that doesn't mean small or weak. The defining feature of a liberal state, from our Weberian perspective, is the separation of the "political" from the "economic" – in other words – the state roughly corresponds to Weber's notion of a rational bureaucracy. This is an enormous paradox for the neoliberals: *In order to get a liberal society, one must rely on the state*.

Not only were the neoliberals wrong about economics, but about politics as well. Delaying large scale privatization did not lead to a politically powerful constituency that blocked or reversed the transition from a planned to a market capitalist society. Indeed,

the enterprise directors of the SOEs in the case studies were all looking for strategic investors. Moreover, the neoliberal desire for a politically insulated group of reform technocrats did not exist. As Ekiert and Kubik noted: "In Poland mass protest actions were more common than in any other postcommunist country and contributed to both political instability and a relatively high level of accountability for reform measures and policy decisions implemented by the ruling elites" (1998: 547). Bochniarz (2001), who had been intimately involved at the highest level over crafting privatization policy, told us that for the most part only foreigners, from the U.S. and France, were pushing for the mass privatization. Democracy turned out to be the proper antidote to the neoliberal vanguardism that devastated so much of the postcommunist world – like Russia (see Murrel 1993; King 2002, 2003a, 2003b).

Most generally, this article extends to the postcommunist world the findings of those that emphasize the importance of a bureaucratic state with good capacity, (see Weber 1978; Evans and Rauch 1999) which pursues developmental policies (Evans 1995; Wade 1990; Amsden 1989) for successful integration into the global capitalist system. From this perspective, the radically anti-statist Shock Therapy package does more harm than good, because it weakens the state by creating a severe fiscal crisis, and creates private actors with incentives to continue to undermine the bureaucratic coherence of the state (see King 2003b for comparative evidence).[20] Moreover, this

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[20] Neoliberals familiar with Poland's economy could point to the fact that Poland has experienced declining GDP rates starting in 1998 (when it averaged 6.6% from 1995-1997), dipping from 4.0% in 2000 to 2.0% by 2001. Could it be that Poland is paying for its excessive "statism"? Perhaps the large SOE sector, and the growth in the size of the

economic shock often causes political instability, and quite plausibly is a major contributor to civil wars and regional conflict (through the mechanism of intensifying competition from the center to either gain or keep resources, resulting from the need to divide a much smaller pie as a result of stabilization induced contraction).[21]

While the neoliberals were incorrect over the path, or the way, in which the comparatively successful Polish transition occurred, the case study data suggests that they were much closer to correct than the evolutionary-sociological analysis of Stark that

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state overall, is responsible for the current slowdown. It is more likely that the current slowdown is a consequence of the normal functioning of Liberal Dependent Capitalism in several ways. First, it corresponds to the slowdown in Germany and the EU – and the dependent developer is very much dependent on demand in the core of the capitalist economy – in this case Germany. Secondly, the slowdown corresponds to a tight contraction of broad money (monetary emissions and bank loans), as indicated in Table 1. Part of this reflects the victory of AWS/UW over the Democratic Left Alliance in 1997. And partly, tight money keeps the currency strong, which makes it easier for Poland to service its foreign trade deficit, itself partially a consequence of its dependent position (MNCs disproportionately import industrial and consumer goods).

[21] Of course, it must go without saying that this is not the whole story, that history plays a big role (by providing emotionally laden symbols that can be manipulated by elites seeking to maintain their legitimacy during the turbulent transition. Indeed many have pointed out the obvious, that neoliberal policies often lead to unrest (see Stiglitz 2002, Chussodovsky 1997).

theorized a “distinctive variant” of capitalism emerging in Eastern Europe based on “recombinant property.” The Polish economy, ten years after the transition, was dominated by private property that was market integrated. The evolutionary story, while correct on a meta-theoretic level – that the process of change in postcommunist society is impacted by local networks and social structures, which are used by actors as they “make capitalism” in their daily activity – it is never-the-less wrong in specifics. What was crucial was the power of the state to shape the economic field of these actors, along with the power of MNCs and IFIs. Contra Stark, there was insignificant blurring of public and private property, as the theory of recombinant property specifies. Rather, an organizational distinct state (concretely consisting of the MIT, the AID, and state owned banks among other state organizations) greatly influenced the activity of firms through regulation and subsidies, and at times equity ownership, just as in the advanced capitalist core.

Central Eastern European economies can best be understood as liberal capitalist systems in the process of dependent development (Evans 1979). The major actors are domestic capitalists, the state, and MNCs. The commanding heights of the economy – including banking, insurance, telecom, energy and capital intensive manufacturing – have become increasingly dominated by MNCs. The overall health of the economy is now primarily determined by FDI, demand from the EU, and the exchange rate (because they must import their industrial inputs and export manufactured products). Indeed, the process of joining the EU has increasingly shaped the Polish state, pushing it towards “deep integration” in terms of harmonizing its institutions. While this clearly has

economic costs, to the extent it creates pressures that successfully mold their states to be rational bureaucracies, it should prove well worth the cost in the long-run.

This analysis of course has implications for the study of comparative capitalism within the postcommunist world (Stark and Bruszt 2001; Burawoy 2001a; Eyal, Szelenyi and Townsley 2001) and beyond. Poland, like Hungary and the other Central Eastern European countries, has undergone a transition to liberal dependent capitalism – where the core of the grand bourgeoisie consists of MNCs, and the state develops a liberal character (it is a relatively well functioning Weberian bureaucracy). In contrast, Russia and much of the rest of the postcommunist world, has experienced much lower levels of FDI, and has, by virtually all accounts, a much less Weberian bureaucratic state with less capacity (see the comparative evidence in King 2003b, and EBRD 1999).

King (2002 and 2003b, King and Szelenyi 2003) characterizes the Russian economic system as "patrimonial" postcommunist capitalism – in which firms devote significant resources to non-market activity (such as barter, debt-swaps, and directly provisioning their employees with access to the means of subsistence) and in which the relative separation of economics from politics has broken down, as the bureaucratic nature of the state has been significantly eroded by bribes and official favors. Because this non-bureaucratic state with diminished capacity fails to provide the necessary investments in infrastructure and private business promotion, such an economy will be unable to compete on world markets, and will thus produce longterm stagnation, except in islands of raw material export industries.

This description very much mirrors Burawoy's description of Russian involution (1996, 2001b). Where we believe Burawoy is mistaken is by adopting a World Systems

theory explanatory framework to explain these developments (Burawoy 2001a).[22] Burawoy, in his critical review of Stark's and Szelenyi's books, argues that "the system logic [of capitalism] effectively wipes out origins. Even though capitalism may diverge in sector to sector, from country to country, from region to region, these divergences are interconnected – the result of common underlying economic processes." Moreover, to the extent differences in different post communist systems exist, this is also attributed to an equal combination of the World System and local social structures under socialism: "Russia and Hungary may diverge in remarkable ways, but that divergence is as much a product of their differential insertion in what is a singular world capitalist system as it is of their communist origins" (1109, 1111).

The analysis presented here differs strikingly from Burawoy's criticism in two ways. First, FDI and "global integration" have indeed been very good for Central Eastern Europe. As Burawoy rightly points out, this integration has devastated many working people and poverty and insecurity has skyrocketed. But, the Central European countries have vastly outperformed the rest of Eastern Europe[23] on not only GDP growth, but also in limiting poverty and other social ills (UNDP 1999) and maintaining a comparatively effective state administration, and a democracy (even though Burawoy seems dismissive of "Hungary's flimsy postcommunist democracy" [2001a: 1112]). And it is clear in Central Europe, that foreign owned firms are the center of economic dynamism.

[22] Burawoy's earlier works on Russia did not so explicitly offer a world systems perspective, and they were much more consonant with the type of social structural analysis offered here.

[23] The other exception are the Baltic countries – which were also led by the technocracy and intelligentsia. Thus these are the exceptions that prove the rule.

To say, as Burawoy does, that differences between Russia and Hungary are as much caused by the "insertion into the World System" as "their Communist origins" seems difficult to defend. World System's theory, in this case, seems to be granted some structural power – yet it is unclear exactly which agent or agents wield this power. The usual suspects for the "agents of globalization," the World Bank and the IMF along with MNCs, had obviously much greater leverage over the much smaller states of Central Eastern Europe than over Russia. How then is Russia "inserted" into a disadvantaged place relative to the Central European cases. By all accounts, it is not the presence of FDI in Russia that is the problem, but the absence of FDI (see King 2002 for case study evidence of the benefits of FDI in Russia). This is particularly acute in Russia's most important sector – energy. FDI is just starting to enter the Russian oil sector, now that more than a decade of miss-management and theft has left it desperately in need to foreign capital and technology.

Morevoer, it hardly seems that the system logic is wiping out the differences between Central Europe and the rest of the postcommunist world. If anything, they are growing, as Central Europe turns into a liberal polity with a relatively effective state, dominated economically by manufacturing export center, and where there is foreign ownership of the commanding heights of the economy. Russia is turning into a multi-party authoritarian regime with a very weak, if bloated, state administration. The economy is dominated by raw materials exporters, and the commanding heights of the economy are owned by politically connected (and indeed constituted) capitalists. Most high-tech industry has been almost completely wiped out. While capitalism is indeed

wiping out differences within Central Europe, it is increasing differences throughout the postcommunist world.

Interestingly, while Burawoy titled his critique “from the end of communism to the end of classes,” thus implying that Stark and Szelenyi forget about class, he is ignoring an enormously influential branch of neo-Marxism that seems applicable (Brenner 1977, Zeitlin 1984, and Laclau 1972). These analysts argued long ago that internal social property relations determine where a country gets inserted into the global system, not the other way around. It is true that global forces can be very powerful – in the form of MNCs, and especially the IMF,World Bank, and the EU – but they are still ultimately mediated by inter-class structure, and/or by intra-dominant class struggle (see Zeitlin’s 1984 classic treatment of these processes in Chile in the mid to late 1800s). In the postcommunist world, it is primarily intra-dominant class (or intra-elite if you prefer) struggle that matters, although in a few countries, most notably Poland, the working class as organized by unions is also an important player. The primary struggle is over who will become the owners of the largest enterprises and what the state should do, if anything, to assist their restructuring. Thus, Burawoy’s formulation “it [transition outcome] is a product of the way global capitalism combines with antecedent forms of production as these undergo market transition” (2001a: 1111) – is not quite right. Rather, the way international economic (and political) forces impact local political conflict and alliances determines privatization and industrial policies, which then determines how “global capitalism combines” with local productive relations, which to a significant extent determines the outcome of the transition.

The issue of who is to become the grand bourgeoisie dovetails with the issue of globalization. Research in postcommunist countries shows that foreign direct investment (FDI) confers enormous advantages in terms of securing investment capital, technology transfer, and access to Western markets (see King 2000; 2001; King and Varadi 2002; Djankov and Hoekman 2000; Liberska 1997). From a sociological position, this is likely stemming from the fact that MNCs "transplant" capitalist social-property relations in the host country.[24] Those countries in the postcommunist world which have been able to avoid a Russian-style debacle and resume growth trajectories have been able to do this because their firms managed to insert themselves into global networks producing high value-added manufactured goods. So far, Central Eastern Europe along with Estonia have been able to avoid the fate of the Soviet Union only because of Western investments and co-production agreements.

While geography and history explain a good deal of the story, they do not explain everything. There is ample evidence of this, as the relative failure of many European postcommunist states, like Bulgaria, Romania, Yugoslavia, Armenia, or the very Western regions in Russia (e.g. Kaliningrad Oblast) attests to. The sociological impulse is to look at the evolution of the social structure, and how this impacted the balance of political forces immediately before, and during, the transition. According to the seminal work by Konrad and Szelenyi (1979), actually existing socialist societies could be accurately described as consisting of a positively privileged class of "socialist redistributors" and a

[24] Of course, MNCs can "articulate" with pre-capitalist property forms by employing non-free wage labor – in which case such investment will not produce a developmental dynamic (see Baran 1957).

negatively privileged class of workers (and peasants to varying degrees). The privileged class could be divided into three segments: a hegemonic block of communist bureaucrats (whose chief resource was political connections within the Communist Party hierarchy), a growing class of technocrats (whose chief resource is technical knowledge, whether or not they seek CP membership), and the intelligentsia proper, a class of intellectuals that produce cultural products (and whose chief resource is their possession of cultural capital).

According to an extension of this framework into postcommunism (King 2001, 2002; King and Szelenyi 2003), when the transition to communism is led by a coalition of intellectual dissidents and technocrats (as in Central Europe and the Baltics), they are able to force the old communist bureaucracy out of power, and they are able to prevent the former bureaucrats from transforming themselves (or their clients) into a grand bourgeoisie (as happened in Russia). These intellectuals and technocrats prefer to invite foreign direct investment to fill this position (of a grand bourgeoisie), while they can serve as the political class and media-elite, and as professionals and managers (an upper middle class) for MNCs. In the former Soviet Union, the former communist bureaucracy was not forced out of power, but rather lost its will to rule. In these societies, a portion of the bureaucracy, in alliance with parts of the technocracy, attempts to transform itself into a grand bourgeoisie. They will keep FDI out of key sectors of the economy, so that they may appropriate it themselves through a variety of mechanisms.

Importantly, this also impacts the quality of the state – pushing it in a decidedly illiberal direction. The bureaucratic nature of the state is undermined as it is perforated by the patron-client relationships that constitute political capitalism. Moreover, because the

grand bourgeoisie is more directly politically constituted (i.e. an "oligarch's" wealth depends on the protection of their specific political patron), they have a direct economic interest in the outcome of elections – creating enormous pressure to monopolize media, and to rig elections. Thus, once a system of patrimonial capitalism is set up, it will have a tendency to drift away from a liberal democratic state, which only makes the continuation of political capitalist activities easier. Democratically accountable officials (even in the "flimsy" democracy of Hungary), where there is a system of free press, will be kicked out of office for corruption – if oligarchs (clientistic capitalists) can fix an election, and/or stifle reports of corruption, the corrupt politician (political patrons) can stay in office.

Beyond the political and economic sociology of the postcommunist world, this analysis has implications for the larger project of comparative capitalism. Most work has identified two differences within the advanced Western plus Japanese capitalist economies – between a "liberal" model (as found in the U.S. and England) a "collaborative" or "negotiated" model as found in Germany, and sometimes a "state-led" system in Japan. The analysis presented here has a much broader scope – and offers a typology that encompasses much more of the global economy – including the "late-developers" of the postcommunist world and beyond. However, to do this, it must argue that the term "liberal capitalism" be reserved for a much broader distinction than it currently has as designating the types of capitalism present in the U.S. and the U.K.

Recognizing that, as in Poland, real economies are always mixes of modes of production, we can distinguish between economies based on two dimensions: the degree of capitalist property relations and the strength of the "weberianism" of the bureaucracy

combined with the state's level of capacity. Bureaucracy and state capacity of course highly correlate with each other. Neoliberal policies lead to the collapse of statw revenues, which makes bribery more appealing, thereby undermining the bureaucratic nature of the state. This further hurts the state's ability to get extract resources from society as it lowers overall societal production, further eroding its capacity.[25]

Figure 1 is a heuristic for this typology with some illustrations. In this schema, the most important dividing line between types of capitalism is whether they co-exist with strong states with well functioning bureaucracies or not. Thus, the under-theorized pejorative label of "crony capitalism" is making reference to these types of societies – where there are significant capitalist social relations, but not a bureaucratic state with decent capacity. As a result, the state apparatus is not characterized by the separation of office from office holder, or rule based non-arbitrary decisions. Thus, capitalist competition takes more of a political than an economic/technological form. Furthermore, unless the state has enough capacity to conduct industrial policy, there will be no success in global high-tech (and thus value-added) sectors. Personal networks linking state elites with private sector actors develop into a system of patron-client relationships, weakening the state, undermining its active and disciplined support of firms. Thus, we can divide capitalist systems into two very broad types: liberal capitalism (the upper right quad) and patrimonial capitalism (the upper left quad). There will certainly be more sub-types (for

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[25] What scholars of comparative capitalism refer to as "liberal capitalism" we prefer to call "Anglo-Saxon" variants. While these systems are indeed liberal in many respects, they are not necessary all that liberal in terms of small government, as their reliance on military-Keynsian policies and deficit spending illustrates.

example the distinction between late-industrializers and early industrializers, or between an anglo-saxon and a continental model) but these are finer grained distinctions. To use a biological metaphor, *these are species of capitalism, while the distinction between patrimonial capitalism and liberal capitalism is more akin to different genera.*

To run with the metaphor – we can think of varieties of capitalism in a larger context of historical economies. The economic Families consist of Capitalism, Socialism, Feudalism, Slavery, Peasant Production, and Traditional Redistributive empires. Within Capitalism, there are two genera – Liberal Capitalist systems and Patrimonial Capitalist systems. Within capitalist genera, species of capitalism differ by patterns of: (1) interclass relations (relations between workers and capitalists [institutionalized peak bargaining, etc]); (2) intra-class relations (relations between capitalists [business groups, cross-ownership, Small enterprise networks]; and relations between works [the organization of unions; segmented labor markets]; (3) state-society relations [type of industrial policy, regulatory framework]. Other differences between liberal capitalist systems depend on how recently they have become capitalist (the issue of late-developers) and the persistence of pre-capitalist or non-capitalist (socialist) property forms.

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Table 1: Reform Oscillation in Poland: Monetary and Liberalization Policies

	Broad Money (% Changed)	% Administered Prices in CPI	Tariff Revenues (% of imports)	Ruling Party
1990	NA	11.0	NA	Solidarity coalitions
1991	37.0	11.0	12.7	
1992	57.5	14.0	14.6	
1993	36.0	16.0	15.0	(Sept.): SLD/PSL
1994	38.2	17.0	17.4	
1995	34.9	17.0	14.0	
1996	29.3	15.0	10.0	
1997	30.9	12.0	5.3	(Sept.): AWS/UW
1998	25.2	10.0	3.9	
1999	19.3	9.0	3.1	
2000	11.8 (est.)	9.0	2.4	(June): AWS

Source: World Bank 1999, 2001. EBRD 2000 (Transition Report. London: EBRD)

AWS: Akcja Wyborcza Solidarnosc (Electoral Action Solidarity)
PSL: Polskie Stronnictwo Ludowe (Polish Peasants' Party)
SLD: Sojusz Lewicy Demokratycznej (Democratic Left Alliance)
UW: Unia Wolnosci (Freedom Union)

During 1990-1993, there existed four coalition governments composed of Solidarity factions (not counting a futile month-long effort by Waldemar Pawlak to form his own government in June 1992). These governments were led by Tadeusz Mazowiecki (September 1989-December 1990), Jan Krzysztof Bielecki (January-December 1991), Jan Olszewski (December 1991-May 1992) and Hanna Suchocka (July 1992-September 1993). With the exception of Olszewski's government, which was a clearly conservative, right-of-center coalition, the other governments represented alliances of ideologically disparate Solidarity factions.

According to the Polish Constitution, passed in 1997 under the SLD/PSL coalition, it is the independent
central bank, which is responsible both for setting and implementing monetary policy. It was also during the tenure of the communist successor party coalition that the new law on central bank, implementing
the constitutional principle was passed (Aug. 27, 1997). Earlier, after a law was passed in 1992, the central bank no longer had to heed government's Principles of Monetary Policy in its policies.

Figure 1: Varieties of Economic Systems

<table>
<tr>
<td>Capitalist Social

_Former Soviet Union (Russia, Ukraine)

Non-Bureaucratic</td>
<td>Property Relations

_Advanced Capitalist Countries (US, EU, Japan)

_ Central European Countries

_Late Industrializers (Brazil, Turkey)

Bureaucratic State/</td>
</tr>
<tr>
<td>State/Low Capacity

_Former Soviet Union (Tajikistan, Uzbekistan)

_Non-Industrialized (Nigeria, Myanmar)

Pre-/Non- Capitalist</td>
<td>High State Capacity

_Rational-Redistribution (Soviet Union)

Social Property Rights</td>
</tr>
</table>

Appendix A: Case Study Basic Information

Case	Sector	Number Empl..	Path	State Help	Dependence on Foreign Inputs	Dependence on Exports	Dependence Foreign Investment	Possible Recomb Prop	Actual Substance of this Ownership
1	Machine Tools	200	1	Yes	Yes	Yes	No	Yes	Residual cross. ownership.
2	Machine Tools	420	6	No	Yes	Yes	No	Yes	Residual state ownership
3	Machine Tools	287	6	No	No	Yes	Yes	Yes	separate firms for tax reasons
4	Vehicles/ Parts	219	6	No	Yes	Yes	No	Yes	Residual state ownership
5	Ship engines	3,800	1	No	Yes	Yes	No	Yes	SOE decentral. pre- privatizat.
6	Heavy Eng.	1,131	1	Yes	Yes	No	No	Yes	SOE decentral. pre- privatizat.
7	Hv Eng./ Min. equ.	240	7	Yes	Yes	Yes	Yes	No	
8	Hv.Eng/ Min.equ.	408	1	No	Yes	Yes	No	Yes	SOE decentral. pre- privatizat.
9	Pharma.	1,800	2	Yes	Yes	No	No	Yes	Residual cross-ownership
10	Pharma.	1,100	1	Yes	Yes	No	No	Yes	SOE decentral. pre- privatizat.
11	Paper	1400	2	Yes	No	Yes	Yes	No	
12	Paper	700	2	Yes	No	No	Yes	Yes	Residual cross. ownership.
13	Paper	1,770	5	No	Yes	Yes	Yes	Yes	Res.stat. own. + subsidieries
14	Textile	200	6	Yes	Yes	No	No	Yes	Residual cross. ownership.
15	Textile	1,100	1	Yes	Yes	No	No	No	
16	TV/Elect	2,000	3	Yes	Yes	Yes	Yes	No	
17	TV/Elect	4,200	5	No	Yes	Yes	Yes	No	
18	Furniture	2,050	3	No	Yes	Yes	Yes	Yes	horizontal integration
19	Cer Basn Furniture	900	2	No	No	Yes	Yes	Yes	Many coop firms for taxes
20	Apparel	700	3	No	Yes	Yes	Yes	Yes	Residual cross. ownership.
21	Apparel	140	1	Yes	Yes	Yes	No	No	
22	Apparel	1,110	1	Yes	Yes	No	No	No	

Paths stand for: 1 = Commercialized SOE seeking strategic (mostly foreign) investor; 2 = Late Privatization to FDI after restructuring; 3= Small domestic greenfield leading to a medium or large Joint Venture; 4= Small domestic greenfield leading to FDI; 5= FDI prior to restructuring; 6= Mass Privatization and public stock offering; 7= Lease to own by Managers and Employees. Dependence = at least 30% of inputs are imported, at least 30% output is exported, dependent on foreign owner or banks for investment capital.