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by


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# POLITICAL ECONOMY OF PRIVATISATION: POLAND IN COMPARATIVE PERSPECTIVE

Regardless of one's stand on the privatisation issue, there is certainly one point on which all protagonists and antagonists of privatisation agree. This is the political importance of the issue in question. Privatisation part of the transition to the market system is a major political, nor only economic change. Therefore, it should be analysed not only in economic but also in political terms. Politics, or, more precisely, political economy of privatisation is, then, a legitimate - and highly relevant - topic of analysis.

Preferences and interests of various actors (public and private ones), ways of articulating these preferences and interests, actors' interaction with the political system, etc., all impinge upon privatisation process and outcomes. Also, the political environment within which the transition has been taking place is of great significance to privatisation.

Finally, since transition away from the centrally planned, Soviet-type economy is without precedent, any expectations with respect to both process and outcomes have to be based upon privatisation experience elsewhere. It is this experience that the present writer will look into, first in order to form preliminary expectations about the political economy of privatisation in Poland. First section deals, then, with political economy of privatisation in post-Soviet-type economies (post-STEs for short) in comparison with that in developing countries (LDCs for short).

## ECONOMICS VS. POLITICAL ECONOMY OF PRIVATISATION: DIVERGING EXPECTATIONS

The present writer belongs to those who stress the existence of differences between post-STEs and LDCs undergoing transition to the (tolerably) well functioning market system. There are problems in the former, resulting from impact of the economic system alien to the market, which are not encountered in the transition process in the latter (see, e.g., Winiecki, 1990c). Some other problems have impact of differing magnitude in each set of countries due to the different degree of responsiveness of economic agents to institutional and policy changes in the respective economies (see, e.g., Beksiak, Gruszecki, Jedraszczyk and Winiecki, 1989).

These differences have their system-specific rationale. There are significant differences between transition path from non-market to market economy and that from pre-market or distorted market to the tolerably well functioning market economy. The latter path is, even intuitively, less difficult. This assessment applies, in my opinion, to all major building blocks of the transition, that is to stabilisation, liberalisation and privatisation.

To begin with, it is easier, e.g., to decontrol interest rate and eliminate credit ceilings or preferences for state-owned enterprises (SOEs for short) if there are already banks with past experience of prudent lending policies (even if these banks were in the pre-transition period arm-twisted to favour this or that SOE supported by influential politicians or political groupings). In STEs banks were little more than than cashier's windows for state enterprises implementing various plan targets and drawing on various funds located in the banks. Of course, symbiosis between economics and politics in STEs ensured that political influences distorted planned disbursement patterns (see, i.a., Winiecki, 1989, 1991). But there was no place whatsoever for prudent lending policies.

Therefore, once the transition begins, behaviour of banks in LDCs is markedly closer to normal banking practices in mature Western market economies than in post-STEs, where more often than not banks have to begin by learning the ABC of real banking. In post-STEs old pattern of behaviour prevails between state-owned banks and their old state-owned clients. With no prudent lending policies to speak of, 'banks without owners' (that is, state-owned banks) continue their lending regardless of the creditworthiness of borrowers and 'enterprises without owners' (that is, state-owned enterprises) continue their borrowing regardless of the interest rate level. Effectiveness of monetary policy is severely impaired as a result.

Another example also concerns monetary policy. In countries where regulation allow domestic economic agents to buy only own government bonds thare is already a degree of sophistication with respect to financial markets. However constrained, economic agents react to differences in nominal yield, current yield and yield-to-maturity among various issues and over time. They may be at times reluctant to accept too large a share of government bonds in their portfolio but at least they know what portfolio is about and how to manage it. This basic knowledge possessed by agents of such a constrained market is missing in the case of post-STEs. Open market operations of monetary policy will need a lot of time to get started.

The present writer could enumerate a long list of market institutions existing in distorted market economies such as, e.g., Argentina or Brasil but conspicuously missing in post-STEs at the start of the transition. Even least developed LDCs are in more advantageous situation vis-a-vis post-STEs in some respects. No matter how 'dirigiste' are the governments of these economies, their control, although wide is at the same time rather shallow (due to the lack of administrative capacity). Therefore, beneath the layer of regulations and arbitrary interventions local markets perform somehow and market-like behaviour is a normal state of the art everywhere except in the large SOEs, where waiting for orders from above is more typical. Opposite is, however, the case in STEs. Accordingly post-Soviet-type economies inherit this passivity of the overwhelmingly large part of economic agents.

The case of privatisation is not any different. After all, even in most 'dirigiste' economies, such as, e.g., India, there exists private sector. Sometimes it is even numerically dominant, but it is severely constrained and behaves in an aberrant manner due to policy-induced distortions. There is already a capitalist class: some industrialists, merchants, even bankers. There are many more small businessmen, often in the informal sector. Consequently, there are experienced individuals (or groups of individuals) competent enough and sometimes wealthy enough to take control of privatised enterprises. The change in the structure of property rights through privatisation is much more difficult in post-STEs, where there is very little experience of this sort and the wealth is mostly in unacceptable hands of communist nomenklatura that enriched itself through ripping off state enterprises.

Therefore, the e c o n o m i c s of transition to the tolerably well functioning market economy is markedly easier in liberalising and privatising LDCs than in post-STEs. Also, benefits of transition may be expected earlier in the former, given steeper learning curve there (quite often it is a re-learning curve, which is obviously steeper still!). Incidentally, this difference is often missed by Western advisers to post-STEs of East-Central Europe.

The foregoing concerns, however, only one aspect of the transition. There is another, no less important aspect of the transition, including its privatisation component, and it is the attitude of political and economic actors toward the transition: their preferences, interests, ways of articulating these interests, etc. It is in the case of the p o l i t i c a l e c o n o m y of transition that, in the opinion of the present writer, post-STEs have certain advantage over LDCs.

Lal (1987) stressed that analysis of liberalisation (and by this term he understood also stabilisation) is usually conducted within what he called 'technocratic framework', which assumes a benevolent and well informed government, with altruistic policy-makers maximising some social utility function subject to 'normal' (that is resource and technological) constraints. In the new political economy literature, based on various strands of neo-institutional economics, such view of the state and its agents is seen as highly misleading in general, and in the case of LDCs in particular.

It is in these countries that the concept of 'predatory state' (see North, 1979 and 1981) applies with full force. Another case are STEs (see Winiecki, 1987, 1990a and 1991). The state is, then, a group of self-seeking individuals (rulers) whose interests are not necessarily in accord with those of the public. They maximise their utility subject to survival considerations, agency costs of constraining their subordinates and measurement costs (particularly the cost of measuring the tax base).

Under the circumstances liberalisation - or privatisation for that matter - is rarely the first choice of such government or the ruling stratum in the predatory state. As Lal puts it 'it is rare for liberalisation to follow some intellectual conversion of policy-makers who, having seen errors of their ways, seek to find a second best welfare maximising transition from a controlled to a market economy' (ibid., p.281). Rather, with one failed attempt to exercise control over ever-larger extent of economic activity following another, they reach the end of the road of 'dirigisme', finding their control over the economy weakening at a fast rate. Economy becomes unmanageable and, in consequence, their ability to extract rent shrinks accordingly.

There is - says Lal - a sort of 'Laffer curve' of interventionism, so that at a certain stage intervention diminishes rather than increases the extent of control. Liberalisation in such a predatory state is, then, seen as a concession made by the ruling stratum in order to regain a measure of government control over the economy. In other terms, the cost of not liberalising for the ruling stratum is - under the circumstances - even greater.

The same analysis applies by analogy to privatisation. It is also rarely the first choice of the rulers. They usually tried other measures first. They decentralised and recentralised, commercialised and restructured SOEs and tried many other things, too. Usually to little avail for privatisation means exposing enterprises to the impact of market forces, while the other measures are at best surrogates. Therefore they try privatisation as a measure of l a s t resort (see, i.a., Elicker, 1988 and Savas, 1987). They understand it very well that they have to give up their patronage in privatised enterprises, as well as other rents. But again, this is the price of not losing control altogether in the unmanageable, hyperinflationary and imploding economy (the last term meaning the shift from registered to unregistered and therefore uncontrollable economy, see de Soto, 1989).

This situation is all but non-existent in p o s t - STEs, where after the political regime change (the necessary condition for success of economic transition, see Winiecki, 1990b) any government is clearly committed to the shift to the market system. Whatever differences may exists within the new ruling elite (and often within the government), they concern the speed of transition and the extent to which markets should operate ufettered. The direction of change is not contested even by the old ruling elite.

In fact, political economy of transition in LDCs is much closer to that of 'reforming' STEs. In the latter, too, as in LDCs, ruling stratum does not want to lose the rent they have been appropriating for so long from the economy. But an even steeper decline forces them to search for some measures that could conceivably alleviate mounting problems, as it has been the case of the Soviet Union so far.

Political economy of transition in post-STEs differs from that in LDCs in other respects as well. Each change in economic institutions and policies create those who gain or lose as a result of its introduction. One has to reckon also with those who support or oppose change for ideological reasons. In LDCs those who perceive they stand to lose from liberalisation and privatisation are numerous, well organised, even entrenched (see, e.g., Nelson, 1989 and Glade, 1991). Bureaucrats, as expected by public choice theory, oppose the curtailment of their power of control over the economy (and associated ability to appropriate rent). Trade unions are opposed to cuts in subsidies and resultant price increases following liberalisation. With respect to privatisation, they know that governments use SOEs as a 'disguised welfare system' (Elicker, 1988, p.5) and fear unemployment, decline in union membership and resultant loss of power. Even private sector is divided in its attitudes. Businessmen belonging to the local oligarchy who benefited from lucrative - and uncontested - state contracts are afraid of competition. Others welcome new opportunities but fear foreign competition (see, i.a., Tanoira, 1987, and Glade, 1991)

Beside those who have vested interest in opposing transition, including that of transfer of SOEs in private hands, there are those who oppose it for ideological reasons (see Glade, 1991). Intellectuals in LDCs, afflicted by socialist ideas, are overwhelmingly against. Nationalist passions intermingle with ideological ones, as liberalisation and privatisation are perceived as reducing the degree of state's control over the economy through sale of SOEs to foreigners. The military often oppose the transition for nationalist reasons (quite apart from the fact that their professional education makes hierarchical systems more acceptable -and understandable - to the military than decentralised ones!).

This is definitely not the case in post-STEs. First of all, the two interest groups that have most to lose from the privatisation (in fact from the transition to the market system as a whole) have either disappeared or changed leadership. The present writer has in mind communist parties as they were known before the transition began. Since there are no communist party secretaries in enterprises any more and no possibility to appropriate rent through patronage and kickbacks, their public choice argument for resistance to privatisation disappeared. And since they try to gain new social-democratic credentials, they have to pay at least a lip service to the market and private property. Thus, the resistance is weak and resembles more a foot-dragging than a head-on collision course.

The same type of resistance may be found in the bureaucracy. In the latter it is further weakened by the fact that the new heads of various bodies are ideologically committed to privatisation and will not tolerate open subversion of respective programmes. In consequence, resistance to privatisation may be expected to come from two different sources.

Firstly, it stems from ideological commitment to collectivist ideas of the non-communist type. That is, it must come from within the new democratic (or at least non-communist) political elite to enjoy the legitimacy. Secondly, it stems from the newly emerging, merging, reorganising parties, unions, associations, etc. The latter are nascent pressure groups in the making. As they perceive their leaderships' or their members' interests to be threatened by privatisation, they try to organise resistance campaigns. The strength of the privatisation idea in post-Soviet-type economies is so potent, however, that they may be unable to cling to their cherished collectivist ideas and have to opt for the second best. Therefore, self-management may be abandoned in favour of employee ownership, for example. These differences in political economy of privatisation have been reflected in the battle for privatisation's ground rules in Poland.

One more factor should also be taken into account in the comparative framework applied here. It is the important fact that economic transition, including privatisation, is taking place parallel to political transition. The emergence of democratic institutions meant also increased political articulation, mobilisation and the probabiliity of conflict over competing alternative solutions - including those of privatisation (with respect to democratising LDCs, see Nelson, 1989, as well as Haggard and Kaufman, 1989). This puts post-STEs' transition programmes under greater pressures than those of, say, Meiji Japan in the XIXth century, Korea and Taiwan in early 1960s or Chile in 1970s and 1980s.

## EARLY IDEOLOGICAL BATTLES

The appointment of the first non-communist government in Poland should be regarded as a starting point of political - in contrast to intellectual - debate about privatisation. The economic team of the government completed in September 1989 has been strongly committed to privatisation . This commitment found its reflection in the outline of government economic programme (Program Gospodarczy, October 1989), where transformation of ownership was listed as one of the explicit goals of a systemic change, the Office of the Government's Plenipotentiary for Ownership Transformation was to be established, and references to privatisation preferences were made.

The foregoing was not greeted with the uniform approval among the winners of political change. It should be realised that the Round Table agreement between communists and 'Solidarity' stressed much more strongly workers' self-management and 'industrial democracy' than privatisation. This was not only due to the nature of one negotiating party (i.e. communists) but also because the composition of the 'Solidarity' economic team was such that it gave strong numerical preponderance to believers in the 'Third Way'. This was not an accident but the result of conscious selection made by main 'Solidarity' negotiators - almost to the one believers in some form of socialism.

The 'Round Table' document stressed not only self-management in state-owned enterprises and self-management representation at the national level but even postulated the extension of self-management to private enterprises employing more than 100 people. Regardless of the unequivocal view of economic theory on efficiency of self-management and the failed experience of Yugoslavia (particularly disastrous in the late 1980s!), believers in the 'Third Way' undertook yet another ideological offensive. Claiming that the government programme is a departure from the 'Round Table', the believers demanded the the state sector be transformed into a self-management sector and state property be transformed into the collective property of self-managing bodies in these enterprises (see, e.g., Zmiany, 1989, No.15).

Similar calls were heard on various fora such as National Self-Management Forum, Association of Self-Management Activists, etc. Although their calls were not heeded by the government preparing its own privatisation programme, a small group of parliamentary supporters of self-management continued raising these demands whenever privatisation was debated in the parliament.

The attitude of 'Solidarity' camp to self-management has been rooted in ambiguity. On the one hand, historically self-management was a 'Solidarity' battle-cry in 1980-1981 and later as a defence against the arbitrariness and corruption of communist nomenklatura. On the other, the 'return to European tradition' has been vaguely perceived as being in conflict with the 'self-managed economy' and other 'Third Way' experiments. Some 'Solidarity' leaders could not bring themselves to have said to their collegues, also combatants against communism, that self-management was an idea whose time has come - and gone.

This ambiguity was seen also in the documents for the Second Congress of 'Solidarity' Trade Union in Spring 1990. The victorious union supported in the same breath transformation of state property into more efficient forms of ownership and demanded greater industrial democracy, including employees' influence upon the selection of management, investment policies, etc. It also gave its explicit support for 'enlivening' the activity of self-management bodies in state-owned enterprises (see the draft of the programme, Gazeta Wyborcza, March 23, 1990). The ambiguity continued throughout the whole period under consideration.

Believers in the 'Third Way' did not give up their hopes. They vigorously criticised the government and personally the head of the Office of Government's Plenipotentiary for Ownership Transformation (OGPOT). Seeing no effects of their crusade run in ideological terms, they decided to appeal to people's envy. Some government officials and parlamentarians were accused of hoping to profit from consulting fees to be charged in the privatisation process by the firms with which they were associated. They even went so far as to accuse the government of 'purposeful destruction of (state-owned) enterprises so that some people could buy them cheaply' (Gazeta Wyborcza, March 28, 1990).

Allegations' campaign did not change government's course but was not actively counteracted by any purposeful information effort either. This neglect of interaction with the public has been unfortunately one of the characteristic features of economic teams of both 'Solidarity'-supported governments. In this particular area it has been singularly unfortunate. Parasitic activity of nomenklatura in the last period of communist rule made many employees distrustful of the very term 'ownership transformation'. They saw the rip-off in 1988-1989 with their own eyes and now allegations of that sort fell in many cases on the fertile ground. Although they did not affect the legislative process, they certainly did not increase the enthusiasm for privatisation.

One important change was taking place at exactly that time in the political battle for the final shape of the government privatisation programme. Seeing that their self-management ideal is unable to whip up the expected support among employees, activists decided to embrace a theoretically and practically less objectionable solution, namely employee stock ownership.

Armed with the knowledge of American and British experts on ESOP (employee stock-ownership plan) they presented - through a group of sympathetic parlamentarians - an alternative to the government privatisation bill. However, before presenting further developments in the battle for ground rules between the believers in some 'Third Way' and those who wanted to return to a capitalist market system, intra-government considerations and government's interaction with other privatisation supporters need some elaboration as well.

To begin with, both the tactics and the goals of the government in the privatisation area raised many doubts. The tactics assumed near total concentration on the legal framework for privatisation.

One draft of the privatisation law succeeded another without much thought being given to goals of the whole venture. This curious neglect stemmed - in the opinion of the present writer - from the strong appeal that British privatisation of the post-1979 period had for the economic team of the government.

From the outline of government economic programme in October 1990 through various statements emanating from the Office of Government Plenipotentiary for Ownership Transformation to the final draft of the privatisation law (passed by the parliament in July 1990) the sale of shares - more precisely: small packages of shares - to citizens was seen as t h e privatisation method. And since the means dominated goals, spreading the shareholding as widely as possible became b y d e f a u l t the goal of government-sponsored privatisation. The fact that widespread shareholding could be achieved by other means as well was not even considered at the time.

The narrow, tunnel-like vision of the government on privatisation issue was not unnoticed among liberal-minded politicians and economists. Nor was near total neglect of the political economy of privatisation, that is government apparent unwillingness or inability to look for supporters for the privatisation programme. A group of economists wrote a letter to 'Solidarity' trade union leadership warning already in December 1989 that the government 'does not see the need for political support with respect to this key measure' (i.e. privatisation). They also argued that highly visible privatisation steps would increase the popular acceptance of this crucial measure (Beksiak, Eysymontt, Gruszecki, Stankiewicz and Winiecki, 1989).

This and other cases of liberal critique made the plenipotentiary to remark that he must struggle with two 'extremes': 'Liberals would like to give everything away and privatise the Republic in three years' and 'protagonists of ESOP who would like to make this the universal solution' (Zycie Gospodarcze, 1990, No.12). The show of centrist moderation notwithstanding, it is in fact due to the unceasing efforts of liberals in the parliament that the final draft of the privatisation law passed by the parliament contained the provision that allowed the government to proceed with privatisation through other means than public sale.

Otherwise, the government succeded in both thwarting the attempt of employee ownership supporters to supersede government's draft with their own and in preventing the free distribution of shares to citizenry from becoming alternatives or even complements to its preferred privatisation method. Curious situation developed. The government victory was widely hailed as a decisive privatisation step. But it was paper victory, with little if any privatisation following the law (half a year later only 5 enterprises were privatised). Moreover, what believers in the 'Third Way' lost in the parliament, they made up at the enterprise level, where the climate for privatisation was getting progressively worse.

Obviously, the dream of the 'Third Way' had to be abandoned (probably forever). Some self-management activists saw, however, the chance for themselves in closed ESOP-type companies whose owners would exclusively or largely be their employees. Self-management activists would then, most probably, become board members. Their power position would continue undiminshed, while material benefits drawn from the change would undoubtedly be enhanced.

PRIVATISATION AND THE GROPING
FOR POLITICAL SUPPORT

In this author's view Spring 1990 marks an end of the almost purely 'ideological' period in political economy of privatisation in Poland. The passage of the law on privatisation of state enterprises (July 13, 1990), was a clear ideological victory for the political forces that regarded as their priority the return to the capitalist market system rather than the search for some 'Third Way' (and the one already recognised as failure at that). However, not only opinions differed how to get 'from here to there', that is from an STE to a capitalist market economy, but also how to obtain support for privatisation p r a c t i c e (once the ground rules were established).

This has become all the more important as the privatisation law of July 13, 1990, established the basic rule that a state enterprise may be privatised only at the request filed jointly by the manager and the self-management board (that must seek earlier the opinion of the general meeting of employees) or at the request of the respective supervising minister filed after obtaining the approval of the manager and the self-management board (the opinion of the general meeting of employees was also required).

It becomes immediately clear that the passage of the law did not pave the way for privatisation in Poland and the privatisation of each enterprise depends on prior approval of the decision by its employees. And, let it be noted, the self-management board - a body in the hands of privatisation opponents - has the legal right to accept privatisation. No less obvious is the influence that self-management activists may have upon the opinion of employees in privatisation matters.

The maturing of political debate about privatisation, paradixically, strengthened the hand of protagonists of employee-centered transformation of ownership. Once they abandoned the obviously fallacious 'Third Way' dream of self-managed state sector and shifted their attention to ESOP-type solutions, the pressure for privatisation solutions deemed to be favourable for employees increased. This pressure was the result of appeals of trade unionists and self-management activists to employees' self-interest. The slogan 'we, enterprise employees, created the wealth that is embodied in the enterprise and therefore it should belong to us' became quite popular among employees in state-owned enterprises.

The demagoguery of such a slogan needs no elaborated response. It is obvious that others, through taxes, also contributed to the creation of SOEs, which - as implied by the slogan - should now become the property of its employees (excluding everybody else). Furthermore, others contributed m o r e than industrial employees to the creation of SOEs. The wage and salary structure in STEs has always been skewed in favour of industry in comparison with market economies (see, i.a., Winiecki, 1988). Employees in the service sector earned not only absolutely but also relatively less than in non-STEs at similar level of development. Therefore, there has been no economic reason to exclude doctors, teachers, university professors and others from the benefits of privatisation.

There were no reasons on the ground of fairness, either. Besides, on the ground of fairness there were no reasons to accept very large differences in the benefits of such privatisation between employees in capital- and labour-intensive enterprises for the latter would be at a marked disadvantage. However, one of the signs of maturing political economy of privatisation was the emergence of the lobby of largest (usually capital-intensive) enterprises, whose representatives knew that however weak was their rationale, they were a power to be reckoned with and were ready to use that power to further their own - and purportedly employees' - interests. A 'redistributive coalition' in Olson (1982) terms came into being ready to block any practical privatisation move if their interests are not taken into account. It is no surprise, then, that a year after - in Summer 1991 - no privatisation of a large enterprise took place in Poland.

Thus, self-management activists succeeded in becoming the first organised pressure group participating in the privatisation process within the framework of the established ground rules they opposed so vehemently in the recent past. Less ideologically cohesive but more firmly based on employees' self-interest, this group acts in concert only in demanding various privileges for employees wanting to take over enterprises as a whole or to buy shares of otherwise privatised enterprises. Individually, they try to negotiate the best deal at the enterprise level. Since the stakes are highest in large, capital-intensive enterprises, the pressure is strongest there.

Now, the maturing of privatisation politics became also visible elsewhere. The government until Spring 1990 did not see the need to present convincingly its own ideas of privatisation to the general public, let alone to find supporters for it. A (partial) change of heart took place in Summer 1990, when some other ideas than public sale of shares of privatised enterprise became for the first time taken into account. Distribution of shares free of charge to all grown up citizens, an idea already firmly established in Polish debates, was considered, although on a rather small scale. No concrete proposals were, however, officially integrated into government's privatisation programme. The situation did not change until the resignation of Mr. Mazowiecki's cabinet in November 1990, i.e. after presidential election.

It is the presidential election in Poland in Autumn 1990 that again made privatisation an important object of political debate. Mr. Walesa promised Polish citizens an 'acceleration' of the difficult transition to capitalism and democracy. Since the chosen method of privatisation by Mazowiecki's government ensured that the the ownership transformation will last for many decades (if not actually centuries!), privatisation became one of the areas, where Walesa's camp saw both the need and the possibility to move more rapidly.

This became all the easier as in his camp were politicians and analysts who from the start offered alternatives to British style public sale. 'Citizens' privatisation' formulated by Lewandowski and Szomburg (1988 and 1989) who preferred 'shortcut' method of free distribution of shares to all citizens in order to get rid of state ownership as fast as possible caught the imagination of Mr. Walesa and many other politicians in his camp. Some liberal-minded politicians and analysts saw yet another advantage of this method. It not only made it possible to accelerate the whole privatisation process but also gave them the possibility to generate grass roots' support for privatisation. Political support of a large segment of citizenry could create a political counterweight to another, less efficient, alternative of employees' ownership, made popular in many state-owned industrial enterprises (as a result of the already mentioned untiring campaign of self-management activists).

Less clear at the time was an appreciation of the fact that large but dispersed constituency is not as efficient in pursuing common goal as small but well integrated one (see Olson, 1965, as well as various works of public choice theorists). Therefore, even the reconstruction of the government by Mr. Walesa after his election as the first president of post-communist Poland and the nomination of Mr. Lewandowski, a co-architect of 'citizens' privatisation', to the post of a minister of privatisation did not change the balance of power at the micro level. The new minister has had to live with the existing rules that gave self-management boards (and employees in general) the right to accept or reject privatisation.

Nonetheless, under the new leadership Ministry for Privatisation (transformed in July 1990 from the Office of Government's Plenipotentiary for Ownership Transformation) showed much more flexibility. Work on practical programme of free distribution of shares has been given much greater weight. Employee share ownership was encouraged as long as it ensured the transferablity of shares (i.e. did not exclude an allocating role of capital market). Majority ownership investment by some large Western foreign investors (not too numerous in any case) were accepted. But the basic problem remained.

Privatisation other than employee ownership was in most cases greeted by employees with hostility. Self-managment boards and trade unions (including 'Solidarity') in enterprises have not only been leading but more often than not also inciting the resistance. Interestingly this resistance was as strong in the case of potential Western as in the case of domestic buyers. And, ironically, as strong in the case of private as collective owners (see, e.g., Kusmierek, 1991). The chances to win a large part of the public for the far reaching 'citizens' privatisation' and convert this support into political action neutralising strong opponents seems to have been irretrievably lost. Employees' determination to stick to what they have, regardless of the unpalatability and increasing fragility of what they have (or, in reality, they t h o u g h t they have) made them impregnated against everything else, inclusive of societal disapproval.

In fact any such disapproval has not been clearly articulated, let alone used skilfully in the political campaign for privatisation. Twists of post-communist politics in Poland put temporarily both liberals and left-wing activists of self-management in the same political camp of Mr. Walesa. Any such campaign would of necessity affect his relationship with employees of largest industrial enterprises and undermined his political base. Therefore it was never tried.

Thus, 'the leading role of the proletariat' outlived communism, while trade unions, including 'Solidarity', became increasingly a drag on transition programme. Poland's privatisation has been falling behind some other post-STEs to an important extent due to politicised unionism and self-management. For both groups of activists ownership status quo protected their enhanced power position at the enterprise level and they were successful in maintaining that position by whetting employees appetites beyond any reasonable bounds. Such petrification in form or in substance (after transformation into employee-owned or leased enterprise) does not augur well for efficiency and, consequently, for future welfare of these employees. This, however, does not seem to bother those who played their little power games in state-owned enterprises.

## POLITICAL ECONOMY OF PRIVATISATION ELSEWHERE: SOME SUGGESTIVE EVIDENCE

A post-Soviet-type economy with which Poland shares most similarities is undoubtedly Hungary. Unfortunately, similarities regardless, political economy of privatisation suggests privatisation process much easier politically in the latter than in the former. Different distribution of power in Hungary generates less political pressure in favour of ownership forms that are inimical to economic efficiency. Let us begin, however, with the similarities.

Thus, first Hungarian democratic government intervened in what has been called 'spontaneous' privatisation in that country and established tighter control over the whole privatisation process. This has been understandable because 'spontaneous' privatisation was in many cases little else than get-rich-quick activity of communist nomenklatura. The government steered through the parliament increased powers for the State Property Agency that as of July 1990 has become the title holder of all assets managed by Hungarian state-owned enterprises and monitors all substantial changes in the ownership structure of SOEs' assets. All cases of ownership transformation are supervised by SPA.

Although this measure was criticised by the main opposition party, Free Democrats (an unusual mix of socialists and liberals) for the extension of state power in the transition to the market, from the political economy vantage point the measure in question was undoubtedly a right one. Just as in Poland, privatisation's reputation has been damaged by parasitic activities of the nomenklatura and a clear signal for the society has been needed. Without it, any legitimacy of privatisation in the eyes of many would be lost. Whatever losses in privatisation's speed has been registered, they were made up in terms of legitimacy.

Even more criticised by the opposition was Hungarian Democratic Forum's proposal of confiscation of the property obtained by communist nomenklatura through political patronage, so-called Plan

Justitia (see its critique, i.a., by Janos Kiss, Kurir, September 27, 1990). This proposal was in stark contrast with the 'thick line' philosophy (dividing the past from from the present) of Mr. Mazowiecki's government but very much in line with somewhat more vague proposals to that effect emanating from Mr. Walesa camp during presidential campaign.

Precision of such proposals regardless, their implementation was next to impossible due to the nature of the legal system under the communist regime where rip-off was made possible under the rules often established specifically for the purpose. Since only transgressions of the (communist) law could be prosecuted, the results could not be very impressive - and they were not in either country.

Similarities between Poland and Hungary did not end there. One should add to the foregoing also missing attempts on the side of both governments to actively enlist public support for the privatisation issue. But this 'similarity in ommission' has had markedly different effects in each country. The ruling coalition in Hungary witnessed very much weaker challenge of the sort described in the preceding two sections of the paper. In fact, the strongest opposition party, Free Democrats, stressed faster - and also less supervised - privatisation.

Within the political spectrum, Hungarian Socialist Party (former communists) treaded softly on the privatisation issue and only some marginal groups: orthodox communists and new leftists of the Left Alternative type rejected privatisation. Fortunately for Hungarian economy these groups were devoid of any real support where it mattered most, that is among the employees of SOEs.

On a broader plane major trade unions continued to be in communist hands and therefore - in spite of vigorous criticism of, i.a., privatisation - their influence has been extremely limited on larger issues of the transition to the market system. Nor, probably due to their dogmatic rejection of privatisation, were they able to whet workers appetite for ownership of enterprises they work in.

In contrast, workers councils (self-management bodies) were created - in fact revived - by individuals long associated with former non-communist opposition. They cropped up since 1989 in many Hungarian enterprises. Their ideas have not been all that different from Polish self-management activists (demands of control over management, employees ownership through shareholding, etc.). However, in spite of its linkages to Hungarian Democratic Forum - or may be because of it - the resistance to other forms of ownership has been rather weak. Some of the old workers councils' activists were initially hostile, e.g., to foreign investment, but never got the upper hand (Pataki, 1991, March 29).

It is probably due to the weakness of the left in the Hungarian power structure that the imagination of employees in Hungarian SOEs has never been fanned by the mirages of 'manna from heaven' resulting from employee ownership. Lack of credibility of old communist institutions and weak roots of the new democratic and 'Third Way'-type left among SOEs' employees made their resistance to privatisation relatively ineffective.

Poland shares with Yugoslavia strong attachment of the left to the self-management model. In fact, the attachment to that model has been stronger still in Yugoslavia, given the latter role as an inventor (and, worse still, also an innovator...) of the model. Four decades of tauting the 'Third Way' to Yugoslav population and the world at large created strong, almost Pavlovian reflexes. Therefore, in spite of its increasingly recognised anachronistic nature, privatisation initiatives have tended to be direct descendants of the self-management system.

All consecutive privatisation programmes have been trying to save the collective or - at the very least - employee ownership-based enterprise. (see, i.e. Gruszecki and Winiecki, 1991). The latest known to the present writer suggests an ESOP-type solution. With their unerring instinct for grasping always the wrong end of the stick, the type of ESOP chosen was the worst imaginable: the large majority of shares sold (at preferential prices) to the employees and the shares are for the foreseeable future made non-transferable (so-called 'social' shares). Also, the money from these sales in which, apart from employees, other state-owned but self-managed enterprises may take part will be placed in republican development funds. Thus, they will again be used by the state (or the republics), ensuring bureaucratic continuity of financial support. This is not at all surprising. After all, consecutive programmes were designed by those who benefited from the old system - communist party apparatchiks and bureacrats - who would retain at least part of their old power (and privilege) under the proposed regime (Pejovich, 1990).

The difference between Poland and Yugoslavia is that employee ownership - collective or individual - has been pushed by different forces. In Poland self-management has been associated with the politically ascendant 'Solidarity' while the reverse is true in the case of Yugoslavia. In theory, the, the defeat of these inefficient solutions may be over time easier in Yugoslavia, once communists lose their position there.

In practice, however, almost forty years of indoctrination coupled with actual ability to appropriate benefits from state ownership through self-management without bearing corresponding costs made the belief in employee ownership a deeply ingrained idea. Thus, any other type of privatisation is expected to be strongly resisted. This author uses the term 'expected' for nothing has been really tried so far. In the area of privatisation Yugoslavia is obviously at the very preliminary stage - first of all due to its unsolved political problems with communist dominance in some republics (Winiecki, 1990b) and unsolved final shape of the country as a whole.

With political conditions being more encouraging at the republican rather than federal level, privatisation may proceed faster in some republics than others. Slovenia, for example, well understood the need to create strong alliance in favour of privatisation. Draft of the privatisation bill puts stress on 'citizens' privatisation' rather than employee ownership, which is undoubtedly a better solution from the viewpoint of both economics and political economy of privatisation (this is not necessarily well understood, see, e.g., Sirc, 1991). Other prospective measures show a lot of hesitation, as far the creation of full-blooded capitalist market economy is concerned.

Least similarity exists between Poland and Czecho-Slovakia. In the latter, the economic team understood perfectly well the importance of political support for such a major change as privatisation of the state sector. Therefore, from the start they put in the forefront 'citizens' privatisation' through the voucher system enabling every grown-up person to bid for shares in privatised enterprises. Thus, a large part of the general public has been from the start positively inclined to the idea.

The foregoing has been an element of conscious choice dictated by the political economy of privatisation. It is probably due to the expectation of widespread support by the general public that protagonists of privatisation in the government and the ruling coalition were able to prevail over adherents to the ideas of the 'Third Way' Protagonists of the latter, the left wing of the Civic Forum, by and large conceded the defeat.

Interestingly, another difference between Poland and Czechoslovakia is that after the defeat in the battle for ground rules of privatisation, believers in the 'Third Way' did not shift the battleground from macro to micro level. This had presumably less to do with the differences in evolving political rules of the game and more with the weak roots of collectivists within Civic Forum at the enterprise level. They were mostly former communist party intelllectuals who had spearheaded the 1968 'socialism with human face' reforms who, in contrast to 'Solidarity' activists had different origin and, accordingly, different modus operandi. Thus, broad, populist movements of the 'Solidarity' type show their positive role in destroying totalitarian (or other despotic) regimes but reveal destructive features in the transition phase to the efficient economic system (see cautious remarks on this point in Kondziela, 1991).

Finally, self-management and the 'Third Way' apart, Czecho-Slovak trade unions after getting rid of the communist leadership concentrated upon what trade unions traditionally do best, whether within the centralised or decentralised structure. Unsurprisingly, this was not rallies in favour of or demands for workers' control over enterprises. They stressed the need for - and obtained in early 1991 - clear rules on collective bargaining, employment, redundancies, minimum wage, etc. They also obtained a regular consultation mechanism through the Council of Economic and Social Accord (see Oberman, 1991, March 29, on all the issues referred to above).

In the opinion of the present writer, the behaviour of Czecho-Slovak trade unions, as compared to that of all other union organisations in East-Central Europe, reflects strongly the democratic tradition of the past - and the role of trade unions within such political structure. Other unions either perceive themselves as 'defenders of the working class' in the destructive Marxist manner (Hungarian and Polish post-communist unions) or as populist movements in search of some unspecified (but unconsciously egalitarian) ideals of social justice at all levels, including enterprise level. Both lead to destructive demands and further economic decline.

In conclusion, the dynamics of the political economy of privatisation in post-Soviet-type economies is shaped by a range of factors. An important factor is the composition of political elites in post-communist countries. They are for the most part real social reformers (regardless of differences in their ideals). The predatory state in the North (1979, 1981) sense as an operational ideal is generally foreign to them.

Another factor is linked to the political acceptance of privatisation programmes per se. The appeal of a programme to large segments of the society affects not only its passage at the legislative stage, as various political and economic orientation sense the preferences of the electorate, but also its probability of success at the implementation stage. Resistance to a programme that apparently enjoys huge popularity is expected to be weaker due to the perceived costs of such resistance.

And last, but certainly not least, political history, both recent and more distant one, affects strongly privatisation process. Recent history of the formation of new political elite is important because it either reduces or enhances the probability of shifting political battles from its proper, i.e. political arena to destructive politicking at the enterprise level, i.e. economic arena. In post-communist countries the threat of such a shift is always stronger than elsewhere, given the decades of indoctrination about the 'leading role' of the working class. This has not been believed under the communist but its downfall may have been read by some as a call for the final implemenattion of such a role through workers' control over enterprises. Regardless of general acceptance of the democracy and the market such ideas have surfaced with varied intensity almost everywhere.

Within the foregoing framework, the traditional pattern of emergence of political elites, as observed in Hungary and Czechoslovakia, certainly helped to reduce the probability of destructive enterprise level battles for control over state-owned enterprises, while the emergence of a revolutionary social movement in Poland, that is 'Solidarity' had the opposite effect. Also, Hungary's privatisation programme has been helped by the historical accident of the recent past: the widely shared perception of Hungarian trade unions as fossilized die-hard communists unable to defend employees rights in an emerging market economy. Therefore they are unable to play the same destructive role communist trade unions play in Poland where they compete with 'Solidarity' trade unions by pushing up ever higher wage and non-wage claims.

Distant history is also a factor affecting political economy of privatisation in post-STEs. What Hungarian government intent on privatisation received as a gift from capricious history (destructive but accidentally also ineffective union), Czecho-Slovak government obtained as a consequence of that country tradition of moderation and understanding by the trade unions of their constructive role in the re-emerging market economy.

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