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10 Poland: Councils under Communism and Neoliberalism

Michal Federowicz and Anthony Levitas

10.1 Introduction

Employee councils in Poland progressively wrested from the Communist state the juridical rights to hire and fire managers; to control wages, profits, and investments; and to veto decisions over the sale, transfer, or privatization of their firms' assets. Paradoxically however, when Communism finally collapsed and the juridical rights of the councils became fully realizable in practice, many of the people who had earlier fought for them tumed against them. This essay examines the history of the struggle to create works councils under Communism as well as the more recent attempts by the post-Communist state to radically reduce or eliminate their powers.

The first section traces how patemalistic councils evolved under Communism into the co-owners of state industry. We argue that as in other countries the development of councils in Poland can only be understood within the dual context of social pressures for greater shop floor democracy and economic pressures for greater flexibility at the point of production. In Poland, however, these generic pressures were intensified and transformed by the hypertrophized Taylorism of the Communist project, and by the often brutal attempt to organize the polity as if it were a single centrally planned organism. The economic and political difficulties that this project encountered meant that periodically

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elements within the Party promoted the creation of councils either as a way to legitimate Communist power on the shop floor or to improve the flexibility of the economy as a whole. At the same time, when workers or others sought to use the councils as vehicles of either industrial democracy or enterprise autonomy, they were immediately repressed for posing fundamental challenges to the Party's control over the social division of labor.

Over time, this cycle of invention and repression turned the councils into one of the principal institutional locations of a larger struggle between the state and society. On both sides of this struggle the economic and political rationales for supporting plant-based forms of worker representation became so intertwined that by the mid-1980s they were inseparable. Paradoxically, this fusion of economic and political rationales meant that when Communism finally collapsed in Poland, the same reformers who had earlier fought for the councils now abandoned them: once the councils had fulfilled their political role in helping to destroy the old regime, all ideas about their past or future economic significance were forgotten.

The second part of the essay examines the current nature of Polish labor relations and the ebb and flow of the state's struggle against the councils. We argue that post-Communist reformers have understood the challenge of systemic transformation in terms of creating "normal" economic institutions in which labor and capital have clearly defined and distinct social roles. This vision of normality has helped turn the government's privatization programs and its efforts to improve the structure and performance of state enterprises into frontal attacks on plant-based forms of worker representation. These attacks not only fly in the face of the successful patterns of post-Fordist industrial relations that seem to be emerging elsewhere, but have proved counterproductive. Worse, they have helped squander the knowledge, experience, and organizational capacities embedded in the councils and thus weakened one of the few institutions that might have served as a bridge between the nation's past and its future.

The third and concluding part of the essay situates the history of Polish works councils in a larger comparative framework and briefly speculates about their future development.

10.2 Polish Works Councils in, under, and against Communism

The cumulative effects of World War II destroyed prewar patterns of industrial governance in Poland. The Nazi extermination of the Jews, their almost equally genocidal policies against the Polish upper classes, and Yalta's movement of Poland's borders 100 miles west left the vast majority of Polish enterprises without owners and managers (Golebowski 1965, 12–22). As the German army retreated, spontaneously created "factory committees" (*komitety fabryczne*) or "plant councils" (*rady zakladowe*) took control of most enterprises, tracking down dismantled machinery, repairing factories, and restarting production. The councils were generally organized by skilled workers or white-collar employees and depended on high degrees of worker initiative and cooperation.[1]

Initially, the Communist-dominated Government of National Liberation supported the formation of the councils and accorded them wide competencies, including the power to name managing directors. In part, the Communists supported the councils because they feared that without them, control of the shop floor would pass either to the socialist-dominated trade unions or to former owners. Most important, however, the Communists realized that for the moment there was little practical alternative. Between January 1944 and the spring of 1945, the councils were the dominant force within enterprises.[2]

In May 1945, however, the newly established government began to exert its authority. The Ministry of Industry declared that it had the right to hire and fire managing directors and that managers, while they had to consult with the councils, were responsible for firm policy. The trade unions were given control over nominations to the councils, and a set of branch-based "operational groups" were empowered to establish production profiles and output targets for important firms. For the Communists, union control over the councils and state control over production profiles and output targets marked the beginning of their Leninist socioeconomic project: politically, all forms of labor representation were to be transformed into "transmission belts" of the Party, and economically, a single, unified state apparatus was to control the production and exchange of all goods (Kloc 1992, 41–49; Zukowski 1987, 26–39).

Within the postwar state the two "junior" partners of the governing coalition—the Polish Socialist party and the Polish Peasant party—struggled to maintain their practical and ideological independence from the Soviet-backed Polish Workers party. Both sought to distinguish themselves from the Communists by advocating a three-sector economy in which private property would exist alongside state and cooperative industries. And both stressed that the socialization of the means of production represented a higher form of human development than mere nationalization. Nonetheless, and despite their emphasis on socialization of productive relations, neither party made a concerted effort to defend the councils (Kloc 1992, 49–60). This political failure, while unlikely to have radically altered subsequent events (Malara and Key 1952; Coutouvidis and Reynolds 1986; Polonsky and Drukier 1980) is worth consid-

1. The best general account of the council movement in Poland through 1981 is Kloc (1992). For the immediate postwar period, see pp. 16–40. See also Zukowski (1987, 12–35). In general, Kloc tends to stress the worker origins of the councils, while Zukowski stresses their instrumental political invention.

2. For the early differences within the Polish Communist party and between Moscow and Warsaw over economic issues, including the councils, see Polonsky and Drukier (1980, 73–85). On the relationship of the councils to the struggle between the Socialist and Communist parties, see Coutouvidis and Reynolds (1986, 176–90). See also Kloc (1992, 20–43) and Zukowski (1987, 17–20).

ering because it highlights the principal forces that later converged to regenerate the council movement.

Despite the insistence of the Socialist and Peasant parties on a three-sector economy, and their high regard for cooperative industry, both recognized a large role for the state sector and placed great hopes in economic planning. For the Socialists in particular, the issue was not over planning per se, but over how to insure that plans were democratically formulated. The party thus proposed the creation of a third house of Parliament devoted solely to the construction of national plans and together with the Peasant party proposed that "socialized boards of directors" be interposed between firms and the planning apparatus to reduce the dangers of bureaucratization. These boards were to be composed of state, union, and consumers' representatives and were to name factory directors (Jedruszczak 1983, 5–75; Golebowski 1965, 24–47; Kowalik 1984, 5–55; Korbonski 1965, 20–49).

But although the Peasant and Socialist parties worried about nondemocratic planning and about the bureaucratic control of firms, they were less interested in direct participation of workers in the management of enterprises. Some of this ambivalence toward worker (co-)management was the result of Socialist strength within the trade union movement, and many saw the Communists' initial support for the councils as part of a larger attempt to monopolize power. Indeed, in late 1944, the Socialists agreed to centralize the administration of the unions, hoping that this would allow them to use their power more effectively. As it turned out, centralization only made it easier for the Communists to transform the unions into transmission belts of the Party (Kloc 1992, 119–59, Zukowski 1987, 26–40).

More important, the Socialists' ambiguous attitude toward the councils reflected their own lack of clarity about the exact relationship between planning and the socialization of the means of production. If the state was going to plan production for the nation as a whole or for key sectors of the economy, it would have to be able to tell firms what to produce and in what quantity. If so, then it was not clear what the boundaries of enterprise autonomy, let alone worker control, could or should be. If, on the other hand, workers or enterprises were to define the basic parameters of their performance, it was not clear what the content of economic planning really was. As the Soviet economist Kritsman put it, "For an economy to be anarchic it is sufficient for there to be a multiplicity of (independent) subjects" (Ellman 1979, 79).

Between 1944 and 1949, the Socialists' faith in planning—doubts notwithstanding—won out in practice over their continued ideological emphasis on the virtues of socializing the means of production. Indeed, despite their repeated conflicts with the Communists over the construction of plans, they supported the state's effort to expand its administrative control over enterprises. Thus, leading Socialists such as Oskar Lange, Michal Kalecki, and Czeslaw Bobrowski backed on economic grounds the reduction of the councils' powers, the state's right to name factory managers, the widening of managerial competencies, and most important, the development of a unified system of economic administration.[3]

Ideological and practical debates between the Socialist and Communist parties, and within them, became moot in 1949, when Moscow began to openly dictate Polish policy. The Socialists were forced officially to join with the Communists to create the Polish United Workers party, and the Communist movement itself was purged of its nationalist leadership. The three-sector model, already under siege, was officially discarded, and forced collectivization began. The State Planning Commission was given absolute authority to construct comprehensive national plans which were to be implemented through a (theoretically) unified chain of command. State planners formulated aggregate material flows and financial balances for the entire economy. These balances were then broken down on a sectoral basis and distributed to some 20 branch ministries. The ministries in turn drew up targets for the 200-odd "central administrations" that directly supervised firms. The central administrations determined production targets, investment funds, wage norms, and prices for firms. They also named managing directors (drawn from Party lists) and assigned firms their suppliers and buyers (Brus 1986, 3–40; Najduchowska 1964, 79–103).

Within firms, union and council jobs became subject to Party approval, and the managerial, consultative, and wage-setting roles of organized labor disappeared. The principal task of unions and councils became enforcing labor discipline and promoting socialist work competitions. At least partially to facilitate the fulfillment of these functions, the unions were given control over shortage commodities and allowed to determine access to training programs, health facilities, vacation spots, and most important, housing. In return for maintaining shop floor discipline the workforce was promised a share of the expanding economic pie (Kloc 1992, 164–204; Zukowski 1987, 35–54). These promises were not honored. While production skyrocketed, living conditions stagnated during the early 1950s. Communist trade unionism became a parody of its Western, Fordist counterpart.

As elsewhere, the Polish Communists believed that economic growth primarily depended on the production of producer goods. Thus, they directed investment to heavy industry at the expense of light industry and set the prices of producer goods low relative to those of consumer goods. This price policy insured a bigger bang for every zloty invested in heavy industry, while simulta-

3. On the ambiguous attitudes of leading Socialists toward central planning and its relationship to workers' councils, enterprise control, and "decentralization," see Bobrowski (1983, 145–90). Bobrowski was director of Poland's first Planning Bureau and the number-two man in the state economic administration in the immediate postwar years. His good working relationship with Hillary Minc, the economic tsar of Polish Stalinism—and an excellent planner—is particularly interesting. See also Drenowski (1976, 9–45), Kalecki (1982, 100–105), Osiatynski (1982), and Kowalik (1987, 1988). For an excellent treatment of the "decentralization—market socialism" problem, that focuses on Oscar Lange, see Lavoie (1985).

neously creating a system of forced savings for consumers. During the early 1950s, forced savings and low wages made it possible for the state to use more than 30 percent of the GDP for investment purposes. Extraordinarily high investment levels in turn generated extremely high growth rates as surplus agricultural labor was mobilized for industrial purposes. At the same time, rapidly expanding industrial employment, stable prices, and low levels of consumer goods production generated the chronic shortages associated with repressed inflation (Landau and Tomaszewski 1985; Brus 1986; Muller 1985).

The shortages produced by excessive and sectorally skewed investment rates were further compounded by the structure of the planning system. The (theoretical) unification of the economic apparatus, and the attempt to internalize all transactions within the state, meant that planners were never sure whether the failure of firms to perform as expected was the product of bad plans, the internal operation of firms themselves, or the failure of suppliers to provide the enterprises in question with the needed inputs. Unable to assess firm performance and constantly afraid of shirking, the state set taut plans in an effort to force enterprises to make maximum use of their resources. Firms, in turn, defended themselves against high plan targets by hoarding labor and materials and by understating their productive possibilities (Kornai 1985; Berliner 1956). Macroeconomically, this vicious circle manifested itself in constant shortages of basic goods. Microeconomically, it entailed the sweating of workers by the trade unions who supposedly represented them and the constant replacement of managers by a state that assumed their malfeasance.

In 1956, spurred by the succession crisis in Moscow following Stalin's death and by social unrest at home, the already embattled regime began a public discussion of economic reform. In May, the Party convened the Second Congress of Polish Economists. For the first time in seven years the relationship of planning to the "laws of supply and demand" and to enterprise autonomy were publicly debated. Despite sharp disagreements over "decentralization" and the use of market forces in planning, almost all the economists involved in the debate understood the issue of enterprise autonomy as being distinct from the question of industrial democracy (Montias 1962, 253–307).

In June, however, workers of the prestigious Cegielski Works changed the terms of the debate by taking to the streets to protest stagnating living standards and the Party's dictatorial control of the shop floor. The violent suppression of these demonstrations radicalized workers elsewhere. But instead of engaging in street demonstrations, workers began to organize themselves into independent factory committees. At the FSO Car plant in Warsaw, insurgent party activists demanded that democratically elected workers' councils (*rady robotnicze*) be made responsible for the administration of firms. Their demands were picked up by regionally based Party reformers and by reform economists. Both groups now began to connect economic decentralization and the marketization of planning with industrial democracy (Kloc 1992, 131–49; Zukowski 1987, 54–69).

By the fall, workers' councils had emerged in important coal mines, shipyards, steel works, and textile mills. Now, however the councils were often formed without the help of local Party activists. Indeed, increasingly they arose despite Party and trade union efforts to suppress them. Sensing the threat posed by the councils, the Party leadership moved to contain the spontaneous seizure of factories by promising plant-based forms of worker representation and other reforms. Talk and half-measures, however, failed to stem the tide of social protest, and in October 1956 the Stalinist leadership of the Party was ousted. Wladyslaw Gomulka, head of the Party's erstwhile nationalist faction, was returned to power from prison. Boldly defying the Soviets, and hoping to satisfy demands at home, Gomulka declared that the country would now embark on a "Polish Road to Socialism."

In a series of hastily prepared decrees the new leadership called for the creation of workers' councils in all state enterprises. The councils were given the right to veto personnel decisions made by the state and to review firms' annual plan targets. Enterprises were allowed to retain a small percentage of their "profits"[4] in newly created "plant funds" (*fundusze zakladowy*), and the councils were given control over them in order to pay bonuses and to make small social investments. At the same time, the Party reduced the number of plan targets from 20 to 8 and modestly expanded the juridical autonomy of enterprises. Seventeen councils were granted extraordinary powers on an experimental basis so that the workable boundaries of decentralization could be tested. Finally, a wide range of other reforms were promised (Lipinski 1957; Sturmthal 1964, 119–40).

While the Party discussed reform, workers took matters into their own hands. Before electoral procedures for the councils could be specified, workers elected them on their own. By May 1957, the vast majority of the 3,300 councils that had emerged had been spontaneously created. Throughout the spring they hired and fired managers without the approval of the state and developed their own competitive tests to screen applicants. They also reorganized the administrative structure of firms, modified production profiles, introduced bonus systems, and altered supply networks. Most important, they demanded that they be recognized as the "sole authority within firms," and that the central administrations be liquidated and replaced by democratically elected branch councils. Indeed, despite the firing of managers, the councils' attack on the central administrations won them the support of many factory managers fed up with the state's intervention into their daily operations. Harking back to the earlier ideas of the Socialist party, council activists called for the creation of a third house of Parliament to construct plans and to coordinate the economic activities of firms at the national level (Kloc 1992, 148–77; Lipinski 1957, 3–44; Sturmthal 1964, 126–37).

Like the Socialists before them, however, even radical supporters of the

4. It is worth noting that it was completely unclear what the concept of profit meant in practice.

councils did not reject the framework of central planning and continued to recognize the state's right to determine prices. investments. major material flows. and basic wage rates. Thus. despite the desire of council activists and economic reformers to replace the central administrations with democratically elected branch councils. neither had a clear answer to the question of how firm autonomy was to be squared with central planning. Indeed. while reformers wanted firms to have greater control over wages and prices. and to extend the role of the market. they feared the inflationary effects of independent wage setting and rejected a system "of spontaneous price-formation beyond the control or influence of the state."[5] Moreover. in practice. while the councils were in constant conflict with the state's economic apparatus over the boundaries of their own autonomy—wanting to sell to whomever they pleased at prices of their own choosing—they frequently turned to these same organs to insure that other firms supplied inputs according to plan (Lipinski 1957. 3–44; Kloc 1992. 149–69).

Ultimately. however. it was not the theoretical or practical shortcomings of the councils that undid them. Instead. the Party quickly came to see them as a profound political threat. denouncing the movement's "anarchosyndicalist tendencies" and warning that "group property" could only lead to the rebirth of capitalism.[6] In the spring of 1957. the Party reasserted control of managerial appointments and made efforts to insure that state economic decisions were binding. Somewhat later. the unions were given control over the electoral lists to the councils. and in 1958 a new institution. the "conference of worker's self-management" (*konferencja samorzadu robotnicego*—KSR) was created. The KSRs formally assumed the remaining powers of the councils and were run by a troika composed of the factory director. the head of the plant Party organization. and the chief union steward. With their creation. plant-based forms of labor representation returned to the paternalistic patterns of the past.

Between 1958 and 1970. the economic system changed little. The Party. however. had learned to set less ambitious investment targets and to devote greater resources to the production of consumer durables so as to avoid the radical imbalances of the Stalinist years. But plan modesty did not end the cycle of hoarding. shortages. and bureaucratic intervention that came with the system as a whole. Indeed. as the productivity gains made possible by placing surplus agricultural labor into brick lines dried up and investment rates dropped. the growth rate steadily declined.[7]

In 1967. the Party attempted to reverse this trend by launching a program of

5. Quoted in Sturmthal (1964, 129). See Montias (1962. 263–307) for a fuller discussion of the price problem. as well as the works cited in n. 11. particularly those relating to Michal Kalecki and his work.

6. For a classic statement of this position. see Minc (1967).

7. On the political economy of the 1960s and Gomulka's strategy of selective development. see Brus (1986. 71–139). Landau and Tomaszewski (1985. 246–83). and Jezierski and Petz (1988. 259–77).

"selective development." "Archaic" industries were to be phased out and replaced by more "modern" ones, with the cost of the shift being paid for through increased labor discipline and higher consumer prices. In 1968, the government began cutting the wages of skilled workers and scaling back certain industries, among them shipbuilding. In December 1970, when the Party announced consumer price hikes, workers on the coast took to the streets. As in 1956, they were fired on by the military as they marched toward the Party headquarters. And as before, state violence did not immediately end resistance. But unlike in 1956, workers demanded not workers councils but the creation of an independent union: having seen their efforts to transform the regime through plant-based institutions undermined, workers now sought to link themselves in an organization that extended beyond the boundaries of individual enterprises.[8]

The Party tried to preempt these demands by ousting Gomulka and instituting an economic program that used large amounts of Western credit to simultaneously raise wages, consumption, and investment. For four years the economy boomed. By 1976, however, increasing shortages, massive financial imbalances, and a skyrocketing foreign debt forced the state to once again raise consumer prices (Landau and Tomaszewski 1985, 274–307; Muller 1988). The ensuing strikes were suppressed, but amazingly the investment boom continued almost through the end of the decade, forcing a repeat of the now well-scripted scenario in August of 1980. This time, however, and after 10 years of organizational struggle, workers forced the regime to recognize the independent trade union "NZZ Solidarnosc."

The emergence of Solidarity reopened the question of plant-based forms of worker representation. Paradoxically, however, it was the Party that first placed the issue on the table. For hard-liners, councils seemed to provide a way to split the labor movement. For reformers, they offered the promise of both replacing the disintegrating central planning system with some other way of coordinating the economy and trading a modicum of shop floor control for the social support necessary to undertake austerity measures.

Solidarity was initially unenthusiastic about the Party's offer to revive the councils and its attempt to involve the union in assuming some of the political burdens of austerity. During the first eight months of its existence, the union limited its economic proposals to demanding the redirection of expenditures from heavy industry and the military to consumer durables and social programs. Indeed, the union explicitly declined a more direct role in the formation of economic policy, repeatedly declaring, "we do not want to govern, we just want to control."

By the spring of 1981, however, the union's position on both economic reform and the councils began to shift. At the national level, the country's geopo-

8. For the origins of the demand for independent trade unions and its relationship to the history of the councils' defeat, see in particular Laba (1986) and Goodwyn (1991, 102–35).

litical situation left the union's leadership painfully aware that it could not pursue a reform strategy based on free elections. Thus, the national leadership was faced with the choice of entering into a coalition with a Party it could not trust or of finding a way to alter the structure of social power without openly calling into question the basic principle of one-party rule. Not surprisingly, the movement preferred the latter strategy, and its leaders began to talk in terms of creating a self-managed civil society that would progressively wrest "social space" from the state, but without directly challenging the Party's political monopoly (Michnik 1985, 133–55; Ost 1990).

At the local level, workers discovered that while the union increased their bargaining powers, the strike remained their only real weapon to change shop floor relations. With time, activists, exhausted by strikes, transformed the factory committees of the union into permanent negotiating bodies. These committees tried to throw out managers and to define procedural rules and jurisdictional competencies so that shop floor disputes did not inevitably end in strike threats. This de facto creation of works councils was, in turn, quietly supported by the union's national leadership, which felt increasingly vulnerable to the Party's accusations that constant strikes were destroying the economy (Jakubowicz 1989b; Lewandowski and Szomburg 1984; Norr 1984; Kloc 1992, 178–222; Zukowski 1987, 174–97).

Finally, the union realized that simply redirecting budgetary flows would not solve the country's economic problems. As in 1956, reform economists argued for the decentralization of economic decision making and for increasing the role of the market. Their demands, however, were more radical than before, calling for dismantling the entire planning apparatus and the creation of autonomous, self-managing, and self-financing firms. Firms were to be free to choose their own suppliers and buyers, set most of their own prices, make many of their own investments, and choose their own managers. In turn, the state's planning capacities were to be reduced to controlling interest rates, making key investments, and setting the prices of basic goods. By the summer of 1981, these economists had entered into an alliance with the union's most developed factory committees to form a network of 17 large enterprises located in each of the nation's major administrative districts. This network, or Siec, promoted the councils within the national union and aided other factories in forming their own councils.[9]

As the movement grew, the national union's position on works councils changed. Politically, the councils seemed to allow the union to wage war on the nomenklatura system of industrial appointments while leaving the principle

9. On the mix of economic and political motives behind the formation of Siec, see Chodorowski (1991) and Balcerowicz (1980). By the fall of 1981, and prior to the legislation that eventually mandated the creation of the councils, some several hundred had already emerged spontaneously. See Jaworski (1985).

of one-party rule unchallenged at the national level. Organizationally, they promised a way to institutionalize local conflicts, thus relieving the union of having to call strike alerts over every dispute. And economically, they gave the union a positive program that seemed to fall within the politically permissible parameters of the system as a whole.

In September 1981, the Sejm passed legislation changing the law on state enterprises and mandating the creation of employee councils (*rady pracownicze*) in all state firms. The legislation was an uneasy compromise between the union and the government. Both sides came to the negotiating table mixing political and economic rationales. Party hard-liners saw councils as a way to split the labor movement, while many unionists hoped to use them to destroy the Party's control of managerial appointments. Not surprisingly, the most contentious issue was over how much power the councils would have over managerial selection. Nonetheless, both within the union and the Party people supported the councils because they thought the councils could serve as the foundation for a profound economic reform. Indeed, without these voices it is inconceivable that the final legislation would have been passed.

The new legislation empowered democratically elected employee councils to fire managers and to veto hiring decisions made by the ministries. The councils were made the ultimate authority within firms, and the middle levels of the state's economic apparatus were to be abolished. Council approval became necessary for all the strategic decisions of the firm, and councils were given the right to review enterprise documents and contracts. Firms were to retain after-tax financial earnings, make their own investment and wage decisions, and choose their buyers and suppliers. Some price- and wage-setting powers were to be retained by the state, and the state reserved the right to reduce the powers of the councils in a limited number of "strategically important" firms. The size of the councils was to be determined by the firms themselves, and councils were to be directly elected by the workforce every two years. Each council named a smaller presidium whose president could not hold union or Party positions (*Ustawa* 1981a, 1981b).

In December 1981, two months after the passage of the legislation, martial law was declared and both Solidarity and the about 3,000 existing councils were suspended. In the spring of 1982, however, the councils were allowed to resume work, though the law on self-management was amended to give the state greater discretionary powers (*Ustawa* 1983). At first, the clandestine leadership of Solidarity argued against participation in the councils, believing—like Party hard-liners—that the councils would split the labor movement. Instead, the underground tried to organize a general strike to relegalize the union. As the prospect of a general strike receded, and after the regime reinvented, in 1983, the official unions that had collapsed with the birth of Solidarity, the underground's position on the councils softened. Without ever officially sanctioning participation, local activists were left to do what they thought best.

Increasingly, they ran for office in council elections arguing for what was called "the Spanish road" to industrial reform.[10]

Contrary to the councils elected in 1981, many of those that emerged in 1983 and 1984 were created without the real interest of workers and were in practice controlled by management. By 1985, however, in the second round of statutorily required elections, more and more firms followed the legal rules. In 1986, 6,400 of the country's 9,000 state firms had enterprise councils, while another 5,600 councils functioned at the plant or divisional level.[11] In most of these firms the councils acted as institutional substitutes for the outlawed union, focusing on wages and working conditions and on limiting the official union's abuse of their control over social services (Gesicka 1989). In a small, but extremely active group of firms, including many large and important enterprises, the councils attempted to exercise the full range of their managerial powers. As in 1956, they demanded the right to organize themselves across firms and actually held two national conferences before the Party stepped in.

Throughout the 1980s, the most active wing of the council movement attempted to extend the self-management system to the entire economy. These efforts failed, but they helped prevent the reassertion of centralized economic power. Stronger internal resistance and weaker external control pushed and pulled firms toward a vaguely defined autonomy that was periodically violated by the haphazard interventions of the center. Sometimes independence was achieved as workers and managers joined to keep firms within the self-management system. And sometimes firms increased their effective autonomy by agreeing to become "strategic enterprises" but demanding from the state investment funds or other privileges. In many firms, the councils became the arena for personal power struggles between different factions of management, and in most, their activities were limited to controlling pay schemes, dividing year-end "profits," and regulating the disposition of social funds. Indeed, over the course of the decade, council activists were often drawn into the political intrigues necessary to win resources for their enterprises and frequently came to adopt a managerial view of firm survival. This both eroded the link between the councils and the workforce and embedded the councils in the traditional power structure of the enterprise.

Nonetheless, relations between firms were more and more left to the firms themselves, while managers increasingly faced the workforce without the strong support of the Party. Rising shop floor pressure and declining central control intensified collusion between labor and management over wages, pushing up inflation and increasing shortages. Inflation rose only in part because the state was printing money. In addition, firms effectively printed money

10. For the history of the employee councils during the 1980s and their (ambiguous) relations to the underground union, see Jakubowicz (1989a) and Osiatynski, Pankow, and Federowicz (1985).

11. In all, some six million workers were employed in firms with councils. Fifty-four percent of council members were blue-collar workers, 27 percent economists, engineers, and technicians, and 19 percent line managers (Ruszkowski 1985).

themselves by buying from each other on credit and deferring payment.[12] As the situation deteriorated, the Party tried to jump start the economy by opening up the property regime.[13]

Firms under new property forms used their privileged regulatory status to raise wages and prices, further accelerating inflation. Experimentation with property rights increased the incidence of outright theft of state assets by government officials. By late 1988, this "propertization of the nomenklatura" had become a politically explosive issue.[14] In August 1988, workers once again went on strike demanding pay increases and the relegalization of Solidarity. As talks with the state began in early 1989, the union's factory committees reemerged, in turn often forcing new elections to the employee councils. Moreover, many previously dormant councils now began to exercise their legal prerogatives in an effort to combat the managerial appropriation of state assets. In June, partly free national elections were swept by candidates nominated by Solidarity's national Citizen's Committee. Finally, in August 1989, after two months of parliamentary crisis, Solidarity was invited to form a government.

10.3 Employee Councils in, under, and in the Face of Post-Communist Neoliberalism

But the Solidarity that formed the government no longer was—if it ever was—simply a union. Nor was it a labor party. Solidarity's political structure was a loose coalition of deeply divided elites. Their divisions, however, had more to do with past tactical differences than with clearly articulated visions of a future social order. Indeed, virtually all of them described the goals of the victorious opposition in terms of a "return to normality": the creation of a parliamentary democracy with a "normal market economy" and a "normal European" property order.

Moreover, most of the country's leading economists agreed that real reform depended on the rapid privatization of the state sector. This consensus marked a profound movement away from the "third road" ideas that many of these same economists had implicitly or explicitly expressed in earlier years. Indeed, the most aggressive architects of Poland's neoliberal transition strategy came

12. On the microeconomics of inflation during the 1980s and the emergence of the so-called *zatory platnicze* (arrear backlogs), see Lipowski (1988) and Beksiak, Kawalec, and Malczewska (1990). For the classic statement of the relationship between inflation and shortage in socialist economies, see Kornai (1985).

13. Entry barriers for émigré-owned private businesses were lowered, and restrictions on the handicraft sector loosened. Managers were allowed to use a 1935 commercial code that had never been invalidated to form, nominally private, joint-stock companies out of state firms. And in 1988, the Ministry of Finance decided to experimentally transform the property status of a few enterprises. See Rostowski (1989).

14. There is no full account of the extent and nature of this process. The best empirical material can be found in the prosecutor general's report on the abuse of state property (*Prokuratura Generala* 1990). See also Levitas and Strzalkowski (1990).

from the same circles that had spearheaded the employee council movement within Solidarity during the 1980s, particularly those associated with Siec.[15]

This rejection of "market socialism" by those who had fought for the councils can only be understood in light of the history we have sketched. As we have argued, in the 1940s and 1950s the councils were seen as a way to break the Party's monopoly of political and economic power and thereby to make possible more rational planning. In the early 1980s, the vision was extended, and the promise of the councils became synonymous with the elimination of both central planning and the Party's control of industrial life. Indeed, throughout both periods, the political and economic motives for supporting the councils were so intertwined as to be inseparable.

During the 1980s, however, this linkage became unstuck. First, the Party itself attempted to save the economy by legitimizing new property forms, weakening the ideological constraints that had earlier bounded economic discussion. Second, the progressive collapse of the Party as a coherent institution suggested at least to some that the councils were no longer particularly useful battering rams against the system. And third, and perhaps most important, the (partial) decentralization of the economy brought about by the reforms of 1981 seemed to have had frightening inflationary consequences. Indeed, the poor performance of both the Polish and once "model" Yugoslav economies convinced economists that the failure of Communism had less to do with the single-party state than with the nature of socialized ownership itself: as long as enterprises did not have owners interested in maximizing profits for personal gain, the employees of state- or collectively owned firms would spend more on wages and ill-considered investments than was rational.

Indeed, by the time the Communist party finally collapsed, ideas about plant-based forms of worker representation had come full circle: if, over the previous four decades, the arguments used to support councils had fused economic and political rationales, then at the moment when the councils no longer were useful as weapons in the struggle against the Party, reform economists not only jettisoned their previous economic arguments but stood them on their heads. Now, not only was privatization necessary, but virtually all forms of worker influence on firm behavior came to be considered obstacles on the road to "normality." It is within the context of this profound suspicion of all forms of worker control that Poland's neoliberal reform strategy must be understood.

This strategy presented the transition to a market economy as a sequential process composed of three elements; stabilization, privatization, and industrial

15. The list of former self-management advocates in the ministries is long. To name a few: Leszek Balcerowicz, Marek Dabrowski, and Stefan Kawalec at the Ministry of Finance; Janusz Lewandowski, Tomasz Gruszecki, Tomasz Stankiewicz, and Jan Szomburg at the Ministry of Ownership Change. Most see their earlier advocacy of self-management simply as the best political and economic compromise available to them under "really existing socialism." Other advocates of self-management have remained more true to the idea of workers' control. They have also been among the most active critics of their former allies.

restructuring.[16] Stabilization was to free prices, radically tighten fiscal and monetary policy, and open the country to new private businesses and foreign goods. Taken together these measures were to introduce demand barriers into the economy, forcing state firms to reduce costs, change production profiles, and find new markets. Stabilization, however, was to be followed rapidly by privatization because reformers believed that without private owners empowered to choose investments and profits over wages, the spending patterns of state enterprises would continually threaten macroeconomic equilibrium.[17] By extension, reformers argued that it was a mistake to attempt to restructure state enterprises before privatization since this amounted to little more than throwing good money after bad. Thus, on the one hand, reformers planned to expose state firms to precisely the market forces that they assumed would eventually overwhelm them. On the other hand, they saw little point in trying to help state firms adjust to those forces so long as they remained socialized entities. Indeed, the entire reform strategy conceived of state firms in general and worker-run firms in particular as something of an enemy, an enemy that had to be first outflanked by the development of the private sector and then rapidly conquered through privatization.

After two years in operation this strategy is now (in mid-1992) encountering increasing difficulties (Schaffer 1992b; Blanchard and Berg 1992; Dabrowski, Federowicz, and Levitas 1991a). The growth of the private sector, while dynamic, has been insufficient to absorb the losses sustained by the state sector. Output remains about 20 percent lower than in December 1989, while unemployment has climbed to above 12 percent of the active labor force (Johnson 1992; Coricelli and Revenga 1992; Freeman 1992). The fall in both production and employment has occurred without a significant number of bankruptcies, despite the fact that close to half of all state firms are now operating near or in the red. Inflation remains high, and centrally imposed wage controls are breaking down. Moreover, declining tax revenues and increased social insurance costs have left the state facing a profound fiscal crisis (Schaffer 1992a). Finally, the government's ultimate weapon of reform privatization has yet to be successfully wielded in battle (Dabrowski et al. 1992; Berg 1992; Levitas 1992).

Despite the country's increasing economic problems, reformers continue to defend the overall soundness of their basic strategy. Indeed, they claim that the collapse of the state sector only demonstrates the fundamental weakness of

16. See Council of Ministers (1990). The plan broadly paralleled and was clearly influenced by the ideas of Jeffery Sachs. Nonetheless, the domestic origins of the strategy should not be underestimated. See Sachs (1989) and Sachs and Lipton (1990).

17. Some participants in the debate, however, were so pessimistic about the adjustment capacities of state firms that they argued that privatization should precede stabilization. For an extremely cogent statement of this position, see Hinds (1990a, 1990b). Hinds recognizes the autonomy that the "self-managed firms" have acquired and proposes a combination of massive, rapid privatization prior to stabilization, and reassertion of state control over the rest of the sector during stabilization. He does not, however, fully recognize the degree to which Polish firms had acquired control over the very decision to be privatized.

socialized property and underscores the need for rapid privatization. In the following, we argue on the contrary that the government's extremely pessimistic assessment of the adjustment capacities of state firms in general, and of council-run firms in particular, has been something of a self-fulfilling prophecy. In fact, the government's adversarial conception of the state sector and its frontal attack on the councils have not only been costly but have undermined one of the few social and economic institutions that might provide a workable bridge between the past and some unknown, but more viable future.

We make this argument at four different levels. First, we argue that the adjustment patterns of council-run firms have been both extremely varied and generally rational. Second, we point out that the government's assumption that all council-run firms were structurally flawed, and therefore not worth helping, meant that the state could neither see nor act on the differences between them. As a consequence, the economy as a whole lost the potential growth of at least some state firms. Third, we argue that many of the weaknesses of council-run firms lie beyond their governance structures and that contrary to expectations strengthening management by eliminating the councils has not improved firm performance. In fact, it may actually worsen it. And finally, we show how the state's hostility toward the councils has hampered privatization itself and that privatization in general has succeeded only where the councils have been allowed to lead the process. To make our case it is necessary to look more closely at the structure and functioning of council-run firms during 1989–91.[18]

With the relegalization of Solidarity in April 1989, factory committees of the union reemerged in the vast majority of industrial enterprises. Unlike in 1980, however, workers did not return en masse to Solidarity. Nor did they completely abandon the official trade unions revived in 1983. Instead, in a typical firm, 20 to 35 percent of workers rejoined Solidarity, while another 20 to 35 percent remained in the Ogolnopolskie Porozumienie Zwiazkow Zawodowych (OPZZ).[19] In some firms, the relegalized factory committees of Solidarity immediately forced the election of new employee councils. In most firms, however, the election of new councils took place in May 1990 with the

18. In the following we rely primarily on a series of empirical studies conducted by the Gdansk Institute of Market Economics since January 1990. Unless otherwise indicated, the information contained in the following is based on the quantitative and qualitative study of 50 state manufacturing enterprises. Interviews were repeated quarterly and conducted individually with managers, unionists, and employee council members. Respondents are asked about firm finances, wage and employment policy, production and sales, industrial relations, privatization, and future prospects. Statistical information bearing on these subjects was obtained. The enterprises are located in 10 different *voviodships*. Nineteen firms operate in large industrial centers of more than 500,000 inhabitants, 10 in cities of 100,000–500,000, and 21 in towns of less than 100,000. The sample population is not statistically representative. Dabrowski, Federowicz, and Levitas (1991a, 1991b, 1991c).

19. In both cases, real union membership is hard to establish because the payment of dues is highly irregular. OPZZ membership rates are inflated by large numbers of pensioners who remain in the union to gain access to various social assets. Since 1990, union density has probably declined by a few percentage points.

normal expiration of statutory terms of office. In virtually all firms, the newly elected councils attempted to assert their legal rights over the disposition of firm assets, lest managers steal them in the chaos of the transition.

Not surprisingly, the councils frequently moved to fire managing directors. By the end of 1990, approximately 30 percent of all managing directors were new, and by the end of 1991 some 40 percent were.[20] Contrary to reformers' expectations, however, organized labor did not blindly strike out at managers for their past political allegiances or for the immediate hardships caused by stabilization. Indeed, during the first and most painful months of reform, surprisingly few industrial conflicts were over wage issues. Instead, they centered on managerial capacities to adjust to the new environment: ironically, managers were often fired for failing to reduce employment and to streamline the operation of their firms fast enough.

Moreover, managerial change and the extension of council power in general facilitated rather than blocked enterprise adjustment. Deep organizational reform was almost always associated with the appointment of new managing directors. New managers were more able than old ones to make changes in the operation of their firms.[21] Overall, about a third of the firms we examined made comprehensive efforts to reform their sales, employment, financial, and production structures, while the adjustment patterns of the rest could be classified as shallow. Where reform was limited, failure was generally the product of passivity on the part of both management and labor, and not the result of open warfare. Where reform was actively blocked by one side or the other, management was as often responsible as the councils or the unions.

While Solidarity members tend to dominate the councils, the councils are not simple extensions of the union. Disagreement between the councils and Solidarity over managerial selection and firm policy is common.[22] In 1990, some councils were more "workerist" than their local unions, while others supported radical restructuring plans against more traditional union policies. In 1991, the tendency seems to be that the councils are more interested in firm survival while the unions are more interested in wages and employment. This is the result, in part, of the increasingly white-collar nature of the councils and, in part, of rank-and-file pressures on the union to adopt more militant positions.

Despite hostility between the unions at the national level, locally they tend to work together, presenting common positions to management on most issues. Solidarity is the more influential union and even when in the minority is taken more seriously by management. Solidarity is also more aggressive both in pur-

20. While exact data is lacking, most of these new managers probably were employed earlier in the firms they now run.

21. This, however, was not always the case, and more than 25 percent of newly elected managers initiated only limited reforms.

22. In a few firms, councils that were expected to vote out managers did not do so after examining the firm's accounts and surveying prospective replacements.

suing enterprise reform and in blocking it. In contrast, the OPZZ—despite its radical rhetoric at the national level—seems to adapt itself to the policies of the dominant local force. As the economic situation has deteriorated, both unions have found themselves chasing wildcat strikes.

In small and medium-sized firms, unions and the councils frequently compete with each other over firm policy. In general, competition has facilitated adjustment by making one or another group more inclined to take a long-term perspective on firm survival. In a few cases, organizational competition has generated leapfrogging wage and employment demands. But this seems to be exceptional. In most firms, there are enough actors aware of the need for structural reform to insure that management has at least some allies for change. In small and medium-sized firms, more than half of the "deep" or "significant" reforms were made before the onset of financial problems, indicating a capacity for strategic foresight. In all these cases, cooperation between management and labor was critical.

In large enterprises, the often daunting social consequences of radical reform have inclined both organized labor and management toward caution, if not passivity. In these enterprises, both sides are often painfully aware that even the most dramatic cutbacks will do little to ensure firm survival without the arrival of new resources. Not surprisingly, comprehensive reform in large firms was rare and, in general, began only after financial reserves had been exhausted. In some highly visible, heavy-industrial firms, the unions have demanded the elimination of the councils and the renationalization of the firm. Unable to win pay increases from the councils, or disturbed by the slow pace of reform, unions felt they would do better negotiating directly with the government in a renationalized setting.

In sum, the overall picture of the adjustment efforts of council-run enterprises is mixed. On the one hand, approximately two-thirds of the firms we examined made only limited attempts to adapt to the new environment. Everywhere people complained that decisions were taken too slowly and that too much time was spent in meetings. Managers often claimed that their hands were tied by incompetent councils or that they would be fired if they really made radical changes. For their part, council members argued that managers often lacked the skills necessary to save firms and that if it was possible to hire better management they would have already done so. Council-run firms have also become more willing over time to exceed centrally imposed wage norms even as profits have declined.

On the other hand, at least one-third of all state enterprises made radical changes in the way they do business. Councils and unions were either the leading forces of change or crucial partners to it. Moreover, the weakness of adjustment efforts elsewhere has not been the result of open conflict between labor and management, despite their mutual recriminations. Instead, passivity is more often the product of confusion in the face of huge and very real structural difficulties. The fact that most firms initially resisted raising wages when profits were high, and only began to overshoot wage norms when profits fell, suggests that wage maximization is related to the bleakness of enterprise prospects and not to squandering of development possibilities that wage restraint might in theory facilitate.[23]

Despite the generally rational reaction of council-run firms to the stabilization program, and the efforts of many to adjust to the market, reformers continue to insist that firms are simply waiting for the financial discipline of the state to break down and for the era of easy money to return. Thus, the government has declined to aid state firms in restructuring their operations prior to privatization, and substantial amounts of international funds earmarked for industrial restructuring are being held back until firms are privatized.

More important, the government's hope that stabilization and open markets would force bad firms into bankruptcy while allowing good firms to get loans from commercial banks has proved painfully naive. The number of bankruptcies has been small, and banks continue to lend to marginal enterprises. Capital has not been redirected to dynamic firms, and new investment loans have virtually stopped. Worse, firms that are making dramatic adjustment efforts are often refused credit while the loss-making enterprises around them still get it.

The paralysis of the banking system is not simply the product of incompetence. State bank portfolios are swamped with the bad debts of a relatively small number of huge industrial loss-makers (Boguszewski et al. 1993). Given the banks' undercapitalization, foreclosing on these firms would essentially mean bankrupting themselves. Moreover, even if they could afford to absorb the losses, the banks are essentially being asked to bear the burdens of the past lending patterns of the Communist state. Not surprisingly, they have been reluctant to do so without assurances that the state will help absorb these costs (Brainard 1991; Hinds 1990a, 59–64).

For its part, the state has been reluctant to get involved, insisting that the market alone must determine the allocation of capital.[24] This reluctance to help redirect capital to dynamic firms before privatization, and to engage in the politically messy business of rewriting bad debts, has helped turn the state's extremely pessimistic assessment of the socialized sector's adjustment capacities into a self-fulfilling prophecy. In the process, the economy has been deprived of the potential growth represented by well-run but capital-constrained state firms.

The costs of the government's hostility to state firms in general, and council-run ones in particular, are best exemplified by the practice of privatization to date. As we have noted, by the early 1980s the councils had acquired the legal right to control decisions about the disposition, transfer, or sale of firm assets.

23. It should be added that the share of wages in firms' overall costs is relatively low (though rising), making it unlikely in most firms that savings on wages would provide a real source of investment capital.

24. Finally in 1993, the government began developing a plan to write off some of the bad debts burdening the banking sector.

Throughout the decade, these rights were both contested and constrained by the Party, and most councils eventually lost their dynamic and independent character. Nonetheless, as Communism finally collapsed, two forces pushed the councils to exercise a fuller range of their managerial powers. First, the struggle against the "propertization of the nomenklatura" and the disorganization of the post-Communist state left the councils as the sole institution capable of preventing managers from appropriating assets. And second, stabilization—if it was to be achieved through market mechanisms—required firms, and by extension councils, to be free to determine their contractual relations and to set prices.

Post-Communist reformers, afraid of the consolidation of council power and hoping to privatize state firms as quickly as possible, immediately announced an ambitious plan to sell off state firms. To do so, the government argued, firms had to be commercialized first. This procedure was to entail turning firms into capitalized joint-stock companies of the Treasury. As joint-stock companies, firms were to replace their councils with boards of directors to which management would be responsible and on which the state would have the dominant voice. In short, commercialization was renationalization by another name.[25]

The government intended to sell firms, once commercialized, on the open market, in the belief that the only rational way to allocate property rights was to let the market decide.[26] In early 1990, 20 "good" firms whose councils had agreed to commercialization were selected for the public offering program. The state quickly discovered, however, that even with the full cooperation of employees, preparing firms for auction and setting opening stock prices was a lengthy procedure that often involved restructuring the firm itself. Moreover, the fall in disposable income that came with stabilization made it clear that even if many firms could be prepared for sale, multiple offerings would push stock prices "toward zero."[27] In fact, only 17 successful public issues were

25. In public, the Ministry of Finance argued that commercialization was simply a necessary prerequisite for its ambitious program of public offerings. In private, it hoped that the power to commercialize firms at will would give the state insurance against the presumably perverse behavior of council-run firms. In return for giving up control of their enterprises, employees were promised the possibility of purchasing a maximum of 20 percent of stock at preferential prices, as long as the sum total of preferences did not amount to more than a year's average wages. It is fair to say that the government feared worker ownership about as much as it feared worker control. Not surprisingly, the government did not propose that within privatized firms some more modest form of plant-based worker representation replace the employee councils.

26. For the assumptions and activities of the Agency for Property Transformation, see Gruszecki (1990) and Jasinski (1990). The government hoped that by offering the stock of good firms at low prices the state could generate a cycle of self-reproducing investor confidence that would make possible the rapid sell-off of the state sector.

27. The initial plans to sell off firms on the open market were formulated in an extremely inflationary environment. Market sales not only had an air of normality about them but also seemed to be a useful tool in fighting inflation. Stabilization devastated the political and economic logic of these plans as ridiculously low stock prices would allow a very select and suspect group to acquire state assets at bargain basement prices. See Kawalec (1989).

carried out between January 1990 and June 1992 (Berg 1992; Gruszecki 1990; Levitas 1992).

In the spring of 1990, as the problems with public offerings became palpable, the draft legislation on privatization was debated in Parliament. Council activists opposed giving the government the right to commercialize firms at will. Significantly, they were joined by others who, while not enamored of the councils, argued that the slowness of public offerings meant that mass commercialization would entail the recentralization of economic power. As the tenuous boundary between the state and "its" firms dissolved, the state would once again be responsible for running the entire economy.[28]

Not surprisingly, the idea of giving away state assets became more attractive. Giveaways seemed to lessen the constraints imposed on privatization by shallow markets and hard-to-establish stock values, while taking the ownership question out of an arena in which only firms and ministries had something at stake. Stocks would be given to citizens, regardless of their workplaces, through intermediary institutions.[29] As with commercialization, however, the basic question of whether the councils could refuse to participate in the government's privatization plans remained.

In the end, the privatization legislation passed by Parliament in July 1990 was a curious document. The Ministry for Ownership Change was given wide powers to sell commercialized firms. The councils, however, were basically given the right to veto state privatization plans.[30] Mass stock distribution schemes were recognized as a possible instrument in the privatization process, but no specific plan was identified. Almost as an afterthought, a paragraph was added that made it possible for councils, with the approval of the Ministry, to legally dissolve their firms and rent, lease, or sell their assets to a new corporation. Significantly, this new corporation could be solely or partly owned by its employees, essentially providing a loophole for employee ownership.

In December 1991, an advocate of stock distribution schemes was made minister of ownership change, and the focus of the privatization program shifted from public offerings to mass privatization. The ministry began to identify 500 large and medium-sized firms that it wanted to include in the first round of the program, and to design the mutual funds whose shares would be given to the public. But if reformers had earlier found that they could not simply use the market to allocate property rights, they now found that the very

28. As the director of commercialized firms at the Ministry of Ownership Change later told us, mass commercialization would "have made me a second Hillary Minc," the economic tsar of Polish Stalinism.

29. In 1988, Lewandowski and Szomburg proposed using a voucher scheme to privatize state assets in Poland. See Lewandowski and Szomburg (1989, 1990). Jeffery Sachs's proposal to combine vouchers with mutual funds came later. See Sachs (1990).

30. In theory, their veto powers could be overturned by a majority vote of the Council of Ministers with the approval of the prime minister, but these powers have yet to be used.

construction of giveaway schemes involved making all sorts of judgments about what kinds of markets each particular scheme would create. As the details of the operation grew hazier, firms declined to participate, while the ministry itself scaled down its ambitions.

What the ministry was able to accomplish was to convince—for one reason or another—about 250 firms to become joint-stock companies of the Treasury by the end of 1991.[31] Elimination of the councils and strengthening management was hoped would improve these firms' performance. Contrary to expectations, however, this has not happened. In fact, the adjustment capacities of commercialized firms may actually have deteriorated.[32] In some firms this seems to be related to the motives that lay behind the decision to commercialize in the first place. Both managers and councils seem to have regarded commercialization as a new way of "hooking onto the plan," expecting that after renationalization they would receive special treatment from the state. Managers, instead of using their new autonomy to pursue reform, generally remained passive, arguing that the unrest produced by change could scare away buyers or that change itself was pointless until the desires of future owners were known. Meanwhile, the newly created boards of directors have neither the authority nor the information to force managers to alter their behavior.

In other firms, managers and councils agreed to commercialization because they were already negotiating with potential buyers. For them commercialization was a necessary legal step toward privatization. At the moment when ownership rights reverted to the state, however, these firms lost control over the choice of buyer and the terms of the sale. Suspicious of sweetheart deals, afraid of sanctioning corruption, and looking to maximize revenues, the ministry almost inevitably tried to involve other parties in the sale. Sometimes earlier negotiations stalled or collapsed, and sometimes the ministry choose buyers that the firms opposed. In a few cases, these choices were clearly ill advised. Finally, in some firms where adjustment efforts had begun, reform ceased after commercialization as both workers and managers waited for ministerial directives. Moreover, industrial relations tended to deteriorate after the normal line of communication between workers and managers—the councils—had been eliminated.

Of all the government's programs to privatize state firms, it is the one that has been least talked about and least invested in organizationally that has proved to be the most successful: the so-called liquidation procedures. Not to be confused with bankruptcy, the procedure allows for the legal dissolution of an enterprise and the lease or sale of all or part of its assets to a new corporation

31. Some firms commercialized expecting to be included in mass privatization. A handful came from the original pool of firms that were to be sold in public offerings. And most were hoping to be bought out by foreign firms in trade sales.

32. The following discussion of commercialization and liquidated state enterprises is based on our own study of 20 privatizing state enterprises. See Dabrowski et al. (1992) and Chelminski and Czynczyk (1991).

created by the existing workforce. So far, more than 1,000 firms have been "privatized" in this way. Despite the fact that most of them were small or medium-sized enterprises, the numbers are impressive given the failure of both public offerings and mass privatization and the fact that little has been done politically or organizationally to promote liquidation.[33]

To begin a liquidation procedure, a firm must have a ministerially recognized consulting firm determine the value of its assets according to three different accounting procedures. At a general meeting of the workforce, it is then determined whether employees are willing to buy at least 20 percent of the book value of the assets. If so, the firm enters into negotiations with the ministry over whether the book value of the assets will be used to determine the value of the firm or whether another price will be set. Firms may also solicit stock commitments from interested outside buyers. Depending on the price that is ultimately arrived at, the willingness of employees to buy shares, and the level of outside commitments, the assets of the enterprise can be purchased outright, rented, or, most frequently, leased for 10 years, after which the formerly state-owned assets become fully privatized. As with the price of the assets, the terms of the lease are the product of intense negotiations, and the ministry can refuse to allow privatization to go forward if it wants to. On average, these procedures take about nine months to a year to complete.

Despite the fact that these privatizations, like all others, legally require the dissolution of the employee councils, councils generally not only agree to them but frequently lead them. Whether the initiative to liquidate a firm came from management or labor, councils virtually always played the principal role in explaining the process to the workforce and a major role in negotiating with consulting firms, provincial authorities, and the ministry. Moreover, unlike in all other privatizations, there is a clear link to efforts to change the structure and functioning of firms before and after the actual legal transformation of the enterprise itself as adjustment efforts begin before privatization and continue after it is completed.

In most firms privatized through liquidation procedures, blue-collar workers purchase 20 to 30 percent of shares. Nonetheless, what is striking about the capital structure of many of these new corporations is the plurality of major shareholders. Typically, the largest group of owners is drawn from white-collar workers, and frequently the managing director is the largest single shareholder. Also, and contrary to expectations, insiders frequently find outside individuals to buy into the firm. Usually these investors come from the network of the firm's suppliers and buyers. Sometimes they acquire a controlling interest. Most frequently, however, they are significant but not dominant shareholders, and generally stocks are more or less evenly divided between managers, workers, and outside investors.

33. Another 534, mostly small, firms have been bankrupted and had their assets sold off by receivers.

Despite the constant accusations of reformers that the councils block privatization, most privatizations are in fact being nursed into the world by them. Moreover, worker-management buyouts do not seem to be creating the immobile capital structures that the government feared. Perhaps most important, firm-led property transformations have not only proceeded faster than public auctions and mass privatization but seem to link legal changes in ownership with economic restructuring of the enterprise itself. If the failure of public offerings demonstrates that the market alone cannot be used to allocate property rights, and if the failure of mass privatization demonstrates that the allocation of property rights cannot be used to create workable markets, the success of liquidation procedures shows that the social reconstruction of property rights and markets not only must be carried out together but is best led by actors closest to the assets and markets at issue.

10.4 The Future of Workplace-Based Representation in Poland

The history of Polish councils can only be understood within a larger comparative context that begins with the widespread application of Taylorist principles of industrial organization in the years just before the First World War. Almost everywhere the adoption of mass production technologies generated resistance on the shop floor and helped spawn movements for the direct control of production by the workforce. And almost everywhere these movements at once sharpened the struggle between labor and capital and helped further fracture the Left between the reformism of the Second International, the etatism of the Third, and the "utopian" socialism of anarchosyndicalism.[34]

In the West, the defeat of the revolutionary Left after the First World War, and the victory of Fordist strategies of production, served to marginalize ideas about workers' control until at least 1968. Tactically, the labor movement seemed better served by organizational forms that linked workers across firms and industries, while strategically, the productive powers of Fordism seemed to legitimate a vision of industrial change that saw its endpoint not so much in the abolition of the division of labor but in its planned regulation. Indeed, between 1945 and 1970 the social democratic combination of Keynesian macroeconomic policies and arm's-length industrial bargaining proved remarkably successful in raising working-class living standards.

For all its success, however, the traditional modalities of social democratic politics began to unravel in the mid-1970s when increasingly volatile international markets turned the rigid organizational structures of Fordism into a competitive liability (Piore and Sabel 1984). The attempt to regain flexibility at the point of production has prompted capital to renew its struggle against unionism. At the same time, this attack has been accompanied by at least verbal

34. See chap. 1 in this volume by Joel Rogers and Wolfgang Streeck. See also the extremely useful collection of essays edited by Horvat, Markovic, and Supek (1975).

attempts to replace the adversarial and arm's-length industrial relations of the past with some new, more cooperative modus vivendi.

In countries where the institutions of postwar social democracy never fully crystallized—such as France and the United States—the very weakness of organized labor has allowed capital to behave as if unilateral control over the workplace was a sufficient condition for flexible competitiveness. Attempts to institutionalize more cooperative industrial relations have oscillated between voluntarism and defection, leaving capital's expressed desire for greater worker participation rather hollow. In countries where organized labor remains relatively strong—such as Sweden—or where this strength has been accompanied by the legal and institutional preservation of plant-based forms of worker representation—such as Germany—the effort to find a new, more cooperative system of industrial relations has been more successful.

In Poland, however, not only were plant-based forms of worker representation more prominent throughout most of the postwar period, but ironically their very strength in the past has become a liability for their future. As we have argued, the fusion of Taylorism, central planning, nationalization, and Party-controlled unionism served to transform works councils into one of the principal institutional locations of a larger struggle between state and society. Ideologically, this struggle pushed and pulled the opposition in general, and the labor movement in particular, toward reinventing the anarchosyndicalist vision of industrial organization that elsewhere had been in retreat since the First World War. In practice, it accelerated the decomposition of both state planning and state property, leaving in its wake a highly confused set of relations between economic actors and the industrial assets they inhabited.

The confused nature of these relations, combined with the poor performance of the Polish economy during the 1980s, prompted not only a reappraisal of "market socialism" but also the complete rejection of all ideas that linked positive economic outcomes with worker participation in management. Thus, paradoxically, at precisely the moment when workplace-based forms of worker representation are coming to be seen in the West as institutions necessary for competitive success, they are being rejected in the East as legacies of the past.

This rejection can be seen in virtually all aspects of the neoliberal reform strategy adopted by Poland's post-Communist reformers. Not only was the rapid privatization of state assets understood as the sine non qua of systemic transformation, but the primary strategies of privatization were explicitly designed to eliminate worker influence over the process itself. Moreover, and not surprisingly, there has been no effort to mandate legally a role for workplace-based forms of worker participation either in the emerging private sector or in privatized state enterprises. Worse, while in general working reasonably well with the councils at the local level, the unions have not sought to defend them at the national level. In part, this is because councils are seen as institutional competitors. More important, however, it reflects the unions' belief that they cannot survive politically being party to unpopular restructuring plans when living standards are falling.

Nonetheless, the difficulties that Poland's neoliberal strategy is encountering may ultimately serve to modify the current hostility to plant-based forms of worker representation. As we have argued, the only privatization strategy that has worked to date has been critically dependent on the active support and participation of the employee councils. Despite the fact that the councils stand to lose their legal standing after privatization, there are indications that in many liquidated enterprises former council members are being named to the newly created boards of directors, irrespective of the structure of stock ownership. This suggests that at least in the short term, and in firms that have succeeded in transforming their legal and economic identities on their own, new and old owners have come to recognize the value of plant-based worker representation.

Moreover, the government is increasingly coming to realize that privatization cannot be carried out without the prior or simultaneous restructuring of enterprises. As a result, state actors are beginning to search for local allies in the reform process, trying actively to involve not just management but labor in the discussion of the future of plants, regions, and industries. Increasingly, the massive problems presented by industrial restructuring are forcing the state to look for more cooperative relations with labor, in the same way that market volatility in the West has forced capital to at least partly rethink worker participation.

The informal reproduction of workplace-based forms of worker representation in newly privatized firms and the state's recent attempts to involve the councils in industrial restructuring continue to take place against the background of the reformers' general hostility to worker participation in management and the unions' desire for a "pure and simple" industrial identity. This makes it unlikely that the existing informal structures of worker participation can survive, let alone prosper, without a stronger legal foundation. When negotiations stall, it is all too tempting for both labor and capital (read for the moment: the state) to blame each other for the failure and to defect from future efforts at co-determination. On the other hand, few in Poland have fully realized the degree to which market volatility renders arm's-length industrial relations a competitive liability. Without some state regulations that force labor and capital into permanent negotiations at the plant level, Poland is in danger of replacing the existing institutional foundations for such negotiations with a model of industrial organization that has already lost its competitive edge.

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