

Summary of the doctoral dissertation

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Introduction

The introduction is a short outline and presents literature, documents and data which is followed by questions prepared as a guideline for the research. They include available research as well as historical and empirical information to analyze what the changes were during the first five-year period of system changes covering the time from 1989 to 1994. This research material includes regional and international authors as well as documents and publications prepared by such national and international institutions as GUS, National Bank, UNCTAD, OECD, EU, IMF, World Bank or EBRD. **Methodology** used in the dissertation is critical analysis of data and literature. The major method used in this dissertation was gathering of documents, publications, books, articles, statistics and information from experts in this field, not only from Poland, but also from abroad. The documents were critically studied and used as background for analysis conducted in this study. Techniques used here were linking what specific authors had written and comparing their data and statements with data given by other statistical accredited sources. Also, cross comparing their information with each other and noting the similarities and differences which they had amongst themselves.

Added value for the dissertation is focused on three major points. 1) First of all, it is based on the writings of previous experts, predominantly Polish, proving their contribution to the subject. This includes, but is not limited to: a) D. Jarosz, J. Jaworski and W. Kieżun in the field of privatization; b) K. Duczkowska-Małysz and W. Zgliński, in agriculture; c) L. Balcerowicz, T. Kowalik, and K. Żukrowska in price liberalization; d) L. Balcerowicz, G. Kołodko, and R. Rapacki on opening the market with regards to industrial production and agriculture. 2) There is no current work comparing agriculture and small business transition together with regards to the Balcerowicz Plan. Although publications have been made by both local and international authors on similar aspects, there does not exist a comparison of the two methods. This work will analyze the changes which occurred during this time frame and how they made a transition. These two sectors were chosen because both are predominantly run by small businesses. 3) Evidence presented both of gradualism or shock approach, weighing their advantages and disadvantages and balancing the outcome of used methods of system changes.

The main **hypothesis** of the work was to test the effectiveness of the Balcerowicz Plan and to check whether alternative methods, in particular gradualism, would have been more effective. This question is referred to throughout the entire dissertation. Other assumptions were to check the implementation of the Plan with regards to agriculture and small business. How well did

they perform during the transition process and what were the advantages and drawbacks which occurred?

The study is structured into six following chapters and their contents is presented below.

Chapter 1. Systemic changes from socialism to capitalism

The first part of chapter one discusses the definition of socialism and capitalism. Questions asked in this section deal with the problems that had occurred in socialism in a predominantly command driven economy. Proof presented in this dissertation outlined a list of dilemmas, which needed to be addressed. Problems included lack of property ownership, thus causing a dilemma with corporate governance. Additionally, the inability to effectively set price, the lack of technological development, as well as time wasted for the consumer due to a shortage economy (F. Hayek; J. Kornai; L. Mises). Also mentioned is the Swedish model, which owes its success to *Folkhemmet* and an effective tax system rather than state ownership (90% of their economy is in private hands). Capitalism drawbacks are principally in an ability to provide a wide social security system for those who are poor.

The theoretical part presents the Keynesian model and theory which are discussed with regards to demand side influence. Such problems as a liquidity trap, drawbacks developing from Marginal Propensity to Save and a downward economic spiral due to lack of government intervention (A. Blinder; I. Fischer; J.M. Keynes). This is counter balanced by supply-siders who wish to reduce government influence in order to allow economic growth without inflation, thus avoiding a budget deficit which usually occurs due to increased state expenditures (M. Friedman). The question asked here tries to look for arguments showing which was the better model for an economy?

Contemporary Polish history is briefly discussed in order to understand the situation with the development of Soviet influence on economic policy. The policies of collectivization of farms, centralization of the economy, and massive nationalization of firms under B. Bierut, the continued policies of W. Gomułka and the catastrophic program of massive borrowing by E. Gierek. These events lead to the development of *Solidarity* and the *Round table talks* of 1989. Furthermore, the election of 1989 and the impact it had on the political sphere in Poland (A. Garlicki).

Different models of transition were discussed in this section in order to give possible alternatives leading towards a market economy. The importance of institutions in fostering

stable growth is analyzed (J. Hausner; G. Kołodko, 2000; J. Stiglitz) as well as trade and FDI impact on economic growth (M. Gracik; K. Żukrowska, 1997). Other theories include, the civilization paradigm theory, Rostow's theory where change is encouraged by the dominance of western market and capitalistic countries offering aid and Parsons model on cultural determinism, which was also known as the grand theory of the social system.

The conclusions of the first chapter were to explain some concepts which occurred either before or just during the early phase of transition. Understanding of socialism, its components and applied solutions, advocates and theories are needed to comprehend before continuing. All indicate where Poland was in 1989 and how the country got there. The historic element was added in order to understand why Poland had communism/socialism and why the state was so far behind the west with regards to economic development and technology. The idea that it was a forced system imposed by the USSR, and also that Edward Gierek had bankrupted the country in the 1970's, thus creating the need for reform. Models of transition are needed in order to look at some options which were available to the reformers in 1989. By explaining all of these, we can fathom the goal of the hypothesis by building a background before discussing the changes in agriculture and small business during transition.

A summary of the information collected in this section is shown in four main points. 1) There was no similar experience carried in the past when both systems economic and political had been changed at the same time in parallel; 2) the scope of changes were very wide, which was the result of a complex approach to system changes; 3) selecting areas which required changes, questions were asked about the costs of planned reforms; 4) it was assumed that effectiveness of the reforms was strongly synchronized with sequencing of the undertaken steps.

What were the applied effects of programs outlined in this section? In general, more radical programs had brought about better effects than programs planning gradual changes. In practice gradualism assumed spread of specific activities over certain period of time, which was enabling reduction of social and economic costs in specific moment. Such a theoretical approach confronted with reality resulted in prolongation of transition period, increasing costs of this process and finally reducing the ability to reach the planned changes.

Answering the main hypothesis question of who was right in shaping the program of system changes: those who supported gradualism and limited costs of the process, or those who were in favor of "shock therapy"? One can say that "shock" was more effective as it was able to introduce deep changes in relatively short period, which was accompanied by relatively low

costs (economic, financial, social, political, etc.) (A. Aslund, 2007; L. Balcerowicz, 1994, 1996; V. Popov). In the situation of gradual approach, the changes were planned to be continued and their final accord came into action with membership in the European Union (EU), what happened in 2004 and after, depending on countries which it concerned. This means in practice postponement of the changes, where there was “shock” was linked with the EU membership and brought high social and economic costs. Such simplification is dangerous and can result in criticism of integration and its goals, which happened in a number of countries.

Another question concerned the model of transformation/transition, concerning which philosophy it should follow: 1) those who create conditions to increase the supply, 2) those who create conditions to increase demand. The inflationary pressure at the start to system changes was in favor of a model which was constructed following the philosophy of supply-siders. Nevertheless, wealth of citizens, macroeconomic goals such as inflation rate, exchange rate, unemployment rate, minimum wages, etcetera were defined by governments of the eastern European states. Their implementation was supported and controlled by a number of international organizations such as IMF, OECD, GATT/WTO and EU. Those organizations played a specific role of a leverage in implementing specific goals which was enabled by tools that they had used such as offered loans and credits which on one hand are offered on advantageous conditions, while on the other hand are conditioned. Conditionality helped to control the fulfilment of agreed conditions, whereas failure to keep them could lead to suspension of the agreement resulting in stopping the transfer of credit/loan instalments. Not always credits or loans played a role of effective driver towards system changes, often changes were achieved by national policies shaped by perspective of membership in an institutional structure and conditions of such membership. This was so with the perspective of the EU membership.

Chapter 2. Starting conditions of the transition

Whereas the main hypothesis question is testing the efficiency of the Balcerowicz Plan, it is important to look at the implementation of the Plan, namely its contents and results of its application.

‘Shock therapy’ and gradualism had their advantages and disadvantages as well as the outcome, or possible outcome. These methods need to be measured. Although, this is known as the time of transition, going from command economy to free market, one cannot forget that Poland also went through a transformation stage. This transformation meant moving towards a

more service sector orientated economy (post-industrial stage of development), which can best be shown in the absolute explosion of new small businesses that occurred at that time, as well as the perceived decline of agriculture.

Gradualism, and its adherents (J. Hausner, G. Kołodko, M. Rutkowski, J. Stiglitz) suggested that the use of institutions and a slower process of transition would have helped to reduce economic shock such as high unemployment, high inflation, financial instability and short-term manufacturing productivity loss. Their criticism of 'shock therapy' is based on social upheaval, regional disparity and changes in social structure which such a method can and do cause. They argued that the price for such transition is too high and is not necessary.

When L. Balcerowicz made his decision, he took into account three conditions: 1) the starting point to the reforms; 2) political background supportive for such rapid changes; 3) the fact that Poland was the first country to start reforms in the region (L. Balcerowicz, 1995; J. Sachs). The starting point to reforms can be seen as supportive as the market was badly supplied in goods, prices were going up as demand driven inflation was high as well as it had strong impact on production costs rises (cost inflation).

This Plan was based on the J. Williamson's Model which had been already used in the South American countries. This model included: (1) fiscal discipline; (2) a redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure; (3) tax reform (to lower marginal rates and broaden the tax base); (4) interest rate liberalization; (5) a competitive exchange-rate; (6) trade liberalization; (7) liberalization of FDI flows; (8) privatization; (9) deregulation (in the sense of abolishing barriers to entry and exit); (10) secure property rights (J. Williamson; J. Sachs).

The first major change resulting from the Balcerowicz Plan was the freeing of prices, elimination of production quotas, suspending subsidies and opening up the market for trade and competition. Trade liberalization covered decisions undertaken in different areas as it required decentralization of trade (departure from trade conducted by specialized state-owned trade enterprises, convertibility of the currency, giving access to it to companies and citizens, finally opening the borders for imports and exports) (K. Żukrowska, 1997, 2008). All areas of changes were to eliminate state monopoly of trade, which in fact was less centralized than in remaining regional states, nevertheless without eliminating enumerated barriers the trade would have continued as a monopolistic structure.

Results from this work indicated that the introduction of convertibility was a move which increased interest of foreign investors to export their capital to the market. Furthermore, convertibility and fixed exchange rate had been two main guarantees for investors that they will not lose their capital transactions on the market. Additionally, changes to the banking system and the removal of the mono-bank system benefitted the country. Adherence to fiscal responsibility both for economic and international reasons for bringing a balanced budget helped. The establishment of a proper tax system reflective of a western style tax methodology such as VAT, corporate and income tax.

Evidence presented showed that benefits were relatively simple as privatization helped: (1) to shift the economy from a centrally planned system to a market system, therefore encouraging the development of a competitive and vibrant private sector; (2) to facilitate the economic performance of enterprises through a greater efficient use of the factors of production; (3) to decrease the scope of the public sector (termed de-monopolization) and reduce and eventually eliminate the burden on the public budget caused by the payment of state subsidies to unprofitable and failing state owned firms; (4) to provide capital from the sale of state-owned-enterprises or their shares (termed commercialization) for use in the transition process; (5) to guarantee a wide diffusion of ownership of privatized assets; and (6) to provide an effective system of corporate governance of newly privatized enterprises (R. Rapacki).

The process was seen as effective under the following conditions: (1) privatization must be as fast as possible; (2) privatization must be socially acceptable and command a broad base of support amongst the populace; (3) privatization must provide effective “private” control over the management of the newly privatized enterprises; (4) privatization must allow and encourage access to significant foreign expertise and capital inflow (M. Boycko; V. Popov). Privatization methods were widespread, such as indirect and direct privatization, worker buy-outs, liquidation, issuing of firms shares on stock market and selling companies to foreign investors.

Continuation of the ZUS-KRUS system had problems with increased unemployment benefits (which was resolved with “*kuroniówka*”)(J. Kuroń) as well as early retirement. For worker mobility to be effective there must exist proper housing, which had also gone in decline with the elimination of most state housing (M. Cesarski).

Referring to the question of the main hypothesis, documentation had shown with regards to gradualism and shock therapy the question of theoretical philosophy, where the orthodox “big bang” was more approved by classics of liberal economics from the style of L. von Mises, A.

Smith and D. Ricardo, or a more left-wing method by the heterodox of J. Stiglitz. History shows us that the Balcerowicz Plan was the adopted method not only due to economic reasons, but also because L. Balcerowicz was worried about a lack of time to carry out the reforms, therefore making gradualism impractical. Gradual solutions in medium term had approached the political barrier and were slowed down, not to say stopped. The return to reforms was possible in such circumstances only with a new flow of political events, which were giving hope for real changes, bringing improvement of standards of living. With gradual changes the acceleration was reached by the perspective of EU membership. Such approach was naturally creating the future opposition for the European integration.

According to data analyzed, the results of the Balcerowicz Plan were positive, thus proving the main hypothesis. Liberalization of trade allowed business and consumers access to a multitude of products and also resulted in the creation of jobs and helped to curb inflation. Controlling the budget and exchange rate mechanism effectively helped to limit the inflation, while being careful not to cause pauperization of the populace. Privatization had created new opportunities for small business, jobs and investment. The maintenance of a social safety network provided security for those negatively affected by transition whereas housing, although slow to develop during initial stages of transition, allowed an opportunity for the construction industry to build new dwellings for a rather immobile workforce. One should also remember that not all reforms were attributable to the Plan and were carried out before ‘shock therapy’ was implemented, for example the freeing of agricultural prices and the introduction of income tax, both in 1989.

Chapter 3. Transition in the Polish agriculture

Evidence presented in this work had indicated there had been a struggle between state farms (PGR) and private farms lasting throughout the governments of Bolesław Bierut to Wojciech Jaruzelski. The PZPR socialist/communist government has on many occasions changed its view on agricultural policy, sometimes favoring the PGR state farms and sometimes supporting the small private farms. Generally, the goal of the PZPR was collectivization with only some relapses which was due to popular outburst when it would be changed to benefit smallholders. However, the small, private farm had always dominated in Poland over the state farm, even in comparison to other eastern European countries. In early years after the Second World War the farmers had to deliver obligatory supplies for the state with fixed prices. Production over the obligatory deliveries was unofficially sold directly by the farmers to consumers (J. Wilkin, 1999).

European Union integration as well as economic factors required changes to the agriculture sector. For example, in 1989 there were over 4 million employed in Poland in agriculture compared to around 7 million in all of the EU. Hence CAP (Common Agriculture Policy) would not be able to manage with such a number. Reform had to be fast. There existed 5 major elements of agriculture reform in transition economies, which were: (1) price and market liberalization, (2) land reform and privatization laws, (3) privatization and reform of agricultural processing and input supply enterprises, (4) rural finance, and (5) institutional reforms for adjusting to market conditions existing institutions or calling into life new ones which were not necessary in planned and command-distributive system (J. Ordover; J. Chalupkova). Data indicated that these steps, in the short term difficult, had over the long term prepared Polish agriculture to move towards EU accession.

The results had shown that this simple solution had an impact on increase of productivity and entrepreneurship. In practice, the private farming sector was shouldering the inefficiency of state sector in remaining agriculture production and industry. This was so despite the fact that the solutions (laws and institutional conditions) were bringing a lot of paradoxes to the production here. From the beginning of socialism in Poland there have always been attempts to collectivize farming, but they had predominantly failed.

The dissertation also wanted to check if the goals of the PGR had been effective. Establishment of the PGR was to achieve three main goals. First of all, to transform private agriculture into a socialist system of agriculture, through both collectivization and nationalization of land and other productive resources. Secondly, to secure sufficient deliveries of cheap agricultural and food products for the rapidly increasing urban population. Lastly, to change the traditional character of rural areas and eliminate the great differences in standards of living between urban and rural areas (M. Drygas). Data presented had shown that only the first goal was achieved and the other two had failed miserably. Why was the PGR not as efficient as private farms even though they should have had an advantage of economies of scale? Results indicated the drawbacks which were: over employment, lack of management objectives and fixed prices as well as quotas.

This dissertation verified some of the problems the agriculture sector had before 1989. They were: high costs of production, low productivity, obsolete technology and production methods, the lack of integral links of agriculture with other branches of the economy for example transport and storage, and lastly the large amount of over employment in farming (M. Drygas).

Data presented in this work pinpointed some drawbacks of the transition process. During the time of transition gains in productivity were not strong enough to make up for the worsening terms of trade. However, economic gains were still positive! The main reason for the low productivity was over-employment, which had rather social than economic reasons. The Polish agriculture sector had a relatively low endowment with capital both in quantitative terms as well as in terms of quality of technical equipment. Since capital is relatively expensive, it is substituted by land and labor. This helps to explain the low productivity of both these two production factors. Despite the efforts to stabilize agricultural markets, which discouraged investment and technological change, farm profitability showed a continuing downward trend. According to national statistics, agricultural incomes over the period in 1990-1991 went through a dramatic decline. Then there was a modest improvement in incomes in 1993 and 1995. These improvements had continued through the 1990's.

In conclusion, both from regional and international sources, it appears evident that there was no great loss of neither income nor productivity during transition. The total incomes increased during transition, however, at a slower pace than in the urban areas which in turn may have made rural community inhabitants to feel poorer. The second factor was, of course, the KRUS system which provided a huge cushion to farmers during transition. Not having to pay exorbitant payroll taxes, which would have pushed them into poverty, can arguably be mentioned, saved them from pauperism. Note that international prices for agricultural products were stagnant at that time, but this did not mean that agriculture in transition countries such as Poland were particularly bad. The applied method of changes created conditions in which farmers could change their structure of production in reaction to price levels of the products they supplied to the market at home and for exports (M. Duczkowska-Małysz). They could increase the share of products which had higher prices, reducing at the same time the share of products with lower prices. Such reaction was observed on the agriculture market, which was an additional proof that the reforms worked and were properly designed. The information answers the main hypothesis question dealing with the changes in agriculture.

Due to the fact that over 85% of agriculture was in private hands in 1989, price de-regulation and foreign competition were the only elements farmers had to deal with, which probably had a negative impact on price and also exports during times of crop failure (GUS, 1994). Furthermore, slumps in agriculture production due to weather factors, such as in 1992 and even worse 1994, cannot be attributed to a failure in agricultural policy. Lastly, must be taken into account the black market, which was another cushion for the farmers.

Chapter 4. Development of small and medium business in post-communist Poland

Documentation implied that most preconditions which would allow entrepreneurial potential to develop and grow freely, were not met. Some problems that could be identified were the lack of human capital with marketing or business management knowledge, strategic planning, experience of an enterprise culture, employee motivation or shortage of it, training systems, lack of qualified instructors as well as in the financing of SMEs (Small, Medium Enterprise).

Evidence had shown the extent that the Balcerowicz Plan helped small business. These were as follows. A specific climate for start-ups in small and medium firms was created by big state-owned companies which were privatized and parts of not needed equipment, machines, materials were sold out on the free market. A number of former managers in the companies, bought some of this available stock and started new, small businesses. Big companies also, trying to reduce their debts, liquidated some of their assets, like houses where the staff used to spend their holidays, in-factory-restaurants were also leased-out, similar processes happened with cleaning services, food, cafeterias, etc. All that services were run by newly established companies who offered their services with competitive prices, lowering the costs of operation, enriching product selection and bringing some additional incomes to companies. Process of changes embraced the whole economy starting from small business and ending with big state-owned companies, which were either privatized or cut into smaller entities owned by a number of new owners. Still, some of the companies were closed down and their equipment was sold to those who had ideas how to use it profiting from that.

Proof shown from the doctorate had indicated that some dilemmas that SMEs had with the onset of the 'big-bang' in opening of the market economy caused problems. First of all, the transition from a planned economy to a market economy would require a comprehensive reorganization of work and a complete overhaul of management practice and organizational structures and systems. When the incumbent system features centrally planned production targets and allocations for supplies, artificial prices, little competition, insensitivity to cost and profit, constant shortages, excess demand for everything that is produced (regardless of quality), and government ownership of essentially all non-agricultural enterprises, then the transition to a market economy with largely private ownership involves fundamental change at all levels (B. Piasecki; A. Surdej).

Exposure to foreign and new domestic competitors, for which they were unprepared, would cut further the monopolistic position of big state companies. This includes an inability to make high

quality products or affordable goods. Furthermore, overemployment in these firms would also lead to additional and not needed costs limiting thus the price competitiveness, adding to this new tax laws establishing high payroll taxes and transfer for social coverage to ZUS (Zakład Ubezpieczeń Społecznych - Social Security Network). All in all, the mentioned conditions would mean that workers could earn less, in conditions when prices of everything (housing, food, etc.) were increasing. Companies were selling less and less what was accompanied by growing costs of production, causing fall in effectiveness, competitiveness, productivity. Additionally, system changes resulting in elimination of state monopoly protection, removal of production and eradication of set prices were also hurting them.

Further evidence compiled has illustrated the role SMEs played in helping privatization, the economy and private wages. Small-scale privatization in Poland, such as the liquidation of small shops equipment and other assets, are generally viewed to have been a great success, not only in terms of improving the quality and quantity of the services and goods provided, but also in creating a vast number of jobs for those moving away of the restructured state firms and privatized firms, and in generally smoothing the path for the return of capitalism (A. Hyz). The development of a sizeable private sector had created new job opportunities and new services. However, it has also brought about new issues. It is often argued that wages in the private sector are restrained by profit maximization concerns while public sector wages are restricted primarily by the ability of public sector workers to extract as large a share of the public budget. On the contrary, it appeared that wages may be higher in the Polish private sector thus explaining several factors of this feature privatization and SMEs also helped attract FDI, which would have a very growing impact on the future economy.

The Balcerowicz Plan had greatly assisted the development of the retail and service sector of the economy. Presented testimony in this dissertation outlines the following reasons. First of all, it was privatization. The government, predominantly at local levels, wanted to sell or lease small floor space. Secondly, ownership changes could have been seen as an opportunity for growth in the service sector. Another reason was the liberal law set up for business which was almost completely unregulated by state authorities. Furthermore, the micro business preferred to have a small-scale firm anyway because setting up a larger limited liability company meant greater difficulties. The period of unregulated growth of retail outlets lasted only as long as the near-hyperinflation at the beginning of the 1990's. The stabilization of the old currency and subsequent introduction of the fully convertible new Polish Zloty together with the new regulatory environment brought the growth of the alternative retail outlets to a halt. Even though

there are still many bazars, street vendors and stalls their number had dropped since the early 1990s. Moreover, many foreign investors brought with them the standards of the European Union (EU) to the Polish retail sector.

In concluding chapter four as well as answering the main hypothesis question, evidence had been gathered showing the benefits of the Balcerowicz Plan and its' positive impact on SMEs. The major change was in the evolution of ownership from public to private. For small-scale and medium businesses private ownership this meant freedom, independence and risk. The result of this was that small businesses filled the marketplace offering the Polish consumer a wider range of product, usually with better quality, but also with a higher price. Typical new firms which appeared during this time frame were small scale, employing frequently less than 10 employees, low investment, few assets and often rented or leased plant and equipment.

For the government, privatization meant that central administration no longer had to deal with running small businesses or stores, deal with logistics or even new investment expenditures. Such a solution resulted in meaningful reduction of the public ownership in the country, which was transformed into a private ownership. For the consumer the ownership changes meant access to new products, flexible hours of shopping for convenience meaning the elimination of the 'queue' and with sometimes competitive prices. However, due to the fact that some prices were regulated by the state not all prices went down in value compared to PPP (Purchasing Power Parity). Lastly, over two million jobs had been created, mostly in small firms.

Chapter 5. Drawbacks and dilemmas within the Plan to change in economic system

Compiled documentation has shown that the major problems of the Balcerowicz Plan were: 1) unemployment, running at too high rate due to plant restructuring, layoffs and privatization as well as early retirement, 2) inflation, which had been lowered considerably since the start of the “big bang” but was still much higher than the EU levels, 3) budget constraints, due to an initial decline in economic activity in 1990-91 and an increase in expenditures due to high unemployment and fine tuning the tax system, 4) trade and investment, which were starting to improve as Poland looked west rather than east and western investors started to put money into developing plants in Poland, 5) social constraints, though not part of the Balcerowicz Plan, the effect of the plan had selected winners and losers resulting in economic disparities between rich and poor, urban and rural as well as skilled and unskilled workers.

With regards to the agriculture sector, evidence had uncovered the following problems with the Plan. A massive reduction in the agricultural labor force was needed. Family run farms of three to

five hectares were not equipped to cope with such a change. Many of the unemployed were not prepared to leave their homes in search of a wage, and, as a result, a large portion of the agrarian sector in Poland did not live exclusively off the land, farming's high share of almost 27% of the total work force (GUS, 1994). Farmers often found a sideline in unregistered trade on the numerous markets which thrived on border traffic. During the early stage of transition, the lack of a satisfactory social safety net and proper retraining programs for displaced agricultural workers were required for further reductions in labor. Lack of these programs meant that workers would rather accept a decrease in PPP of their wages as opposed to unemployment. The greatest increase in agricultural unemployment occurred with the slow liquidation of the state farms. Relatively large capital investment would be needed to provide sufficient agricultural infrastructure, including road improvement, telecommunications, water supply, housing and other basic necessities.

However, the Balcerowicz Plan indicated where the agricultural sector lacked development. Especially important is the creation of a well-developed, competitive network of suppliers of materials and equipment necessary for modern agricultural production. Equally necessary are commercial firms to purchase agricultural products and provide transportation and storage facilities. In particular, expansion and modernization of the food processing industry are necessary to strengthen and stabilize demand for agricultural products. These drawbacks would be addressed during not only during the transition process, but going into the 21st century.

Data gathered had posted very few dilemmas with the Balcerowicz Plan in SMEs. If there were any problems at all with small business development, it would probably be the result of too fast growth in the sector and restructuring. The short-term problems were the fact that there were too many registrations of new firms in too short a period of time causing problems for the registry office and GUS, but also causing the same problem for ZUS, the archaic social service system. Other business problems did exist, such as lack of adequate capital and access to foreign markets due to problems with infrastructure. However, this problem was being remedied slowly at this time due to government budget constraints. Additionally, for larger firms the problems of corporate governance (L. Balcerowicz, 1993; M. Boycko; V. Popov).

In summary, proof analyzed from sources had shown that the transition wasn't perfect, as G. Kołodko had noted, and some overly optimistic targets were not realized. However, the result was that Poland by 1995 had emerged from the dogma of the planned economy. The country was no longer dependent on USSR/Russia, had just joined NATO and was preparing for the EU ascension in 2004. In answering the probable success of the gradualist approach versus

“shock therapy” one can only conclude the following. The possibility of slipping back, or changing policy to appease the masses could have occurred early on. Note that even with electoral defeat in 1993, the SLD-PSL government did not change the course which was set out in the Balcerowicz Plan. Furthermore, the establishment of key social programs, such as unemployment insurance (*kuroniówka*) and early retirement, as well as the maintenance of existing ones such as ZUS and KRUS, helped cushion any negative impacts which may have occurred and allowed citizens adjustment time to the new market realities. The information presented refers back to the main hypothesis question and answers this.

Chapter 6. Summing up and conclusions

The major assumption in the hypothesis of the dissertation was to check the success of the Balcerowicz Plan. Data collected has signified that, generally, the agriculture sector had benefitted. First of the small size of the farms, which would make it difficult for farmers to take advantage of economies of scale. Expansion could only be in the purchasing of new land or technological advances. Though many farms were lacking mechanization or modern technology due to the lack of capital for expansion in these areas it does not translate into poor economic performance for them. Also, the possible market shrinkage due to imported products and the withering of exports to former Comecon states did have a negative impact, but not entirely so. Changing product mix of farms was one way that farmers could fight back but not only that for they were also able to sell their products directly to the consumer in, for instance, greengrocer bazaars that sprung up instantaneously in late 1989 and early 1990. Another assistance was the cushioning subsidy of KRUS which allowed farmers to escape high payroll taxes of ZUS which would have an effect of pauperization. The other cushioning affect was the slow reduction of the state farms which had two advantages for small farmers such as the elimination of a possible effective market competitor and also the freeing of the state land for private purchase thus allowing some farms the chance at expansion.

At the start of 1991, Poland signed the Europe Agreement on its association with the European Union market and communities. This resulted in international deregulation and therefore, greater competition, causing to dramatically lower real income in agriculture, when combined with high inflation rates. There was no effective protection of agriculture from the competition of strongly subsidized food products from the European Union except for KRUS. These EU farming products or foodstuffs were sold on the Polish market at prices usually lower than their local equivalents. Up to 1995, Poland had a negative trade balance with other EU partners. For a majority of Polish smallholder farmers, the EU has been the source of their difficulties since

1989 with regards to competition and market access. However, there are many reasons for this event. Some structural problems continue and after 1989, few reforms were suggested for this sector. According to different statistics, there were as many as 16% to 23% of the labor force employed in agriculture in Poland, which was the highest of any country in the EU (EBRD, 1995).

The extent which the Balcerowicz Plan assisted SMEs is overwhelmingly positive. Sources have shown that the effects of the Plan attributed to the following. First of all, small companies offered access to new products. With limited investment, small firms acted as import and export companies bringing in needed consumer products which were not readily available on the market. Secondly, innovation is perhaps easier to achieve in small businesses. In these tiny enterprises, employees usually work in close proximity to consumers and learn firsthand about their needs. Also, these small businesses typically have few ranks of managers separating line workers from the business owner. Employees could help their organizations grow by sharing ideas that will benefit consumers. In turn, business owners must go through less bureaucracy to put employees' new ideas into action. This reality shows why some innovative workers prefer to work in smaller businesses. Furthermore, small businesses contribute to local economies by bringing growth and innovation to the community in which the business is established. These SME's also help stimulate economic growth by providing employment opportunities to people who may not be employable by larger corporations. Small businesses tend to attract talent who invent new products or implement new solutions for existing ideas.

The importance of job creation cannot be overlooked. The labor force participation rate had declined due to job availability from 65.3 percent in 1988 to 57% by 1995. Worker participation was 17.4 million in 1989, but in 1995 total employment was about 15 percent lower (around 15 million) than it had been in 1989, and the number of jobs in the public sector as a whole had fallen by 40%. In the income producing sector, this includes both private and some state-run firms. The small business sector did well with employment increasing by 13% overall in only one year, and if one takes into account non-agricultural private firms, the rise was substantial at 155% (E. Garland, 2014).

In comparing to other regional countries, data gathered indicated that the Balcerowicz Plan resulted in a smoother transition process. The countries of eastern Europe all had suffered from chronic excess demand, although to varying degrees. The extent of shortages at official price levels were high in Bulgaria, Poland, and Romania, and less severe in Czechoslovakia, Hungary, and Yugoslavia. In the former countries, the supply of basic consumer goods (such

as food) was erratic and often formally rationed. Active black markets existed in which goods are available at a multiple of the official price. In Czechoslovakia, Hungary, and Yugoslavia, markets for staple consumer goods had generally cleared (though quality is often low and variety is limited), while shortages remained present for housing, telephones, automobiles, and other types of consumer durables.

According to the EBRD transition report of 1996, Poland was one of the leaders in moving forward to an open market economy. Conditions for starting new businesses and general transition to a market economy were analyzed. These were based on private sector share of GDP, enterprises, markets and trade, financial institutions and legal reform. Although, Czech Republic and Hungary are shown as being in first place and Poland in second place, it is noteworthy to point out that Poland did not suffer a financial crisis due to a liquidity trap as had their neighbors. Furthermore, Czech Republic and Hungary also had a better starting position and wealthier economies in terms of GNP, also they were closer to the west and benefitted greatly due to their proximity to Germany and Austria (UNCTAD, 1994).

Existing in Poland, was the fact that a certain “entrepreneurial culture” was widespread (yet highly individualistic) and the Polish society was already much more open to the outer world than in other transition countries. In concluding, during the 1990’s the Polish economy experienced a robust recovery. As a result, at the end of 1990’s GDP per capita in Poland in PPS reached 39% of the EU-15 average level.

Although mentioned throughout the dissertation, the Balcerowicz Plan prevailed and withstood all tests and was a better alternative than gradualism. Evidence provided indicated the successful implementation of de-monopolization, price and trade liberalization as well as exchange rate convertibility, banking, financial and tax reform, fiscal responsibility, and privatization. It is important to note that mass privatization of large firms used the gradual approach, as did the development of the stock market. Hence, the Balcerowicz Plan was not only “shock therapy”, but also had included elements of gradualism when necessary.

When focusing on agriculture and small business, we see development and improvement in both sectors. The data attributed to them, other than the original decline which all eastern European states had, showed that Poland had evidently completed transition in the best possible way and this was outlined by the Balcerowicz Plan. The information presented answers the main hypothesis question of testing the success of the Balcerowicz Plan.

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