

## DILEMMAS OF ECONOMIC REFORM AND SELF-MANAGEMENT IN POLAND

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Five years have passed since the beginning of the economic reform in Poland. This is a sufficiently long period to make certain generalizations. Such generalizations may also be interesting for foreign economists, by enriching their knowledge on general questions of changes in economic systems. There are many such generalizations at present. They are authored by agencies of Polish government, by scientific institutions, expert teams and individual scholars.<sup>1</sup>

The objective of the present paper is to show the most important problems related to economic reform, and against their background, the problems of self-management. The paper is composed of two parts: the general characterization of current state of economic reform, and a report on the results of an empirical study on self-management in one of the branches of the Polish economy. R. Szul is the author of the first part, and E. Kirejczyk of the second part.

### PART I: GENERAL CHARACTERISTICS OF THE STATE OF ECONOMIC SYSTEM

The state of the economy and living standard of population is clearly better in 1987 than when the reform was first introduced in 1982. Starting with 1983 national income increases. According to official data this increase in 1983 amounted to 6.0%, in 1984 — 5.6%, in 1985 — 3.4%, and in 1986 — 4.4%. In spite of these recorded in-

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<sup>1</sup> Among the most valuable publications there are, for instance: »After the first stage of economic reform« (in Polish), J. Pajestka, ed., *Studia Ekonomiczne* 12/1986; »Report of the Consultative Economic Council — Economy in the years 1981—1985« (in Polish) *Zycie Gospodarcze* 14, 15, 16/1986; »Consultative Economic Council — Economy in 1986« (in Polish) *Zycie Gospodarcze* 7, 8/1987; C. Józefiak: »The Polish Reform: An Attempted Evaluation« *Forschungsberichte* Heft 116/1986, The Vienna Institute of Comparative Economic Studies; T. Kowalik: »On Crucial Reform of Real Socialism« *Forschungsberichte* Heft 122/1986, The Vienna Institute for Comparative Economic Studies.

creases national income was 5% lower in 1986 than in 1979, and per capita it was lower by some 10%. The overall increases were based upon the appropriate growth in all the more important sectors and branches of the national economy. A clear improvement in market equilibrium occurred with respect to consumer goods as well as most raw materials and semi-product supplies for the economy.

Notwithstanding these obviously positive phenomena, the opinion expressed by economists, business people and the general public, regarding the state of economy and living standards is distinctly critical. Statements issued by governmental agencies and representatives, more optimistic by their very nature, are also marked by lack of a triumphal note. Critical opinions result from the fact that quantitative growth was not accompanied by an increase of economic effectiveness. Labour productivity and the effectiveness of utilization of productive capacities are unsatisfactory, production quality is not improving, there is lack of innovations, the structure of the Polish economy, featuring high energy, materials and labour intensity, is not changing, and the structure of Polish exports to convertible currency countries is worsening. Simultaneously, solutions to many pressing problems have been delayed. The longer this delay, the more difficult ultimate solutions will be. These problems include repayment of the foreign debt, slowing down and stopping the downgrading of the natural environment and deterioration of the technical infrastructure<sup>2</sup> arresting decapitalization of productive assets, reducing the housing shortage and the like.

Economists are also dissatisfied to see that the economic growth which occurred in recent years resulted in only a small degree from the working of economic reform. The growth mentioned arose primarily from utilization of the so-called shallow reserves created due to the economic breakdown of 1980—1982. Utilization of these reserves was made possible owing to reconstruction of cooperative links in the economy, to restitution of work discipline, to militarization of some branches during the period of martial law and improvement of provision of imported raw materials. A quick growth of production resulting from the use of shallow reserves was, anyway, anticipated by some economists.<sup>3</sup> Further growth will be very difficult if effectiveness is not improved, this improvement in turn depending upon the course of economic reform.

The speed with which economic reform is being introduced is, however, according to the common opinion of economists, unsatisfactory. It is often maintained that in the recent 2—3 years there has been a slowdown of, or even a retreat from, reform. According to such opinions, a very ineffective economic system is being created, characterized by small influence of the market on enterprises and the

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<sup>2</sup> See R. Szul: »Spatial economy« (in Polish) *Ekonomista* 5/1984.

<sup>3</sup> See J. Pajestka: »Shaping the development process. Rationality and erratic ways of politics« (in Polish), Warszawa, PWE, 1983, especially pp. 249—255; Herer and Wł. Sadowski: »Growth barriers — anatomy of economic breakdown« (in Polish). In: »At the Sources of Polish Crisis« (in Polish), E. Müller, ed., Warszawa, PWE, 1985.

low capacity of the state to manage the economy. One of the economists called such a system a »grant-and-bargain system«.<sup>4</sup> Evolution towards such a situation is confirmed by sociological studies. They reveal the very high and still increasing role of informal links, social connections and »service exchanges« as the mechanism regulating relations both within enterprises and among them, and between enterprises and the state administration.<sup>5</sup>

The state authorities are also aware of the unsatisfactory speed with which economic reform is being implemented. This was symbolically confirmed by the marking of the second stage of reform in 1986. This event was meant to be a breakthrough and to accelerate the implementation of reform.

Difficulties encountered in implementation have a number of sources, and are related to several difficult dilemmas of an economic, social and political nature. The most important of them are:

*The market disequilibrium and inflation dilemma.* Implementation of economic reform was started in conditions of dramatic market disequilibrium, or — perhaps more precisely — imbalance. The scale of this imbalance made it impossible to immediately apply in full the market mechanism envisaged in the reform. Such an experiment would be too risky. The economy was, therefore, to regain its balance gradually. The first step in this direction was made with the simultaneous price increase of many items in February 1982. As a result of this, the inflation rate for 1982 was, according to official data, 100%. However, the whole imbalance was not thereby liquidated, and its causes were certainly not eradicated. Market equilibrium was to be finally achieved through the functioning of a market mechanism strongly controlled by the state. For this purpose retail prices were divided into three categories, depending upon the degree of freedom of their establishment in the market: free prices, established by producers and trade on the basis of supply-demand relations; regulated prices established by producers according to rules set, and then controlled, by the state; and finally — administrative prices, wholly determined by the state. Such a system worked *de facto* only in 1983. The inflation rate was then, again according to official data, approximately 25%. Fearing high inflation, and under social pressure, the state authorities introduced tighter controls on prices and actually, though not *de iure*, liquidated the free price category.\* Due to this, inflation in subsequent years was lower and oscillated between 15 and 20%. Thereby, however, achievement of market equilibrium was slowed down. Persistence of a significant imbalance on the market is the cause of many phenomena referred to altogether as a »producer's

<sup>4</sup> See B. Wawrzyniak: »Why a second stage of economic reform?« (in Polish). *Przegląd Organizacji* 1/1987.

<sup>5</sup> See A. Iwanowska, M. Federowicz, T. Żukowski: »Administrative-folksy economy« (in Polish). *Przegląd Organizacji* 1/1987. The term »administrative-folksy« was used by these authors to describe the present economic system.

\* All this applies to the state-controlled market. Some types of goods — e.g. from private agriculture — are sold directly with little or no state control.

market« (lack of motivation for improvement of a quality and effectiveness, for introduction of innovations, etc.). The situation is more dramatic insofar as both the political authorities, which feel less assured than during the martial law period, and society as a whole seems to view this state of affairs as inevitable.<sup>6</sup>

The market imbalance and inflation dilemma greatly influences many aspects of current economic policy and the process of reforming the economy.

*The enterprise autonomy vs. distribution dilemma.* Enormous market imbalance existing at the starting-point of economic reform forced widespread rationing both of consumer goods, and raw materials and semi-products. Rationing and distribution of the latter two categories was conducted by the central economic administration. This rationing made the formal autonomy of enterprises in establishing their production plants to a large extent fictional. Simultaneously, this rationing system became the cause or pretext for maintaining an extensive central administrative apparatus. The unique economic situation existing in the first stage of economic reform also made it impossible to apply universal solutions. That is how the administration gained full capacity for applying particular exemptions, preferences, subsidies etc. for individual enterprises, and thereby gained complete control over the enterprises. (It should be noted here that many formal ways of influencing enterprises, existing prior to the reform and operated by the administration, were changed into informal ones: »expectations«, »suggestions«, »advices« etc.). Actual supervision of enterprises by the administration was quite welcomed by the enterprises themselves and especially by their management. This was accompanied by a process of adaptation in which reconstruction of the intermediate levels of economy occurred, these levels being given the name of associations.

As mentioned, there has over time been an improvement in market balance, involving, as well, the raw materials and semi-product markets. Thereby conditions were created for the limitation both of rationing and of the role of administration, and also for the growth of enterprise autonomy and the role of the market. This, however, did not take place. According to the opinion of economists, both central and enterprise administration are responsible for this, since it is in their interest to maintain the previous rules of the game. One economist described the administration's behaviour as »the PP syndrome: pursuance of private particular interests«.<sup>7</sup> It seems that overcoming these administration attitudes will not be possible without ener-

<sup>6</sup> See J. Pajestka: »State, equilibrium, effectiveness« (in Polish) *Życie Gospodarcze* 1/1987: »Attempts made at liquidation of this situation encounter strong resistance from society, which behaves just as if it wanted such an economic game. It does not want to consent to any sacrifices leading to elimination of this doubtful game« and, further on: »In the light of these remarks and observations I could not refute an argument demonstrating that low effectiveness in fighting the inequilibrium and inflation situation results from insufficient will to conduct such a fight«.

<sup>7</sup> J. Pajestka: »After three years: reform at the crossroads« (in Polish). In: »After the first stage of economic reform«, op. cit.

getic action on the part of the political leadership. This, in turn, faced the authorities with a dilemma: to restructure central administration or to preserve the »sacrosanct peace«.

*The dilemma of self-financing and profitless enterprises.* According to the assumptions adopted for the reform enterprises should aim at maximizing their net financial result, while profitless enterprises should bear all the consequences of their performance, bankruptcy included. Practically, however, the influence of the motivational role of net revenue on state enterprises is limited, and the threat of liquidation — almost none. This situation results from the causes previously mentioned, that is, the dominating role of the administration in the economy, and the absence of economic prices, reflecting demand and supply relations and expressing scarcity of goods, rationing of many commodities, etc. While the market is an implacable verifier of enterprise utility to national economy, the administration is not. It is, namely, prone to give in to pressure from profitless enterprises and grant them various forms of assistance. This attitude has a clear political basis — the fear of the political consequences of enterprise liquidation, as well as a »moral« motivation — resulting from the rules of the »administrative-folksy economy«. A very important cause of the authorities' tolerant attitude towards profitless enterprises is that they are not convinced that bad financial performance results from the wrong working of the enterprise or from its uselessness to the national economy. Consequent liquidation of profitless enterprises would lead to paradoxical effects. Thus, for instance, it would be necessary to liquidate the coal-mining industry, vital to the economy, in which extraction costs are higher than sales revenues (in 1985 by 24%, in 1986 by 29%).<sup>8</sup> This results not only from high unit extraction costs, but also from the low price of coal — lower than the equilibrium price. The largest enterprises are in similar positions to coal-mining, since their costs are high and their prices are subject to specially strict control. This makes it impossible to apply measures resulting from the self-financing rules.<sup>9</sup> In this situation the principle of self-financing involves only the margins of the economy — the private sector, cooperatives, small state enterprises outside mining and heavy industry. (Some plants and institutions were excluded from the self-financing principle by the reform itself. This applies to the so-called public utility enterprises).

*Economic and socio-political wage function dilemma.* According to the precepts of the reform, wages should depend upon the financial performance of an enterprise. (This rule does not apply, of course, to enterprises and institutions excluded from the functioning of the self-financing principle). This is meant to constitute a motivation for more effective work by employees and by the enterprise as a whole, and a disincentive to unrealistic wage demands. In practice, however, the low autonomy of enterprises, low significance of self-financing and

<sup>8</sup> »From the Main Statistical Office data—Financial performance of socialized enterprises«, *Zycie Gospodarcze* 10/1987.

<sup>9</sup> See U. Wojciechowska: »Fifth IGN poll — functioning of industrial enterprises in 1985« (in Polish) *Zycie Gospodarcze* 14/1987.

feeble dependence of the financial performance of an enterprise on its work has made it impossible to apply new wage formation principles. In this situation current wage levels have become resultant on the financial capacities of enterprises and of the »bargaining power« of particular enterprises, branches of industry, particular categories of employees, etc. Empirical studies of wages have demonstrated that there is no relation between wage levels and financial results of enterprises.<sup>10</sup> There is, however, a clear dependance of wage levels on the branches of economy (in 1985, for instance, wages in mining industries on the average more than double those in manufacturing industries<sup>11</sup>), on education and the type of work performed (the average wage of an employee with university-level education is more than 15% lower than the overall national average, and some 25% lower than the average blue-collar wage in industry<sup>12</sup>), on the magnitude of the enterprise (wages are higher in larger enterprises and lower in small and medium ones<sup>13</sup>), etc. The dynamics and structure of wages depends primarily upon the following factors:

a. wage competition among enterprises caused by shortage of labour,

b. assurance of social peace through wage rises depending upon the political strength of particular enterprises and employee groups, which, in turn depend upon the branch of economy, enterprise size and militancy of employees,

c. state anti-inflationary policy aimed at slowing down wage increases, more rigorous with respect to politically weaker enterprises and more liberal with respect to those politically strong

Influence of all these factors to a large degree limits the role of wages as an incentive to better work, and contributes to further erosion of the principles of economic reform

*The employment dilemma.* When the 1980—1981 reform was being drawn up, everybody — government, experts, labour unions and public opinion — was convinced that it would lead to unemployment. It was held that enterprises, in maximizing their financial net result would employ their labour force better and get rid of excess labour. In order to forestall a future unemployment problem the government undertook various measures aimed at lowering employment in the socialized economy (earlier retirement, increase in welfare disbursements to motivate women to give up work etc.). As a result of these measures numbers employed in the socialized sector decreased by 0.5 million, and in the period 1980—1982 decreased in total 12.8 million to 12.2 million. Quite soon, however, instead of laying off their employees, enterprises started to increase demand for labour. The number of jobs offered by enterprises increased in the period 1981—

<sup>10</sup> See T. Grezeszczyk: »Wages as an instrument of management« (in Polish). PZPR ANS, Warszawa 1986 p. 237 and ff.

<sup>11</sup> »Report of the Consultative Economic Council — the economy in the years 1981—1985«, op. cit.

<sup>12</sup> Ibidem.

<sup>13</sup> See »The Consultative Economic Council on the way the economy functions« (in Polish). Warszawa 1985 p. 44.

—1986 from 119.000 to 330.000 and the number of people looking for work dropped from 29.000 to 4.000 (data from »Polish Statistical Yearbook 1986«, GUS\* statistics). The most important causes of this situation are related to the lack of incentive for enterprises to maximize their profit and rationalize their employment. This, in turn, results from the phenomena described above. It is not the fact that in every case when an enterprise claims a labour shortage, it is due to bad work organization. There is no mechanism, though, which would enable the transfer of employees from enterprises where their work is less useful to those in which it would be more useful. Such a mechanism is not provided by wages, since they are treated more as a political than an economic category. Labour shortage also entails destruction of work ethics with all its negative consequences. The question of labour deficit faces the authorities with the choice whether to let the economy regulate this question by itself or to introduce control from above of employment rationality and work discipline. Attempts at applying the latter method cause an increase of the role of administration, decrease of the feeling of independence, sense of responsibility etc.

*The non-socialized sector dilemma.* Decrease of employment in the socialized sector has also resulted in an outflow to the non-socialized sector. According to official data, employment in the non-socialized sector increased from 4.971.000 in 1980 to 5.433.000 in and to 5.463.000 in 1985. An especially dynamic employment trend characterized the non-agricultural non-socialized sector: from 622.000 in 1980 to 729.000 in 1982 and to 957.000 in 1985. It is the expansion of this sector that represent one of the most pronounced effects of the economic reform and of the new economic policy. This sector is attractive for several reasons. The most important is the opportunity for higher incomes than in the state sector. This includes incomes of employers as well as employees. Thus, for instance, according to one study, the average monthly net income of a private entrepreneur in 1984 was 26.500 zlotys, the average monthly wage of an employee in the non-agricultural private sector was 24.700 zlotys, while the average wage of a socialized sector employee was 16.800 zlotys.<sup>14</sup> It is also not insignificant that working on one's own account gives the possibility of self-fulfilment, confirmation of one's own value etc. This involves above all young and active people. Among those working in the non-agricultural private sector, both employers and employees, the proportion is very high; this results, inter alia, from the very disadvantageous wage conditions for this category of employees in the state sector.

Expansion of the non-agricultural non-socialized sector creates a number of economic, political and ideological dilemmas. On the one hand this sector is characterized by the high effectiveness so much needed by Polish economy. On the other hand this very dynamic and

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\* GUS: Main Statistical Office.

<sup>14</sup> S. Jędrychowski: »On the waves of inflation« (in Polish) *Gospodarka Planowa* 2/1986. Average income of an entrepreneur is determined as the sum of incomes of private firms divided by the overall number of owners, co-owners and assisting family members.

aggressive sector has a negative influence on the functioning of the state sector (corruption at the interface of the two sectors in a known phenomenon). State enterprises also maintain that private firms attract away the best employees, enforce wage competition etc. Society's attitude towards the non-agricultural private sector is ambiguous. There is a basis for the opinion that social tolerance is limited and if, in the near future there is no distinct improvement in living standards, bottom-up pressure on the political authorities to restrict the freedom and incomes of this sector will increase. Private agriculture does not, apparently, create such problems. The permanence and purposefulness of maintaining private ownership in agriculture is, it seems, accepted by all significant social forces.

*The restructuring dilemma.* Many of the negative phenomena in the Polish economy, such as high materials-, energy- and labour-intensity, low competitiveness on foreign markets, destruction of the natural environment, result to a large degree from the branch, sectoral, and technological structure of the economy. This structure, formed in the period of accelerated industrialization at the beginning of the '50s, is dominated by industry, and especially by heavy industries. Such a structure is not only a technico-economic, but also a socio-political phenomenon. The need for restructuring is commonly recognized and accepted. Its implementation, however, raises a number of questions. First, it requires adequate investment. The investment capacity of an economy still in crisis is constrained, and even more limited by the necessity of foreign debt repayment. The need for overcoming delays in housing construction, environmental protection, technical and social infrastructure and the like further decreases those resources which could be directed to restructuring. Secondly, restructuring implies a change in the political power setting, i.e. loss of importance and privileges for the social groups which have traditionally had the greatest influence on state socio-economic policies. The advocates of the dominant role of the state in restructuring maintain that only the center is capable of determining the required structure of economy. Acceptance of this concept would imply further limitation of enterprise autonomy and giving up the residues of economic reform. On the other hand, adoption of the other concept would mean delaying restructuring until the reformed system starts functioning since, with the present structure of prices and costs, and market imbalance, with lack of enterprise autonomy, lack of capital transmission channels among enterprises etc., enterprises cannot by themselves carry out any meaningful restructuring of the national economy.

*The state structures dilemma.* As has been mentioned several times already the main factor slowing down economic reform is organization of the state administration. Economists continually point out the interrelation between these two aspects. When the economic reform was being prepared the political authorities also seemed to share this view. This was evidenced by some changes in the organization of ministries, the Planning Commission etc. in 1981. During mar-



tial law the process of reforming the state structures was interrupted. The political authorities, preoccupied by fighting back the opposition and fearing social revolt, did not want to antagonize one more strong social group. The authorities did not return to state structure reforms until after martial law had been lifted. The general official pronouncements do not provide the basis for concluding whether and to what extent the political authorities still share the opinion that it is necessary to reorganize the state administration radically. It is highly probable that the authorities are unwilling to tackle this subject because of the following dilemma: whether to maintain the status quo and consent to stagnation of the reform and a lack of clear improvement in the effectiveness of the economy, or to reorganize the state administration, and thereby create a political risk of destabilizing the power structure while not automatically guaranteeing a rapid improvement of effectiveness.

*The social attitudes dilemma.* A great influence on economic reform is exerted by social attitudes, but this influence is ambiguous. On the one hand society expects an improvement in the economic situation and in economic effectiveness, which is in line with the ultimate goals of the reform. On the other hand, however, there exists quite a degree of contradiction between social attitudes and the shape of reform, conditions for its success, inevitable by-products etc. Price rises necessary for bringing back market equilibrium provoke social resistance. The principle of enterprise autonomy and dependence of wages upon enterprise performance are not understood by society. Furthermore, there is a strong egalitarian pressure and expectation that the state will ensure everyone a decent living standard. Altogether, social attitudes prefer a model of strongly centralized economy, in which the state manages the economy directly (excepting agriculture, services and crafts), and cares for the equity and welfare of all citizens. This is the very model with which the economic reform wants to have done. The state authorities therefore face still another dilemma: whether to try and follow the current postulates of society, or long-term interests.

*The self-management dilemma.* The problems concerning self-management relate, on the one hand, to the economic situation previously depicted and the economic system, together with the way it functions, and, on the other hand, to problems inherent in self-management itself.<sup>15</sup> In its primitive version economic reform anticipated a significant place for employee self-management. After 1981, the competences of self-management bodies were diminished, though formally they were still important. An even greater negative influence was exerted on self-management by the evolution of the overall economic sy-

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<sup>15</sup> More detailed description of employee self-management can be found, e.g. in: R. Szul, »Workers' Self-Management in Poland«, *Economic Analysis* 2/1986, or D. C. Holland: »Self-Management in Poland since Martial Law«, *Economic Analysis* 3/1986.

stem. Limitations on the actual autonomy of enterprises meant automatic limitations on self-management. Intensification of the phenomena characteristic of the »administrative-folksy« economy caused self-management to be a superfluous or even inopportune factor in the bargaining between state administration and enterprises. Lack of a clear relation between the quality of enterprise performance and its financial results, and between these financial results and employee wages result in employees seeing greater opportunities for wage increases in pressuring the enterprise management or state authorities directly than in the improvement of enterprise management. This, of course, weakens the economic efficiency of enterprises and decreases interest in self-management.<sup>16</sup> A certain negative influence on employee self-management is also exerted by the expansion of the private sector: work on one's own account better satisfies the need for deciding on one's work conditions and provides a better assessment of the relation between work and its results than participation in the self-management of a state enterprise.

The problems inherent in self-management itself consist primarily in the insufficient interest shown in it by employees and in doubts as to its economic effectiveness. A well-known sociologist, studying employee self-management, wrote: »The attitude of the employees towards self-management is full of paradoxes, since employees love the idea better than the institution, in the activities of which they are not very willing to get involved. Approximately 223 of the workers questioned replied that they do not feel the need to engage in social problems, although the same number maintain that management ignores them«.<sup>17</sup> Simultaneously, the idea of workers' self-management has become popular among intellectuals, largely as a substitute for nonexistent political democracy.<sup>18</sup>

With regard to the economic side of self-management, evaluation of this depends upon the point of view taken — whether the subject of observation is a single enterprise or the economic system as a whole, and whether one looks at current processes or at the prospects'. Researchers dealing with current management in enterprises are quite sceptical with regard to self-management. It often happens that those sympathising with the self-management idea change their opinion after conducting empirical studies. On the other hand scientists observing the economic system as a whole indicate the positive sides of self-management. These positive sides include, first of all, defense of enterprise autonomy and of other principles of economic reform. It is also shown that self-management is the best, and perhaps even the on-

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<sup>16</sup> Polish economists dealing with employee self-management strongly emphasize the need for applying »hard« financial rules and economic market mechanisms as the necessary preconditions for the efficient functioning of self-management. See, e.g., M. Dąbrowski: »Conditions of economic efficiency of a self-management enterprise« (in Polish), Warszawa 1985.

<sup>17</sup> W. Morawski: »Overview of self-management (1): At home and elsewhere« (in Polish), *Zycie Gospodarcze* 34/1986.

<sup>18</sup> See W. Morawski: »Overview of self-management (2): Democracy: industrial and political«, *Zycie Gospodarcze* 35/1986.

ly, way for the economic education of society and for fighting back the very detrimental attitudes which are having a negative influence on the national economy. The symbolic expression of differences in the evaluation of self-management are differences between the statements of the highest party leadership and the State Council on the one hand, and the government leadership on the other. While the highest party officials and members of the State Council incessantly declare their support for self-management (an expression of that is, for instance, the creation at the end of 1986 of the Center for Self-Management Studies at the State Council, intended to assist self-management activists), the government leaders are far less enthusiastic, emphasizing the necessity of strengthening the director's position in the enterprise. This is interpreted as a threat to self-management. It does not seem that these differences are of an ideological or political nature. They are an expression of yet another dilemma of Polish economic reform — the role and function of self-management.

An illustration of the dilemmas described above is provided by the attempts to change the way the economy functions undertaken recently (1986 and beginning of 1987) by the state authorities. Last year, 1986, dissatisfaction with the functioning of the economy and the lack of a distinct improvement in effectiveness reached such a level that the authorities were forced to take some decisive steps. In autumn 1986, the government proposed changes in the laws on economic reform. These changes were meant to make the economic system more consistent, to counter inflationary pressure, to strengthen financial discipline, to ensure recovery of market balance, to enable restructuring, etc. They consisted of a radical decrease of self-management competences to the advantage of enterprise directors, and of enterprise competences to the advantage of central administration. These governmental proposals were met with strong criticism from various sources: self-managerial, trade-unionist, social organizations, expert teams, particular experts, members of parliament, etc. Especially active here were employee self-managerial bodies. It can be said that it has their prompt and decidedly critical response which encouraged the other groups to express their opposition. Under the influence of this criticism, the party leadership also did not support the changes proposed. After a few weeks the government gave up the most radical suggestions. Another essential event was the speech of Gen. Jaruzelski at the meeting of the Commission for Economic Reform at the end of March 1987. Active acceleration of economic reform, in accordance with the initial precepts of the reform, was proclaimed in this speech.

In the middle of April detailed prerequisites for the second stage of economic reform were published and for discussion. They are, in general, a repetition of the assumptions made for the reform. Simultaneously, emphasis is placed upon the necessity of restitution of market balance, increase in enterprise autonomy, and debureaucratization of economy, and there is provision for more flexible ways of capital transfer among enterprises, including the possibility of creating a capital market and stock exchange. These prerequisites confirm

support for the self-management concept, but its implementation would require quite a significant change in the present organization of self-managerial bodies. This especially involves enterprises becoming joint stock companies.

If the prerequisites of the second stage of economic reform are to become reality, this would constitute a true attempt at breaking out of the vicious circle of dilemmas.

## PART 2: SELF-MANAGEMENT IN TRADE — ANALYSIS OF EMPIRICAL STUDIES

The studies reported here encompassed changes in self-management of internal trading enterprises in the period 1979—1985. The choice of the initial year 1979 was a random one. It turned out later that this was the last year before important economic disturbances and social changes occurred. The studies were terminated in 1985 because the economy was then functioning in an already relatively stable manner, although on a much lower level, after the events previously mentioned, and the laws introduced after 1980 had become the basis of practice in corresponding domains. Domestic trade was chosen as the subject of this study, since it is only in trade that there are sufficiently large state and cooperative enterprises in Poland.<sup>19</sup> This fact made it possible to perform intersectoral comparisons.

The study was conducted by analysing legal acts, interviewing employees of enterprises — including management members, and activists in self-managerial bodies, and by analysing documentation, especially that related to concrete decision-making. Finalization of the research project consisted in a multi-aspect study of 14 purposefully chosen enterprises (8 cooperative- and 6 state-owned), performed during the summer of 1985. In the course of this final study, interviews with 120 persons from enterprise management were conducted and as many as 466 decision-making cases were analysed in detail.

Quite significant changes in legal acts concerning state enterprises took place in this period. Before 1980 the leading principle of management in Polish state enterprises was the one-man-rule principle, according to a decree of 1950. In 1958 legal bases for the functioning of self-managerial bodies were created. Their competences in essential matters were, however, often contradicted by those of enterprise directors (a phenomenon quite frequent in the Polish legal system).

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<sup>19</sup> The difference between state enterprises and cooperative enterprises is that a state enterprise is owned by the state and a cooperative is owned by its members. Part of the assets of a cooperative is owned by the cooperative as such and the members have a stake in the other part. It means that a cooperative member pays an amount of money when entering the cooperative and receives it (plus a surplus) when leaving. (This money is a rather symbolical sum). Only workers in the cooperative enterprise may be members. The enterprise may also employ non-members. In practice, however, differences between state enterprises and cooperative enterprises are not so evident because of a high degree of bureaucratization and state control in both cases.

Fully within the self-management competence were only marginal matters, primarily of the welfare and family service type.

The trade enterprises analysed were not exceptional in that respect. In all the enterprises studied there existed at the outset a body called »the employee self-management conference«. This conference convened usually twice a year. The meeting which took place at the end of January or in February, the date depending upon the enterprise, was devoted to evaluation of the results of the previous calendar year and to making plans for the current year. The second meeting, taking place in August or in September, was devoted to current realization of tasks planned, and especially to evaluation of the activities of the first half of the year. Conferences used background documents prepared by director's offices and usually ended relatively quickly by adopting the directors' proposals as binding self-government decisions. Besides the self-management conference, standing organs of self-management have also been functioning, embodied in the so-called »plant council«. The competences of this body, however, were limited to employee problems and had very little to do with managing the enterprise as a whole, even from a purely formal point of view.

Legal changes relating to the situation observed in the beginning were brought about by the new laws on state enterprises and on self-management of state enterprise employees. Two of the self-management bodies, namely the »general assembly of employees (delegates)« and the »employee council«, are now organs of the enterprise as well. The general assembly of employees is an occasionally convened body. In enterprises with more than 300 workers the general assembly of employees is replaced by the assembly of delegates. The employee council is composed of 15 persons elected by employees and functions on a permanent basis.

The general assembly of employees votes the enterprise statute, the self-management statute, and also the 5-year economic plans. Its influence on the management of the enterprise is thereby marginal. The employee council, on the other hand, has, from the legal point of view, very broad and very concrete competences. It decides upon a division or a merger of the enterprise with another, upon its participation in an association of enterprises, votes the annual plan and accepts the financial report of the enterprise, decides on investments and upon the turnover of fixed assets. Further, this body decides on the distribution of profit and has a say in decisions concerning employment of the director and his deputies. Apart from that, the employee council has wide control and opinion-issuing rights in other matters.

In all of the 6 enterprises analysed most of these competences were in practice not used. This opinion was confirmed both by the interviews conducted and by the analysis of decisions taken. Respondents' evaluations regarding the participation of self-management in governing the enterprise were quite unanimous. More than half the respondents never got in touch with the employee council, and none of the others said that the activity of this body conforms with its statute (see Table 1). Most answers indicated that employee councils

conduct more or less active work, but there were — sporadically — statements suggesting that employee councils do not conduct any real activity at all.

Table 1.  
*Opinions of respondents concerning activities of the employee councils (in %)*

Opinion	% of responses
Never got in touch with the council	57.5
Got in touch with it and deem its influence on decisions made to be	
— decisive	—
— high	17.5
— low	15.0
— none	7.5
No response	2.5
<b>Total</b>	<b>100.0</b>

Source: E. Kirejczyk: »Collective decision-making in cooperative and state trade enterprises in the period 1979—1985« (in Polish). Ph. D. Dissertation.

Analysis of decision cases has given results confirming the survey responses. In the documentation of decisions made, which, according to legal regulations should be taken by the employee council (excepting one domain, which is commented on below), no trace was left that could bear witness to the interest of the council in the decisions analysed, e.g. traces of discussions, of votes that are far from unanimous, of sending decision drafts away to be changed, etc. There were cases in which no traces were left of the fact that the employee council was involved in consideration of a given decision, in spite of a formal obligation on the council to consider such decisions. Quite often the representatives of the council interviewed displayed lack of knowledge of their legal situation, that is, they did not know that participation in taking these decisions was both their right and their duty.

Exceptions to this rule were matters concerning wages, work conditions, welfare and family services and sometimes employment policy. Documentation related to these decisions often retain the traces of active shaping by self-management bodies. Representatives of employee councils also spoke of conflicts with directors in relation to such matters. Conflicts of that type did not, however, occur in relation to crucial economic decisions.

Respondents did not expect, anyway, self-management to function differently. Blue-collar workers, foremen and low-level managerial staff expected a fair representation of employee interests from the employee council. The criticism expressed by these employees of the self-management bodies, if voiced at all, concerned mainly their too limited sovereignty in relation to director's office in the domain of wages and work conditions, and not lack of participation in taking strategic

decisions. On the other hand one of the top managers stated: »Alas, what we can expect from self-management organs at the most is constructive criticism. They are not capable of assisting in management«.

In trying to establish the causes for the lack of influence of state enterprise self-management bodies on the management of these enterprises, it can be concluded on the basis of the analyses carried out that attention should be paid mainly to the two following factors.

— lack of interest of employees and their representatives working in self-management in relation to matters other than wages, work conditions and social and welfare questions;

— lack of proper skills within the self-management bodies for dealing with enterprise management affairs.

Besides state enterprises there are also cooperative enterprises in Polish domestic trade, these having the character of users' cooperatives. In contrast to the state trading organizations, there were no changes in the legal situation of self-management in cooperative trade in the period considered. Although the new law on cooperatives was introduced in 1982, it did not bring any changes concerning cooperative self-management.

Table 2.

*Opinions of the managers interviewed on self-management bodies in the cooperative sector (in %)*

Opinion	With regard to		
	Managerial boards	Supervisory councils	General assemblies
Never got in touch with them	26.3	31.2	42.5
Got in touch with them and assessed the influence as			
— conforming to the statute	15.0	3.8	1.3
— high	18.7	15.0	6.2
— low	18.7	20.0	11.3
— none	8.8	20.0	30.0
No response	12.5	10.0	8.7
Totals	100.0	100.0	100.0

Source. E. Kirejczyk: »Collective decision-making in cooperative and state trade enterprises in the period 1979—1985« (in Polish). Ph. D. Dissertation.

According to the cooperative law, management of cooperatives must in Poland be carried out collectively. The authority structure is a three-level one, consisting of: general assembly of members (viz. representatives), supervisory council and management. As distinct from

solutions in force in other countries, it is not possible to employ at the intermediate levels professional inspectors nor auditing commissions. Formally, the chairman of the managerial board is not a supervisor of the other members, and all the decisions should be taken collectively by the board. Thus, in the study reported here, problems of self-management were analysed by breaking down the self-management bodies into three basic levels.

As can be seen from Table 2, the interviewees evaluated that the managerial boards exerted the highest influence on the decisions made, notwithstanding that only 15% of respondents stated that managerial boards acted in accordance with the law on cooperatives, i.e. that decisions were actually being made by the board and not exclusively by the chairman. The role of supervisory councils is adequately illustrated by the fact that every third respondent never got in touch with them. Only 3.7% of respondents maintain that supervisory councils fulfill their statutory tasks. The conviction that supervisory councils were passive or did not act at all, dominated in the responses. The general assemblies received the lowest evaluations. Only one respondent, from the highest managerial level, stated that general assemblies fulfill their statutory duties. More than 80% of persons interviewed either never got in touch with the general assembly, gave no response or evaluated the assembly's influence as none.

Analysis of documentation brought results which concurred with these opinions. While in the documentation concerning decisions taken by the managerial boards one could sometimes find traces of discussions, of returning to a problem during several meetings, and there were minutes including separate votes of individual members of the board, no such traces could be found in documentation concerning decisions taken by supervisory councils and general assemblies. In almost all cases, these decisions were prompt adoptions of decision drafts prepared by the managerial boards. In the documents reviewed there were usually no traces of such drafts being sent back to the board for changes to be introduced, for additional justification of the board's position, or, at least, of stormy discussion. Members of supervisory councils did usually not remember such discussions when interviewed.

Relations between operative management and the self-management bodies are also characterized by a lack of traces — both in the documentation and in the responses of the managers interviewed — of conflicts between these two types of organs, while conflicts between cooperatives and their associations<sup>1/20</sup> as well as between cooperatives and their environment were often quoted. It was indicated that in the case of a conflict between the management of a cooperative and that of a cooperative association, the cooperative management is always capable of persuading their supervisory council that, irre-

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<sup>20</sup> Cooperatives from so-called »cooperative associations'. Every association has its staff (management of the association) which ought to coordinate activities of cooperatives, assist them etc. In practice they are mostly pure bureaucratic organs subordinated to the state bureaucracy, aiming at controlling cooperatives.



spective of substantial reasons to the contrary, the council will stand on the side of management.

In just out of the 8 cooperative enterprises studied, it could be concluded that the supervisory council was actively fulfilling its statutory functions. Respondents indicating this particular case did not link it with functioning of the council as a whole, but with the person of its chairman — previous president of the managerial board of this cooperative during many years, that is, someone who had not only mastered appropriate skills, but also had enough influence to really shape the activities of this cooperative.

Hence, the studies brought very similar results for state enterprises (employee self-management) and cooperative enterprises (users' self-management). In such a situation it seems natural to seek the causes, and especially — whether political factors played a role in forming this situation. One cannot, of course, exclude a priori in Poland the pressures exerted by the politico-administrative authorities, but reducing the problem merely to the result of such pressure would constitute inadmissible simplification.

The hypothesis of political struggle could perhaps be accepted in the state enterprises. On the one hand the trade union and self-management movements have been fought off in the state sector since the end of 1982. On the other hand the trade union »Solidarity«, made illegal, appealed for the boycott of the new, official trade unions and, if changed, the new self-management. The weakness of official self-management bodies in state enterprises could result from these circumstances.

It is, however, hardly possible to find similar causes in the cooperative sector. In the years 1980—1981 no special tendencies emerged towards changing the self-management situation in cooperatives, although there were such tendencies, and indeed, successful actions, to break bigger cooperatives into smaller ones and to increase their autonomy. The cooperative movement did not, either, conduct illegal activities. The political purges of 1982, traces of which could be found in at least one of the cooperatives studied, did not involve self-management representatives, but persons from the professional operative management. Finally, in the difficult political situation of the years 1982—83 some of the cooperatives studied succeeded — just in this period — in gaining the full autonomy contained in their charter. On the other hand, none of the cooperatives considered succeeded in the period of the study in practical implementation of their legal and statutory rights and obligations concerning self-management.

Summarizing, the studies carried out indicated that the shortcomings of self-management were, inter alia, also caused by the lack of interest in it, expressed by employees and users. Lack of interest in self-management was most often connected with lack of professional skills among the members of self-management bodies, and perhaps even of members of cooperatives in general, in the domain of management, especially of the big enterprises considered in the study.

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## DILEME EKONOMSKE REFORME I SAMOUPRAVLJANJA U POLJSKOJ

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### Re z i m e

Članak se sastoji od dva dela. U prvom analizira se stanje privrednog sistema u Poljskoj, u drugom prikazani su podaci empirijskog istraživanja samoupravljanja u trgovini u god. 1979—1985. kao primer opštih problema samoupravljanja.

Godine 1982, 1. januara otpočela je privredna reforma u Poljskoj. Posle 1982. poljska privreda postigla je značajne uspehe u prevladavanju krize, no oni su bili prvenstveno rezultat iskorišćavanja tzv. prostih rezervi, izvanrednih mera i sl., a ne rezultat poboljšanja efikasnosti privrednog sistema. Privredna reforma još nije uspela da kvalitativno promeni način privređivanja.

Kočnice reforme su mnoge nerešene, uzajamno povezane, dileme. Tržišna neravnoteža i bojazn od visoke inflacije uzrokuju nemogućnost da tržište vrši ulogu alokacije robe i potrebu za državnom distribucijom većeg dela proizvodnje. To učvršćuje državnu administraciju i umanjuje samostalnost i odgovornost preduzeća. U takvim uslovima nema povezanosti između kvaliteta privređivanja preduzeća, njihovih dohodaka i plata radnika. Gubici praktički ne ugrožavaju egzistenciju preduzeća niti visoke dohotke zaposlenih, naročito u velikim preduzećima, u rudarstvu i teškoj industriji. Plate igraju prvenstveno političku ulogu smirivanja nezadovoljstva radnika. Preduzeća nisu zainteresovana za racionalizaciju zaposlenja, što je glavni razlog deficita radne snage sa svim negativnim posledicama. Na situaciju u zaposlenju utiče i brz razvoj privatnog sektora, naročito izvan poljoprivrede, za koji su karakteristični visoki dohoci i visoka efikasnost, ali koji istovremeno izaziva neke poremećaje u funkcionisanju preduzeća i nezadovoljstvo jednog dela društva. Nedostatak sredstava za investicije uz ogromne potrebe isplate dugova, rešenje stambenog pitanja, zaštita čovekove sredine i sl., malo interesovanje za poboljšanje efikasnosti privređivanja kao i nedostatak jasne koncepcije onemogućavaju izmene strukture privrede koja je odgovorna u velikoj meri za nisku efikasnost. Nedostatak jasne koncepcije proizilazi, pored ostalog, iz činjenice da prestrukturiranje privrede podrazumeva izmenu dotadašnje strukture moći, prestiža i privilegija po sektorima privrede i društva. Negativan uticaj na privrednu reformu takođe imaju kratkoročna očekivanja društva koje traži od države da osigurava svakom stanovniku odgovarajući životni standard, vrši kontrolu cena, distribuciju dobara i sl. U takvim uslovima razvija se samourpavljanje koje je još uvek više ideja nego stvarnost.

Pokušaj razrešenja dilema koje kočje reformu je objavljivanje druge etape reforme koja reafirmiše tržišna načela i debirokratizaciju privrede.

*Rezultati empirijskog istraživanja preduzeća u trgovini pokazuju da samoupravni organi imaju manju ulogu nego što je predviđeno u statutima. Razlog je u malom interesovanju za upravljanje preduzećem od strane zaposelnih i u neodgovarajućim kvalifikacijama članova samoupravnih tela. O strateškim problemima preduzeća odlučuje stručno rukovodstvo bez vidljivog uticaja samoupravnih organa. Uticaj samoupravnih organa je znatan kada je reč o platama, uslovima rada i sl.*