



EUROPEAN INSTITUTE
FOR REGIONAL
AND LOCAL DEVELOPMENT

Grzegorz Gorzelak

REGIONAL AND LOCAL POTENTIAL FOR TRANSFORMATION IN POLAND

Warsaw 1998



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INTRODUCTION

This book originated as a contribution to the projects co-ordinated by the European Policies Research Centre, University of Strathclyde, on the regional aspects of transformation in Poland within the broader perspective of future accession of this country to the European Union. The project was financed by the European Commission. In the course of preparation of the final text I incorporated some results of research (mostly financed by the Polish Committee for Scientific Research) conducted during the last three years on Polish regions and localities, as well as of the project "Comparative Regional Development and the Political Economy of Regional Policy" co-ordinated within the European Commission-financed ACE programme by LICOS, University of Leuven. The publication of this book was made possible by generous grants from the Polish Ministry of National Education and the Polish Agency for Regional Development (PARR).

There have been several earlier analyses of the regional patterns of Polish transformation published in English (see, for example, Gorzelak, 1993, 1995, 1996; Korcelli, 1995; Szlachta, 1995; PARR, 1995; Task Force, 1996). The most recent and perhaps the most comprehensive report was prepared by the Task Force on Regional Development, a joint body of the Polish Government and the European Commission. Its diagnostic report has been published in Polish and English. In this book I refer to these sources in several places.

In preparation of this report, a statistical barrier has been encountered. Time-series data in regional breakdowns for Poland are limited, which is due to the switch from the so-called "Classification of the National Economy" (KNG) which was used in the socialist system, to the European Classification of Activities (NACE), the system commonly used in West European countries. Major statistical data referring to particular sectors of economy are available in regional breakdowns up to 1993 in KNG and from 1993 onwards in NACE. It was not possible to recalculate the regional data prior to 1993 according to the principles of the new classification. For

this reason, only in a few cases was I able to present a dynamic picture in regional breakdowns, and in most cases I simply present the regional patterns of 1995/1996.

I would like to thank the following persons for their participation in the preparation of the statistics, tables and figures: Krzysztof Berger of the Research Centre for Economic and Statistical Studies, Wojciech Dziemianowicz of the Polish Agency for Foreign Investment (PAIZ), and Tomasz Zarycki and Wojciech Roszkowski of EUROREG, University of Warsaw.

Nevertheless, all responsibility for the content of this book rests solely with its author.

Figure 1.0. Territorial organisation of Poland, 1997



Chapter 1

CURRENT STATE OF TRANSITION

1.1. Introduction

Speaking metaphorically, one may say that in Poland the so-called “*socialist system*” ended on June 4, 1989, when the first (almost) free parliamentary election¹ after over 50 years of authoritarian rule took place in Poland. This election demonstrated that the Polish nation was ready to reject the one-party authoritarian system and the inefficient, centrally planned economy. Within two months a new government, headed by Tadeusz Mazowiecki, was formed.

Since the first semi-free election of 1989, the **political system** has undergone deep restructuring. Fully-fledged political parties have emerged. Until 1997 the parties of leftist and centrist orientations were better structured than the right-wing ones, which resulted in their absence in the previous Sejm (1993–1997), although around 30 per cent of voters cast their votes for those parties². The efforts to consolidate the right-wing parties succeeded in 1997 and resulted in the election victory in September 1997 of the Electoral Action “Solidarity” (*Akcja Wyborcza Solidarność, AWS*) and the Union for Freedom (UW).

¹ According to the agreement of the communist party with the opposition, two thirds of the seats in the lower chamber of the Polish parliament (the Sejm) were reserved for three parties—the communist party, the Democratic Party and the Peasant Party—and only one third to the independent candidates (who were, in fact, all connected with the “Solidarity” trade union headed by Lech Wałęsa). The upper chamber (the Senate) was open to unrestricted political competition.

² In Polish electoral law there is a 5 per cent threshold for parties and 8 per cent for coalitions of parties.

Though there have been nine prime ministers, eight governments and six parliamentary coalitions since the first non-communist government of Tadeusz Mazowiecki³, Poland has been a politically stable country. For the past few years "parliamentary games" have not affected the economy and the political institutions, which are constantly developing. In 1997 a new democratic constitution was passed by the parliament and approved in a general referendum, which ended the rule of the provisional so-called "small constitution" that provisionally adapted the national constitution of 1952 to the new conditions ensuing after the changes of 1989.

On January 1, 1990, Polish economic "*shock therapy*" was applied by Leszek Balcerowicz, who has twice served as the deputy prime minister responsible for the economy: in the first democratic government and now in the current AWS-UW government. At the beginning of the reform in 1990 the *economic situation* was difficult. The last communist government in its last decision liberated the prices of food and abandoned the rationing system. This move generated hyperinflation and did not lead to the stabilising of the market, since income indexation was introduced.

The economic measures undertaken by Balcerowicz led to the rapid creation of a market system, one which, however, was still characterised by a remarkably high degree of state intervention. The first moves, like freeing all prices, led to steep growth of inflation (up to over 70 per cent monthly) and sharp decrease in the purchasing power of the population. Liberalisation of foreign trade resulted in growth of imports, especially of high quality goods from western countries, and decrease of exports, due to the collapse of the traditional markets of the COMECON countries. At that time Polish producers were unable to compete on the western markets.

All these processes meant a dramatic economic revolution. *Within a few months the Polish economy switched from a supply-constrained system (a generic feature of a centrally planned economy) to a demand-constrained system (i.e. to a market economy).*

The necessity of adaptation was thus forced on the majority of participants in the economic game: employees and employers, producers and consumers, private and public enterprises etc. At first, this adaptation led to effects of a negative nature: all major economic categories deteriorated. However, after two and a half years the Polish economy bottomed out and began to grow again.

The following features of the Polish economy in recent years are worth noting:

- Accelerated inflow of foreign capital. By the end of 1994 about 4.5 billion USD had been invested in Poland; in 1995 the inflow was estimated at 3.7 billion dollars, in 1996 it reached approximately 5.2 billion and in 1997 it is estimated to have amounted to 6–6.5 billion. Altogether, slightly less than 20 billion USD came to Poland either in the form of portfolio or equity investment⁴. Poland received the greatest inflow of foreign capital in all of Central and Eastern Europe.

³ In 1993, Waldemar Pawlak was designated Prime Minister by President Lech Wałęsa, but he did not succeed in creating a government. There were three prime ministers of the parliamentary coalition of the Social Democrats and the Peasant Party, created after 1993 election: Waldemar Pawlak, Józef Oleksy and Włodzimierz Cimoszewicz. Finally, in October 1997, Jerzy Buzek was nominated by the majority coalition of AWS and the Union for Freedom.

⁴ Data on foreign capital inflow differ considerably according to the statistical source. The Central Statistical Office reports only the capital of firms which have compiled appropriate statistical documents and made them available to the CSO. The Polish Agency for Foreign Investment (PAIZ) reports the capital of all investors operating in Poland. The Polish National Bank reports effective trans-border flows of capital (e.g. domestic debt repayment made by a foreign firm in Poland is not treated as a foreign investment). Data reported above are from PAIZ.

- Faster growth of fixed capital formation than consumption, which created foundations for future growth. This trend reversed during the second half of 1996, which indicated that consumers gained confidence in the future prosperity of the Polish economy. If the monetary policy of the state national bank is careful and firm enough, efficient regulations of the interest rate will easily secure further disinflation;
- Shift from the public to the private sector—in 1996 the latter employed 64.1 per cent of the total workforce, as compared to 45.1 per cent in 1990.

Inflation has appeared to be the most grave impediment to the further improvement of the economic situation. In 1995 it still exceeded 20 per cent and in 1996 it dropped to 18.5 per cent, to reach 13 per cent in 1997 (it is envisaged that inflation will be down to 9.5 per cent in 1998). However, inflation has reached levels regarded as “civilised” and is no longer considered the main impediment for economic stabilisation and the growth of the Polish economy. On the contrary—the most recent analyses tend to regard Polish economy as overheated, which might pose the danger of a Czech or even Far Eastern type of economic crisis. The government introduced some measures in 1998 to cool down growth and stabilise the economy.

The *state budget deficit* only briefly exceeded 5 per cent of GDP. Since 1994 the state budget has been much more balanced; in 1996 the deficit amounted to 2.5 per cent and in 1997 not more than 2 per cent. The budget for 1998 assumes a deficit within the range of 1.5 per cent of GDP.

Stabilisation of the financial situation allowed for the reform of the Polish currency on 1 January, 1995. 3.5 new Polish *złotys* equal (as of July 1998) 1 USD (before the reform the exchange rate was 1 USD = 25,000 zł⁵). The devaluation of *złoty* is slower than the inflation rate, which results in a long-run real appreciation of the Polish currency. This is due to the constant process of convergence of Polish economic structures to the structures existing in more mature market economies. Some economists advise stabilisation of the exchange rate of foreign currencies, which would exert an even stronger pressure on Polish exporters and help to combat inflation. This advice, however, is hardly prudent, taking into account the mounting foreign trade deficit which exceeds 10 billion USD annually (and has, to date, been covered by the inflow of foreign currencies from unregistered foreign trade and foreign investment, allowing the current reserves of the National Bank of Poland to mount to approximately 20 billion USD).

Institution-building seems to be the most rapid process in Poland after 1989. The entire “*business environment*” compatible with the requirements of a market economy had to be created almost from scratch. Though several shortcomings of the institutional background still do exist, a great improvement has been made: the Warsaw stock exchange is the biggest in the post-socialist world; numerous commercial banks, some also with foreign capital, operate in the country; numerous consulting and advertising firms, both of Polish and foreign origin, have opened their offices in major cities; chambers of commerce positively influence economic life in several regions, together with over 60 agencies of regional/local development. Further development of this sector, especially of financial services, will proceed at a fast pace. **Regional**

⁵ The exchange rate of the Polish currency to one USD throughout the transformation period evolved as follows: 1989: 6,500 zł; 1990: 9,500 zł; 1991: 10,957 zł; 1992: 15,767 zł; 1993: 21,344 zł; 1994: 24,373 zł. In mid-1995, 1 USD amounted to 2.4–2.5 new *złotys*.

innovation centres are among the institutions most badly needed, since the relationships between research and production are particularly weak in the transformation of the Polish economy.

The state *administration* has not been changed considerably since 1989. The central government still concentrates too much power and the regional level is too weak economically and politically. As I have argued elsewhere (Gorzelak, 1996), the so-called “reform of the centre” that was initiated in the autumn 1996, should in fact be seen as a cosmetic change in the administrative system of the country, since it does not allow for any major decentralisation of power from Warsaw to territorial units (this matter is discussed in section 1.2.5). The reform is important from one point, however—it gave the prime minister much more power in shaping his/her government, both in institutional and personal terms. The reintroduction of *local self-government* in 1990 was a great systemic change, though further empowerment of local authorities should also be undertaken.

There exist several obstacles to systemic reforms, of which two are of the greatest importance: the inefficient *social security system* and the *personal insurance system*. It was only very recently, in the last months of the Social Democratic-Peasant Party government, that the first reforms of the social security system were introduced, while the insurance system—as well as the health care system—remain mired in socialist practices and require fundamental reforms.

Social attitudes and preferences have been changing considerably during the transformation. The initial euphoria of abandoning “real socialism” and “living in one’s own home” was soon replaced by disillusionment caused by the hardships of the reforms. A vast majority of the society, deeply attached to the principles of “social justice” understood in a very egalitarian manner, rejected in particular such phenomena as *unemployment* (peaking at 16 per cent in 1994, and then decreasing to 14 per cent in late 1995 and further to 12.5 per cent in 1997) and growing *income differentiation*. It may be said, however, that a growing number of people in Poland, especially professionals and representatives of the middle class, note the positive sides of the reforms.

The *international situation* of Poland should be evaluated as stable and positive. Poland is a member of the United Nations system. It was one of the first Central European countries to enter the Council of Europe and the second to enter the OECD. Poland is a member of the IMF and the World Bank and has signed the Convention for Protection of Intellectual Rights. Membership in NATO should materialise in 1999 and in the European Union before 2005. Poland’s relations with its eastern neighbours are relatively untroubled, and there are great chances for redevelopment of economic relations with the post-Soviet republics. Co-operation with other Central European countries is developing in a very promising way, and a kind of common market may be developed in a few years’ time within the framework of CEFTA (Central European Free Trade Association).

The overall picture of the Polish experiment of building the market system in an accelerated manner deserves a positive evaluation. Strong foundations for future growth have been created. Poland is gaining international confidence, and the majority of Poles have found their place in the new political and economic situation.

1.2. Political transition

1.2.1. Constitutional order

In a referendum in May 1997 the Polish people approved their new constitution, which went into force on October 17, 1997.

Poland is a *parliamentary republic* with a president as the head of the state. The president is elected by a popular vote for a five-year term.

The president is one of two instances of executive power in Poland, the other being the government. The Polish presidential model lies somewhere between the French and the German solutions. The president may dissolve the parliament in two cases: when it is unable to pass the national budget within three months and when it is unable to create a viable coalition that can form a government. In the process of government formation, the initiative passes to and fro between the president and the parliament.

Civil control over the army and the police is one of the milestones of the Polish political transformation.

1.2.2. Democratic institutions

Democratic institutions have become well rooted in Polish political practice, though their position within the state structures is still changing. The separation of powers is a major principle of the institutional set-up of the Polish political system. The juridical system is well developed, with the following superior courts:

- the Supreme Court (*Sąd Najwyższy*);
- the Supreme Administrative Court (*Naczelny Sąd Administracyjny*);
- the Court of Appeal (*Sąd Apelacyjny*);
- the Constitutional Tribunal (*Trybunał Konstytucyjny*);
- the Tribunal of the State (*Trybunał Stanu*).

The positions of these supreme courts are strong. The courts are independent from any other political powers, and the judges are nominated for life by the president. With the exception of the ability of a two-thirds majority of the lower chamber of the parliament to overturn a sentence of the Constitutional Tribunal, the sentences of the supreme courts are definitive. The law on the Constitutional Tribunal was changed in the new constitution and for all new parliamentary bills its decisions will be definitive (there will be a two-year *vacatio legis* for the bills passed before the new constitution's going into effect).

The institution of the Polish "ombudsman" was created in 1988 and has succeeded in becoming a strong element of the Polish institutional system. In spring 1996, the third ombudsman—as previously, an outstanding specialist in juridical sciences—was elected by the parliament.

1.2.3. Political parties

At the end of 1997 there were *over 300 registered political parties* in Poland. However, due to the most recent regulations, which require that a party have at least 1000 members, this number will no doubt go down dramatically. Of the three major parties of the communist regime, two succeeded in their adaptation to the new

conditions: the Social Democratic Party of the Republic of Poland (*Socjaldemokracja Rzeczypospolitej Polskiej*, SdRP) which is the reformed former communist party, and the Polish Peasants' Party (*Polskie Stronnictwo Ludowe*, PSL), the successor of the former United Peasants' Party.

Most of the parties have been and still are active in the capital, Warsaw, and in slightly more than ten other centres. The most numerous party is the PSL, claiming some 300,000 members, with its electorate and organisational basis located mainly in rural areas. The second most numerous party is the SdRP, considered to be a "post-communist" party, with approximately 60,000 members. The remaining parties have less than 50,000 members each.

Polish political parties cover the entire ideological range, though sometimes it might be difficult to assign several parties to a particular ideological class. In fact, the traditional divisions of "left" and "right" do not seem appropriate to describe the Polish political stage. There have been several attempts to describe the spectrum of Polish political parties in a few dimensions (Jasiewicz, 1995). These include:

- **the economic dimension;** several approaches might be applied: free market vs. state interventionism; monetarist vs. anti-monetarist; meritocratic vs. redistributive;
- **the political dimension:** authoritarian vs. democratic; primitive rule of majority vs. rights for minorities; de-communisation vs. opposition to de-communisation;
- attitudes towards the **role of religion:** separation of church and state vs. clericalism; liberal regulations on abortion vs. ban on abortion;
- attitudes towards **European integration:** nationalism vs. integrationism; chauvinism vs. openness.

In several cases the parties that label themselves as "right" in fact are "right" (or conservative) only in one of these dimensions (e.g. attitude towards religion) and may even express populist (eg. *Ruch Odbudowy Polski*—Movement for the Reconstruction of Poland, ROP) or clearly leftist economic standpoints ("Solidarity" trade union which formed the electoral alliance *Akcja Wyborcza 'Solidarność'*—Election Action 'Solidarity', AWS, and won the election). By contrast, the Social Democrats have a liberal economic programme and are definitely non-conservative in the ideological dimension. Only a few parties are consistent in both respects. A more detailed picture of the parties' orientations related to the four major political and economic dimensions is provided in table 1.1.

The political groups analysed above have quite clearly defined electorates. Educated persons vote first of all for the Union for Freedom (*Unia Wolności*, UW, the new party that was created after two parties, the Democratic Union and the Liberal-Democratic Congress, merged in 1995), but also, though to a lesser degree, for the Alliance of the Democratic Left (*Sojusz Lewicy Demokratycznej*, SLD), composed primarily of the representatives of SdRP and the "post-communist" trade unions (OPZZ). Blue collar workers, on the other hand, distribute their votes among the SLD and the AWS. Farmers, on the other hand, vote most frequently for the Polish Farmers' Party (PSL) and for the Popular Alliance (PL), though recently Polish farmers seem to be shifting their support to other parties. Created in 1996, still heterogenous, AWS assumed economically populist and ideologically conservative positions which gained wide social support, as shown by last parliamentary election in September 1997 (see table 1.3).

Table 1.1.

Polish political scene, 1998

Name	Type of economy	Nature of the state	European option	Political socio-technique
UW	moderate state interventionism	secular, with a moderate role of the Church	decidedly European	alliance of reform-oriented groups
SLD	liberal with state interventionism	decidedly secular	European	social agreement
PSL	state interventionism in agriculture	secular, with an important role of the Church	European with strong reserves	social agreement
ROP	state interventionism, populist	unclear, but with an important role of the Church	politically: European; economically: anti-European	political purge
AWS	state interventionism, populist	based on Catholic values	politically: European; economically: anti-European	political purge

UW: *Unia Wolności* (Union for Freedom); SLD: *Sojusz Lewicy Demokratycznej* (Alliance of the Democratic Left); PSL: *Polskie Stronnictwo Ludowe* (Polish Farmers' Party); ROP: *Ruch Odbudowy Polski* (Movement for Reconstruction of Poland); AWS: *Akcja Wyborcza Solidarność* (Electoral Action 'Solidarity').

Source: modified and updated table 23 from G. Gorzelak, B. Jałowiecki (1993).

Although *trade unions* have played an important role on the political scene during recent years—which recently has manifested itself in the political involvement of “Solidarity” in reuniting the conservative part of the Polish political scene—a gradual decrease of the political and social significance of the syndicates should be expected. In recent years strikes, both these organised by the OPZZ and by “Solidarity”, have practically ended with failures, though the strikes of coal miners, especially those organised in the middle of severe winters, have led to at least partial successes. Governments react calmly to these strikes, while the society is beginning to react with open animosity, especially when the strike concerns the employees of public service institutions (teachers, health care employees, railroad workers, municipal transport employees etc.). One may expect the political role of trade unions to decrease and their open involvement in politics to be more and more limited, in spite of the very strong efforts of the “Solidarity” trade union to regain importance on the national political stage as an organiser of the entire anti-post-communist bloc. It cannot be ruled out that this bloc will split into several smaller parties and factions.

The Polish *Catholic Church* still remains an important political institution in Poland, which can be explained by its role as the “governor of souls” during the communist period and its role in the transition to democracy. Although the need for its involvement in current politics is much smaller than in the times when the Church remained the only independent institution in the country, a part of Church hierarchy is using the opportunity created by the transformation period to try to gain a dominating position not only in the spiritual sphere but in the secular realm as well, aiming to enforce their ideology with the assistance of the state apparatus (i.e. by administrative methods), as was the case during the rule of the “post-Solidarity” political parties through 1993. During the rule of the leftist coalition in 1993–1997, the Catholic hierarchy assumed a very traditional and in several cases—as in the case

of regulations on abortion—"fundamentalist" position. This met with the negative reactions of a great part of society, even though the majority of Poles are Catholic (some 50 percent of Poles attend church regularly, though this percentage is likely to decrease in the near future).

1.2.4. The parliament

The general elections held throughout the entire period 1989–1997 demonstrated a pendulum-type dynamic of public political preferences:

- massive rejection of the communist regime and general support of "Solidarity" candidates (1989),
- strong support of "Solidarity" (70 per cent of votes cast for Lech Wałęsa in the second round of the presidential election in 1990), accompanied a great deal of confusion (30 percent for Wałęsa's counter-candidate "from nowhere", Stan Tymiński)
- support for the post-communists and "reformed peasants" in 1993 and subsequently the defeat of the "legend of Solidarity", Lech Wałęsa, in the last presidential election (1995), won by the candidate of the "post-communists", Aleksander Kwaśniewski,
- support for the "Solidarity" tradition in 1997 election.

This evolution is presented in a synthetic form in table 1.2.

Table 1.2.

Change of political orientations in Poland, parliamentary elections 1991–1997

Orientation	1991	1993	1997
Anti-communist	34.7	18.4	42.4
Anti-"Solidarity"	20.9	34.3	36.7
Centrist	33.3	26.8	17.2

Source: S. Gebethner (1995) p. 34. For 1997: own calculations.

Under the present electoral law a five-percent threshold for political parties and an eight-percent threshold for their coalitions have been introduced. This regulation resulted in two consecutive relatively unfragmented parliaments, as opposed to the first parliament, where over 20 parties were represented. After both the election of 1993 and that of 1997, five parties gained representation in the Parliament (see table 1.3).

The parliamentary election which took place on 21 September, 1997, was won by the coalition of anti-post-communist parties under the umbrella of "Solidarity" by a 7-point margin. Polarisation of the political scene in Poland has led to marginalisation of other parties, among which only the Union for Freedom managed to increase its electorate. The defeat of the Polish Peasants' Party, of the Union for Labour (which did not pass the 5-percent threshold) and of the radical conservative ROP were the most spectacular manifestations of this polarisation.

It is interesting to note that political behaviour—as measured by voting patterns—is in Poland strongly differentiated regionally. There are several dimensions of these differences (see Zarycki, 1996, 1997):

Table 1.3.

Results of 1991, 1993 and 1997 parliamentary elections in Poland

Parties and coalitions	Votes (per cent of valid votes)			Parliamentary seats					
				absolute numbers			per cent		
	1991	1993	1997	1991	1993	1997	1991	1993	1997
SLD	12.0	20.4	27.1	60	171	164	13.0	37.2	35.7
PSL	9.2	15.4	7.3	50	132	27	10.9	28.7	5.9
UD (UW)	12.3	10.6	13.4	62	74	60	13.8	16.1	13.5
UP	2.1	2.1	4.7	4	41	—	0.9	8.9	—
KPN	8.9	5.8	— ^b	51	22	— ^b	11.1	4.8	— ^b
KLD	7.5	4.0	— ^c	37	—	— ^c	8.0	—	— ^c
BBWR	—	5.4	— ^d	—	16	— ^d	—	3.5	— ^d
WAK ^a	9.0	6.4	— ^b	50	—	— ^b	10.9	—	— ^b
AWS	—	—	33.8	—	—	202	—	—	43.9
ROP	—	—	5.6	—	—	5	—	—	1.0

^aWyborcza Akcja Katolicka (Electoral Catholic Action), coalition of Catholic parties created before 1991 election;

^bJoined AWS;

^cMerged with Democratic Union to form Union of Freedom;

^dRenamed to *Blok dla Polski* (Bloc for Poland).

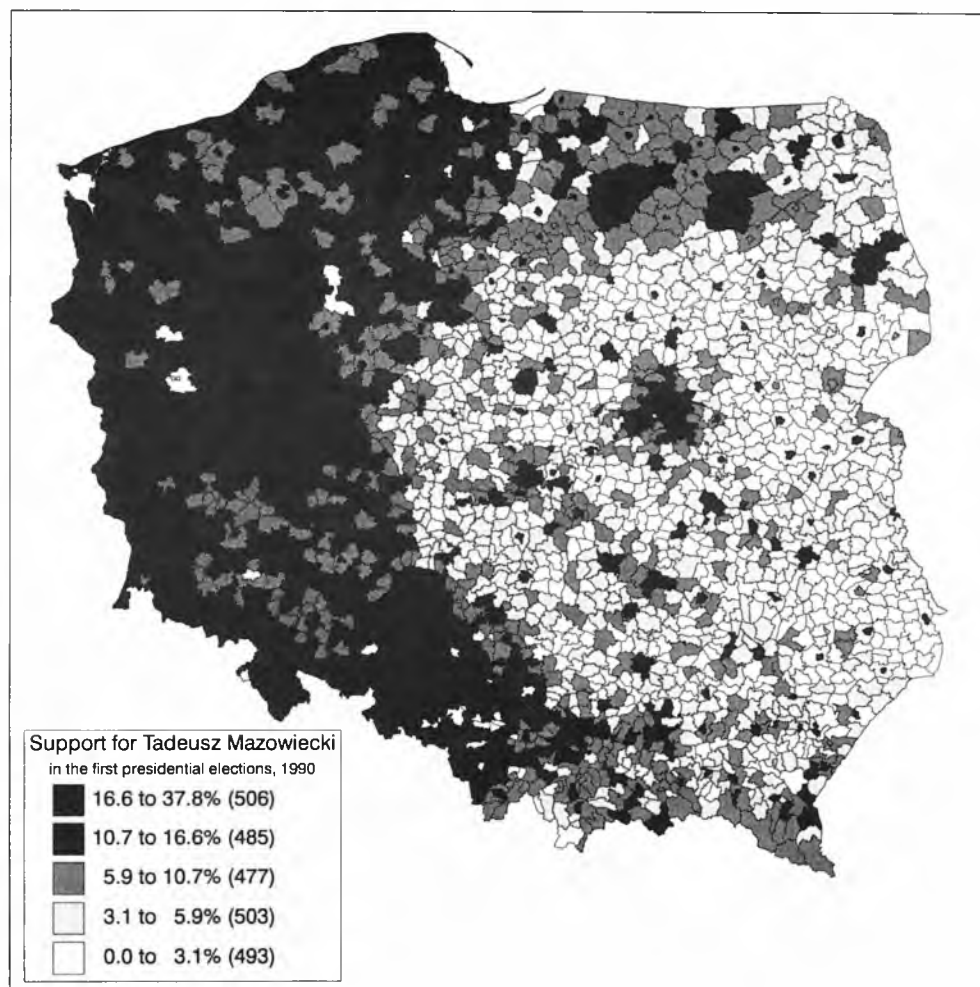
Source: Own calculations based on State Electoral Committee.

1. Traditional, historical patterns, following the boundaries of Poland's partitions in the 19th century (when Poland was partitioned between the three European powers Russia, Austria and Prussia, 1795–1918; for more details see chapter 9 and Gorzelak, 1996). The part that was under the Austrian rule (the south-eastern part of the Poland) is much more traditional and “anti-communist” than other parts of the country. The central-eastern regions (i.e. the part that was under Russian domination) has a much more “leftist” orientation—support for the SLD and President Kwaśniewski was relatively high there, though the north-eastern corner (predominantly of a rural character) is of more traditional orientation. The western and northern parts, gained from Germany after 1945 and inhabited by in-migrants from other Polish territories—mainly eastern ones that were lost to the Soviet Union—demonstrate strong support for the left. Fig. 1.1 presents the regional distribution of votes supporting the first non-communist prime minister, Tadeusz Mazowiecki, during the first round of the first presidential election, where he contested Lech Wałęsa and Stan Tyński. The influence of old partition boundaries is clearly visible.

2. Urban-rural differentiation. Bearing the above differences in mind, one may say that in general big urban centres vote more readily for traditional and conservative parties (i.e. rather against the “post-communists”, who receive greater support in smaller and medium-sized towns), and the rural areas support agrarian parties and the SLD.

These two political patterns have a clear geographical representation in statistical (principal component) analyses: the first component discriminates north-western territories from their structurally opposite south-eastern parts of the country, while the second dimension differentiates more urbanised south-western regions from less

Figure 1.1. Support for Tadeusz Mazowiecki in the first presidential elections, 1990



Source: State Electoral Committee.

urbanised north-eastern ones. Strikingly, the same geographical patterns are evident in the more durable socio-economic characteristics of the Polish regions.

A positive correlation between the effects of transformation and support for the parties which had power during the first period of transformation can be observed. This makes Polish regional political differences more stable, voting behaviours more predictable and political life less sensitive to incidental influences.

1.2.5. The territorial organisation of the state

The administrative structure of Poland has not changed since 1989. 49 small and weak regions (*voivodships*) that were inherited from the previous system have been preserved unchanged. It is a paradox of history that on the wave of democratisation in

Poland, as in other Central European countries, a process of centralisation has been observed since 1990 (see Jałowiecki, 1995, for a concise account of recent attempts to reform the Polish territorial organisation). The region became even more strongly subordinated to the central government.

In Poland a *self-governmental system* on the local level was restored in 1990, after the first fully democratic local elections. In 1996 there were 1613 rural, 315 urban and 555 urban-rural fully self-governed gminas in Poland (2483 *gminas* altogether). However, Polish *gminas* remain relatively weak, to a great extent relying on funds from the central government. The state financial system is strongly centralised, since local governmental revenues constitute only some 17 per cent of all public revenues. Local taxes are very limited and local authorities have been denied the right to conduct economic activity. According to a typology of countries from the point of view of the share of local budgets in all public spending and in GDP, Poland is a country with relatively shallow decentralisation. In 1995, local expenditure reached 7.01 per cent of the Polish GDP and 19 per cent of all public expenditures (by contrast, in Spain these figures amounted in 1987 to 9.6 and 23.2, and in France in 1993 to 10.0 and 32.0 per cent respectively—see Gilowska, Misiąg, 1995, pp. 24–26). The following table presents the revenues of local budgets in recent years.

Table 1.4.

Revenues of local budgets, 1992–1995

Revenues	1992	1993	1994	1995	1992	1993	1994	1995
	in million zł				in per cent			
Own revenues	3,046.8	4,485.3	5,970.6	801	47.3	46.4	40.3	40.1
•property tax	1,053.7	1,427.5	1,988.0	2,826.6	16.4	14.8	13.4	14.1
•tax on means of transport	223.4	320.8	413.3	603.1	3.5	3.3	2.8	3.0
•agricultural tax	173.7	371.4	417.8	519.6	2.7	3.8	2.8	2.6
•stamp duty	339.2	386.7	594.6		5.3	5.0	4.0	
•sales of municipal property	—	—	438.1		—	—	3.0	
•sales of services	86.0	255.8	367.1	4,062.3	1.3	2.7	2.5	20.4
•renting and leasing municipal property	—	239.0	205.0		—	2.5	1.4	
•other	1,171.8	1,484.1	1,546.7		17.7	15.4	10.4	
Shares in state taxes	1,428.0	2,448.5	3,420.7	4,616.4	22.2	25.4	23.1	23.1
•corporate tax	166.0	349.2	366.3	468.9	2.6	3.6	2.5	2.3
•personal income tax	1,261.4	2,099.3	3,054.4	4,147.5	19.6	21.8	20.5	20.8
Conditional grants from state budget	1,029.3	1,612.0	3,205.4	4,115.7	18.8	16.7	21.7	20.6
•for own municipal tasks	162.5	351.2	479.4		2.5	3.6	3.2	
•from commissioned tasks	1,046.8	1,260.8	2,725.8		16.3	13.1	18.4	
General grants from state budget	756.1	1,102.7	556.1	746.3	11.7	11.4	3.7	3.7
Educational grants	—	—	1,655.4	2,296.0	—	—	11.2	11.5
Total	6,640.2	9,648.5	14,808.0	19,993.4	100.0	100.0	100.0	100.0

Source: Task Force—Finances (1996); for 1995 Central Statistical Office.

Subsidies of the state budget to the local budgets are calculated on a per capita basis, and the size of the locality is the only criterion taken into account in

differentiating the subsidy (in cities of over 300,000 inhabitants the subsidy is higher by 50 per cent than in the smaller urban and in the rural *gminas*). The shares (17 per cent) in the state personal income tax used to be calculated in the following way: all personal income taxes collected in a given voivodship were summed up and then distributed to particular *gminas* according to their share in the voivodship's population. In this manner, the *gminas* were "averaged" regionally, which benefited the poorer *gminas* at the expense of the more well-off ones and rural ones at the expense of urban ones (farmers do not pay personal income taxes in Poland). A stepwise reform of this system is under way, which will result in allotting to every local budget exactly 17 per cent of the personal income tax collected in a given locality. *Gminas* also receive 5 per cent of the state corporate income tax. The only major own tax of the local budgets is the real estate tax (a property tax does not exist as yet). There are additional local taxes, like the tax on dogs and the tax on agricultural land which is the only local tax which has some importance as a source of local revenues in the rural *gminas*.

The table reveals that the revenues of local budgets have become more and more state-dependent. The share of own revenues is constantly decreasing, which only in part may be attributed to the educational grant, which comprises funds allocated to the municipal budgets due to the transfer of responsibility for running primary schools from the state to local governments.

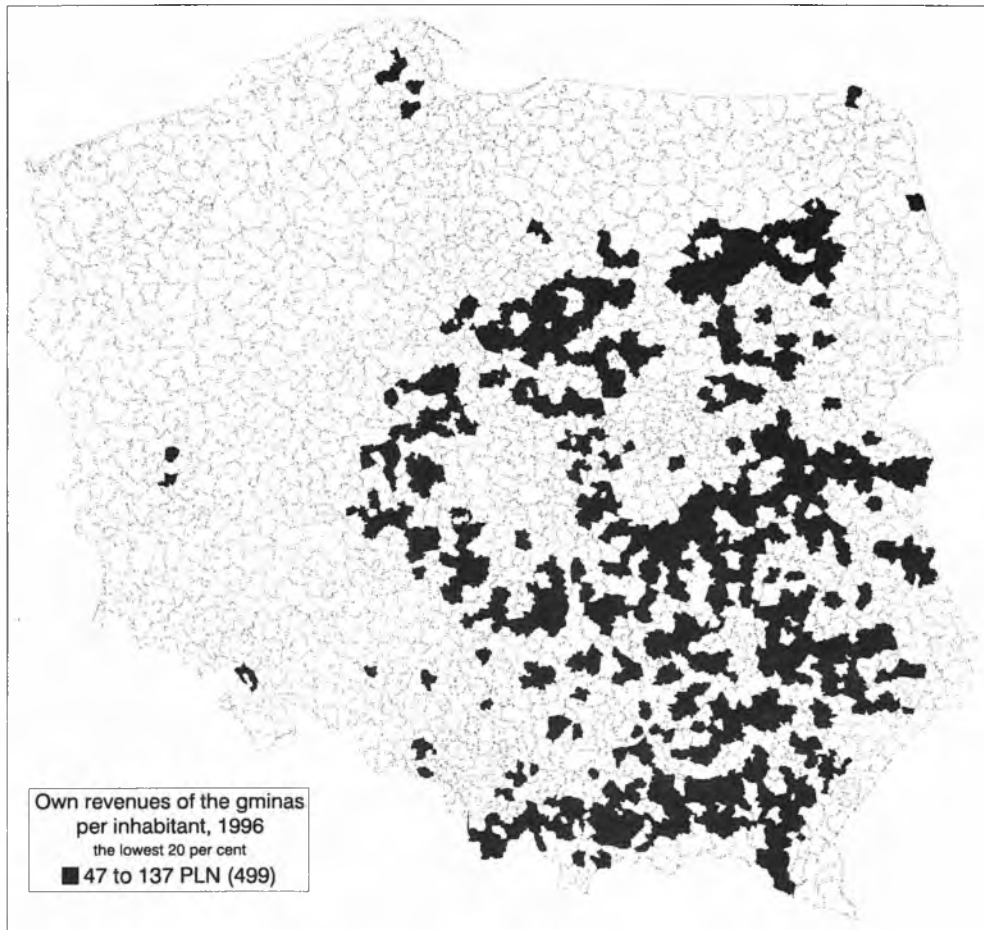
The spatial differentiation of local revenues is strong and—what is more important—reveals very interesting regional patterns. Figures 1.2 and 1.3 present the extreme (the poorest and the richest) *gminas* in Poland (first and last quintiles of *gminas* arranged on a scale representing the value of own revenues per inhabitant). The influence of old, historical factors on the current differentiation of the financial situation of Polish *gminas* is astonishing: almost all the poorest *gminas* are located in the former Russian and Austrian parts of Poland; the richest municipalities are scattered around the entire country, though they are considerably more concentrated in the western part of the country. These results indicate that "poverty" is historically determined and therefore difficult to overcome. It is almost impossible for a commune to be "poor" if it is well located. On the other hand, factors for success are distributed more evenly—even an unfavourably located municipality may achieve success if it has some own potential for development.

The spatial patterns demonstrated in figures 1.2 and 1.3 prove that the macroregional setting is becoming a strong factor in local development. These patterns also suggest that in favourable regional conditions it is almost impossible to be a poor municipality, which would suggest the existence of a kind of "spatial determinism". However, other examples of relatively rich *gminas* do prove that this determinism is not overwhelming—in a less favourable macroregional setting it is still possible, though more difficult, to achieve success on the local level.

Local governments are very critical in evaluating their financial situation. In a survey conducted in spring 1996, over 60 per cent of the respondents—representatives of local authorities—indicated the financial barrier as the strongest, and 26 per cent as a strong, constraint facing local governments. Only some 7 per cent do not consider the financial situation to be a negative factor for the local economy⁶. In 1995 almost

⁶ The European Institute for Regional and Local Development, University of Warsaw, has been running a three-year research project on the economic situation and social mobilisation of Polish

Figure 1.2. Spatial distribution of 20 per cent of gminas with the lowest own revenues per inhabitant, 1996



Source: Central Statistical Office.

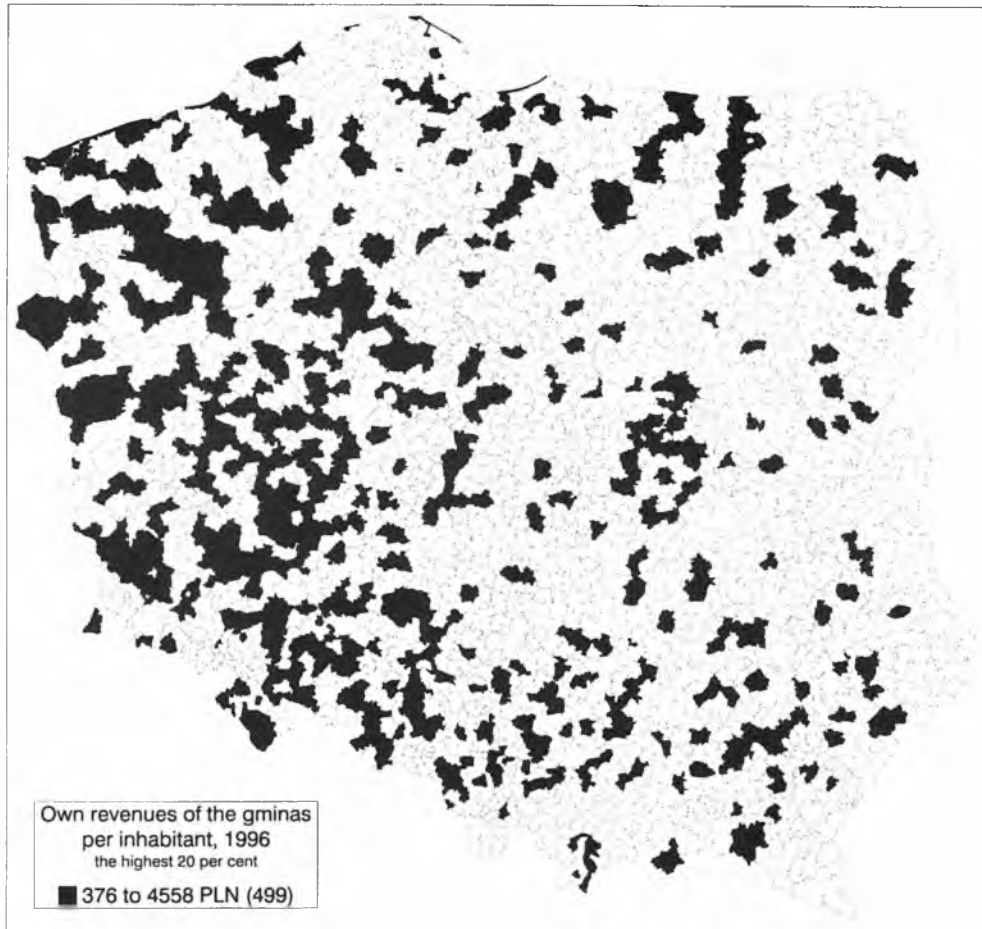
85 per cent of local governments demanded changes in the financial system for local governments (Gorzelać, Jałowicki, 1996, table 1.8).

In order to collectively implement public duties, *gminas* may form alliances and associations. Since certain kinds of local tasks cannot be performed by a single local authority, the creation of inter-municipal associations has accelerated in Poland in recent years. At present, there are over 130 such associations and over one third of all Polish *gminas* belong to at least one of them (see fig. 1.4).

Despite its shortcomings, *the self-governmental system has proved its virtues*. It appears to provide an excellent school for democracy and efficient management of public funds. However, according to the above-mentioned survey (Gorzelać,

municipalities (see Gorzelać, Jałowicki (1996, 1997b, 1998). For more on these research results, see Chapter 8.

Figure 1.3. Spatial distribution of 20 per cent of gminas with the highest own revenues per inhabitant, 1996

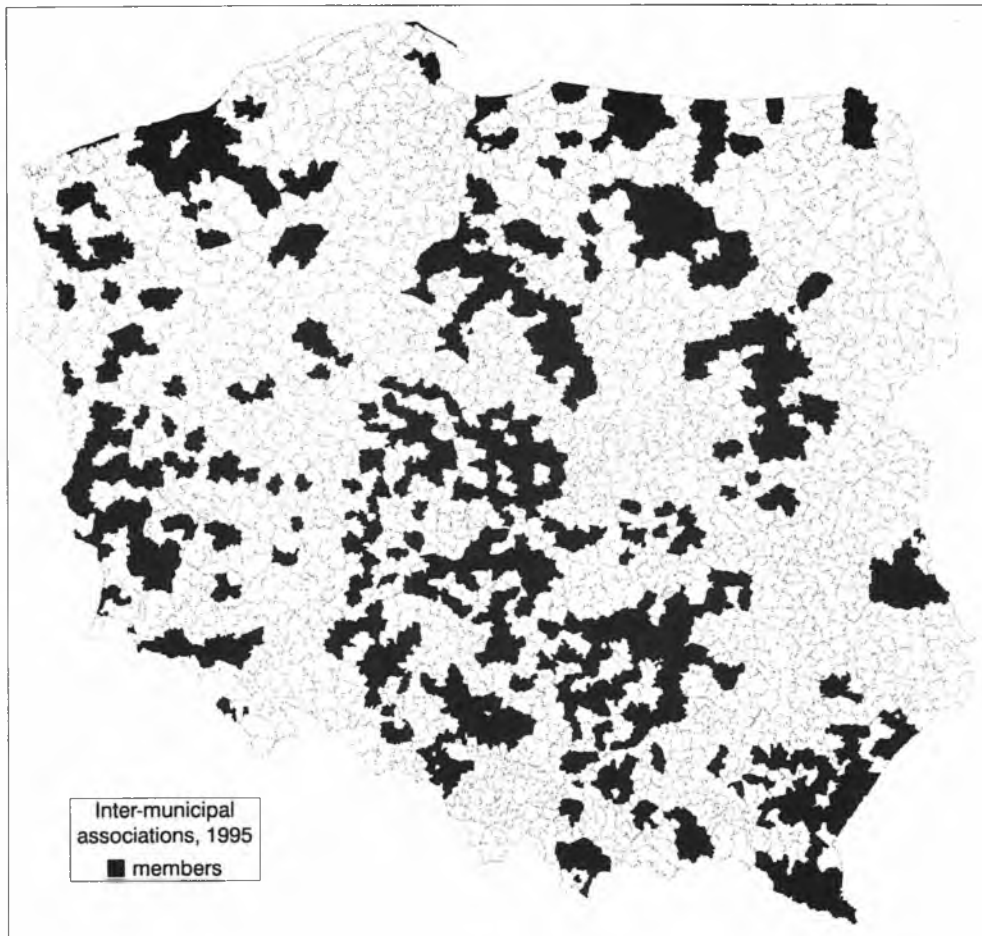


Source: Central Statistical Office.

Jałowicki, 1996, 1997b, 1998), the performance of local governments is strongly differentiated. For a more detailed picture of this differentiation, see chapter 8.

The self-governmental reform is still being implemented, though at a very slow—much too slow—pace. Local governments have been given new tasks; for example, since the beginning of 1996 all of them have assumed the management of primary schools. There are permanent disputes with the Ministry of National Education concerning the financial resources that should be transferred to the municipalities along with the transfer of responsibilities. Although the *gminas* claim—and rightly so—that these resources are not sufficient, they use the public funds assigned to education in a much more rational way than the state administration did. In particular, local governments will be able to close down small rural schools which cannot have full teaching staff and which very often run joint classes for several

Figure 1.4. Inter-municipal associations in Poland, 1995



Source: Gorzelak, Jałowiecki (1996)

The Inter-municipal Association “Tourist Six Consortium” was created in 1992 by six municipalities in south-western Poland, in a picturesque mountain region on the Polish–Czech border. During a few years of activity, the association managed to become famous all around the country as an example of successful inter-municipal co-operation in tourist development, promotion and education. International contacts have been established, substantial assistance funds have been acquired from the European Union for construction of an artificial lake, and assistance to private hotel and restaurant owners in the form of training and contacts has been delivered. All citizens of the six municipalities have learned about the consortium and many of them support its activities in several forms. Much work is still to be done; there are several points that are currently poorly exploited and—if properly renovated—could become “tourist pearls” in this interesting region.

There are several other examples of such inter-local initiatives. It is becoming more and more obvious to local elites in Poland that mutual co-operation may lead to greater successes than isolation or “wild” competition.

grades⁷. The state authorities were not able to implement this rationalisation due to strong public resistance.

The second territorial unit, *the voivodship*, has become more and more dependent on the central government, and—in fact—not on one central governmental agency, but on several departments of the government. The voivodship budget has been fragmented into a set of “sub-budgets”, each of them under the control of the budget of a given ministry. The voivod (“governor” of the voivodship) is nominated by the prime minister and can be dismissed at any time. There is no political representation on the voivodship level which is elected by the inhabitants of the region. In this way, the voivodship is more subordinated to the central government than it used to be before 1989, when political representation did exist on the regional level and when the voivod had much more powers than nowadays.

There is, therefore, a kind of a political vacuum between the commune and the region. Until 1975, this vacuum was filled by an intermediate level, over 320 *powiats* (districts or counties). These units are—in several cases—still visible on the socio-economic map of Poland. Several institutions, like courts, police, health care services, educational authorities etc., have established their own spatial structures, strongly resembling former counties. This is due to the fact that institutions of social infrastructure (schools, hospitals, cultural establishments etc.) are located in some 300 medium-sized towns which used to be district capitals. These towns also act as the nuclei of local labour markets and as service centres, as well as the nodal points of transportation networks.

The process of “municipalisation” of public administration that is underway, i.e. the process of transferring responsibilities from the central government to local governments, calls for the creation of bigger self-governmental units. Present municipalities appear to be too small and too weak to assume broader responsibilities, making it difficult or impossible to transfer more functions from central governmental units to the self-governmental system.

The present regional (voivodship) unit (one of 49) is much too small for the new type of regional policy that should be designed and implemented by the central government. The Polish administrative regions of the first order should be strong enough to conduct their own development policies and to be economically competitive in the international context. The development of the technical infrastructure needed for creating favourable conditions for foreign capital intending to invest in Poland is another task of the national regional policy, which calls for bigger spatial units which will be able to undertake such tasks.

These considerations support the idea of the reform of the territorial structure of the state which would result in a deep decentralisation of most of its functions. Poland should be a country with three tiers of territorial structures: the basic local unit (*gmina*), the district (*powiat*) and the voivodship, with self-government on each of these levels. In August 1998 a new structure of the territorial units was voted in the parliament. It will be implemented in January 1, 1999:

- 16 regional units (voivodships or provinces; see fig. 1.5) were introduced. They will be provided with a strong self-government elected in direct elections and

⁷ In the sparsely populated rural areas of northern Poland, the average yearly cost of schooling in primary schools is in the range of 1500–2000 zlotys per pupil. In some small, remote schools this cost reaches even 5000 zlotys.

presided over by a marshal. Parallel to the self-governmental authorities there will be a governmental administration, headed by the voivod, who will be nominated by the prime minister and will be responsible for implementing state policies (which should be limited to “police-like” duties, i.e. maintenance of national standards etc.) Big voivodships will assume many of the current responsibilities of the national government, which would make the central government smaller, but stronger. They will also be able to undertake new tasks which at present are not carried out at all (such as creation of regional systems of innovation, technology transfer centres, international promotion etc.).

- 308 fully self-governmental districts (although only 200 would be economically viable), which will assume some responsibilities now performed by the voivodships (such as administration of hospitals, secondary schools, roads etc.). No competencies of the *gminas* should be transferred up to the districts.
- *Gminas*, numbering around 2,500, which would remain the basic self-governmental territorial structure. It should be ensured that the newly created *powiats* would not deprive the *gminas* of any powers and competencies.

Figure 1.5. New voivodships (16)



Scheme 1.

What state?	
A. Centralised	B. Decentralised
<i>1. Government-territorial units</i>	<i>1. Government-territorial units</i>
<ul style="list-style-type: none"> • domination of central government • domination of the sectoral system over the regional system 	<ul style="list-style-type: none"> • balance between “the centre” and the regions • rather weak role of the sectoral system
<i>2. Territorial organisation of the state</i>	<i>2. Territorial organisation of the state</i>
<ul style="list-style-type: none"> • two-tier system • small “governmental” regions 	<ul style="list-style-type: none"> • three-tier system • big self-governmental or self-governmental/governmental regions
<i>3. Public finances</i>	<i>3. Public finance</i>
<ul style="list-style-type: none"> • domination of the centre over the territorial units • redistributive system 	<ul style="list-style-type: none"> • deep decentralisation of public financial system • equalisation of regional differences explicitly labeled as too great

The territorial reform should be regarded as another step in reforming the Polish state—a shift from a centralised to a decentralised system. The two models of the territorial organisation of the state can be concisely presented in Scheme 1 (below).

1.2.6. Summary

In spite of its several shortcomings and a certain level of immaturity, the Polish political system merits a positive evaluation. Though there have been several and frequent changes of governments, the course of institutional and economic reforms is clear and stable and the “rule of law” is increasingly becoming the basic platform for organising social, political and economic life in this country. It is very probable that for the second time in a row the parliamentary coalition will survive the full term, as was the case in 1993–1997. The structure of the political scene is improving, with two major parties and fewer smaller ones. Political behaviours are becoming more predictable and voting patterns stabilise in both socio-economic and regional breakdowns.

1.3. Economic transition

The basic indicators presented in table 1.5 demonstrate the performance of the Polish economy during the transformation period 1989–1996.

The data presented in table mark *the year 1992 as a turning point in which most negative economic trends were reversed*. Since then, the Polish economy has begun to grow and has reached the highest rate of economic growth in the entire post-socialist world. This growth is mainly due to growth in industry and services, since the third important sector of the Polish economy—agriculture—has presented a very unstable pattern of growth and decline during the last six years. It should also be noted that the relations between fixed capital formation and consumption have changed

Table 1.5.

Dynamics of basic economic categories, Poland, 1989–1996, previous year=100

Categories	1989	1990	1991	1992	1993	1994	1995	1996
Gross Domestic Product	100.2	88.4	93.0	102.6	103.8	105.2	106.5	106.1
Industrial production	99.5	75.5	92.0	102.8	106.4	112.1	109.4	108.7
Agricultural production	111.0	99.7	106.8	87.7	108.0	89.2	117.8	99.4
Fixed capital formation	97.9	89.4	95.6	102.3	102.9	109.2	127.6	124.0
Consumption	104.9	84.3	107.5	103.5	104.8	103.9	104.1	107.4
Exports	100.2	113.7	97.6	97.4	98.9	118.3	116.7	109.7
Imports	101.5	82.1	137.8	113.9	118.5	113.4	120.3	128.0
Foreign investment	.	.	185.0	233.0	253.0	109.3	195.0	142.0
Working population, total	99.0	97.3	94.1	95.8	90.9	101.1	100.3	101.9
Working population, public sector	.	93.1	85.4	89.1	103.4	95.1	95.7	96.2
Working population, private sector	.	102.1	104.8	102.4	103.6	105.5	103.3	107.1
Unemployment rate	.	6.3	11.8	13.6	13.7	16.0	14.9	13.2
Inflation ^a	351.0	686.0	171.1	142.4	134.6	130.7	126.8	119.4
Households' real incomes	.	.	100.6	98.7	99.2	100.6	101.9	106.4
Households' real outlays	.	.	104.2	97.2	102.5	96.9	97.8	105.9

^a December-to-December basis.

Source: Roczniki Statystyczne (Statistical Yearbooks) 1990–1997; for households' incomes and outlays Trzcińska (1997).

(particularly in the most recent period): the share of accumulation in the distribution of GDP has grown (the growth of fixed capital formation was faster than that of GDP). This shift demonstrates that the growth of the Polish economy is beginning to rest on firm foundations. In 1996 net capital investment reached over 155 per cent of the 1990 level, while consumption stood at only 134 per cent.

In 1996, the Polish economy grew by 6.1 per cent, with GDP exceeding the 1989 level by 3 percentage points. By 1997 Poland was the only post-socialist country to attain the pre-transformation levels of GDP (in 1996 Slovenia was in second place, with 94 per cent of the 1989 level, followed by the Czech Republic with 90 per cent, the Slovak Republic with 89 per cent, Romania with 88 per cent and Hungary with 87 per cent; the worst performance was demonstrated by certain post-Soviet republics, where 1996 GDP as a percentage of the 1989 level was only some 20 percent in Georgia and 40 per cent in Armenia). In 1997 growth of the Polish economy was even faster; it reached 6.5 per cent figure, which brings Polish GDP up to 110 per cent of the 1989 level.

The constant decrease in the number of employees in the public sector is due to two processes: the decrease in the overall number of the employed, which occurred through 1994, and the shift from the public to the private sector. The latter has grown steadily with respect to the number of employees. However, during the first years of transformation this growth was smaller than the decline in the public sector. Unemployment—a phenomenon not existing prior to 1990—grew steadily until 1994 (up to almost 17 per cent) and has since declined steadily (down to 10.5 per cent at the end of 1997, and below 10 per cent in mid-1998), which is yet another proof of the positive situation of the Polish economy.

Inflation has been high, though constantly falling (22 per cent in 1995, over 19 per cent in 1996 and 13.5 per cent in 1997, and around 10 per cent in 1998). Polish inflation figures are about average in comparison to other post-socialist countries (e.g. in 1995 inflation stood at 244 per cent in Bulgaria, 131 per cent in Russia, 28 per cent in Romania and in Hungary, 9 per cent in Slovenia, 8 per cent in the Czech Republic, 7 per cent in the Slovak Republic and only 4 per cent in Croatia). Evaluating the Polish path of disinflation, one should keep in mind that Poland entered the transition with a hyperinflation that had been induced by the decision to free prices in August 1989. Economic analyses prove that Polish inflation is of the “cost-push” type, and mainly due to the upward pressure on prices coming from the public sector (Falkinger, Łaski, Podkaminer, 1995). In several cases this has been the effect of the political pressure of state enterprise employees. This is a kind of vicious circle, since in many cases price increases are inevitable (e.g. of energy, transport, fuels etc.) if usage of certain products is to be rationalised and state subsidies to the enterprises providing them reduced; this increases trigger inflation when wages are increased to accommodate price hikes, making further price increases necessary once again. Some also claim that inflation has been artificially induced by governmental and central bank forecasts, to which producers react by increasing their prices.

The financial situation of the *state budget* is more and more stable. Before 1994, the budget deficit was high (up to over 5 per cent of the GDP), but since 1994 it has dropped considerably (to 2–3 per cent of the GDP, reaching 2.5 per cent in 1996, and below 2 per cent in 1997). This stabilisation process is in part due to a new tax system (personal income taxes, VAT, real estate taxes), though further reforms are needed (i.e. taxing residential property according to its value and not land area). Foreign currency reserves are growing and exceed 19 billion USD. Since Polish foreign trade witnessed an official deficit of some 2–3 billion USD in 1995 and 8.2 billion in 1996, this surplus is mainly due to two sources: informal, private cross-border trade and capital transfers from abroad (foreign investment).

The pension fund has not yet been separated from the state budget and there is no direct relationship between the premium paid by an individual during his/her life and the pension this person receives upon retirement. Poland has one of the world’s highest shares of GDP spent on pension benefits (15.8 per cent in 1994; 15.5 per cent in 1995)⁸, which demonstrates how heavy the burden placed on the entire economy by the socialist heritage in this sphere has been. The overgrown pension system limits spending on other social needs: in 1995, for example, 44.7 per cent of all public social expenditure went to pensions, and only 17.6 per cent to education and 14.5 to health care (in other post-socialist countries these proportions were much more favourable; see Golinowska, 1997, p. 38). If not reformed, the pension fund may collapse in 2002, since the number of pensioners is growing and the number of employed (i.e. of those who pay their premiums) is decreasing and there is no saved “insurance capital”, as Poland’s system is a “pay-as-you-go” one in which all premiums paid in by these who work are immediately paid out to the pensioners. This is a typical “Thuronian” scenario, which may happen not only in Poland (Thurow, 1996, chapter 5). The Polish situation is, however, worse, since

⁸ L.C. Thurow (1996, p. 98) states that this share is 21 per cent and is the highest in the world; estimates quoted in the text are consistent with those of Polish sources.

the private insurance sector is badly underdeveloped and cannot ease the strain on the state social security system. A thorough reform of the *social insurance system* is needed. The legislative process of this reform was started in 1996 and completed in 1998. The social security system is to be composed of three parts: state-funded basic social insurance; a capitalised fund related to the amount of premium paid by the insured; and personally financed insurance in private companies. During the initial stage of functioning of the new system, when the "insurance capital" is being accumulated, the state social security system will be assisted by resources obtained from privatisation of state-owned enterprises.

Polish *science* is chronically badly under-financed, receiving below 0.5 per cent of GDP, which is one of the lowest shares among developed economies. This fact undermines the potential for the future development of the country, since it does not allow for alleviating the educational and technological backwardness of Poland. This situation requires profound and prompt change (for a fundamental discussion of science and technology in Poland within a wider international context see Kukliński, 1991, 1992, 1994, 1996).

Disputes over whether the economic recession was truly a historical necessity or caused by mistakes and an incorrect approach to the economic reform have been vivid and even nowadays are not entirely irrelevant. The opponents of the Balcerowicz programme used to stress the social costs of the reform, which led to a sharp decrease in domestic demand and was one of the main causes of the economic decline. They also pointed to the fact that too wide an opening of the Polish market to (sometimes unfair) Western competition created unnecessary difficulties for Polish enterprises and farms, which added to the overall economic decline. They also argued that the shift to Western markets was too fast and that some efforts could have been made to slow down the pace of curtailing sales to the East, i.e. the republics of former Soviet Union and other post-socialist countries.

These arguments do not seem to be well grounded. For the most part, the economic decline in Poland was a necessary adaptation to new internal and external conditions. To state the argument in the most concise form, one may say that this adaptation can be presented as a shift from Fordist to post-Fordist organisation of economic, social and political life. This shift was not possible in a closed system, separated by economic and political barriers from global markets and therefore not exposed to economic and political international competition. Once these barriers had been removed, the old patterns of economic production could no longer be maintained and "imported" patterns of socio-economic and political organisation began to shape the new reality. The post-socialist countries "are catching up", at a much faster pace, with the rest of the developed world, more advanced in this restructuring.

If one accepts this interpretation, then the post-socialist transformation is demythologised and deideologised (though this dimension should not be entirely overlooked) and can be regarded as a "normal" process of technological and organisational change, performed later than would have been the case if Central Europe (and other socialist countries) had been earlier incorporated into an open global economy. The decline in economic output which occurred in the post-socialist countries after 1990 was the price for restructuring similar to that which the West paid for its change of socio-economic structures after 1973 (as I have argued elsewhere, the Western recession of the 1970s and early 1980s can be considered as the "price" which the

West paid for abandoning the Fordist type of economic organisation and developing post-Fordist patterns; see Gorzelak, 1996, pp. 32–34).

1.4. Social issues

The rapidly changing economic situation and fluctuations on the labour market require from individuals a capacity for fast adaptation to new circumstances. These demands can usually be met better by persons with at least a secondary education. Change of occupation, participation in social and political life, the ability to understanding the language of mass media—all these require a certain level of general knowledge which is not possessed by persons with only primary education or less (who are often additionally affected by secondary illiteracy), nor to persons who are trained only to perform certain specific manual operations. Nevertheless, the World Bank estimates that more than two thirds of the Polish population do not have sufficient cognitive competence to participate actively in the processes of modernisation and in the democratic political life seem to be overly pessimistic.

In the socialist period the *distribution of incomes* in Poland was characterised by strong egalitarianism. To some extent this is still the case. The 1990s witnessed a constant increase in income differentiation, in which the level of skills and job complexity became one of the most important factors in the growth of personal incomes. It should be added, however, that the increase in earnings of upper managerial staff and persons in professional occupations was very selective and affected primarily state administration and industry, while, for instance, incomes of medical doctors and of scientists have decreased relative to other occupations (Hryniewicz, Jałowiecki, 1994).

The systemic change which started in 1989 brought a deterioration of material conditions primarily for farmers and blue collar workers, particularly for blue collar workers in large enterprises, who had previously taken advantage of certain material benefits in addition to wages. All in all, however, in general the distance between blue collar workers on the one hand and upper management and professional and administrative employees on the other is still small in comparison to that prevailing in developed market economies.

The polarisation of incomes is not only due to the growth of incomes of persons in the highest income brackets, but also due to the decline of the income level of the poorest. Income differentiation in Poland is nowadays comparable to that of some of the more developed countries. The richest 20 per cent of households have an income per person 5–6 times higher than the poorest 20 per cent of households (this ratio equals 4 in Japan and Sweden, 6 in Germany and Spain and 9 in the USA). The richest 10 per cent of households in which the breadwinner is employed have incomes per person 7.6 times higher than the poorest 10 per cent of households in this socio-economic group. In 1990 this ratio was 5. In pensioner-headed households these ratios were 6 in 1996 and 4.4 in 1990 (Trzcińska, 1997).

According to the World Bank (1995) report, which is the first detailed study of post-socialist *poverty* in Poland, poverty incidence varies much across socio-economic

groups⁹. It is highest among recipients of social allowances and lowest among the self-employed. The second lowest poverty incidence occurs among pensioners and workers: in each group, about 11 percent have expenditures below the minimum pension. However, since workers and pensioners are the two largest groups in Poland, they make up over 50 percent of all the poor. Low education heavily contributes to poverty. A university degree virtually precludes poverty, whereas family status seems not to matter. There is also evidence that poverty may be reproduced from generation to generation through educational patterns, particularly via vocational schooling. Gender does not seem to be a very important poverty factor in Poland. Rural poverty is much more pronounced than urban, and poverty is more pronounced in small towns than in big cities. More recent estimates indicate that some 12–14 percent of the population live below the poverty line, and that their average incomes are 18 per cent lower than the poverty line. Growth in the number of poor persons has been partly compensated by the increase in social benefits, especially in the first period of transformation.

These findings about the relative incidence of poverty are also reflected in average expenditures of different socio-economic groups. In general, the richest are the self-employed. If expenditures of the households of the self-employed equal 100, the expenditures of workers' and pensioners' households are 85–86, of worker-farmers' and farmers' 65 per cent, and of the recipients of social assistance only 48 per cent.

However, despite the relatively high social costs paid for the economic transformation, Polish households are becoming better equipped with durable goods (see table 1.6). As the table reveals the households of pensioners—i.e. of the social stratum which was regarded as the most severely hit by the transformation—have improved beyond the national average.

Table 1.6.

Equipment of households with durable goods, 1990, 1995

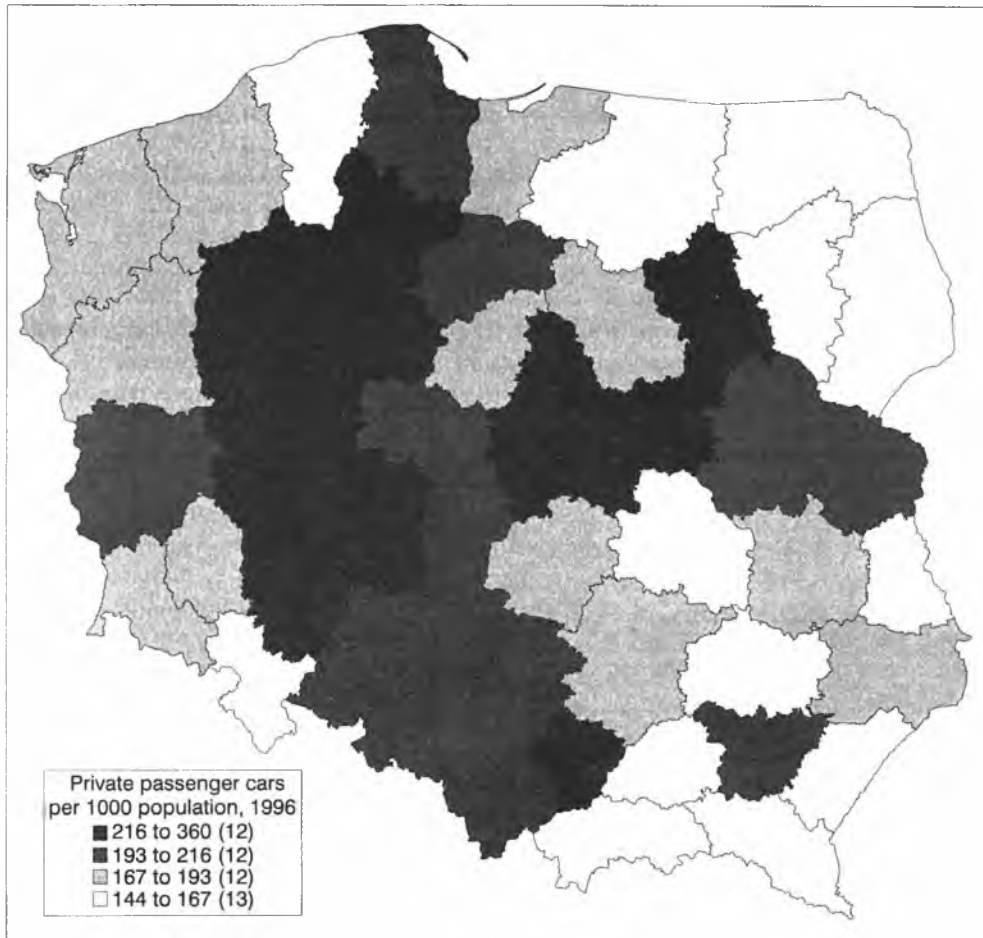
Durable goods	All households 1995	Employees' households		Pensioners' households	
		1990	1995	1990	1995
Colour TV set	82.7	67.1	95.7	28.3	76.3
Video receiver/recorder	50.5	20.1	69.6	2.4	26.3
Satellite T.V.	29.7	.	41.9	.	29.2
Personal computer	7.3	.	12.2	.	1.9
Automatic washing machine	60.9	63.5	75.4	30.4	49.8
Refrigerator	97.4	99.8	98.5	95.0	96.5
Freezer	35.2	23.8	33.5	11.4	24.4
Passenger car	39.4	33.2	45.7	9.5	20.1

Source: *Rocznik Statystyczny (Statistical Yearbook) 1991*, table 29(317); *Mały Rocznik Statystyczny (Concise Statistical Yearbook) 1996*, table 15(104).

Personal incomes are strongly differentiated regionally. Table 1.7 presents the regional differentiation of personal incomes in 1995 and fig. 1.6 the spatial differentiation of one of the best indices of individual wealth: private passenger cars per

⁹ Estimates of poverty are very difficult to carry out, and vary between individual researchers. For example, for Poland estimates for the share of population living in poverty range from 12 to 53 per cent (Golinowska, 1997, table 6).

Figure 1.6. Private passenger cars per 1,000 population, 1996



Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

1,000 persons. The dominance of big urban centres is clear. Also, in the regions that compose the belt from Gdańsk on the Baltic Sea through Poznań down to Kraków, the level of passenger car ownership is higher than elsewhere. These regions demonstrate both diversified economic structures and a high level of agricultural production. Eastern regions are much poorer.

In 1992 the regional differences in personal incomes were evidently smaller than the differences in the GDP per inhabitant. In 1995 the upper parts of these two arrangements look similarly (with the exception of the Płock region, where GDP is extremely high due to the biggest in the country oil refinery), but in the lower part the differences in the personal income arrangement is much smaller than in the GDP arrangement. It means that the redistribution of the GDP affects the poorer regions much more, than the richer ones.

Table 1.7.

Regional differentiation of personal incomes, 1995

Voivodships with the highest level of personal incomes per inhabitant			Voivodships with the lowest level of personal incomes per inhabitant		
No	voivodships	Poland=100	No	voivodships	Poland=100
1.	Warsaw	182,4	40.	Siedlce	78.3
2.	Katowice	125,7	41.	Krosno	76.3
3.	Kraków	114,3	42.	Ostrołęka	76.0
4.	Wrocław	112.6	43.	Biała Podlaska	75.0
5.	Łódź	111,2	44.	Skierniewice	74.4
6.	Poznań	111,0	45.	Łomża	73.6
7.	Szczecin	104.9	46.	Słupsk	73.1
8.	Legnica	98.5	47.	Przemyśl	72.3
9.	Gdańsk	98.0	48.	Nowy Sącz	72.2
10.	Częstochowa	97.5	49.	Suwałki	68.2

Source: ZBSE (1997), table 2.

Opinion polls illustrate the fluctuations in the evaluation of the current situation in Poland. During the period from January 1992 to mid-1993 15–25 per cent of respondents indicated that “*the situation of Poland is changing in a good direction*”, while as many as 60–75 per cent expressed the opposite opinion. Excepting a short period of growth of optimism at the end of 1993, the same attitudes prevailed through the end of 1995. Since the beginning of 1996 the growth of optimism is evident, peaking in mid-1997, when over 50 per cent of the respondents said that the situation in Poland was changing in a good direction, while only 29 per cent indicated the opposite. By the end of 1997 the shares of optimism and pessimism were almost equal (with a slight dominance of the negative attitudes) at a level close to 40 per cent (the remaining respondents did not indicate either of these two possibilities).

Tables 1.8 and 1.9 present respondents’ answers to a set of questions relating to particular dimensions of public and individual life.

Table 1.8.

Public opinion polls in Poland, December 1997: current situation

Categories	good	neither good nor bad	bad	hard to tell
Political situation	17	42	26	15
Economic situation	18	38	36	7
Situation in respondent’s work place	34	31	32	3
Material conditions of respondent’s household	26	46	28	—

Source: CBOS (1997), tables 4, 6, 7, 9.

The overall economic situation is evaluated as slightly better than the political one. The perception of one’s personal situation is better than the evaluation of the general state of the country.

By the end of 1997 the general evaluation of various aspects of living conditions was better than in mid-1995, which reflects the improvements in the overall level

Table 1.9.

Public opinion polls in Poland, December 1997: changes foreseen for the next year

Categories	better	neither better nor worse	worse	hard to tell
General situation	18	33	40	9
Political situation	22	41	21	24
Economic situation	24	38	25	16
Situation in respondent's work place	24	44	13	13
Living conditions of respondent's family	20	45	19	12

Source: CBOS (1997), tables 10–14.

of social optimism over this period of time. However, more respondents than in mid-1995 express pessimistic predictions for the situation during the next year.

The distribution of optimistic and pessimistic opinions varies according to the relative position of the individual in the society and the relation between the respondent's socio-economic category and the outcome of reforms. In general, farmers and public sector employees (especially blue-collar workers) are more pessimistic than white-collar workers and managers. Inhabitants of big cities demonstrate more optimism. The more pessimistic view on the future situation of the company found among owners of private firms should be regarded as a negative sign.

These answers do demonstrate that, in general, the benefits of transformation have not yet influenced in a positive way the majority of the Polish population and that the public opinion is still rather inclined to reject its effects rather than to accept them. However, greater optimism about the future than about the current situation may be regarded as an indication of growing confidence in the course of the reforms. In regional breakdowns, the more advanced the region in the systemic transformation, the greater the support for its course, which was proved by consecutive parliamentary elections.

1.5. Market institutions

No doubt, *privatisation* is the main process creating market institutions in an economy which was almost totally (with the exception of agriculture) owned by the state¹⁰.

In Poland, privatisation of state enterprises has become an ideological matter, and not only a problem approached from a purely economic perspective. Doctrinal assumptions on merits of the private sphere and its advantages over the public one are considered by some political bodies as a sufficient premise for enforcing or delaying privatisation in Poland, depending on the political profile of the currently government.

The privatisation process has gone through ups and downs. The peak in the pace of changes in the ownership structure came in the second half of 1991. At the beginning of the Polish transformation it was seen as one of the most important factors of economic restructuring. However, scarcity of domestic capital slowed down the process. Several accusations of alleged fraud and mismanagement were also made

¹⁰ Prior to 1989, private firms had a 7 to 8 per cent share in non-agricultural employment.

in connection with the privatisation of state enterprises. Political factors have played a role as well. For example, Jan Olszewski's government (in the first half of 1992) brought privatisation almost to a halt. Another slowdown occurred in 1995, under the rule of the leftist coalition. The full implementation of so-called "mass privatisation" was delayed until the beginning of 1996. Excepting the voucher mass privatisation, which has not yet led to a major change in the ownership structure of the companies affected, two main types of privatisation have been used: "liquidation" and "capital" privatisation. In turn, there are two types of *privatisation by liquidation*:

- Liquidation on the basis of *Article 19* of the Law on State Enterprises, enacted in 1981. Under this procedure, the existence of a state-owned enterprise as a legal entity is terminated if it is in difficult economic conditions (these conditions are explicitly specified). In that case, the property of such an enterprise may be sold or leased (for 5 to 10 years), usually in parts; very often these assets are bought or rented by small companies established by former employees of this enterprise.
- On the basis of *Article 37* of the Law on Privatisation of State Enterprises, passed on 13 July, 1990. In this case, a state-owned enterprise is liquidated by selling, leasing, or "contributing" its assets in an "organised" form to a buyer; very often, a company established by the employees of this particular enterprise buys or leases the assets. This type of privatisation by liquidation is applied to enterprises in sound economic condition.

"Capital privatisation", based on *Articles 5 and 6* of the Law on Privatisation of State Enterprises, is based on the following procedure: a state enterprise (which has to be in good economic condition) becomes a company wholly-owned by the State Treasury and then issues shares. In the case of 186 enterprises on a register of enterprises of special importance for the state, the privatisation procedure must be approved by the Council of Ministers (in mid-1998 this list was considerably shortened, to embrace only the firms important for the national defence). If over 50 per cent of the shares are sold to private owner(s), the enterprise is considered to be privatised. In some cases they are offered on the stock exchange. Usually, the employees have the right to buy a part of these shares at a reduced price. Table 1.10 presents the process of privatisation in Poland through mid-1996.

By 1997 some two-thirds of the original number of 8,441 enterprises which belonged to the state at the end of 1990 had begun the process of ownership transformation. In every fourth state enterprise this process has been completed. The most dramatic situation occurred on the state farms. Privatisation through liquidation led to massive lay-offs—70 per cent of the former employees of these farms lost their jobs, which has brought about structural unemployment in the regions where the state farms used to dominate. Only 3 per cent of land has been sold; 50 per cent has been leased to private farmers.

As already mentioned, a general, *voucher-type privatisation* was introduced in Poland in 1996, under the so-called National Investment Fund Programme. The State Treasury became the owner of 512 state enterprises (usually in good economic condition). These enterprises are managed by 15 National Investment Funds (NIFs). Coupons issued by these funds, covering the value of these enterprises, were made available to each adult citizen at a price of 20 zł (approximately 8 USD). The owners of the coupons are allowed to sell them freely. The market price of these coupons increased in mid-1996 to over 160 zł (to drop to 100 zł in 1997/1998), which shows

Table 1.10.

Privatisation in Poland, June 1996

Number of enterprises		Per cent of enterprises existing on 31 December 1990	Comments
Existing on 31 December 1990	8,441	100.0	
Transformed into companies of the State Treasury, of which:	1,188	14.1	168 of them have been privatised and 512 transferred to the NIF Programme temporarily not subject to privatisation
transformed into companies under Law on Ownerships Transformation of Enterprises of Special Importance	155	1.8	
Liquidated under Law on Privatisation of State Enterprises (direct privatisation)	1,168	13.8	1,114 projects completed
Liquidated under Law on State Enterprise (liquidation)	1,427	16.9	437 projects completed, 441 went into bankruptcy procedures
Taken over by the Agricultural Agency of the State Treasury	1,654	19.5	
Being in liquidation under the Bankruptcy Law	316	3.7	
Handed over to local governments under the law on communalisation	263	3.1	may undergo further transformation
Total number of enterprises being subject to ownership transformation	6,015	71.2	
in which: privatisation completed	1,719	20.4	

Source: Błaszczuk (1997), table 3.

that the idea of this manner of privatisation is supported by at least those few who intend to accumulate as many coupons as possible. By the end of 1998 the coupons will have to be either sold, or turned into shares of the enterprises managed by the NIFs.

The privatisation of the largest enterprises has not been fast enough. Not a single coal mine has been privatised and only a few plants in heavy industry. The acceleration of privatisation and its expansion to the most difficult branches of the Polish economy remains a task for the future.

Chapter 2

DEMOGRAPHY

2.1. Population trends

In December 1996, Poland was inhabited by 38,618 thousand persons, out of whom 27 per cent were in the pre-working age bracket (under 18 years) and 14 per cent in the post-working age bracket (men: 65+, women: 60+). There were 22.8 million persons of working age. The “dependency ratio” was 69.3 per cent. Urban-rural differences are undergoing two contradictory processes: lower birth rates exist in urban areas, which should make the urban population older, but migration to towns from villages has increased the urban shares of people in the productive age. As a result, the shares of both the youngest and the oldest age brackets are higher in the countryside than in towns, which pushes up the dependency ratio of the rural population.

The waves of the age structure of Polish population create periodical tensions on the labour market. Table 2.1 gives a concise account of these changes.

Such fluctuations, undoubtedly, destabilise the labour market and exert tension on the social security system.

Poland has a *medium population density*, equal to 122 persons per square kilometer. 62 per cent of the Polish population live in towns and the share of the population living in towns of over 10,000 inhabitants is 56.7 per cent. There are 90 towns with population over 100,000 inhabitants and six cities with populations of over half a million.

Poland has attained *stability of demographic and settlement systems*, although a slow constant increase in the urban population can be observed. The pace of change of the spatial structure of settlement declined considerably after the first stage of socialist industrialisation. The massive shift from the rural areas to towns ended in the 1960s.

Table 2.1.

Changes in the number of population in productive age, 1970–2010, in thousands

Years	Total	Younger (18–44)	Older (45–59/64)
Population in productive age ^a , 1970–2010			
1970	18,324	12,962	5,462
1975	19,962	14,006	5,956
1980	21,211	14,073	7,138
1985	21,772	14,453	7,319
1990	21,937	15,375	6,562
1995	22,603	15,525	7,078
2000	23,519	15,339	8,180
2005	24,506	15,081	9,425
2010	24,530	14,744	9,786
Changes in population in productive age			
1971–1975	1,638	1,144	594
1976–1980	1,249	67	1,182
1981–1985	561	380	181
1986–1990	165	922	–757
1991–1995	666	150	516
1996–2000	916	–186	1,102
2001–2005	987	–258	1,245
2006–2010	24	–337	361

^a Women: 18–59 years of age; men: 18–64 years of age.

Source: CUP (1991); GUS (1991).

This slowdown of internal migrations was coupled with a drop in the birth rate. As a result, during the 1980s and 1990s, the dynamics of demographic processes were much lower than before. Table 2.2 presents major indicators for 1980 and 1990–1996.

Table 2.2.

Demographic processes in Poland, 1980 and the 1990s

Indicators	1980	1990	1991	1992	1993	1994	1995	1996
	per 1000 inhabitants							
Marriages	8.6	6.7	6.1	5.7	5.4	5.4	5.4	5.3
Divorces	1.1	0.9	0.9	0.8	0.7	0.8	1.0	1.0
Births	19.5	14.3	14.3	13.4	12.8	12.5	11.2	11.1
Deaths	9.9	10.2	10.6	10.2	10.2	10.0	10.0	10.0
Natural increase	9.6	4.1	3.7	3.2	2.6	2.5	1.2	1.1

Source: *Mały Rocznik Statystyczny (Concise Statistical Yearbook)* 1995, table 6(26); 1996, table 8(29); 1997, table 13(35).

There is a constant decline in the birth rate, which is due to two factors: the changing age structure of population (following strong “weaving” of the Polish age pyramid, since the 1980s the most fertile age brackets have become less numerous) and the constant decline in fertility. During 1980–1993, female fertility rates (measured as the number of births per 1000 women) decreased from 180 to 138 in the age group

20–24 and from 136 to 114 in the age group 25–29. In towns, fertility is lower by some 40–50 per cent than in the rural areas. If a given population is to grow, there should be 211 children per 100 pairs of parents. In 1995 in Poland there are only 193; if this trend continues, the population of the country will soon begin to decrease. This may not happen soon, however, since in 1996 the rate of natural growth ceased to drop, which could be the first sign of the reversal of the demographic trends presented above.

The *economic activity rates* have been dropping since the late 1970s (see table 2.3). In all categories but one we notice constant falls in activity rates for all time periods. Women in towns are the only exception. The explanation of this fact seems to be simple: in the new, difficult economic situation women have begun to seek jobs in order to support the family budgets. This holds true for women in the 35–54 age bracket, i.e. after their maternal responsibilities are over.

Table 2.3.

Economic activity rates, 1988–1996

Categories, years		Total	Men	Women
Total	1988	65.1	74.3	57.0
	1992	61.4	69.9	53.7
	1994	59.2	67.0	52.2
	1995	58.4	66.5	51.1
	1996	57.9	65.9	50.6
Towns	1988	61.2	70.3	53.1
	1992	59.0	67.7	57.3
	1994	57.5	.	.
	1995	57.2	.	.
	1996	56.4	.	.
Rural areas	1988	71.8	80.3	63.5
	1992	65.6	74.2	51.6
	1994	62.1	.	.
	1995	60.5	.	.
	1996	60.3	.	.

Source: GUS (1992), table 3.2. *Mały Rocznik Statystyczny 1996*, table 1(77); 1997, table 1(83).

Since the beginning of the 1980s, the *health* of the Polish population has deteriorated. Life expectancy at birth for men dropped from 67.3 in 1975/76 to 66.7 in 1992, to increase to 67.5 in 1993 and 67.6 in 1995 (76.4 for women in 1995). The abnormal mortality in the middle age brackets for men became the most visible manifestation of this process in Poland (for 1980 and 1992 the respective values of male deaths per 1,000 men in a given age bracket were the following: 45–54 years—10.9 and 11.7; 55–59 years—18.7 and 21.0; 60–64 years—26.6 and 30.0) Due to these facts, the death rates have not decreased over time, and natural growth has had a constant falling tendency, to reach only 2.5 per thousand in the mid-1990s.

Paradoxically, the first years of the market economy brought some improvement in the average health of the Polish population, which is indicated by a somewhat lower level of deaths due to cardiological illnesses. In this respect, two factors seem

to have the most significant influence: rationalisation of food patterns (less meat and animal fats, more vegetables and plant fats) and reduced smoking. It is very probable that this trend will be maintained in the future.

2.2. Spatial distribution

The population of Poland is spread more or less evenly across its territory with only one—but important—exception for the Upper Silesia region, i.e. the Katowice voivodship (representing 2.0 per cent of the country's area), which is inhabited by *circa* 10 per cent of the total population of Poland. Warsaw, Poland's biggest town, has 1.7 million inhabitants (the metropolitan region of Warsaw has some 2.5 million), the second largest town, Łódź, over 834 thousand. The urban system is well developed and follows the rank-size rule—four other big cities have a population of over half a million (Gdańsk-Gdynia-Sopot: 764,000; Kraków: 751,000; Poznań: 590,000; Wrocław: 644,000). Figure 2.1 presents the regional differentiation of the population density in 1996.

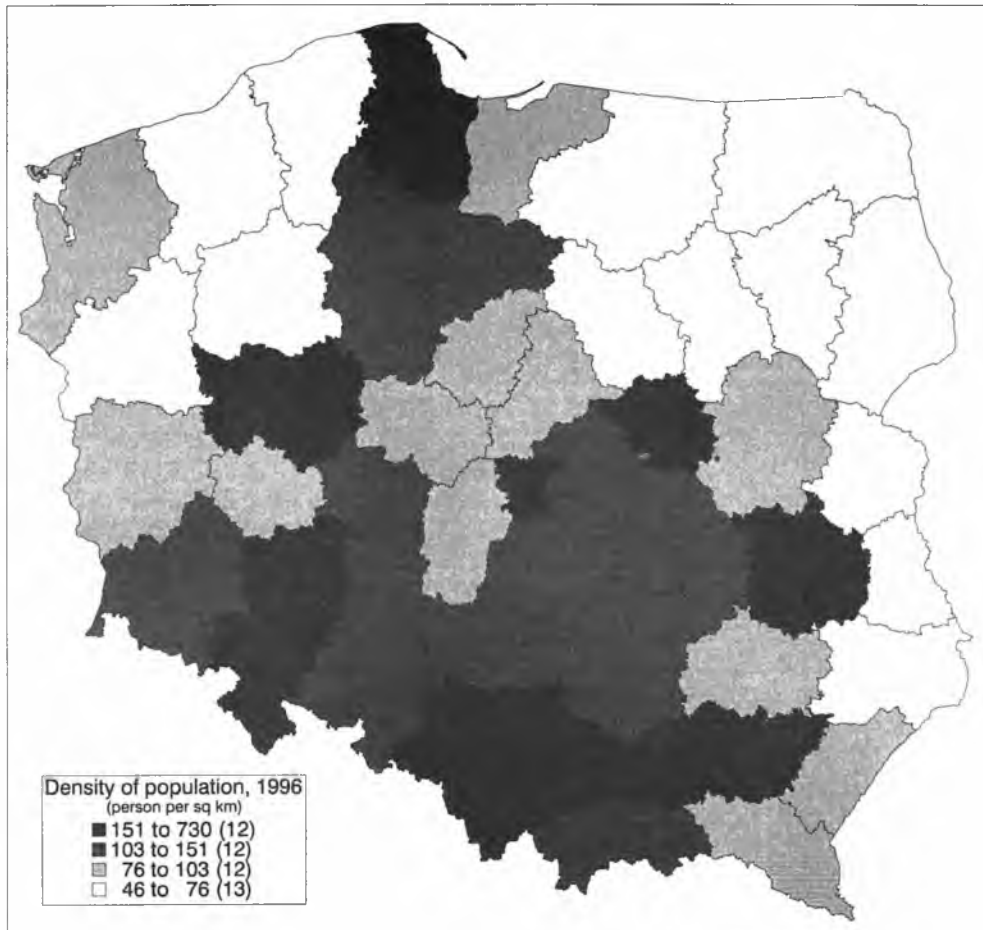
The mostly urbanised regions (see fig. 2.2) in 1996 were the following: Łódź—92.9 per cent, Warszawa—88.5 per cent, Katowice—86.6 per cent, Szczecin—76.2 per cent, Gdańsk—75.6 per cent, Wałbrzych—74.1 per cent, Wrocław—73.9 per cent, Poznań—70.9 per cent, Legnica—70.8 per cent, and the least urbanised: Biła Podlaska—37.5 per cent, Tarnów—35.7 per cent, Nowy Sącz—35.6 per cent, Ostrołęka—35.8 per cent, Krosno—35.0 per cent, Siedlce—32.4 per cent, Zamość—31.2 per cent, i.e. the regions of eastern and southern parts of Poland.

The highest *demographic growth* is occurring in two groups of regions: the south-eastern, with a high share of rural population, and the northern and western parts of the country, with a younger population (fig. 2.3). Both these factors are responsible for a traditionally higher natural growth due to a high birth rate. While the overall increase of the Polish population during the most recent period (1991–1995) amounted to 1.01 per cent, the following south-eastern, northern and western voivodships noted an increase of over 1 per cent: Bielsko-Biała, Krosno, Legnica, Leszno, Nowy Sącz (1.46 per cent—the highest in the country), Rzeszów, Słupsk, Suwałki, Tarnów. Two regions have begun to decline in numbers: Łódź and Wałbrzych—the two regions with particularly grave restructuring problems.

The *sex structure* in several regions is seriously disrupted. In north-eastern parts of Poland, for example, there are localities where unmarried men outnumber unmarried women many times over (in some localities this ratio may reach an extreme proportion of 7 to 1). Leaving aside obvious social consequences, this gravely hampers agricultural output and, more dangerously, clouds its future.

The *age structure* of the Polish population is regionally differentiated, too (see figures 2.4 to 2.6), which stems from specific historic trajectories of various parts of the country. The western and northern regions, inhabited by settlers mostly from former Polish eastern territories, are demographically “younger”—i.e. the shares of the pre-productive age-groups are high and the shares of the post-productive age-groups low. In the rural eastern and southern regions that enjoyed population

Figure 2.1. Regional density of population, 1996

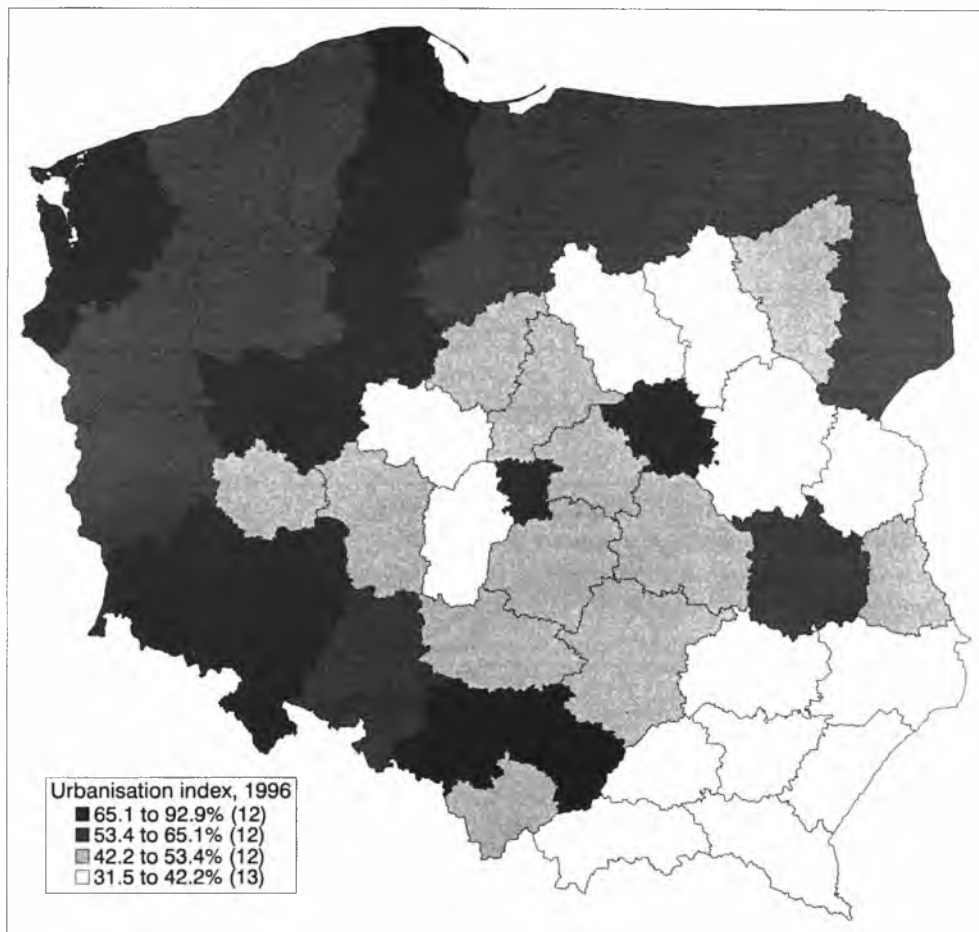


Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

stability¹, the age structure of the population is the most polarised: high birth rates make the shares of the pre-productive age groups high, and the shares of the post-productive age groups are the highest in the country due to constant migrations from rural to urban areas of people in the productive age. As a result, the urbanised regions have the highest shares of the productive age-groups: (for 1996: Katowice—62.1 per cent, Łódź—61.4 per cent, Warszawa—61.4 per cent, Szczecin—61.3 per cent, Legnica—61.3 per cent, Wrocław—61.0 per cent, Opole—60.6 per cent, Gdańsk—60.4 per cent, and, at the other extreme, Chełm—55.9 per cent, Nowy Sącz—55.7 per cent, Ostrołęka—55.7 per cent, Przemyśl—55.4 per cent, Siedlce—54.9 per cent, Łomża—54.5 per cent, Zamość—54.5 per cent, Biała Podlaska—54.1 per cent). This unbalanced age structure of the eastern parts of the country creates severe problems

¹ The historical factors in the regional differentiation of Poland are discussed in more detail in chapter 9.1 of this book, where the map of population stability is also presented.

Figure 2.2. Urbanisation index, 1996



Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

for the agricultural population —there are many farms run by elderly people, many of them by single, older women. It should also be noted that the big urban centres have the lowest shares of young people, which indicates that their future growth will depend on in-migration.

The regional distribution of Poland's population in the last few decades has generally been stable. During the 1990s, there have been no major changes in the trends of the 1980s, when a drop in the *spatial mobility* of the population occurred (see table 2.4).

The 1980s brought a deep decline (by 50 per cent) of the traditionally high internal migration, to some 500,000 per year. While in 1989 overall *domestic migrations* amounted to 596.5 thousand, in the next three years this figure dropped to 529.9, 505.4 and 456.8 thousand respectively (during the 1970s it exceeded 900,000 persons

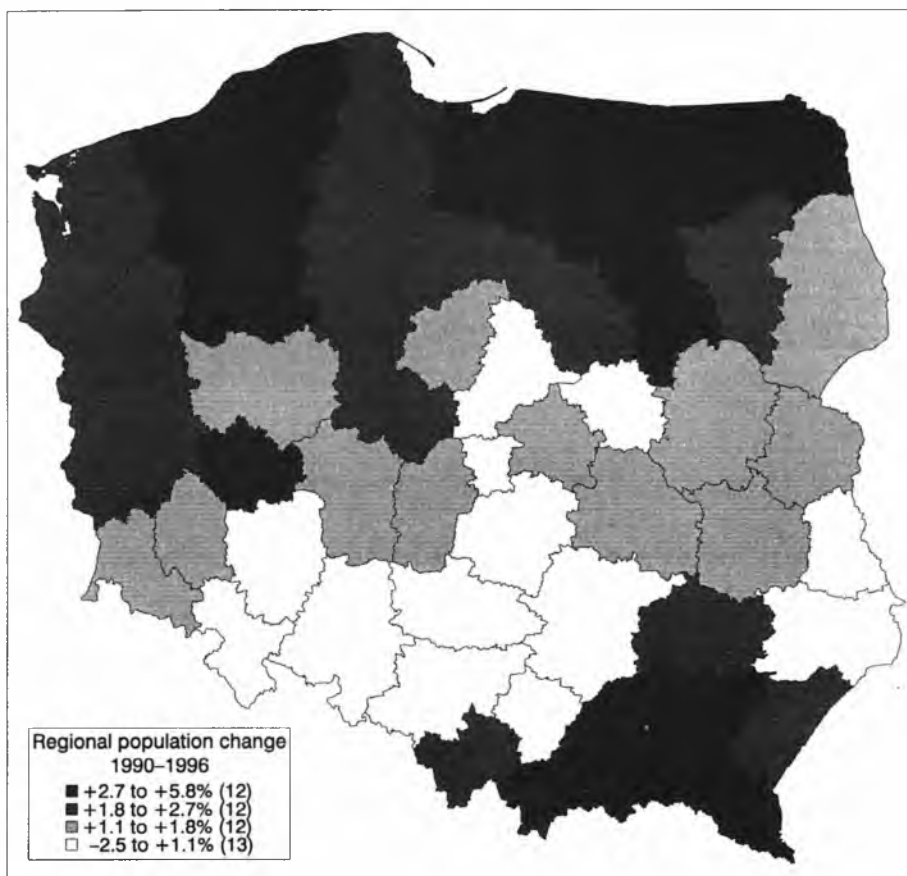
Table 2.4.

Domestic migrations in Poland

Flows	1981–1990	1990	1991	1992	1993	1994	1995	1996
	in thousands							
Towns								
inflow	4196.5	346.0	331.2	314.1	281.1	258.9	239.3	243.5
outflow	2852.5	233.3	224.8	228.4	221.2	219.9	212.4	220.2
Rural areas								
inflow	2513.9	183.9	174.2	180.0	175.7	179.0	180.4	183.8
outflow	3857.9	296.6	280.6	265.7	235.6	218.0	207.3	207.1
Balance of migration, towns	1344	112.7	106.4	85.7	59.0	39.0	26.9	23.3

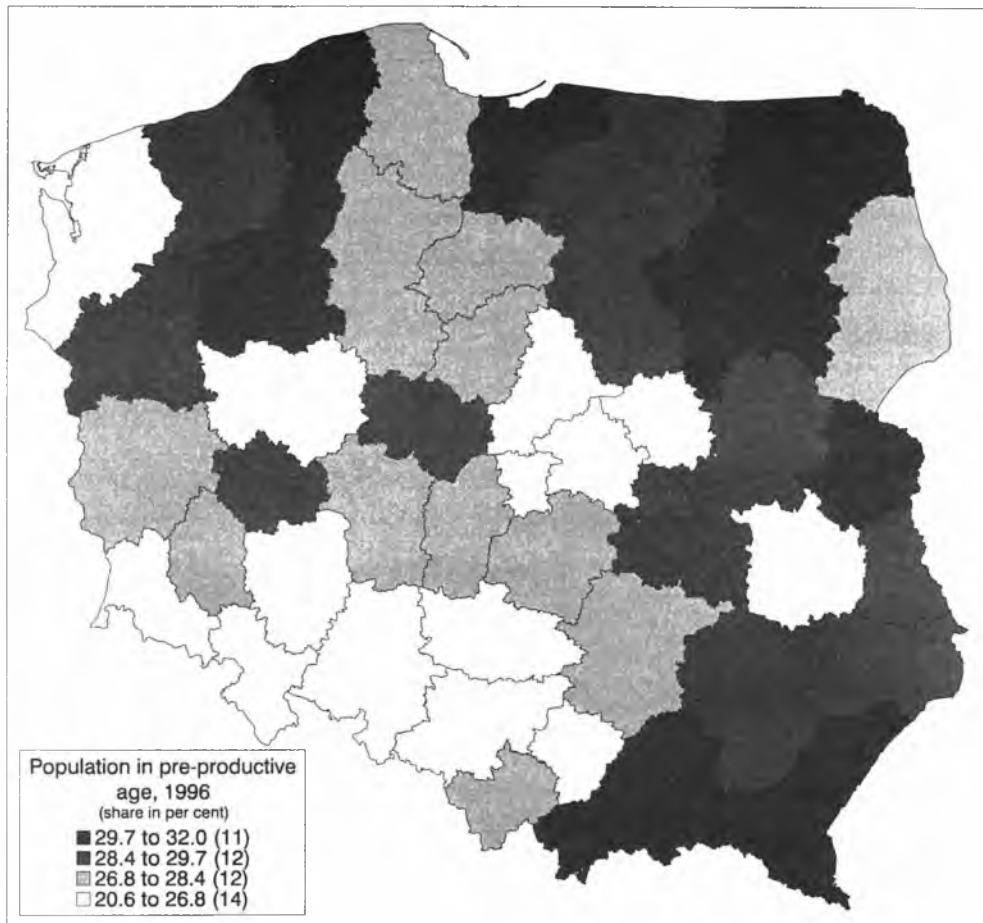
Source: *Mały Rocznik Statystyczny (Concise Statistical Yearbook) 1995*, table 13(33); *1996*, table 15(36); *1997*, table 20(42).

Figure 2.3. Regional population change 1990–1996, in per cent



Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

Figure 2.4. Share of population in pre-productive age, 1996



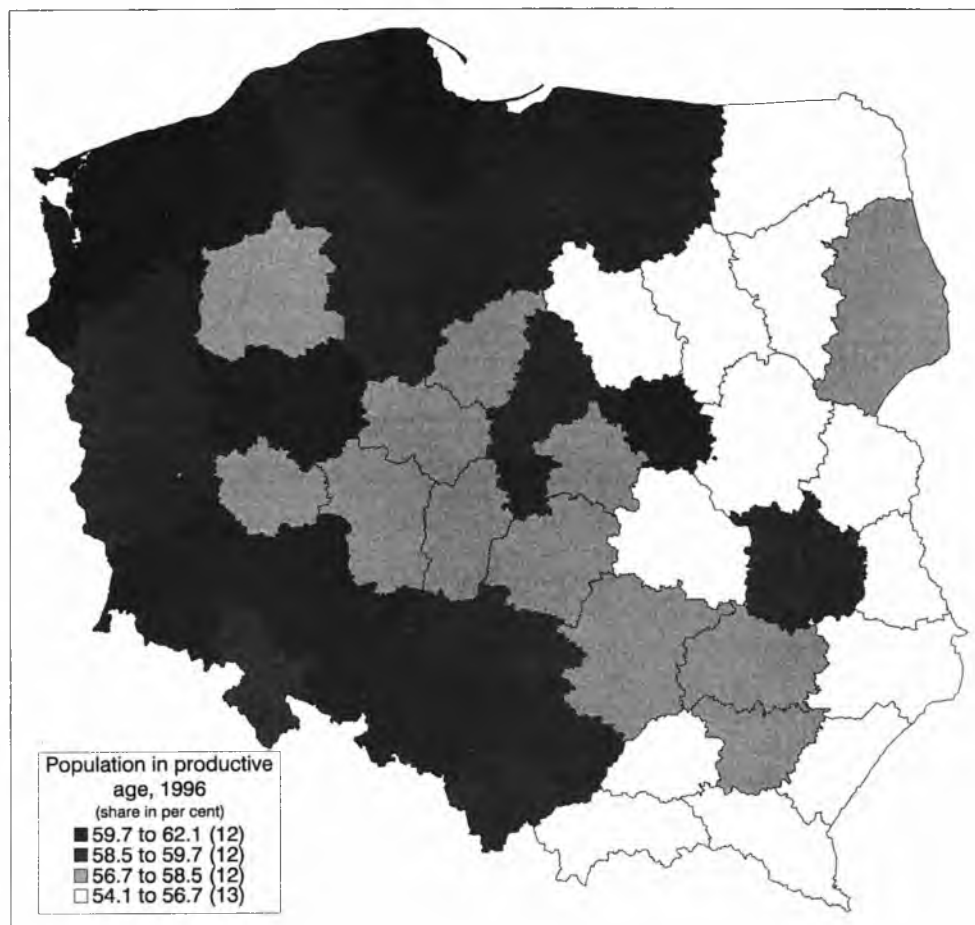
Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

yearly). In the years 1994–1996 the domestic migration remained on the same low level.

This constant decrease of domestic migration, which appeared in Poland during the last decade, reflects the temporal decrease of real incomes and shortage of new housing. It leads to the petrification of the regional structure of job opportunities. This is a kind of a vicious circle: no “working” labour market may be created, due to the insufficient supply of new housing and low capacity for absorbing in-migration, leading to slower economic growth even in the regions which could develop faster and which could accommodate new labour from areas of heavy unemployment. Thus, housing appears to be the crucial factor in the possible increase of internal migration and adaptation of the spatial structure of the labour force to the spatially differentiated dynamics of economic development.

New migratory patterns have emerged in some Polish regions. Upper Silesia is the most obvious example of this change. Given the decrease of both inflow and

Figure 2.5. Share of population in productive age, 1996

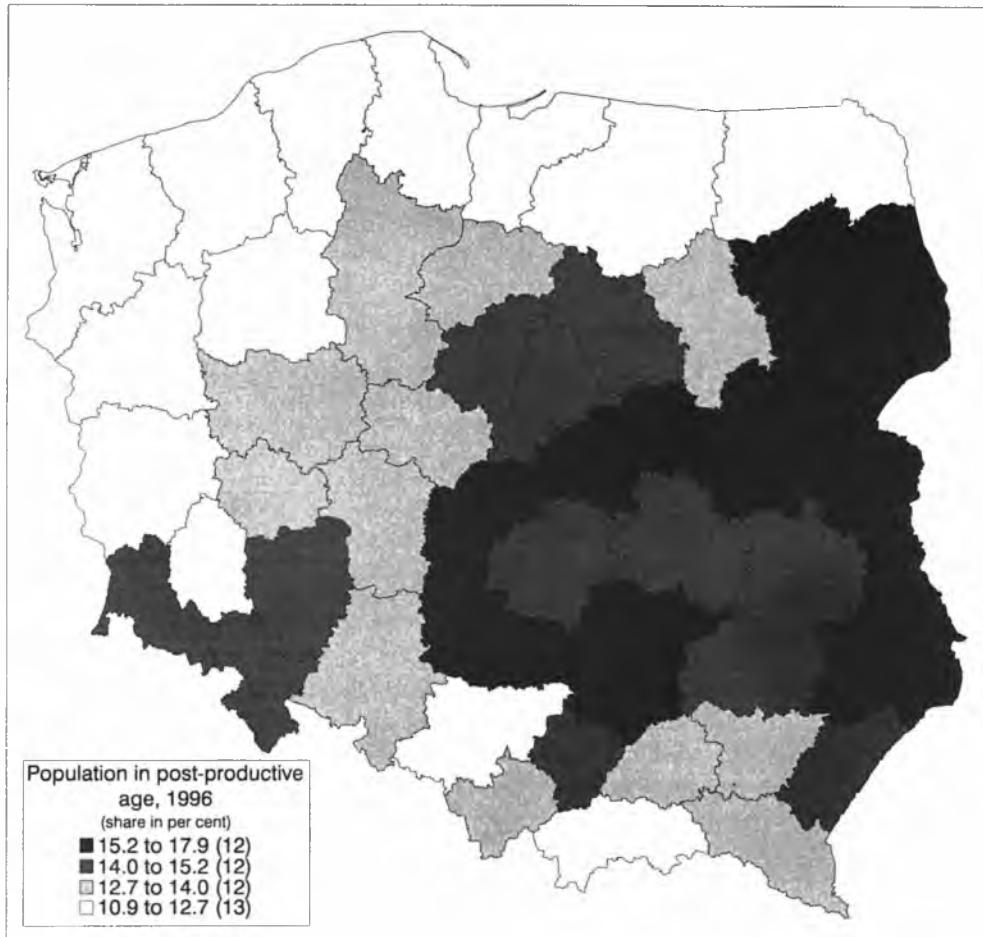


Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

outflow of people, the positive migration balance for the region became very small. It dropped from 27,000 in 1980 to a mere 2,000 in 1992, to grow to 2,800 in 1995; in the same year 8,500 persons left the region. Upper Silesia is no longer a region of opportunities. On the contrary, it is now seen as a place which one should leave. For example, on the housing market, for the price of one four-room apartment in Warsaw one may buy two similar apartments in Katowice. This reflects the relative unattractiveness of the Katowice region.

According to a recent sociological survey, half the people living there consider Upper Silesia a relatively bad place to live in, worse than other regions in Poland. More than one third of people questioned declared that they were in a position to leave the region and almost half of them intended to do so. Around two thirds of persons questioned would not seek the prosperity of their children or grandchildren in Upper Silesia and wish them an opportunity to emigrate.

Figure 2.6. Share of population in post-productive age, 1996



Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

Such attitudes may jeopardise the future educational composition of Upper Silesia. It is obvious that professionals and highly educated persons have better chances for moving, due to broader work opportunities and higher incomes. They are also more aware of the ecological situation in the region and—usually—less attached to its traditions and cultural heritage. If these processes really take place, the educational structure of Upper Silesia may further deteriorate, which could jeopardise its chances for successful restructuring.

As low as it is now, out-migration is a serious impediment to the development of some more backward, peripheral regions which are losing the most dynamic and valuable younger population to some more attractive regions. Those who leave for university-level studies to the metropolitan centres seldom come back to their home regions, since these regions offer less attractive working and living conditions.

International migrations have not changed the basic settlement patterns of Poland. It should also be expected that immigration from the East and emigration to the West will not pose dramatic problems. At the moment, only very few Polish regions have lost population to Germany, and the scale of registered emigration is around 20 thousand people per annum. Moreover, during the last few years this outflow has been constantly falling. According to official statistics, which reflect only a small part of this phenomenon, the negative balance of external migration in the last few years was as follows (in thousands): 1988: -34.2; 1989: -24.2; 1990: -15.8; 1991: -16.0; 1992: -11.6; 1993: -15.4; 1994: -19.2; 1995: -26.3, and 1996: -21.3 in 1996. Since 1991 there has been considerable growth in the number of people coming to Poland. In previous years this figure did not exceed 2,600, but in 1991 it jumped to 5,000, reaching over 8 thousand in 1996.

2.3. Cultural and ethnic dimensions

Poland is a *nationally homogeneous* country. The Jewish population was exterminated by the Nazis during the Second World War, and majority of those who survived left Poland after 1956 and then after 1968, mainly due to political reasons. The German population fled or was expelled from the Northern and Western territories after the war, and Byelorussians, Ukrainians and Lithuanians remained in the eastern territories that became part of the Soviet Union after the war. At present, only some 2 per cent of Polish citizens declare themselves as having other than Polish nationality.

The Germans, who live mainly in two southern voivodships (Opole and Katowice), are the most pronounced national minority in Poland (see Gorzelak, Jałowicki, 1994). The estimates of the number of Germans living in Poland vary considerably; German sources indicate a figure of some 400,000, while Polish sources estimate this number at less than 10,000. In fact, only a small percentage of all those who declare themselves Germans have their roots in German language and culture. The main part of this minority is composed of the indigenous population inhabiting these areas for centuries. Due to long-lasting and complex social, political and economic processes this population has an uncertain national identity: at one time it is Polish, and at another time it is German. Today, this ethnic group largely declares itself a German minority, and they demand a special status, schools with German as a language of instruction, and bilingual names of localities and streets. Other national minorities (Ukrainians, Byelorussians, Lithuanians) live in the eastern part of the country. The Polish state supports their efforts to maintain their historical heritage and cultural background.

There exist some other ethnic differences within the Polish nation. Several ethnic groups (e.g. the Highlanders, the Casubians, the Upper Silesians, the Gypsies) maintain separate traditions and culture, manifested, for example, in various dialects. However, the uniformisation principles which were implemented by the former authoritarian regime have destroyed several features of these minorities, which have been partly restored by democratisation after 1989.

Regional differentiation of the secular economic development trends has produced marked differentiations of *social attitudes and skills* (see chapter 9.1 for more

information on the regional history of Poland). In general, Wielkopolska ("Greater Poland", with its capital in Poznań) should be considered the most advanced in self-organisation and entrepreneurial spirit. The societies of big urban centres, like Warsaw, Kraków, Gdańsk and Szczecin, are similarly advanced in these areas. On the opposite pole we find the societies of backward, rural regions in the east, whereas long-lasting traditions of self-government and educational and cultural development positively distinguish the south-eastern part of the country (Western Galicia). As the studies on performance of local governments have proved, the population of the so-called "regained territories" (the areas left by the Germans after World War II) have acquired a high level of social cohesion and have produced strong social ties (just after the war the majority of this land was settled by the in-migrants, many of whom came from the former eastern territories which Poland lost to the Soviet Union).

2.4. Future prospects

With the exception of major historic upheavals, demographic processes are the least dynamic ones. The regional structures of the population and the settlement systems will not change to any significant extent in the coming years. The demographic processes described above will most probably continue in the future.

Some rural, north-eastern areas may face demographic problems due to the distorted gender balance (shortage of young women, who have migrated to towns in great numbers). This pattern will be further reinforced by recent changes in the participation ratio, i.e. the share of population aged 15–64 in the total population. Due to earlier demographic processes, this ratio is growing throughout the country, but the fastest growth is occurring in northern and western regions. These regions currently have high unemployment rates. Demographic processes may, therefore, make the situation on the labour market even more difficult there.

It is possible that migration might grow during the next few years. Once inflation is down to a one-digit figure (which is likely to happen in 1998), a system of housing loans could be created, which would spur the construction of new dwellings. This would match the rapid development of tertiary activities in urban centres. It is very likely that Poland is at the edge of a new *urbanisation wave*, similar to that of the 1950s and 1960s, though smaller in magnitude. The first urbanisation wave moved people from agriculture to industry and from villages to towns. The second wave would transfer people from agriculture to services. However, not all those who would change occupation would move physically from the rural areas to towns—a great share of them would stay in villages, but would no longer perform agricultural jobs. Thus, the second urbanisation wave in Poland would consist of the acceleration of the growth of the urban population on the one hand, but also the "urbanisation of the countryside" on the other².

² Poland in this respect would be different from other post-socialist countries since it was the only country where agriculture was not totally collectivised, which left a much greater share of the labour force in this economic sector. In three countries at a similar level of development—the Czech Republic, Hungary and Slovakia—the shares of agricultural population are much smaller than in Poland.

Chapter 3

THE LABOUR MARKET

3.1. Labour market situation

The economic reforms have resulted in dramatic changes on the labour market. There are three dimensions of these changes:

1. The decline of the number of people in work and the emergence of unemployment.
2. The shift from the public to the private sector.
3. Changes of the sectoral structure of employment.

The decrease in the number of jobs due to the economic recession manifested itself at the very beginning of the transformation period (see table 3.1).

Two tendencies are evident: the decrease in the number of those working in the national economy and the shift from the public to the private sector. The total number of jobs lost during the years 1990–1993 was 2.5 million. Since 1994 an increase in the number of persons working has been maintained. During the period 1990–1996 the public sector shed over 4.1 million jobs (43 per cent of employment in the public sector in 1989), but 2.5 million new jobs (one third of the initial value) were gained in the private sector. It should also be noted that within the private sector 200,000 persons moved from agriculture to non-agricultural occupations, which means that the private sector was able to create over 2.7 million new jobs outside agriculture.

The number of working persons per 1,000 population is strongly differentiated regionally (see fig. 3.1). The figures are the cross-product of two independent phenomena: demographic structures and the situation on the labour market. Economic activity is much higher in the eastern and central parts of the country, which is a reflection of the higher shares of agricultural occupation in these regions. Lower

Table 3.1.

Number of people in work, 1989–1996 (31 December)

Years	Total in 1000s	Type of Ownership			
		public		private	
		1000s	per cent	1000s	per cent
1989	17,128.9	9,546.1	55.7	7,583.7	44.3
1990	16,145.4	8,243.4	51.1	7,902.0	48.9
1991	15,442.6	7,052.1	45.7	8,390.5	54.3
1992	15,010.9	6,606.4	44.0	8,404.5	56.0
1993	14,761.2	6,063.3	41.1	8,700.9	58.9
1994	14,922.5	5,821.5	39.0	9,100.7	61.0
1995	14,967.9	5,623.1	37.6	9,344.8	62.4
1996	15,487.4	5,412.5	34.9	10,074.9	65.1

Source: *Mały Rocznik Statystyczny (Concise Statistical Yearbook)* 1995, table 5(254); 1996, table 4(260); 1997, table 4(275).

shares in northern and western parts of Poland are mainly due to higher unemployment there, caused by the collapse of state farms. Higher proportions of working population in big urban centres result from lower unemployment in these centres and higher shares of the population in the productive age.

As a result of changes in the *ownership structure*, by 1991 over half of the economically active population were working in the private sector, out of which approximately half were outside agriculture. In 1994, the share of employment in the private sector grew to 60 per cent; in 1996 it reached over 65 per cent. Several branches, such as services and trade, have been privatised almost entirely (see table 3.2).

Table 3.2.

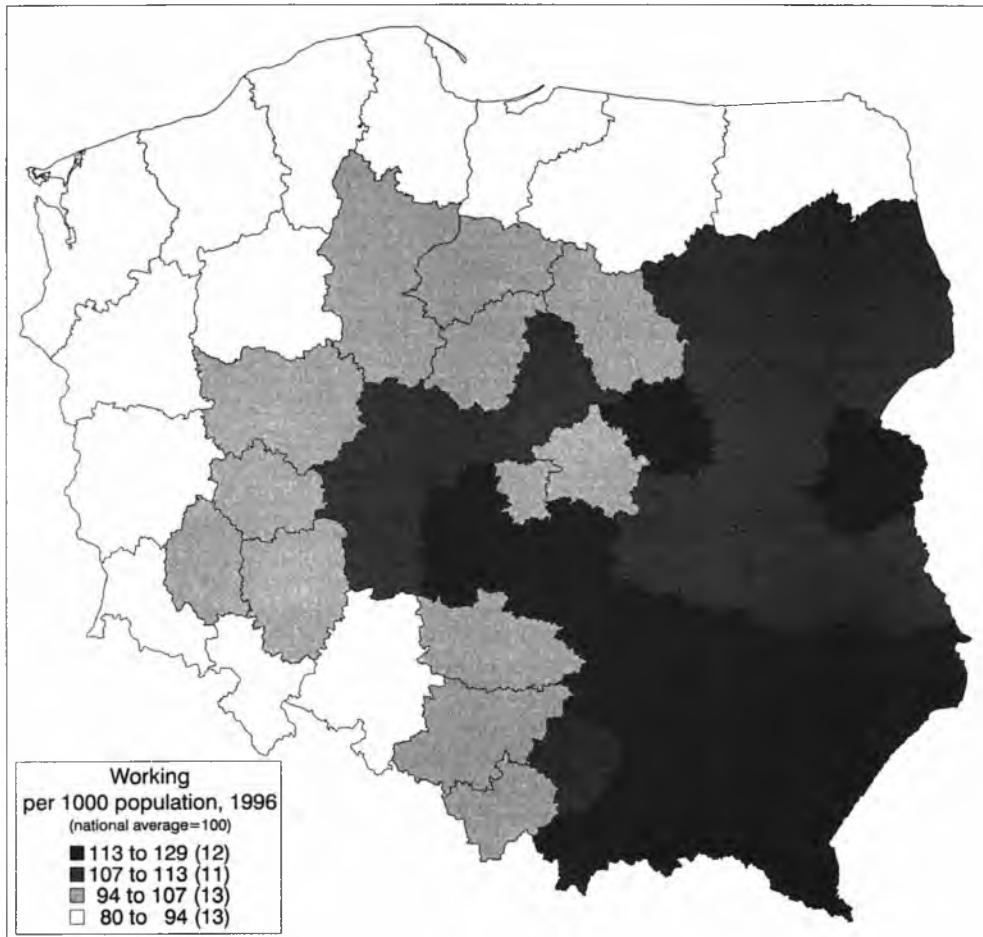
Employed in the public sector as per cent of total number of employed

Sector	Shares (in per cent)								Percentage point difference 1995 minus 1989
	1989	1990	1991	1992	1993	1994	1995	1996	
All sectors	55.7	51.1	45.7	44.0	41.1	39.0	37.6	34.9	–20.8
Industry	70.9	68.8	64.2	59.5	55.9	55.2	49.5	44.5	–26.4
Construction	62.6	57.9	40.5	28.1	23.0	20.7	19.1	15.5	–47.1
Agriculture	11.9	10.5	8.0	6.0	4.5	4.1	2.5	2.2	–9.7
Trade	27.9	17.8	11.7	9.3	6.3	5.7	3.8	5.1	–22.8

Source: *Rocznik Statystyczny (Statistical Yearbook)* 1990–1994; *Mały Rocznik Statystyczny (Concise Statistical Yearbook)* 1995, table 6(255); 1996, table 5(261); 1997, table 5(276).

As can be seen from the above table, 1991 witnessed an acceleration of changes of the ownership structure of employment. The fastest decline of the share of the public sphere took place in construction and in domestic trade. The latter sector was almost entirely privatised as early as 1991, while the share of the public sphere in industry in 1995 was still just below 50 per cent, falling significantly below this threshold in the next year. This process was mainly due to the decline in the public

Figure 3.1. Number of working per 1,000 population, national average = 100, 1996



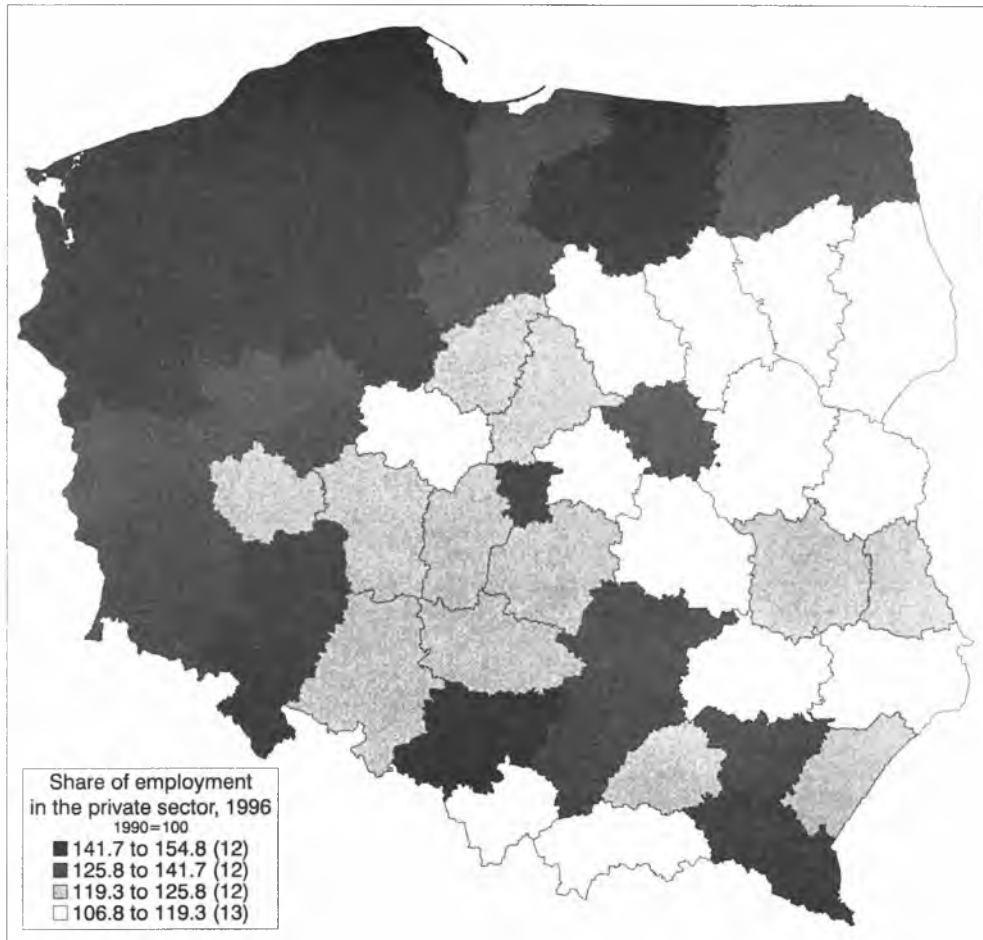
Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

sphere and—in some sectors—to the growth of the private sector. Domestic trade and construction noted the fastest growth of employment in the private sphere, while in industry private employment was stable and in agriculture even declined (though at a slower pace than in the public sphere).

In the regional perspective, the fastest changes in the ownership structure took place in the most urbanised regions and in the western part of the country (see figure 3.2). This pattern follows the trends in growth of economic activities of private firms. The big urban centres are the pivots of the transformation processes due to their diversified economic and social structures. The western part of the country benefits from different kinds inducements coming from Western Europe—obviously, primarily from Germany.

Fig. 3.3 reveals that these changes are faster in the regions which have already achieved higher levels of privatisation. Three city-regions come to the fore: Warsaw,

Figure 3.2. Share of employment in the private sector, 1996, 1990 = 100



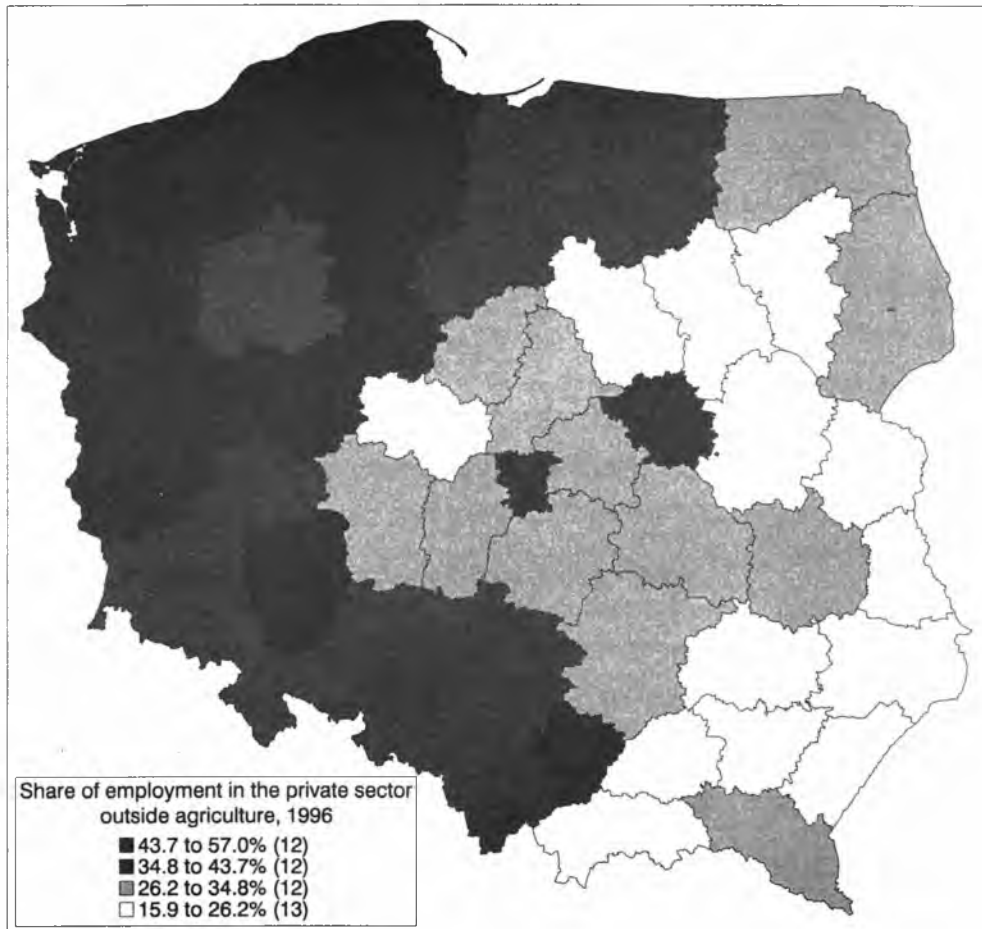
Source: GUS (1997a).

Poznań and Łódź, where the employment outside agriculture in private firms constitutes more than half of total non-agricultural employment. In this way, the changing ownership structures reinforce already existing regional differences.

3.2. Sectoral structure of employment

Like other socialist countries, the Polish economy was heavily biased by high shares of industry in total employment. A specific Polish feature was the high share of agriculture, which was due to the fact that Poland remained the only country in the Soviet bloc to avoid full collectivisation of agricultural land. The transformation process brought rapid changes in the economic structures that are well represented by the shifts in employment data.

Figure 3.3. Share of employment in the private sector outside agriculture, 1996



Source: GUS (1997a).

Economic restructuring has proceeded throughout the entire period, though not as fast as originally assumed. Two “sides” of this process should, however, be distinguished:

- bankruptcies of enterprises in all economic sectors, which have not always reflected their real economic situation and growth potential, but often have been the result of unfavourable external conditions (mainly the collapse of traditional markets and the “debt trap”);
- growth of old firms and establishment of new economic entities, mostly in the most progressive economic sectors.

As a result, the sectoral structure of employment in Poland has also changed. It is illustrated in table 3.3.

As table 3.3 reveals, since 1989 a constant decline in the absolute numbers of persons employed in two sectors, industry and construction, has been observed. With

Table 3.3.

Sectoral structure of employed in Poland, 1990–1996 (yearly averages)

Years	Total number of employed 1000s	Economic sectors							
		industry		construction		agriculture and forestry		other	
		1,000s	per cent	1,000s	per cent	1,000s	per cent	1,000s	per cent
1989	16,726	4,894	28.8	1,318	7.8	4,395	25.8	6,289	37.6
1990	16,280	4,620	28.0	1,243	7.5	4,194	26.8	6,138	37.7
1991	15,326	4,250	27.2	1,116	7.2	3,990	27.3	5,870	38.3
1992	14,677	3,822	25.9	1,066	7.1	3,740	26.1	5,871	40.0
1993	14,330	3,671	25.6	853	6.0	3,688	25.7	6,118	42.7
1994	14,475	3,641	25.2	820	5.7	3,887	26.8	6,127	42.3
1995	14,735	3,757	25.5	840	5.7	3,831	26.0	6,307	42.8
1996	15,021	3,725	24.8	841	5.6	4,010	26.7	6,440	42.9

Note: since 1993 sectoral structures according to NACE.

Source: Roczniki Statystyczne (Statistical Yearbooks) 1994–1997, table 1.

the exception of agriculture in the period 1990–1991, the relative shares of these three sectors in total employment have declined.

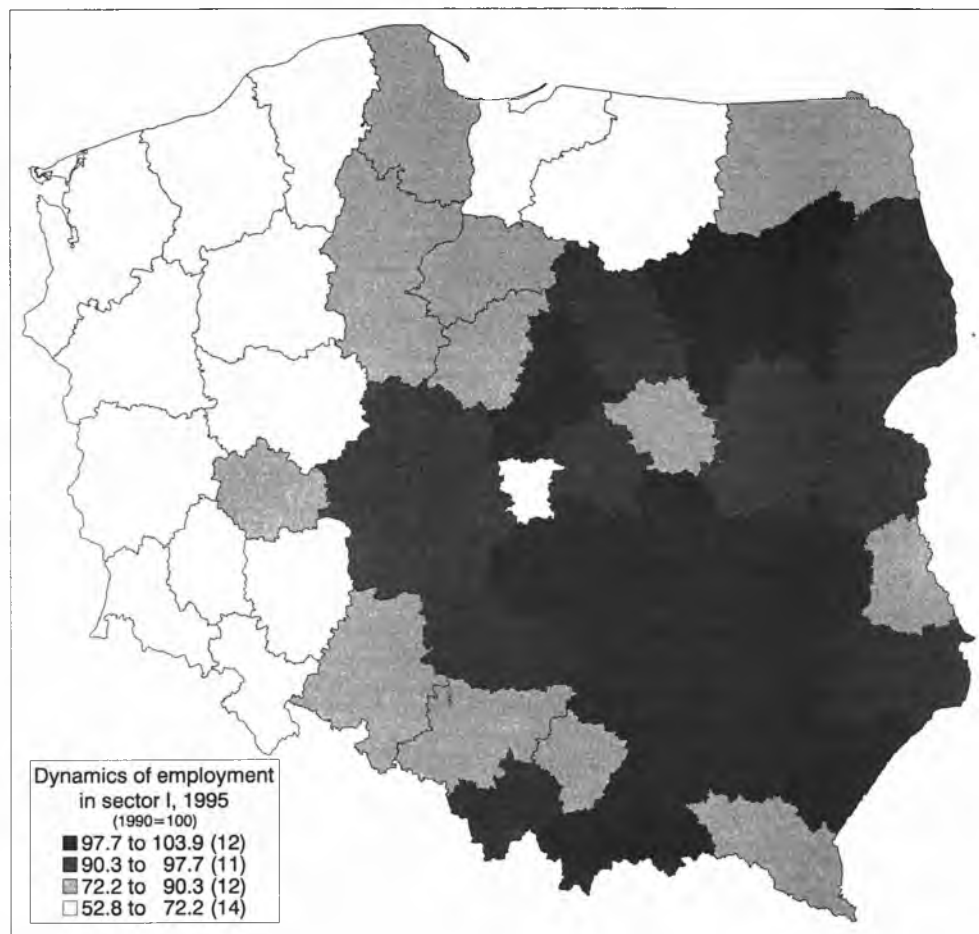
The trends in agricultural employment need some more comment. In the first period the decline was mainly due to the collapse of state farms, which shed some half million workers, of whom approximately two thirds became unemployed. This decline of agricultural employment was partly compensated by the flow back to private agriculture of people who were made redundant in industry. Agriculture became a kind of reservoir for the labour force released from other sectors, especially the so-called worker-farmers—owners of small farms who had also worked in nearby industrial plants and who were the first to be dismissed from these plants. These people remained only partly employed, since there is not enough work for them in the overpopulated agricultural economy. This process has continued in the following years. The rapid growth observed in 1996 may be due to better estimation of the workforce in agriculture by the agricultural census, which would mean that the previous numbers were underestimated.

Hidden unemployment in Polish agriculture is estimated at some 1.5 million persons. Agriculture remains the main source of income for only around 16 per cent of the Polish population (including pensioners who receive social benefits from the agricultural pension fund), and work in agriculture constitutes the main source of income for only slightly over 11 per cent.

Since the very beginning of the Polish transformation the share of services in the labour structure has constantly been growing. In 1991 the absolute number of persons employed in this sector increased for the first time, and this number has been growing since then. This process should be regarded as a major manifestation of structural changes in the Polish economy since 1990.

The regional differences in the *sectoral changes* of employment in Poland demonstrate clear patterns. The western regions and the regions with big urban centres have changed their employment structures fastest. Figures 3.4–3.6 reveal the differences in percentage shares of employment in the three sectors between the years 1990 and 1995.

Figure 3.4. Dynamics of employment in sector I, 1995, 1990 = 100

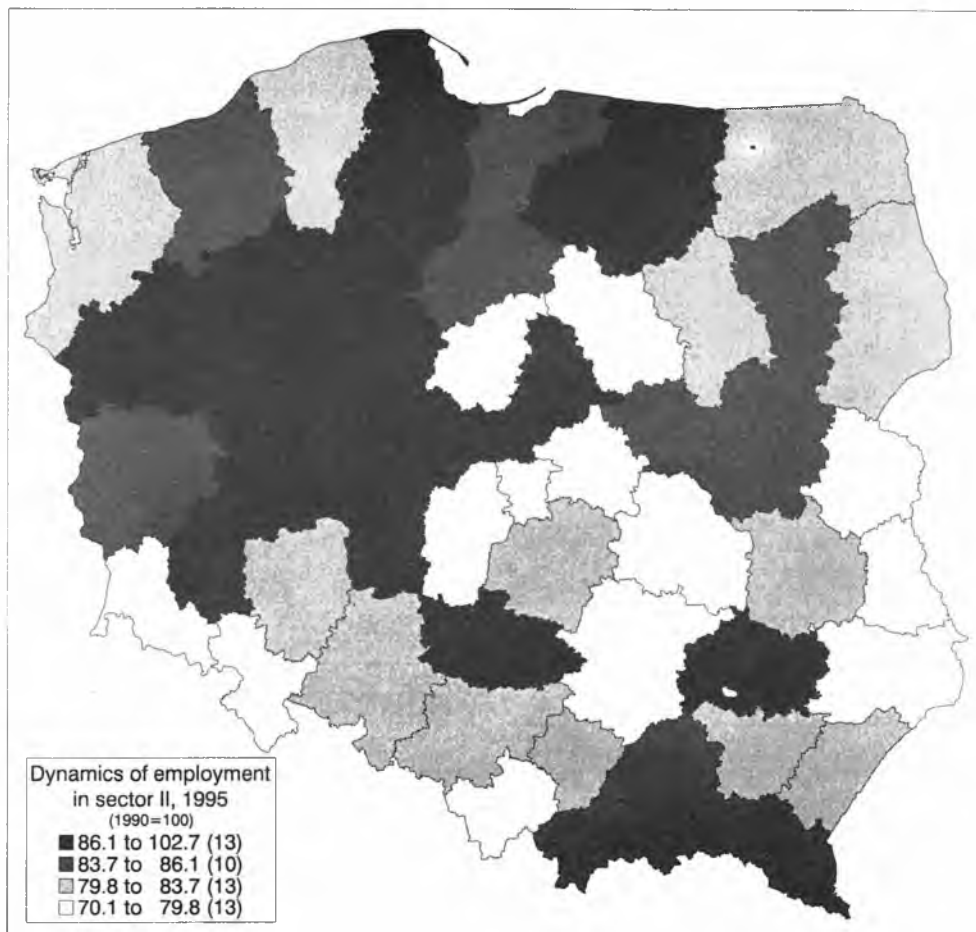


Source: *Rocznik Statystyczny Pracy (Statistical Yearbook of Labour) 1996*.

The fastest rate of decline of agricultural employment, found in the northern and western territories, was due to the collapse of state-owned farms. A vast majority of the labour force released from these farms did not find any alternative employment and ended up as unemployed, which is why the unemployment rates in these regions are the highest in the country. The slow pace of decline of agricultural employment in the central and eastern regions was caused by the lack of other sources of income: private agriculture became a kind of (at least temporary) shelter for people exiting other occupations.

No definite regional patterns can be observed in the decrease of industrial employment. Central and eastern Poland lost less jobs in industry and construction, while big urban centres noted a faster decline of employment in these sectors. The changes in employment in the third sector reveal that the transformation processes

Figure 3.5. Dynamics of employment in sector II, 1995, 1990 = 100



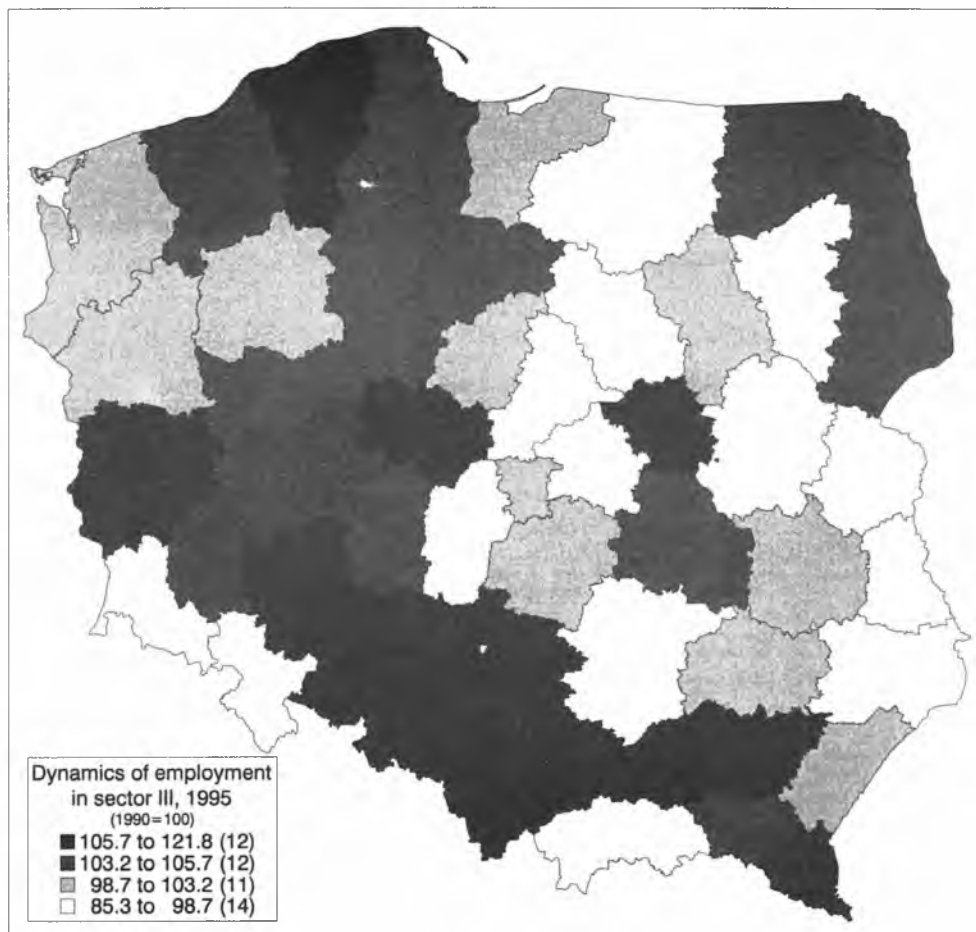
Source: *Rocznik Statystyczny Pracy* (Statistical Yearbook of Labour) 1996.

were slowest in the backward eastern and central regions (some of these regions even lost jobs in the third sector) and fastest in big urban centres.

The overall regional differences in the sectoral structures of the active workforce are shaped in the following way:

- Eastern regions are dominated by sector I, whose share in total employment exceeds as much as 50 per cent in a few regions, while in the regions dominated by big urban centres, sector I has shares well below 10 per cent.
- Shares of employment in sector II follow a reverse regional pattern—they are the highest in the west (up to about 50 per cent) and the lowest in the east (in the range of 10–20 per cent). Some big urban centres, dominated by industry, also reveal high—though rapidly dropping—shares of sector II.
- Employment in services (sector III) has a high share in total employment in the west of the country and in a few big urban centres, where it exceeds 60 per cent.

Figure 3.6. Dynamics of employment in sector III, 1995, 1990 = 100



Source: *Rocznik Statystyczny Pracy (Statistical Yearbook of Labour) 1996*.

- In the central and eastern parts of the country the sector's shares are below 30 per cent.

In general, Poland reveals a traditional employment pattern: a relatively high share of sector I and a low share of sector III. Only regions with big urban centres demonstrate a more mature structure. Thus, it is very likely that *three types of regional trajectories* of further changes in the sectoral employment structures might emerge:

- a dynamic shift from agriculture to services in the central and eastern parts of Poland, since rapid industrialisation of these regions is rather unlikely, and agriculture, once its restructuring begins, will have to release substantial numbers of persons (these processes, however, will not begin before the year 2000);
- fast transfer of employment from industry to services in more advanced regions, along with the strengthening of the role of big urban centres as foci of financial, educational and scientific activities, and

- rather slow changes in the west, where agricultural employment is already low, share of industry is moderate and the demand for services has already been—to a great extent —satisfied (albeit on a rather low level).

3.3. Educational level of the labour force

As in other post-socialist countries of Central Europe, the *technical bias* can be clearly seen in the educational structure of Polish population (see table 3.4, according to the 1995 microcensus).

Table 3.4.

Educational level of the Polish population, 1995

Levels of education	In the working-age population	In the population aged 15+ years		
		total	urban areas	rural areas
		in per cent		
Higher	11.4	6.8	9.8	1.9
Secondary technical or other professional	27.9	20.2	24.6	12.5
Secondary general	6.0	7.1	9.6	3.0
3-year vocational (mainly technical)	33.5	25.9	24.6	28.0
Primary or below	21.2	40.0	31.2	54.6

Source: *Mały Rocznik Statystyczny (Concise Statistical Yearbook) 1997*, table 6(28).

There were marked regional differences in the professional skills of the labour force. The “best” and the “worst” regions are presented in table 3.5. The data presented in this table are derived from the 1988 census. No more recent information of this type in regional breakdowns is available. However, little has changed during the last few years: in 1988, 6.5 per cent of persons above 15 years of age attained university-level education, and in 1995 this rate had grown to only 6.8 per cent. It may be assumed that the rates presented above are representative for the current state of regional differences in the educational level of the Polish labour force.

As table 3.5 demonstrates, in all big urban centres (with the exception of the Katowice region) the share of highly educated employees was higher than the national average. The backward agricultural regions occupy the opposite end of the table, accompanied by the “monofunctional” industrial centres which have their economic base in raw material extraction (Konin, Piotrków, Tarnobrzeg). For the area with the biggest concentration of industrial employment in Poland, the Katowice region, higher and secondary education rates are 8.1 and 29.9 per cent, respectively. The Katowice region is the national leader in the share of the semi-secondary vocational level of education (of a rather narrow profile). 38.6 per cent of its active labour force (with 29.6 per cent national average and 20.6 per cent for the Warsaw region) has attained this particular level, which, however, does not provide too many opportunities for efficient retraining and acquiring new skills.

An interesting picture is obtained when the historical factor is examined (see fig. 3.7). The belt separating the western part of the country from its central and

Table 3.5.

Economically active, by educational level, 1988

No.	Voivodships	Per cent with education	
		university & equivalent	secondary
1.	Warszawa	19.7	40.7
2.	Kraków	14.1	28.9
3.	Wrocław	13.4	32.8
4.	Poznań	12.5	30.4
5.	Łódź	12.3	36.0
6.	Gdańsk	12.1	32.2
7.	Lublin	10.2	27.6
8.	Szczecin	10.1	30.8
9.	Olsztyn	8.6	29.4
10.	Koszalin	8.5	29.4
40.	Włocławek	4.8	23.3
41.	Biała Podlaska	4.8	22.5
42.	Piotrków	4.7	22.4
43.	Konin	4.7	22.3
44.	Sieradz	4.4	19.7
45.	Ciechanów	4.3	24.1
46.	Łomża	4.3	20.7
47.	Zamość	4.2	21.3
48.	Ostrołęka	3.9	21.4
49.	Siedlce	3.9	19.7
Poland		8.4	27.9

Source: 1988 census data, *Rocznik Statystyczny Województw 1990*, table 3(98).

eastern regions is inhabited by a relatively better educated (rural) population. This is the part of western Poland which was not populated after the war by the immigrants from the former eastern Polish territories lost to the Soviet Union, i.e. the western regions with the greatest shares of the indigenous population. This is the belt which manifests the best potential for transformation.

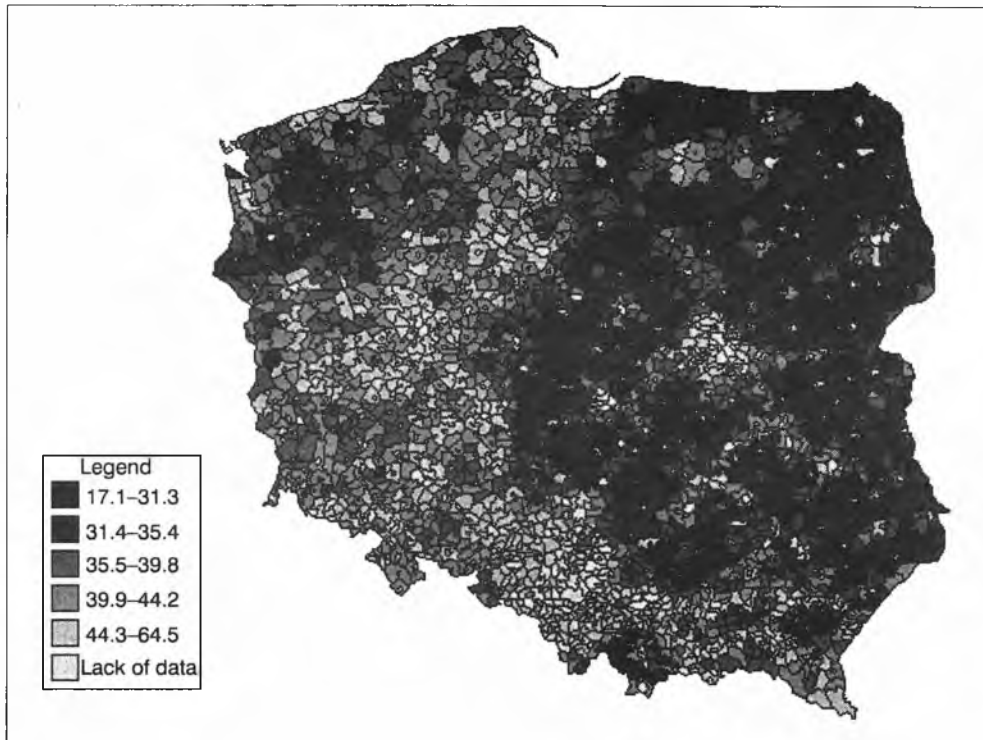
There are, therefore, four major dimensions of the regional profiles of the educational level of the labour force:

- the “big city” dimension,
- the rural dimension,
- the industrial dimension,
- the historical dimension.

Warsaw, Kraków, Poznań, Wrocław, Łódź, and Gdańsk fall into the first group. These regions are characterised by high shares of the labour force with university and secondary levels of education and relatively low levels of workers with semi-secondary vocational training.

The eastern and central regions are characterised by the “rural” type of education, where all types of education above the primary level are poorly represented and the share of the population with primary school level or even below is the highest (up to 50 per cent of the total numbers of the economically active population).

Figure 3.7. Rural population with primary or lower education, 1988



Source: IRWiR PAN (1996).

The Katowice region is a typical example of the industrial type of educational profile. Its shares of other types of education are close to the national average, which is much lower than it should have been taking into consideration the fact that this region has the biggest concentration of the urban population in Poland.

3.4. Unemployment

The difference between the economically active population and the work force constitutes *unemployment*. This is one of the most grave consequences of the transformation process in Poland. As of 31 December, 1996, there were 2,359,500 registered unemployed in Poland, making the unemployment rate (the ratio of persons registered as unemployed to the economically active population—i.e. to the sum of the working and the unemployed) 13.6 per cent. By the end of 1997 the unemployment rate had declined to 11.5, which was, however, also due to the changes in the definition of unemployment (for example graduates who cannot find work are now not included). Poland's most severe difficulties on the labour market are over. Since the end of 1993, when there were almost 2.9 million people without work, the number of unemployed persons and the unemployment rate have been decreasing. The end-of-year

unemployment rates throughout the transformation period were as follows: 1990: 6.1; 1991: 11.4; 1992: 13.6; 1993: 16.4; 1994: 16.0; 1995: 14.9¹. The decrease in the unemployment rate from its peak year 1993 is evident and it is very likely that with a continued high rate of growth this decrease will continue.

The situation on the non-rural labour market was much more serious. By the end of 1996 the number of all registered unemployed constituted 21 per cent of the economically active population outside agriculture. There are estimates that in this last sector some 700,000 persons are only partially employed, which adds to the overall dramatic picture of the labour market in Poland. Agriculture has become a kind of a reservoir for those who have lost jobs in nearby towns and cannot find any other employment. As a result of this process, the chances for Poland to achieve a modern structure of employment—with a low share of agriculture—in 10–15 years are declining.

Around 30 per cent of the total number of unemployed did not receive unemployment benefits. Women constitute more than half of this group. Almost 650 thousand unemployed (21 per cent of the total number of unemployed) have never worked before. 202 thousand of them were graduates of universities and other schools. University graduates constituted 4.5 per cent of this group and those who left vocational schools (11 years of schooling) almost one half.

Almost one third of the unemployed have attained only primary (or even lower) education. Another third of the unemployed have basic vocational training and only 2.5 per cent have obtained university degrees. The highest rate of unemployment is recorded among persons with general secondary education. On the average, the probability of becoming unemployed is five times lower for a university graduate than for an employee with basic skills only. The structure of unemployment according to educational level demonstrates the role which the level of education has begun to play in the Polish economy—this is a clear change with respect to previous “socialist” patterns according to which a higher level of education did not necessarily lead to higher living standards and social status. The number of long-term unemployed is growing, which indicates that unemployment in Poland is of a structural character. In June 1992, 33 per cent of the unemployed had been without work for more than 9 months. In December 1993, the share of those unemployed for over 12 months reached 45 per cent.

The 1997 age structure of the unemployed is presented in table 3.6.

The structure of unemployed according to their educational level on 31 December, 1997 is presented in table 3.7.

According to “soft” estimates, in Poland some 20 per cent of the registered unemployed do work unofficially, thus adding to the “grey” economy. This figure is not substantially different from similar estimates in other Central European countries.

In spite of the dramatic increase in unemployment in Poland during 1990–1993, the phenomenon of excessive employment still persists, especially in industry. In 1991 it was estimated at 950,000—1.5 million persons, though it should have decreased since

¹ As mentioned above, the unemployment rate is the ratio of registered unemployed to the economically active population. The last category is composed of those who work and those who are actively seeking work (the latter category is the same as the officially unemployed). For 1990 and 1991 unemployment was expressed as a percentage of the total economically active population and later as a percentage of the economically active civil population.

Table 3.6.

Age structure of unemployed, 31 December 1997

Age groups	Absolute numbers	Per cent, total unemployment=100
15-17	794	0.0
18-24	561,085	30.7
25-34	508,554	27.9
35-44	481,285	26.4
45-54	242,997	13.3
55-59	25,725	1.4
60+	5,973	0.3
Total	1,826,413	100.0

Source: Labour Office (1998).

Table 3.7.

Educational structure of unemployed, 31 December 1997

Educational level	Absolute numbers	Per cent, total unemployment=100
Higher	25,108	1.4
General secondary	364,175	19.9
Vocational secondary	115,168	6.3
Basic vocational	700,677	38.4
Primary or below	621,285	34.0
Total	1,826,413	100.0

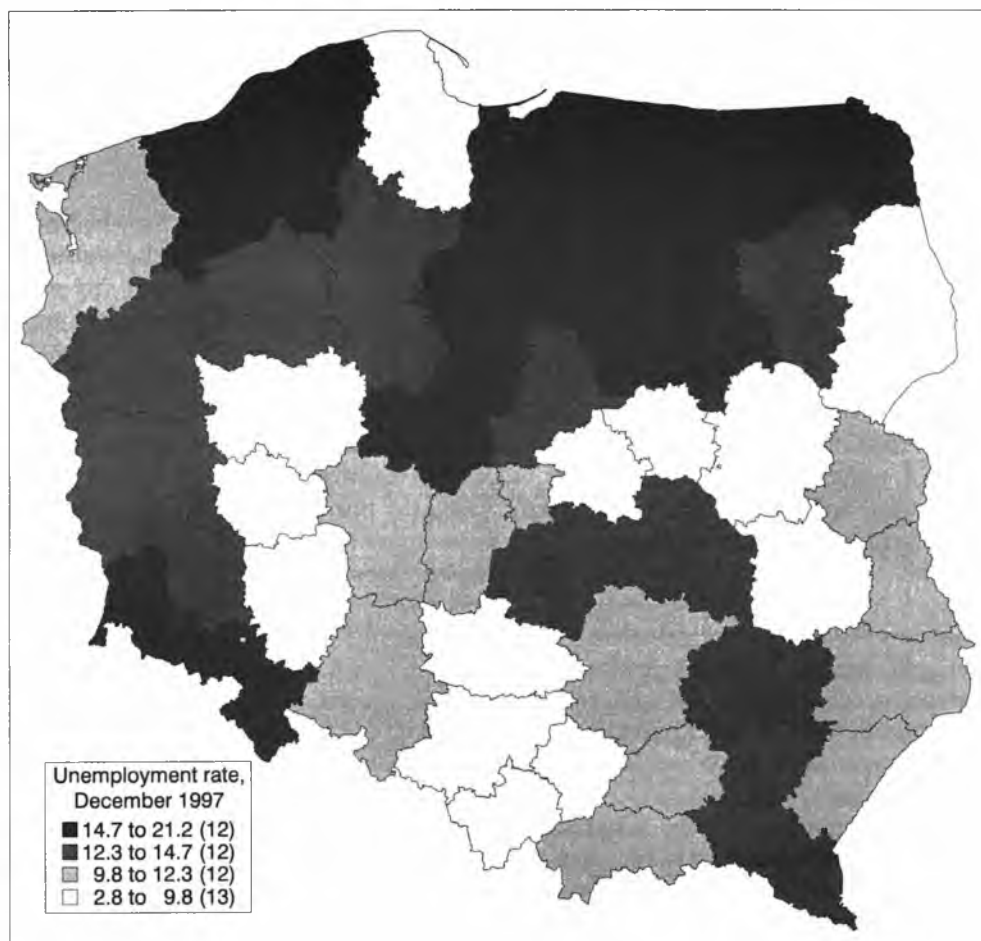
Source: Labour Office (1998).

then. The overall decrease of industrial production was twice as high as the decrease in industrial employment. State enterprises were reluctant to adjust the number of employees to the actual level of production, since they expected improvement of their economic situation and did not want to lose often highly qualified specialists. Moreover, in several cases enterprises are still perceived as institutions which should perform social functions, and the pressure to maintain the level of employment is strong. As already mentioned, much hidden unemployment exists in agriculture.

Figure 3.8 presents the regional differentiation of the unemployment rate in 49 administrative regions (voivodships). The spatial differentiation presented in this figure does not provide a comprehensive picture of unemployment in Poland. It is obvious that in several localities this phenomenon is even more dramatic than can be seen in the regionally amalgamated picture. There were areas where the number of unemployed exceeded the number of those who did have a job by as much as 50 per cent. Several localities have been left almost without any economic base, after the collapse of a dominating factory or state farm. A particularly dramatic situation still occurs in remote, underdeveloped rural areas, where job opportunities are virtually non-existent.

These regional differences are likely to persist in the future, although to a lesser degree. It is amazing how well some regions and localities were able to improve their labour market situation, even against any "rational" forecasts. For example, even two years ago it was assumed that the north-western regions, with the gravest

Figure 3.8. Unemployment rate, December 1997



Source: Labour Office (1998).

situation on the labour market due to the collapse of state farms, did not have any realistic chances for improvement. Since then, in several *gminas* and small towns unemployment has dropped twofold, due to the imaginative performance of both local authorities and entrepreneurial spirit of the local population. Nevertheless, in some other localities the situation might be still grave. On the other pole are the big urban agglomerations with diversified economies, where, in fact, there is a shortage of labour, even in manual jobs, due to the existence of the “grey” economy or to exceptionally dynamic economic growth.

Additionally, some regions that are exposed to industrial restructuring are in a better position than one could have expected. Łódź, a region in which the state-owned textile industry collapsed almost immediately after 1989, has restructured its economy amazingly effectively, and unemployment levels, though still high, are declining. Upper Silesia (Katowice voivodship) has not entered the phase of true

restructuring yet, though its very low share of tertiary employment represents a vast reservoir for employees who would lose their jobs in industry (their re-training thus becomes the main challenge for regional policies).

3.5. "Grey" economy

There are no reliable estimates concerning the "*underground sector*" of the Polish economy, although general agreement exists on its important role in the transition processes. Figures of around 20 per cent of GDP are often quoted². To some extent, the excessively restrictive fiscal policy of the state pushes some economic activity "underground", leading to a kind of vicious circle (lower revenues for the state budget lead to higher tax rates, which in turn lead to the growth of grey sector activity, further revenue loss, higher taxes and so on). The following relation exemplifies the result of this "game": the private sphere, which employs over 50 per cent of the total workforce, provides only 4 per cent of all tax revenues. This is due to the fact that private firms "pump" costs (by purchasing or leasing expensive cars, luxurious office equipment etc.) in order to avoid taxes. By the same token, several trans-national corporations avoid paying taxes in Poland, which is possible through transaction prices they use for deliveries within their multinational networks. This can be partially explained by mistakes made by the central government; for example, no tax relief on profits spent on new investment has been introduced. Estimates demonstrate that such relief, through activating under-utilised production, might result in an overall increase of tax revenues. It can be hoped that new measures will be introduced which would strengthen the private sector and thereby the entire Polish economy.

No regional breakdowns of the grey economy can be provided. However, some general statements can be made. Firstly, illegal or hidden economic activities flourish in big urban centres, where economic life is "faster" and more diversified. Secondly, it has become an important element of the borderland economies, on both eastern and western Polish borders, due to the uneven levels of development on the two sides of these borders. Since the levels of development of the Czech and Slovak Republics are similar to that of Poland, one should assume that the importance of the grey sector is smaller on the southern Polish border. No reliable estimates are available, since they would require extensive field studies on all Polish international borders. However, the subjective data collected from the representatives of local authorities on the estimates of grey economy in their localities have not proved the hypothesis that the share of grey employment is higher there than elsewhere (one may nevertheless assume that such illegal activities as smuggling, tax and customs evasion, and crime would be more intense close to the borders).

² As estimated by ZBSE (1993), unofficial economic activity in 1993 provided 22 per cent of GDP. This figure was said to be rather cautious (see also ZBSE, 1995).

Chapter 4

THE ECONOMY

4.1. Gross Domestic Product

As already indicated, Poland is a country with relatively *fast economic growth*, reaching over 6 per cent annually (in real terms). This growth affects particular economic sectors in different ways, which leads to structural changes. Table 4.1 presents changes in the main sectoral structures of GDP creation in Poland during 1989–1996.

Table 4.1.

Creation of GDP in Poland, by sectors, 1989–1996, per cent

Sectors	1989 ^a	1990 ^a	1991 ^a	1992 ^b	1993 ^c	1994 ^c	1995 ^c	1996 ^c
Industry	41.0	43.6 36.2	39.2	39.6 33.9	33.4	32.2	28.9	27.1
Construction	9.6	9.5 9.3	10.9	11.2 7.5	6.6	5.7	5.2	5.3
Agriculture	12.2	7.3 13.8	8.4	7.3 6.6	6.6	6.2	6.6	6.0
Other	37.2	39.6 40.7	41.5	41.9 52.0	53.4	55.9	59.3	61.6

^a1989 and upper figure for 1990: constant prices 1985; lower figure for 1990 and 1991, 1992: constant prices 1990;

^bupper figure: Classification of the National Economy; lower figure for 1992–1996: European Classification of Activities;

^ccurrent prices.

Source: Roczniki Statystyczne (Statistical Yearbooks) 1992, 1993, 1995–1997.

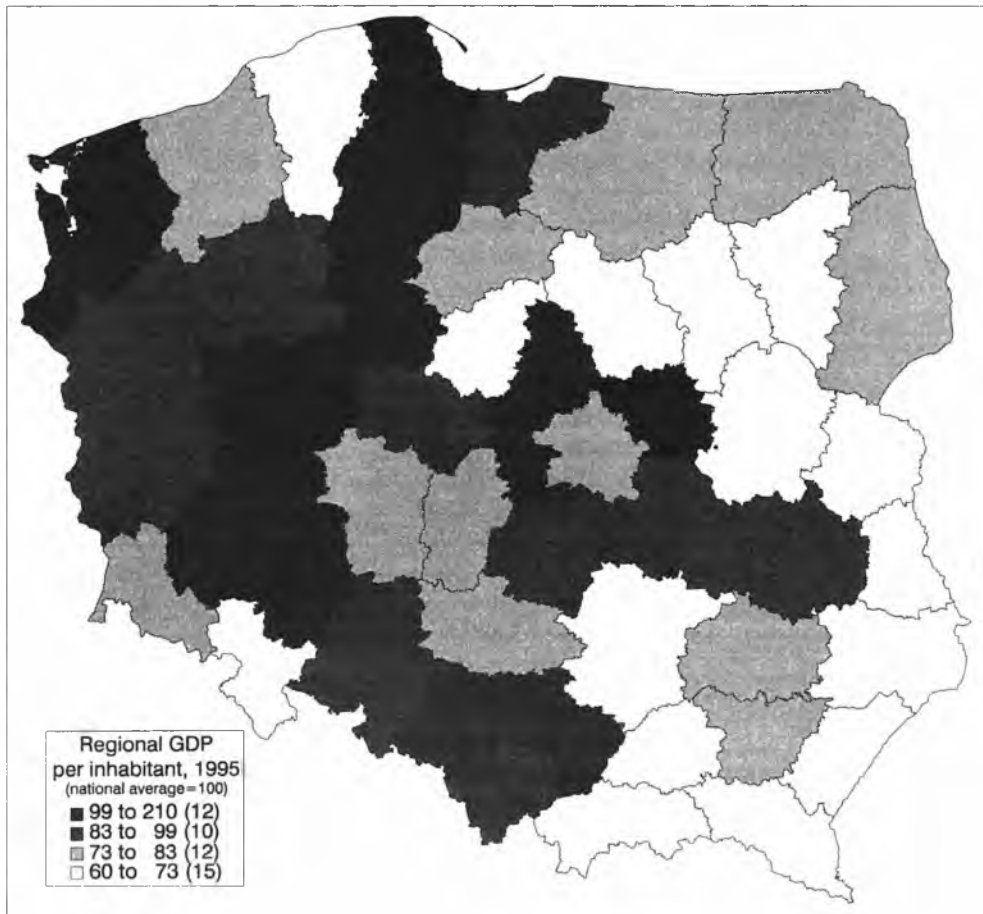
As can be seen from this table, we observe a constant decline in the share of agriculture in GDP, growth and then decline in the share of industry and very high growth in the share of “other sectors”—i.e. services. These proportions are consistent with the changes in employment structure discussed in section 3.2 of this book.

These changes reflect the modernisation of the sectoral structure of the Polish economy which has taken place during the first five years of transformation. At the same time, however, they indicate the distance between the Polish economy and the more advanced economies of the West.

The *regional product* is the main, synthetic measure of the overall level of regional development. There are official statistics on the regional product in Poland (GDP in regional break-downs) only for two years, 1992 and 1995.

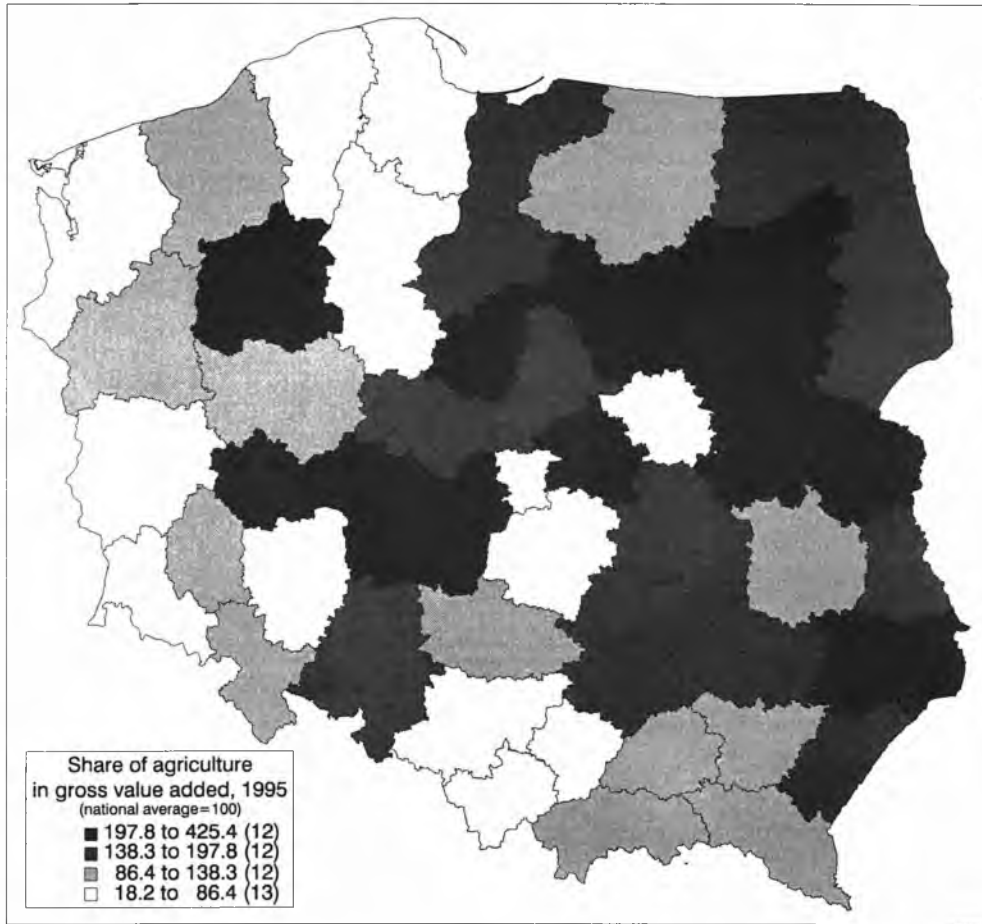
The regional differentiation of GDP per inhabitant in 1995 and the share of agriculture in gross value added are presented in figures 4.1 and 4.2 respectively.

Figure 4.1. Regional GDP per inhabitant, 1995, national average=100



Source: ZBSE (1997).

Figure 4.2. Share of agriculture in gross value added, 1995, national average=100



Source: ZBSE (1997).

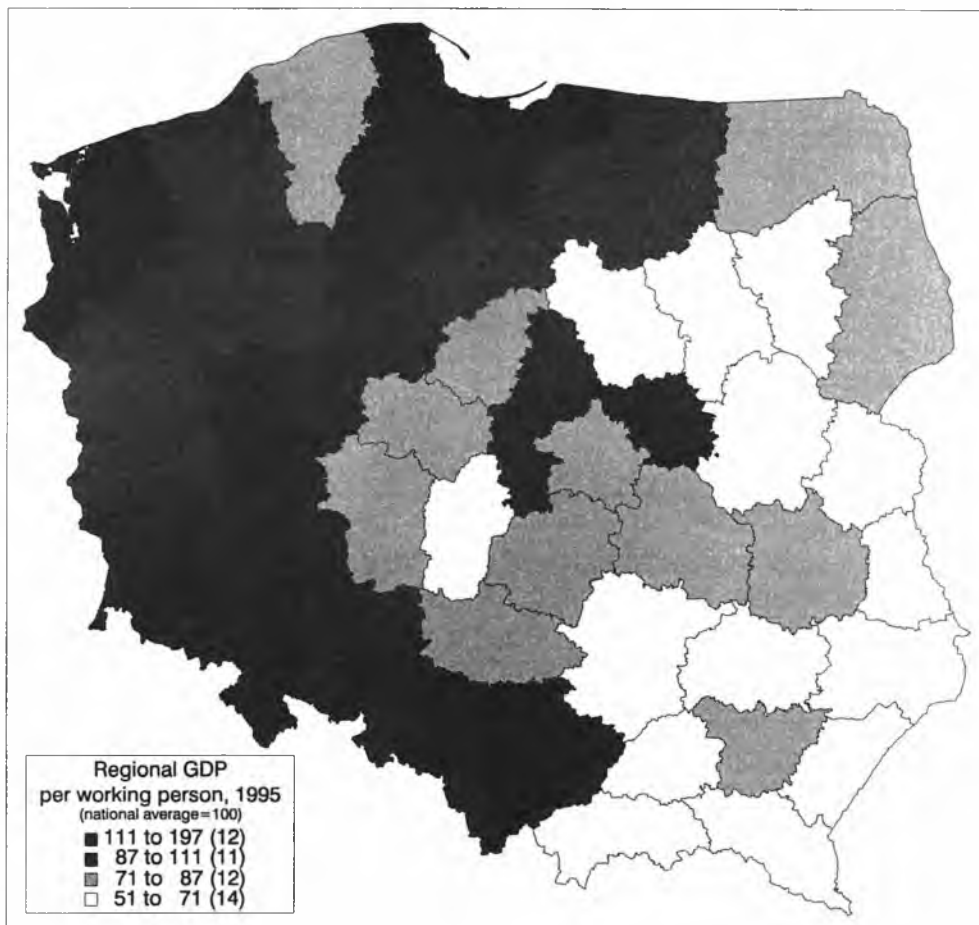
Fig. 4.3 demonstrates the efficiency index, i.e. the value of GDP per working person. The big “letter L” which begins in Gdańsk and extends to the south-western corner of Poland to turn east and reach Kraków is clearly visible (the regional differentiation of private passenger car ownership followed similar spatial pattern). This letter covers the regions of the highest level of development. Some other “islands” such as the Warsaw and Szczecin regions may be added to this general pattern.

The share of agriculture in gross value added is strongly differentiated—from 1.36 per cent in the Katowice region to over 20 per cent in several eastern and central parts of Poland. These figures reflect the regional differentiation of the economic structures in the country.

The relative changes of the regional values in GDP per inhabitant related to the national average¹ during the period 1992–1995 do not compose a clear picture (see

¹ It is not possible to calculate the absolute dynamics of the regional GDP, since the system of constant prices in regional breakdowns is not available.

Figure 4.3. Regional GDP per working person, 1995, national average=100



Source: ZBSE (1997).

table 4.2.). On the one hand, some metropolitan regions note high relative growth (Warsaw, Wrocław)—but on the other there are some others (Kraków, Poznań, Szczecin) in which the relation of GDP per inhabitant to the national average declined sharply. Some industrial regions which should be in trouble due to the decline of raw material extraction noted high growth (Katowice, Konin); others have declined (Legnica, Piotrków). Some eastern regions developed (in relative terms) fast (Ostrołęka); others slowly (Chełm, Biała Podlaska, Zamość). The same applies to the western regions (fast relative growth in Piła, Gorzów; slow in Zielona Góra, Jelenia Góra). These arrangements are hard to explain and call for additional studies.

In 1992 the regional differences in GDP per inhabitant in Poland equaled 2.5 to 1. In 1995 they reached 3.48 to 1 (Płock: 209.05 per cent of the national average, Zamość: 60.06 per cent). This ratio should be still regarded as modest. Poland, like other post-socialist countries, appears to be a country with limited regional differences as expressed by GDP. However, if the assumed rate of growth of the entire Polish

Table 4.2.

Relative changes in GDP per inhabitant, 1992–1995, Poland = 100: differences in percentage points (factor costs)

Relative growth (>4.0)			Stabilisation (−4.0 — +4.0)			Relative decline (<−4.0)		
No	Regions	Index	No	Regions	Index	No	Regions	Index
1.	Katowice	15.0	13.	Lublin	3.6	31.	Bydgoszcz	−4.1
2.	Wrocław	14.5	14.	Kielce	3.2	32.	Opole	−4.3
3.	Konin	13.2	15.	Gdańsk	3.0	33.	Białystok	−4.4
4.	Piła	11.3	16.	Bielsko	2.5	34.	Ciechanów	−4.6
5.	Warsaw	9.5	17.	Łódź	2.2	35.	Nowy Sącz	−4.9
6.	Leszno	8.4	18.	Suwałki	1.7	36.	Ślupsk	−4.9
7.	Tarnobrzeg	7.1	19.	Sieradz	1.3	37.	Zamość	−5.6
8.	Radom	6.4	20.	Przemyśl	1.1	38.	Biała Podlaska	−7.0
9.	Ostrołęka	5.6	21.	Częstochowa	0.1	39.	Płock	−7.6
10.	Kalisz	5.4	22.	Skierniewice	−0.1	40.	Szczecin	−8.1
11.	Elbląg	4.6	23.	Wałbrzych	−0.8	41.	Olsztyn	−8.5
12.	Gorzów	4.5	24.	Toruń	−1.7	42.	Jelenia Góra	−9.5
			25.	Włocławek	−2.0	43.	Zielona Góra	−11.9
			26.	Rzeszów	−2.8	44.	Tarnów	−12.1
			27.	Krosno	−3.2	45.	Kraków	−12.4
			28.	Koszalin	−3.4	46.	Legnica	−12.8
			29.	Łomża	−3.6	47.	Poznań	−19.2
			30.	Siedlce	−3.7	48.	Piotrków	−19.9
						49.	Chełm	−20.3

Sources: Zienkowski (1994), ZBSE (1997).

economy is 4.5–5 per cent per annum in the period through the year 2005, some regions will demonstrate much higher—and some much lower—rates of growth.

According to the *scenario* allowing for a great differentiation of the growth rates of particular regions, resulting from the assumption that the regions which reached the highest levels of development would grow at the highest rates, the following regional differentiation would emerge in Poland (see table 4.3).

The obtained data indicate that if strongly differentiated regional growth rates remain stable for the whole 13 years (1993–2005), *differences between the extreme regions will reach a ratio of 5:1, as compared to 2.5:1 in 1992*. This means doubling the degree of extreme interregional differences. Regions which are in the worst situation will achieve about half of the national average level of GDP per inhabitant. Regions which are in the best situation will exceed the national average twofold.

Such big regional differences seem difficult to accept. However, after a closer analysis it turns out that they do not diverge from the differentiation existing in West European countries.

At first glance, differences in the EU—with the exception of the Netherlands, growing over time—seem to be smaller than in Poland. However, this is a wrong impression resulting from the fact that they are calculated for a much smaller number of spatial units, which obviously “flattens” the differentiation. In fact, regional differentiations in less developed European Union countries do not differ from the differences foreseen for Poland in 2005. For example, it would be difficult to

Table 4.3.

Probable regional differentiation of GDP per capita in 2005 in Poland, selected regions (factor costs)

Regions	Annual rates of growth 1993–2005	GDP per capita, Poland=100	
		1992	2005
Warsaw	1.08	158	228
Poznań	1.08	132	190
Kraków	1.06	123	149
Szczecin	1.07	127	145
Łódź	1.04	105	92
Katowice	1.00	116	62
Legnica	1.00	126	67
Zamość	1.03	73	57
Ostrołęka	1.02	70	48
Nowy Sącz	1.04	69	61
Suwałki	1.02	65	45

Source: Gorzelak, Jałowiecki (1997c).

Table 4.4.

Regional differentiation of GDP per inhabitant in the European Union, 1991

Countries	Number of regions	EU 12 = 100			National average = 100		Relation of the worst region to the best region
		country	best region	worst region	best region	worst region	
Greece	13	47	58	35	123	74	1:1.7
Spain	17	78	98	50	125	64	1:2.0
Portugal	5	59	77	40	131	68	1:2.0
United Kingdom	35	95	151	75	154	79	1:2.0
Italy	20	105	135	58	129	55	1:2.5

Source: CEC (1994).

create two hypothetical (but reasonable) regions in Poland composed of three current voivodships (yielding a region similar in size to the present Spanish or Italian regions) for which the difference in GDP per inhabitant in 1992 would exceed 1.7:1, and in 2005 2:1 (with the assumed growth rates). Thus, it turns out that the polarisation variant does not lead to regional differentiations stronger than those existing at present in the poorer countries of the European Union.

It is interesting to note that regional differences have a clear tendency to grow in the vast majority of the European Union's member states (see table 4.5).

One could also consider a variant which differentiates Polish space less. It might be assumed that after 1999, due to migrations from less developed regions to more affluent ones, the growth rates will be less polarised—i.e. the richest regions will develop at a rate of 1.06 and the less developed ones at rates of 1.03–1.04. In this simulation, interregional differences in 2005 for extreme regions reach 4:1, so they are a little smaller than in the first variant. The best developed region, the Warsaw voivodship, reaches double the national average value, and the lowest values are half the national average value. This variant, therefore, leads to smaller differences than

Table 4.5.

Changes in interregional differences in the European Community member states, 1983–1993
(weighted standard deviation)

Countries	GDP per capita		Unemployment rate	
	1983	1993	1983	1993
Belgium	14.5	17.1	0.5	1.4
France	27.0	27.9	1.6	2.0
Greece	6.6	7.6	0.7	2.4
Spain	12.7	15.3	3.9	5.5
Netherlands	27.7	11.8		0.7
Germany (West)	20.7	24.5	1.7	1.9
Portugal	15.0	20.2		1.9
Great Britain	18.4	19.0	3.6	2.4
Italy	23.4	24.6	2.8	5.9

Source: CEC (1996), table 2 of the Appendix.

the ones existing now in Spain and Italy, countries in which the present national level of GDP per inhabitant is about twice as high as the one which Poland may reach in 2005, assuming the ambitious constant growth rate of 5 per cent per year.

The regional differences within most of the member states are growing in spite of costly regional policies put into operation by the Commission in an attempt to diminish these differences. Arguments indicating that the present development paradigm, based on knowledge and skills, coupled with rich institutional fabric, has put backward regions in a particularly difficult position, seem to hold true—which indicates that growth of regional differences in such a country like Poland will inevitably proceed, no matter what efforts are undertaken against this tendency.

The above shows that *fears of a development policy that would admit strong differentiation of regional growth rates are exaggerated*. Even if regional differentiation increases according to the polarisation model of development, it will not exceed the limits presently recognised as permissible in the European Union. These differentiations will have motivational effects, because they would encourage migrations from the least developed and slowly developing regions to the most developed regions, with the highest dynamics of growth².

The future regional policies of the national government in Poland should regard this scenario as the most likely one, since the economic factors will, undoubtedly, work in the direction of regional polarisation. We shall come back to this issue in the last, ninth chapter.

² It is worth paying some attention to the issue of “excessive differentiation”. It is a term used frequently without, however, providing the measure of proper differentiations, which is an obvious intellectual abuse. For our considerations, we can assume that excessive differentiation is a differentiation which has anti-motivational effects leading to frustration and apathy. It does not seem that remaining on the level of about half the national average would have a negative effect on the attitudes in the regions which are in such a situation, providing that these region grow in absolute terms and only lose pace to other regions in relative terms.

4.2. Industrial output and productivity

Important structural changes occurred in Polish industry after 1990. Though particular industrial branches have performed in dissimilar ways, in general, most of them have a deep decline in 1990 and 1991. In 1992 this situation changed dramatically. Traditional branches of heavy industry were still in deep decline, while consumer-oriented branches showed substantial growth. These tendencies have continued since then. Table 4.6 presents data on the rates of growth which have been recorded in the sales of particular groups of industrial activities. The data presented in the table are calculated according to the European Classification of Activities (NACE), which since 1993 has replaced the former Classification of the National Economy.

Table 4.6.

Growth of sales in industry and construction, by groups of activities, 1991–1996
(constant 1992 prices, previous year = 100)

	1991	1992	1993	1994	1995	1996
Industry, total	92.0	102.8	106.4	112.1	109.4	108.7
—mining of coal, lignite; extraction of peat	101.9	91.6	97.6	101.1	99.1	103.1
—electricity, gas and water supply	103.5	95.4	88.8	104.7	100.9	99.3
—food products, beverages	100.6	101.7	108.6	112.8	109.3	111.9
—textiles	86.4	103.4	109.9	114.6	99.0	104.3
—basic metals	76.2	97.7	101.8	116.7	115.2	100.7
—rubber and plastic products	103.0	129.9	119.9	116.1	117.0	117.3
—machinery and equipment	75.3	119.8	109.4	115.5	120.9	111.1
—radio, TV and communications equipment	76.5	114.9	127.0	126.8	117.4	120.4
—motor vehicles, trailers and semi-trailers	77.1	111.0	127.4	113.7	114.1	139.6
—electrical machinery and equipment	93.3	102.1	110.9	109.7	116.1	117.7
—publishing and printing	84.5	128.4	139.0	106.9	117.3	117.1
Construction	101.0	98.7	104.5	100.3	105.6	104.1

Source: *Mały Rocznik Statystyczny (Concise Statistical Yearbook) 1996*, table 3(205), 9(211); *1997*, table 3(218), 10(225).

As can be seen from the above table, along with the beginning of the general recovery in mid-1992, several branches noted a change from negative to positive indices of production. The more technologically advanced and market-oriented the branch, the higher the rates of production growth during all of 1993 and the first months of 1994. Traditional branches (mining and quarrying, energy production, basic metal production) demonstrated prolonged negative trends, while the sales in the progressive ones grew by 10 per cent.

The relatively low growth of the construction sector has two sources: the growing share of machinery and installations in fixed capital formation, at the expense of buildings and shells, which is a positive change in investment patterns, and a temporary decline in construction of new housing.

Data on industrial employment for 1993–1995, compiled according to the principles of the European Classification of Activities (NACE), support observations concerning the new structure of industrial production trends. The highest growth of employment

in 1993 occurred in market-oriented manufacturing sectors such as: wood processing (122.7 per cent of the previous year's level), clothing (122.2), rubber and plastic products (115.9), food products and beverages (112.0), furniture (109.2), publishing and printing (105.5). At the same time, traditional activities like mining and quarrying and basic metals noted the greatest losses, with 1993 employment levels of only 84.2 and 86.6 per cent of 1992 levels. These changes can be seen as yet another proof of the successful restructuring of Polish economy.

Polish industry is not sufficiently *innovative*. This is the result of several factors: the relatively low research potential of Polish science, which limits the "pushing effects" from research to production; the low technological advancement of industry itself and its low propensity for innovations; lack of capital, and aversion to risk. These factors diminish the "sucking effect" of innovations from research to production. Table 4.7 presents the innovation levels in different branches and ownership sectors of Polish industry.

Table 4.7.

Innovativeness of Polish industrial enterprises, 1992

Categories of industrial enterprises	Number of enterprises	Enterprises			
		strongly innovative	innovative	poorly innovative	not innovative
		as per cent of the total number of enterprises			
All enterprises	2430	16.2	19.4	26.3	38.1
small	697	5.7	15.8	26.7	51.8
medium-sized	1098	11.0	19.1	29.1	40.8
big	480	31.3	23.5	23.1	22.1
very big	155	52.9	24.5	14.8	7.8
Public sector	1183	22.7	20.2	26.2	30.0
Private sector	1247	9.9	18.6	26.5	45.0
Fuel and energy production	72	25.1	12.5	18.1	43.0
Metallurgic industry	61	25.2	21.3	23.0	29.5
Electro-machinery	478	25.8	24.9	22.2	26.1
Chemical industry	271	27.3	26.2	26.6	19.9
Mineral industry	274	6.9	17.2	28.1	47.8
Wood and paper industry	288	12.2	17.0	28.8	42.0
Light industry	357	7.8	22.4	25.2	50.5
Food processing	421	15.0	16.9	29.9	38.2

Source: Korona (1994).

According to the results of a survey conducted in almost 2,500 Polish industrial companies, big firms demonstrate a much higher propensity for innovations than smaller firms. Similarly, state-owned enterprises are more innovative than the private ones. Ties between R&D institutions and industrial firms were severed during the restructuring phase and they have not yet been rebuilt. Some old, big, state-owned enterprises have retained their traditional connections with research institutions or have preserved their own research laboratories; new, small, private firms do not have sufficient resources and have not yet been pressed by the market to establish such connections. Innovativeness varies among branches of industry. It is highest in technologically advanced branches and lower in traditional ones (the highest share of

“strongly innovative” firms was found in the precision industry, the lowest in textile and leather industries and in coal mining).

Industrial restructuring has brought an even greater *concentration* of industrial production in the leading regions. Table 4.8 presents the shares of the strongest regions in the total industrial production of Poland. The aggregate share of the first 13 voivodships in national industrial production grew by 3 to 5 percentage points. The share of the 12 least industrialised regions was stable at 5 per cent.

Table 4.8.

Shares of leading regions in industrial production, 1989–1996, current prices
(1989: socialised sector only)

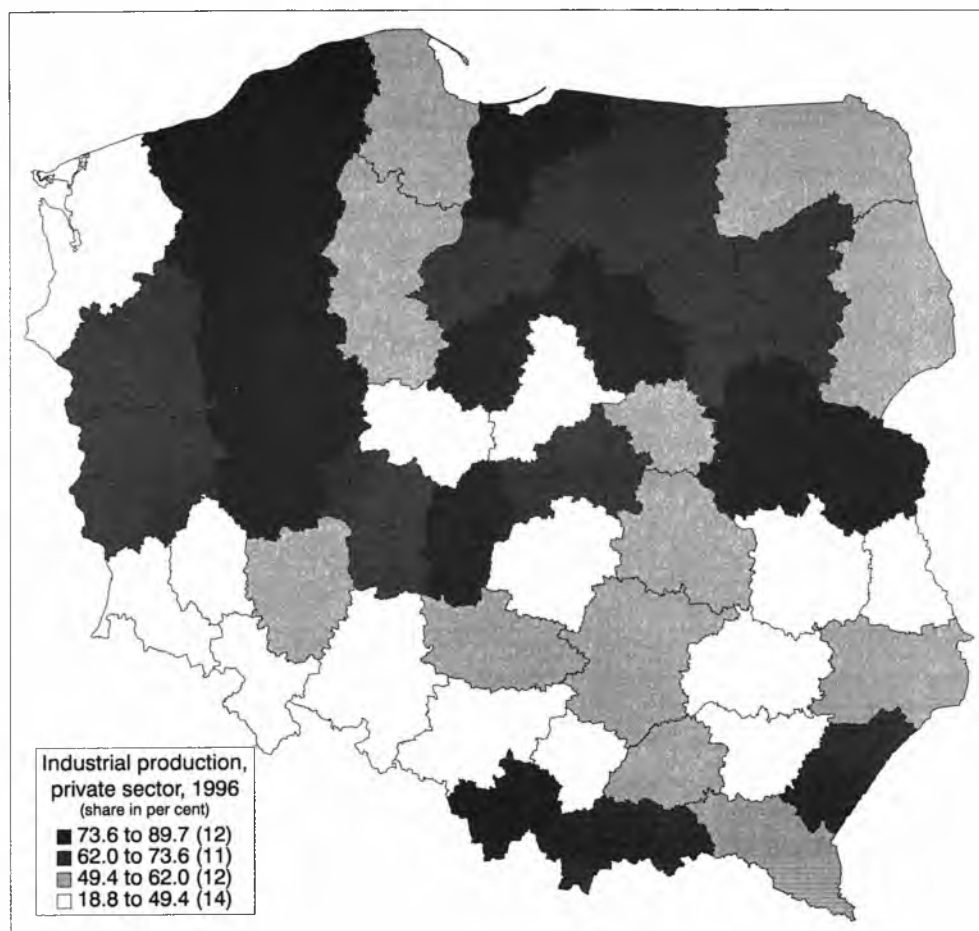
Regions	1989	1990	1991	1992	1993	1994	1995	1996
Katowice	15.5	16.9	17.8	17.3	16.6	17.2	15.7	15.9
Warszawa	7.8	7.8	7.8	9.3	10.5	11.2	11.2	11.8
Łódź	4.3	3.7	3.4	2.9	3.3	3.2	2.8	2.7
Kraków	3.9	4.2	3.9	4.1	4.1	4.0	4.1	3.6
Gdańsk	3.8	3.9	4.3	5.0	4.8	4.4	4.2	3.8
Poznań	3.7	3.9	4.4	4.4	4.6	4.5	5.1	4.9
Bielsko-Biała	3.5	3.2	3.1	3.3	4.0	3.7	3.8	3.9
Wrocław	3.4	3.1	3.0	2.6	2.6	2.5	2.6	2.7
Płock	3.2	3.7	3.6	4.9	4.7	4.0	3.6	2.7
Bydgoszcz	3.2	3.0	3.3	3.4	3.3	3.3	3.5	3.3
Szczecin	2.9	2.8	2.6	3.1	2.7	2.6	2.7	2.6
Opole	2.8	2.9	2.8	2.2	2.1	2.5	2.4	2.3
Legnica	2.7	3.6	3.1	2.1	1.8	2.0	1.9	1.8
All 13 regions	60.7	62.7	63.1	64.6	65.1	65.1	63.6	62.0

Source: CUP (1993); *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1994, 1996, 1997.*

Growth of the share of the 13 most industrialised voivodships in total industrial production is visible throughout the period 1990–1994, after which this share declined (in fact, for 1996 the last region, Legnica, with copper mining and processing, should be replaced by Lublin, the strongest of the eastern Polish regions). The increase of the share of the Warsaw region is particularly visible, which demonstrates the growing role of this region in the national economy. The same applies to Poznań. The share of the Katowice (Upper Silesia) region grew until 1994, and then decreased in 1995 to grow once again in 1996. This is the best proof of delayed restructuring of this regional economy, since the output of its traditional sectors—coal mining, steel production—has decreased insufficiently. (Coal mining brings financial losses, since the cost of coal extraction is lower than the selling price, and export prices are lower than domestic prices. This means that by subsidising rich Western buyers of Polish coal, the Polish taxpayer pays wages to redundant coal miners, who—owing to their political strength—are successful in opposing necessary lay-offs and continue to extract too much coal.)

The regional differentiation of industrial production according to the ownership sector (fig. 4.4) reveals that in the most heavily industrialised regions the public sector still dominates over the private sector. The influence of foreign capital is clearly

Figure 4.4. Share of the private sector in industrial production, 1996



Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

seen in several regions, like Elbląg and Bielsko Biała, where considerable foreign investment underlies high shares of the private sector in industrial production.

The changes in the ownership structure of industrial production follow the same patterns as the structure itself: the more privatised the industry in a region, the deeper had been the ownership structure change in general.

4.3. Foreign trade

As already indicated in table 1.6 Polish *foreign trade*—especially imports—is growing rapidly. Table 4.9 presents the main figures on the external relations of the Polish economy.

Table 4.9.

Main indicators of external relations of Polish economy, 1989–1996, current prices, billions USD

Categories	1989	1990	1991	1992	1993	1994	1995	1996
Foreign trade balance	0.7	4.7	-0.6	-2.7	-4.7	-4.3	-6.2	-12.7
Balance of payments	-5.0	-5.7	-1.3	-0.3	-2.3	-0.9		
Foreign debt	40.0	48.5	48.4	47.0	47.2	42.2	44.0	40.6

Source: PAIZ (1995), *Rocznik Statystyczny (Statistical Yearbook) 1997*, table 7(643).

In 1996, Polish exports were worth 24.4 billion USD and imports 37.1 billion. Over 34 per cent of Polish exports and 24 per cent of imports were to Germany. Officially, Poland had a negative trade balance with Germany (ca 755 million USD). However, this negative balance was turned into a positive one by purchases made by Germans in Polish shops and markets just across the border. Russia is the second largest partner in exports (6.8 per cent) and Italy in imports (9.9 per cent—which is mostly due to imports of parts and components for FIAT factories in Poland).

For several years the Polish negative trade balance has been covered by two sources: inflow of foreign investment capital (see section 4.4) and the inflow of foreign currencies from the “petty trade” conducted along the Polish borders. It is estimated that foreigners spent around 6 billion USD in 1995 buying Polish commodities and services in Poland, mostly along the state borders (for 1996 this figure was estimated at 7.2 billion USD). Since few years the citizens of the former Soviet republics have become net buyers—they pay for their purchases with foreign currencies and with Polish zlotys obtained in exchange for smuggled liquor.

The structure of foreign trade changed dramatically immediately after the beginning of the transformation process. Table 4.10 presents basic sectoral and geographical structures of Polish exports in 1989–1991.

Table 4.10.

Geographical structure of Polish exports, 1989–1991, current prices, in per cent

Products	EC 12		European COMECON		Other countries	
	1989	1991	1989	1991	1989	1991
Industry						
—electro-mechanical	14.8	44.3	56.0	28.3	29.2	27.5
—fuel & energy	36.4	39.6	25.3	17.5	38.4	43.0
—metallurgic	55.6	67.2	12.0	5.4	32.5	27.4
—chemical	29.5	39.5	33.4	26.2	36.9	34.2
—mineral	36.9	73.3	11.5	10.6	51.5	16.3
—timber & paper	60.4	76.2	6.1	1.4	33.5	22.5
—light	39.2	63.7	18.7	11.5	42.1	24.9
—food-processing	57.8	64.0	5.0	10.0	37.2	25.9
Construction	13.0	57.8	53.5	25.0	33.5	17.2
Agricultural products	68.0	66.9	17.1	19.2	14.9	14.0
Total exports	32.1	55.6	34.8	16.8	33.1	27.6

Source: Marczewski (1992).

By 1996 these changes had progressed even further. In 1996, two thirds (66 per cent) of Polish exports were directed to the 15 members of the European Union, and almost two thirds (64 per cent) of Polish imports came from the EU. In 1996 the negative balance with the EU exceeded 2.5 billion USD; however, more than half of this deficit was due to the unbalanced exchange with Italy, where the deficit amounted to 450 million USD, mainly due to imports of car parts for the FIAT automobiles assembled and produced in Poland. Table 4.11 presents a more detailed decomposition of Polish foreign trade in 1995.

Table 4.11.

Geographical structure of Polish foreign trade, 1995, current prices, millions of zł

Countries	Exports	Imports	Balance
Germany	18,762.4	21,269.1	+2,506.7
Russia	4,745.1	3,095.9	-1,649.2
The Netherlands	3,194.4	3,122.3	-72.1
Italy	6,024.2	2,720.8	-3,303.4
France	3,451.1	1,984.7	-1,466.4
Great Britain	3,658.3	2,222.0	-1,436.3
USA	2,756.6	1,506.5	-1,205.1
Sweden	2,206.7	1,408.6	-798.1
Austria	1,789.8	1,184.9	-604.9
Czech Republic	2,163.1	1,693.6	-469.5
Poland	70,502.3	55,515.1	-14,987.2

Note: in 1995 the average exchange rate was approximately 1 USD = 2.4 zł.

Source: *Rocznik Statystyczny 1996 (Statistical Yearbook 1996)*, table 5(614).

The meaning of both these tables is clear. Poland has shifted its exports from the former European COMECON and, to some degree, from other (mainly Third World) countries to the countries of the European Union. It should be said, however, that, in general, this was not entirely the choice of Poland itself. The eastern markets closed down, for various reasons, almost totally in 1990. In the case of the Soviet Union, this was due to the collapse of its economic system. In the case of more advanced post-socialist economies it was the result of their opening to the West and their decision to import technologically more advanced products (in 1992 Czecho-Slovakia participated in 4–5 per cent and Hungary in less than 1 per cent of Polish foreign trade). As is widely known, losing the eastern markets created severe economic difficulties, especially for branches oriented towards these particular direction.

There has also been another important change in the structures of Polish foreign trade, i.e. rapid growth of the private sector. While in 1990 its share in exports amounted to 4.9 per cent, in 1991—after the effects of lifting the state monopoly in foreign trade became apparent—it reached 21.9 per cent of total Polish exports. In imports these figures have changed even more—from 14.4 per cent in 1990 to 49.9 per cent in 1991.

Foreign debt—still around 40 billion USD—remains a heavy burden for the Polish economy, though relatively smaller than before 1991, when Poland reached an agreement with the Paris Club, responsible for the loans officially guaranteed by the

Western governments. According to this agreement, the Polish debt, at that time equaling 33 billion USD, was reduced by 50 per cent. Following the positive opinion of the IMF, the final agreement with the Paris Club was signed in 1994. In March 1994, an agreement was signed with the London Club, representing over 500 private commercial banks. According to this agreement, the Polish debt of 13.2 billion USD was reduced by 42.5 per cent, and payments were rescheduled over a 30-year period. These agreements have, undoubtedly, increased the confidence in Poland as a reliable partner in foreign economic relations.

4.4. Foreign investment

Foreign direct investment (FDI) is regarded as one of the most important factors of economic recovery in Poland. Foreign capital came to Poland as early as the late 1970s, when favourable conditions were created for Polish expatriates who wished to open businesses in the “old homeland”. In 1977, foreign companies were established in six regions of Poland, i.e. in the Warsaw, Siedlce, Bielsko-Biała, Kraków, Częstochowa and Wałbrzych voivodships. With time, more and more firms with foreign capital were installing themselves in large voivodship centres. This process has vastly accelerated since 1990.

In studies ranking the attractiveness of the Central and Eastern European countries, Poland occupies first place, together with Russia, leaving behind such Central European countries as the Czech Republic and Hungary and—surprisingly—also the eastern German *Länder*³. The first position of Poland was due to its large potential market, the existence of an institutional framework for foreign and domestic capital and the relatively high skills of its labour force. Additionally, the economic and legal conditions created for foreign investors after 1990 have been assessed as favourable⁴. It is interesting to note that the highest risk in Poland was attributed to political and social factors (in the latter case Poland was considered as a risky country), and the least risk to economic factors.

According to the Polish Agency for Foreign Investment, by the end of 1995 there were over 21 thousand firms with foreign capital in Poland. However, only slightly more than 9 thousand are covered by Central Statistical Office data. The difference is made up by 5 thousand firms that changed their addresses, another 5,000 that were closed down and about 2,000 that refused to provide data. In the period 1990–1995, foreign capital invested or committed in Poland amounted, in consecutive years, to: 291 million in 1991, 678 million in 1992, 1,715 million in 1993, 1,875 million in 1994, 3,659 million in 1995 and 5,196 million in 1996⁵.

³ “The map of investment risk”, a project financed by the Polish Development Bank, conducted by Gdańsk Institute for Market Economics (1993, 1994).

⁴ On regulations referring to foreign capital and its activities in Poland see a comprehensive report by A. Mync (1992).

⁵ Some statistical problems arise in evaluating the inflow of foreign capital to Poland. The Central Statistical Office estimates the capital invested in all establishments with foreign capital that have been operating over six months, while the Polish Agency for Foreign Investment (*Polska Agencja Inwestycji Zagranicznych, PAIZ*) keeps record of establishments with investment higher than 1 million USD. The figures presented above come from PAIZ and are therefore different than the figures presented by the Central Statistical Office.

1997 estimates indicate some additional 6 billion dollars and in the first half of 1998 additional foreign investment worth of 4.5 billion USD was allocated in this country. Altogether some 25 billion USD have already been transferred to Poland as direct foreign investment. The acceleration of foreign investment in Poland that occurred after 1991 was the result of several factors: stabilisation of the general political and economic situation, changed attitudes of foreign investors towards Central Europe as a whole and—last but not least—the introduction of more favourable regulations and conditions for foreign investors. According to the present law⁶, there are very few restrictions for establishing a company with foreign capital in Poland (no restrictions exist on the amount of capital to be invested), all profits may be repatriated and tax holidays are possible in several cases. This law allows the government to influence the spatial distribution of FDI since it stipulates that a company may obtain income tax exemption if:

- (a) the input of foreign economic agents to the initial capital exceeds the equivalent of 2 million ECU;
- (b) the economic activity of the company is conducted in regions with a particularly high structural unemployment risk, would ensure introduction of new technologies or at least 20 per cent of total sales would be directed abroad.

These regulations do not seem to have any major impact on the final location of foreign capital, since the number of granted tax exemptions is very low. For example, only about 4 per cent of all enterprises with foreign capital are located in the six regions with the highest unemployment rates (Elbląg, Koszalin, Legnica, Olsztyn, Słupsk and Suwałki). The relaxation of regulations on buying land, houses and apartments by foreigners has led to a further increase in foreign involvement in the Polish economy (before, a foreigner needed to obtain special permission from the Minister of Interior for purchasing land). Moreover, the regulations requiring that firms with foreign capital not be treated in a less favourable manner than domestic firms have increased the attractiveness of Poland for foreign investors.

Table 4.12 presents major foreign investors (with capital higher than 50 million USD) who had, by the end of 1996, established their operations on Polish territory. Foreign investment made in Poland at this time equaled more than 13 billion USD (by the end of 1997 it amounted to almost 20 billion). The table presents the biggest investors only, though several smaller ones have also brought in considerable capital. As can be seen from this table, the biggest investment project does not exceed 300 million USD, which is not much. Several major car manufacturers have brought considerable capital to Poland (FIAT, Opel, Daewoo, Mercedes), and a few others (Ford, Hyundai) consider Poland as a potential location of serious investments. The contract with Daewoo involves the investment of over 1 million USD, and the contract with General Motors for building a green-field factory in Gliwice (Upper Silesia) is at least as large.

Table 4.13 presents the distribution of foreign investment (in projects worth over 1 million USD) according to the country of origin. The USA appears to be the greatest investor, followed by international capital, Germany and other major European countries. The ratio of the amount of capital invested to the number of companies reveals that the projects financed by international capital are by far the

⁶ The main law concerning FDI is the Law of 14 July, 1991, *Dziennik Ustaw* no. 60, position 253.

Table 4.12.

Major foreign investors in Poland, December 31, 1997, million USD

No.	Investor	Equity & loans	Commitments	Country of origin	Branch
1	Fiat	1141.9	814.7	Italy	manufacture of cars
2	Daewoo	1011.3	567.4	Korea	car production, electronic equipment, construction, telecommunications
3	EBRD	616.5	216.0	international	banking, capital participation in enterprises
4	Polish-American Enterprise Fund	505.0	0.0	USA	capital funding of private firms and participation in privatisation
5	Pepsico	412.0	380.0	USA	sweets, soft drinks, crisps, catering
6	IPC	370.0	0.0	USA	paper industry
7	ING Group	350.0	53.0	Netherlands	banking
8	Coca-Cola Amatil	285.0	0.0	Australia	soft drinks production
9	ABB	282.0	258.0	international	power supply systems, turbines, electric engines
10	Philip Morris	282.0	90.0	USA	tobacco industry
11	International Finance Corporation	277.3	0.0	international	investment in private sector projects across all industry sectors
12	Nestle	248.0	0.0	Switzerland	food processing
13	France Telecom	232.0	0.0	France	telecommunications
14	Reemtsma Cigarettenfabriken GmbH	226.0	11.5	Germany	tobacco industry
15	Saint Gobain	220.0	180.0	France	glass, insulating material production, construction
16	Commerzbank AG	210.0	13.0	Germany	banking
17	Citibank	200.0	0.0	USA	banking
18	SHV Macro N.V.	200.0	50.0	Netherlands	wholesale trade centres
19	Epstein	200.0	0.0	USA	construction, development, meat processing
20	Thomson Consumer Electronics	185.0	0.0	France	tv tubes and sets
21	British Petroleum	180.0	350.0	Great Britain	gas production, distribution of oil products
22	Framondi	175.0	0.0	Austria	paper industry
23	Pilkington	168.9	0.0	Great Britain	glass plant
24	Allied Irish Bank PLC	161.8	0.0	Ireland	banking

Source: PAIZ (1998).

largest ones. Project financed by the USA, the Netherlands and Italy are half the size, but still three to four times larger than projects financed by capital from other West European countries.

Table 4.14 demonstrates that two sectors, industry and finance, dominate in the sectoral distribution of foreign capital invested in Poland. These two sectors consume 80 per cent of all foreign money coming into Poland. Two branches have the highest shares in foreign investment: electro-machinery (including automobile production) and food processing.

Table 4.13.

Foreign investment in Poland by countries, December 31, 1997^a

Country	Equity & loans		Commitments		Number of companies on the List		Total financial involvement	
	mln USD	per cent	mln USD	per cent	units	per cent	mln USD	per cent
USA	3,981.8	22.5	3,167.0	29.4	91	15.6	7,148.8	25.1
Germany	2,104.9	11.9	1,036.9	9.6	134	22.9	3,141.8	11.0
International	1,654.0	9.3	827.9	7.7	15	2.6	2,481.9	8.7
Italy	1,636.3	9.2	1,093.6	10.1	44	7.5	2,729.9	9.6
The Netherlands	1,213.6	6.9	352.1	3.3	34	5.8	1,565.7	5.5
South Korea	1,077.8	6.1	612.6	5.7	5	0.9	1,690.4	5.9
Great Britain	1,002.0	5.7	441.4	4.1	26	4.4	1,443.4	5.1
Austria	660.0	3.7	185.3	1.7	34	5.8	845.3	3.0
Sweden	565.8	3.2	185.2	1.7	36	6.2	751.0	2.6
Switzerland	445.3	2.5	303.3	2.8	9	1.5	748.6	2.6
Australia	354.1	2.0	77.0	0.7	4	0.7	431.1	1.5
Denmark	306.8	1.7	28.0	0.3	22	3.8	334.8	1.2
Norway	240.0	1.4	439.0	4.1	7	1.2	679.0	2.4
Ireland	191.2	1.1	11.4	0.1	3	0.5	202.6	0.7
Finland	137.9	0.8	31.9	0.3	11	1.9	169.8	0.6
Belgium	115.2	0.7	123.1	1.1	15	2.6	238.3	0.8
Croatia	100.0	0.6	70.0	0.6	1	0.2	170.0	0.6
Canada	94.8	0.5	17.5	0.2	19	3.2	112.3	0.4
Japan	69.5	0.4	172.3	1.6	8	1.4	241.8	0.8
Rep. of South Africa	25.0	0.1	40.0	0.4	1	0.2	65.0	0.2
China	25.0	0.1	25.0	0.2	1	0.2	50.0	0.2
Turkey	23.0	0.1	60.0	0.6	2	0.3	83.0	0.3
Russia	20.0	0.1	0.0	0.0	1	0.2	20.0	0.1
Singapore	13.0	0.1	60.0	0.6	1	0.2	73.0	0.3
Liechtenstein	12.3	0.1	10.0	0.1	4	0.7	22.3	0.1
Slovenia	6.0	0.0	0.0	0.0	1	0.2	6.0	0.0
Spain	5.0	0.0	0.0	0.0	1	0.2	5.0	0.0
Greece	3.6	0.0	4.0	0.0	2	0.3	7.6	0.0
Czech Republic	2.5	0.0	0.0	0.0	1	0.2	2.5	0.0
Luxembourg	2.3	0.0	0.0	0.0	1	0.2	2.3	0.0
Total	17,705.4	100.0	10,777.1	100.0	585	100.0	28,482.2	100.0

^acompanies over 1 mln USD.

Source: PAIZ 1998.

In spite of the clear acceleration that can be observed since 1994, the inflow of foreign capital to Poland is relatively small in per-capita expression, smaller than in the case of other central European countries. It might be expected that once Poland becomes a full member of the European Union the involvement of foreign capital will be much bigger—some outlooks that are based on the analogy to Spain indicate that 10–15 billion USD could be invested in Poland yearly.

Table 4.14.

Foreign investment in Poland by branches, December 31, 1997^a

Sectors	Equity & loans (millions of USD)	Commitments (millions of USD)
Industry, total	11,042.0	5,782.6
food products, beverages and tobacco products	3,276.9	1,109.4
transport equipment	2,510.5	1,969.5
pulp, paper and paper products, publishing and printing	1,158.4	293.3
chemicals and chemical production	1,087.4	518.0
non-metallic	971.4	864.5
electrical and optical equipment	664.4	260.8
metallurgical products	375.3	184.3
others	997.7	582.8
Financial brokerage	3,130.4	422.0
Wholesale and retail trade, repairs	1,408.5	2,033.8
Transport and communication	743.5	299.4
Construction	554.9	511.8
Other services: communal, social and individual	354.6	232.0
Hotels and restaurants	305.5	431.0
Electricity, gas and water supply	96.5	1,040.0
Real estate, renting and business activities	38.3	24.5
Mining and quarrying	16.2	0.0
Agriculture	15.0	0.0
Total	17,705.4	10,777.1
FDI less than 1 mln USD (estimated)	2,882.3	
Total FDI	20,587.7	

^acompanies over 1 mln USD.

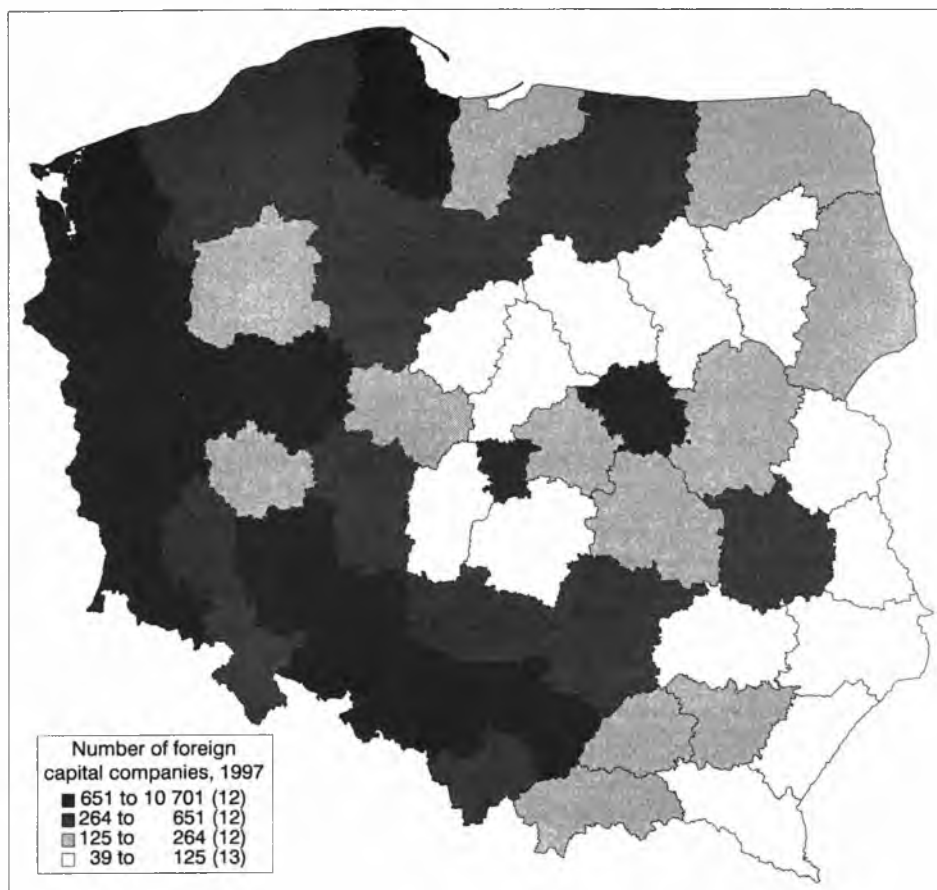
Source: PAIZ (1998).

The *regional distribution* of foreign capital in Poland clearly indicates the locational preferences of foreign companies. Two types of regions are highly preferred by foreign investors: big urban centres with good international (air) transport and telecommunications facilities, and the regions in the western part of the country, which, apart from their favourable location, may also offer good living conditions. In general, international capital locates itself in urban centres, while German capital concentrates in the Western part of the country (see figures 4.5–4.7). The eastern parts of Poland, to a large extent, have been omitted by foreign capital (although some joint investment was done, mainly in the food-processing industries).

About one third of the enterprises with foreign capital are located in the Warsaw voivodship. Western and south-western Poland also concentrate large numbers of foreign investment (see table 4.15). The eastern, south-eastern and central regions (with the exceptions of Warsaw and Łódź) attract the lowest share of foreign investors.

These first ten regions concentrate more than three quarters of all joint ventures registered in Poland in 1995. They also present high trends of further growth. On the other side of the spectrum we find the eastern voivodships with very few such companies, between 10 and 20 per voivodship. The location of foreign capital in

Figure 4.5. Number of foreign capital companies, 1997



Source: GUS (1998).

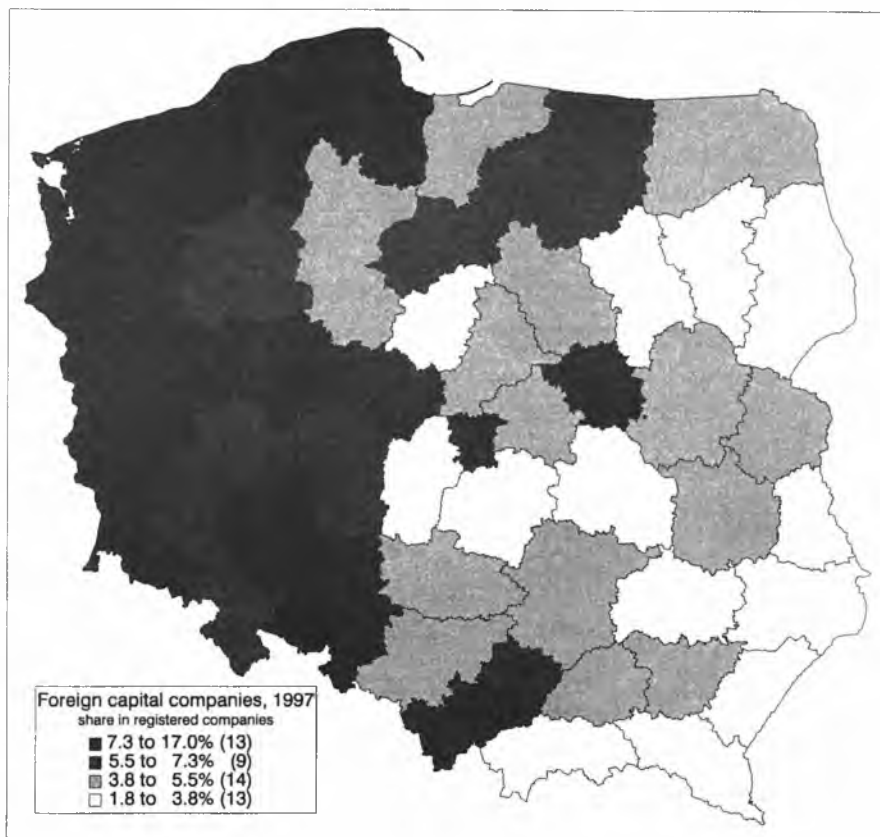
Table 4.15.

Companies with foreign capital in Poland, by regions, 1996

Voivodships	Number of registered companies with foreign capital		
	in absolute numbers	Poland = 100	1991 = 100
Warsaw	6818	34.5	436
Poznań	1294	6.6	337
Gdańsk	1272	6.4	339
Katowice	1268	6.4	436
Szczecin	1045	5.3	369
Wrocław	1029	5.2	520
Kraków	752	3.8	392
Łódź	677	3.4	333
Zielona Góra	454	2.3	437
Opole	442	2.2	574
Poland	10131	100.0	412

Source: data of the Central Statistic Office.

Figure 4.6. Share of the foreign capital companies in the registered companies, 1997



Source: GUS (1998).

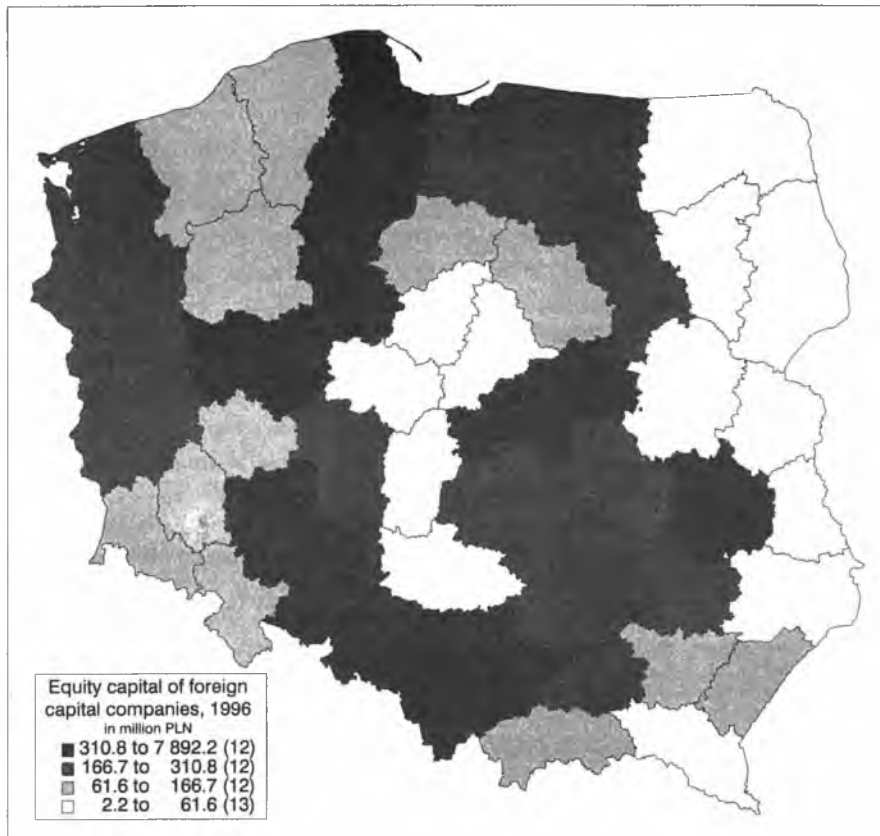
Poland appears to be one of the factors differentiating the Polish socio-economic space and strengthening the factors of the regional polarisation of the country.

4.5. Regional financial redistribution

It is well known that the real regional structure of a given country's policy is not shaped by the so-called "explicit" regional policies, but by the hidden ("implicit") regional policies conducted within the broad activities of the sectors. The redistributive power of national governments and of international organisations (like the European Union) is quite considerable (see for example Wishlade, Yuill, Davezies, 1997; also CEC, 1996).

Regional redistribution through the central budget does—obviously—exist in Poland. The magnitude of this redistribution was recently estimated (Owsiak, Kurowski, Stepaniuk, 1997). Revenues from taxes, custom fees, other fees are transferred from individual regions to the central budget, and funds spent on public objectives

Figure 4.7. Equity capital of foreign capital companies, 1996, in million zł



Source: GUS (1997c).

return to the regions. One side of this balance is constituted by all public funds that are channeled to a given voivodship. This sum is made up of expenditures of *gminas*, the voivode, special government administration units, the expenditures of ministries made on the territory of a given voivodship, public special funds and state and *gmina* off-budget expenditures. The volume of public revenues collected in a given voivodship and then transferred to the central budget is the other side of this balance.

The most suitable measures of the individual voivodships' ability to generate revenues are the two taxes related to income: personal income tax and corporate income tax. This is due to their very nature, which closely links the source of origination of those public revenues with space, that is, the area of a *gmina* or voivodship. The size of corporate income tax is closely related to the location of businesses in the voivodship's territory, particularly of large enterprises paying high taxes (if a company has several plants in different voivodships, it pays taxes in particular voivodships in proportion to the number of employees). With regard to indirect taxes and the other budgetary revenues, the relationship between the level of generated revenues and the level of development of a particular region is looser.

The regional potential for generating revenues from businesses is quite varied. For instance, the spatial distribution of the enterprises from the list of the biggest 500 companies (Wyznikiewicz, 1997) shows strong regional concentration. There are relatively large concentrations of the biggest enterprises in the Warsaw and Katowice voivodships, and only incidental occurrence of such enterprises in small agricultural voivodships lacking larger cities. In 1995, over 20 per cent of the biggest enterprises operated in the Warsaw voivodship, and that figure has been constantly growing, which is not the case in the Katowice region, where the number of companies from the "500-list" is decreasing. This is a proof of the diminishing economic power of this region and of its decreasing attractiveness for the largest companies. However, the economic power of the Katowice voivodship still remains significant, and it still holds second position in the country with regard to big companies, far outdistancing the other voivodships in the ranking.

Those facts explain why the differentiation of the level of taxes is so great in Poland. The ratio of the extreme values per capita for corporate income tax between individual voivodships is 35 (Warsaw) to 1 (Biała Podlaska, Ciechanów, Zamość). The differentiation of personal income tax per capita is significantly lower (4 in Warsaw to 1 in the eastern regions of Biała Podlaska, Ciechanów, Łomża, Zamość), as it is subject to the results of the redistribution from the state budget through revenues from the budgetary sphere. The ratio between the highest values of direct and indirect tax revenues per inhabitant (Płock voivodship) and the lowest values (Chełm, Ciechanów, Ostrołęka, Piła, Słupsk, and Zamość voivodships) is in the range of 12:1.

The so-called special funds, especially the funds related to social security, tend to generate the most public debt. Special funds amount to 38.6 per cent of total public expenditure and are, as a whole, only slightly smaller than the state budget. Their deficits thus constitute a considerable burden on the public finances. This applies both to the whole country and all the voivodships. The greatest interregional differences occur in the Social Security Fund, in which only 8 voivodships have a positive balance (i.e. revenues are higher than benefit payments); they include the following voivodships: Warsaw (988.4 million zł), Legnica (110.8 million zł), Szczecin (84.6 million zł), Płock (63.3 million zł), Konin (19.9 million zł) and Olsztyn (9.6 million zł). The highest negative balance was recorded in the voivodships of: Gdańsk (−192.6 million zł), Poznań (−204.3), Nowy Sącz (−217.3), Kielce (−280.9), Częstochowa (−326.5), Bielsko-Biała (−358.4), Kraków (−403.8) Wałbrzych (−465.4), Łódź (−539.2) and Katowice (−1,162.1).

Table 4.16 shows the overall balance of public revenues and expenditures for 10 voivodships with the highest positive and negative balance.

Only 14 voivodships noted a positive balance (i.e. they contributed more to the overall public funds in Poland than they received from them). It should be mentioned that the surplus of revenues over expenditures recorded in the Warsaw voivodship (9.9 billion zł) was only slightly smaller than the overall surplus of the public sector, amounting to 10.6 billion zł. This means that the revenues and expenditures of the remaining voivodships are basically equal. The balance of public revenues and expenditures per inhabitant, in 20 extreme voivodships, is shown in table 4.17 and fig. 4.8.

Highly urbanised and industrialised voivodships were ranked first, along with some border voivodships (e.g. Gorzów, Biała Podlaska; the latter was counted among the

Table 4.16.

Balance of public revenues and spending, by voivodships, 1995 (million zł)

No	Voivodships	Total balance of flows
1.	Warsaw	9 903.5
2.	Gdańsk	3 291.6
3.	Poznań	3 044.7
4.	Płock	3 018.9
5.	Kraków	2 215.3
6.	Wrocław	1 044.0
7.	Szczecin	866.1
8.	Gorzów	768.2
9.	Bielsko-Biała	657.9
10.	Legnica	366.3
	Poland	10 672.2
40.	Piła	-520.5
41.	Nowy Sącz	-522.6
42.	Ciechanów	-553.1
43.	Koszalin	-571.6
44.	Tarnobrzeg	-585.3
45.	Siedlce	-597.2
46.	Zamość	-672.3
47.	Częstochowa	-791.9
48.	Wałbrzych	-871.7
49.	Kielce	-1 247.3

Source: Owsiak, Kurowski, Stepaniuk, 1997, table 16.

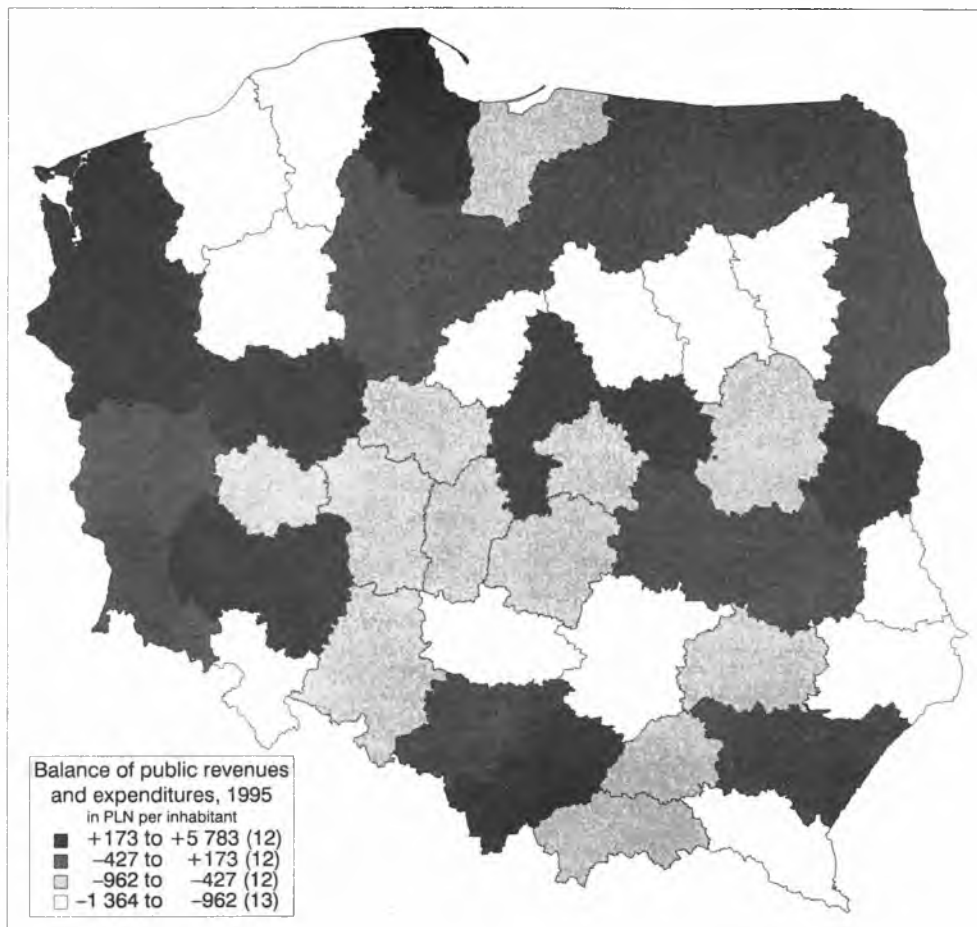
Table 4.17.

Balance of public revenues and spending per inhabitant, by voivodships, 1995 (zł)

No	Voivodships	Balance of flows per capita
1.	Płock	5 783.3
2.	Warsaw	4 098.1
3.	Gdańsk	2 260.8
4.	Poznań	2 249.2
5.	Kraków	1 784.6
6.	Gorzów	1 503.9
7.	Wrocław	917.6
8.	Szczecin	874.4
9.	Bielsko-Biała	716.2
10.	Legnica	699.7
	Poland	276.4
40.	Częstochowa	-1 012.3
41.	Piła	-1 053.6
42.	Słupsk	-1 072.7
43.	Łomża	-1 072.7
44.	Koszalin	-1 095.3
45.	Kielce	-1 097.4
46.	Wałbrzych	-1 179.0
47.	Chełm	-1 244.0
48.	Ciechanów	-1 267.4
49.	Zamość	-1 364.3

Source: Owsiak, Kurowski, Stepaniuk, 1997, table 17.

Figure 4.8. Balance of public revenues and spending per inhabitant, 1995



Source: Owsiak, Kurowski, Stepaniuk (1997); *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1996*.

“surplus” voivodships only because of high revenues from the value added tax). The voivodships from the bottom of the table are the relative less developed ones of central, eastern and northern Poland.

One may also relate the balance of flows of public funds to the regional GDP. The results of this calculation are demonstrated in table 4.18.

The regional distribution of public funds and the assignment of particular voivodships to the “positive” or “negative” sides of the balance should not be over-interpreted. In particular, it cannot be said that voivodship X finances voivodship Y; in other words, that the latter “lives at the cost” of the former. Nevertheless, the emerging picture is clear enough to say that some voivodships generate more public funds than they consume and some use more public funds than they can contribute.

Table 4.18.

Share of balance of public revenues and spending in voivodship's GDP, 1995

No.	Voivodship	Share of balance in the GDP, in per cent
1.	Płock	37.0
2.	Warszawa	30.1
3.	Gdańsk	26.1
4.	Gorzów Wielkopolski	24.1
5.	Poznań	23.4
6.	Kraków	21.9
7.	Szczecin	10.3
8.	Wrocław	10.2
9.	Bielsko Biała	9.7
10.	Legnica	9.0
40.	Krosno	-18.8
41.	Ostrołęka	-19.0
42.	Włocławek	-20.0
43.	Kielce	-20.2
44.	Słupsk	-21.6
45.	Wałbrzych	-21.7
46.	Łomża	-23.3
47.	Ciechanów	-25.9
48.	Chełm	-27.2
49.	Zamość	-30.4

Source: Owsiak, Kurowski, Stepaniuk (1997), ZBSE (1997).

4.6. Strategic choices facing Poland⁷

For a medium-sized country like Poland, with a relatively low level of development and wide technological gap (compared to the richest economies), the major development goals are rather obvious. Poland should try to avoid the trap of the "low road" of economic development, based on taking advantage of its relatively cheap labour force. Instead, it should try to mount the "high road", which would allow for its integration with the global mainstream of technological progress and innovation (see Krätke, 1997). Thus, Poland's development in the coming years should be based on the following assumptions relating to the general goals of the economy and the principles of the functioning of the state:

1. For a few years Poland should maintain a *high growth rate* of over 5 per cent yearly. This assumption was confirmed both in the "Strategy for Poland—2000 Package" prepared by the former deputy prime minister G. Kołodko and in the strategic documents issued by the former Central Office of Planning, which later became the Governmental Centre for Strategic Studies. In addition, other prospective analyses of the Polish economy⁸ indicate that this is a feasible task. Compared to West European countries, Poland has a relatively low GDP per inhabitant, equal to ca. 30–35 per cent of the EU average (in purchasing power

⁷ See Gorzelak, Jałowiecki (1996).

⁸ W. Czyżewski et al. (1994); also Gorzelak et al. (1995).

parity; when measured using nominal exchange rates, this difference is nearly twice as high). Even with a growth rate higher by 2–3 points than the average rate in EU countries, in the immediate future the absolute differences in GDP per inhabitant between Poland and the more developed West European countries will increase. Any efforts for membership in the Union must be supported by the attainment of a **stable high growth rate**, which is a precondition both from the point of view of market extension for the EU “core” economies and from the point of view of the fulfilment of the principle of “cohesion” of the EU’s territory.

2. Poland is characterised by an obsolete sectoral structure with an excessive share of sectors I and II and relatively underdeveloped sectors III and IV. The general technological level is rather low. **Rapid structural reconstruction, including radical technological progress**, appears to be as important a strategic goal as maintaining a high rate of growth. The high growth rate is, obviously, a prerequisite for positive structural changes, i.e. changes in which assets withdrawn from use are **replaced** by new assets.
3. Poland is a country in which, for nearly twenty years, new capital formation was particularly small or was undertaken in stagnating sectors (mining, heavy industries etc.). The effects of fast economic growth should therefore be oriented mainly to the **increase of fixed capital formation**, whose share in GDP should grow steadily (from 20 per cent now to nearly 30 per cent in 2010). This means that the state should conduct a **strongly pro-investment policy** and encourage saving and investment. It is therefore necessary to reduce taxes, customs and similar burdens, and forgo the present fiscal stringency. At the same time, for accumulation to grow faster than GDP means that consumption must grow at a slower rate than GDP (ca. 3.5 per cent yearly).
4. All the above mentioned goals should be achieved while curbing inflation and reducing foreign debt. Such an economic programme appears extremely ambitious. Therefore, high priority should be given to **efficiency**. This means investments for which returns are realised quickly, located in the most progressive sectors.
5. An increase of the private investment rate will have to be accompanied by an increase of investment and current inputs into **strategic goals of development**: education, health care, transport infrastructure and natural environment improvement. The necessity to substantially increase the financing of these areas from public funds will force the government to be more selective in public expenditures. This will have two consequences: first, preference should be given to the most efficient methods of attaining given goals; second, financial assistance to declining branches and enterprises should be initially sharply reduced and subsequently eliminated. Only a social safety net for persons dismissed from declining and bankrupt enterprises should be permitted, but no support to current operating costs should be given to these enterprises.
6. **The limitation of the role of the state** and the growth of its strength should continue. The role of the state is to set the general directions of development and to indirectly stimulate the behaviour of business entities and territorial units. This means the need for a radical **decentralisation of the centre’s competence**. Decentralisation must necessarily lead to the limitation of redistribution and of the role of the central budget.

7. In the privatisation process, an important role should be played by *foreign capital* introducing both funds and new production methods, technologies and organisational principles into the Polish economy. The spatial behaviour of foreign capital should be limited by the state only if the interests of the enterprises owned by foreign capital collide with the natural values of the Polish landscape and the cultural heritage of the country.
8. The principle of collectivism, still dominating in Poland's social life, should be considerably limited to the benefit of the *increased role of collective responsibility* of regional and local societies and *individual responsibility of citizens* for their own prosperity. The task of the state is to undertake efforts to ensure *equal opportunities* for citizens, but not in an unconditional manner, always and everywhere, and not without the effort of the citizens themselves when such effort is necessary (e.g. in the form of migration to other areas of the country). This is the reason for reforming the social security system and health care finance. Providing a *safety net* to territorial or professional groups which are affected by objective economic processes (e.g. closing down of ineffective enterprises) will remain one of the most important tasks of the state. This safety net should not, however, consist in the prolongation of the operation of ineffective firms (which is tantamount to maintaining hidden unemployment) as has been the case so far, but should be directed towards the creation of new jobs *outside* the branches and industries for whose products there is, and will be, no demand; to re-training employees, providing material incentives to migrate, and, in extreme cases, allotting social welfare to the most needy, sometimes in the form of earlier retirement, where there is no economically justified means of reactivating the dismissed employees occupationally⁹.
9. Individualisation of responsibility for people's living conditions must result in a considerable *increase in social differentiation*. At the same time, however, as a result of these processes, the support of broad social groups such as persons with high qualifications, people of initiative, and employees of progressive sectors will be gained for the implemented development model. One should also emphasise the motivational function of social differences which appears when they are not accompanied by closing the vertical channels of social mobility, and too strong an "ascription" to the social position currently held, which may result in structural frustration of persons without any chances for social promotion¹⁰.
10. The state, even after the privatisation of the entire economy and of a considerable part of public services, will still remain an employer for many people employed in public services—administration, the police, the military, education, science. Thus, the state's influence on salaries, in particular in white collar jobs, will be considerable. In determining such salaries, state institutions should apply a *meritocratic system* of remuneration.

⁹ Examples of restructuring of the Ostrava-Karvina Basin show that this is possible even for coal mining in post-socialist countries (see Nesporova, Kyloh, 1994).

¹⁰ Winston Churchill used to say that the equal distribution of poverty is not a reasonable alternative to the unequal distribution of wealth. Reducing differences is not a value in itself, and in cases when it leads to the disappearance of motivation, it may even be harmful.

The development model presented above is based on the following “pillars”: *efficiency—growth—investment—restructuring—a limited but strong state—meritocratic principles of remuneration—equal opportunities—social safety net for the weakest.*

To date a somewhat “mixed” variant has been implemented, including elements of market economics and central planning. The rule of the coalition of Social Democrats and the Peasant Party (1993–1997) brought a slowdown in the pace of economic and social reforms, though the rate of economic growth has not been hampered. The current centre-right coalition may achieve an acceleration of reforms, although this is jeopardised by the rather populist attitudes manifested by some circles of its senior member—“Solidarity”.

4.7. Future prospects

According to the economic model presented in table 4.19¹¹, Poland has good chances for stable and fast development during the next decade.

The economic scenario presented in the above table is an *optimistic scenario*. One should not expect that economic development of Poland through the year 2005 could lead to better results. This scenario is therefore close to the “upper limits” of economic growth. However, while being “optimistic”, the scenario is also realistic, since it is probable that the assumptions underlying it (especially with respect to the external conditions for Poland) will be met.

This scenario is strongly growth-oriented. Investment effort and replacement of old and obsolete fixed assets of a low technical level by new equipment is one of the basic assumptions of the entire model. Above all, the possibility of high growth rates in the long run without an appropriate level of investment was rejected. It is also assumed that it is necessary to dispose of the old machinery because it cannot be used efficiently. High efficiency of the investment process (which may be achieved due to the fast pace of modernisation of existing fixed capital) seems requisite if the program is to be feasible.

The scenario assumes a relatively fast growth of consumption, though lower than that of fixed capital formation. The average growth of personal consumption by 3.4 per cent yearly should allow for public support for the development strategy. Government consumption is assumed to grow by 3.9 per cent yearly, which would ensure sufficient means for social responsibilities of the state.

Fast growth will necessarily lead to structural change, since it will not occur in all sectors of the Polish economy at the same pace. As a result, in 2005 the sectoral structure of the Polish economy would resemble the present economic structure of the rural Länder of western Germany, with the exception of employment in agriculture, which in the year 2005 will still be around 18 per cent of total employment (i.e. 10 percentage points less than in 1998).

The deficit of the state budget will be reduced, and financial stability will also lead to reducing inflation to a one-digit figure (maybe as early as 1998). Several other projections of the Polish economy indicate that maintaining a high rate of growth (5–6

¹¹ The model was prepared by B. Czyżewski, W. Orłowski and L. Zienkowski. See Czyżewski et al. (1994).

Table 4.19.

Scheme of economic development of Poland until 2005

Point of departure (1992)		Path	Point of arrival (2005)	
Labour force (in 1000)				
labour force	15,527	demographic processes	labour force:	17,069
active labour force	13,136	economic restructuring	active labour force:	14,747
private farmers	3,940	accelerated outflow from agriculture:	private farmers:	2,567
other active force	9,196	after 1998–2000	other active force:	12,180
unemployment	2,391		unemployment:	2,000
unemployment rate:	13.6%		unemployment rate:	9.6%
GDP level per inhabitant				
5,065 USD (PPP)		GDP growth rate 4.5% yearly;	9,000 USD (PPP, 1992 dollars, constant prices)	
2,177 USD (exchange rates)		1993–1995: 4.1%	6,000 USD (exchange rates, 1992 dollars, constant prices)	
		1996–2000: 4.3%		
		2001–2005: 4.9%		
		77% increment 1992–2005 appreciation of Polish currency		
Consumption of GDP (in %)				
gross fixed capital formation:	21.9	accelerated fixed capital formation (growth 2000/1992: 10.2% yearly;	gross fixed capital formation:	33.1
personal consumption:	60.3	2005/2000: 4.2% yearly);	personal consumption:	52.7
government consumption:	18.1	1992–2000: accelerated scrapping of fixed capital—“reforging” of capital	governmental consumption	15.1
balance exports/imports:	–0.3	faster growth of equipment than of constructions	balance exports/imports	–0.9
		average yearly growth of:		
		personal consumption 3.4%		
		governmental consumption 3.0%		
Creation of GDP (structure in %)				
agriculture & forestry	6.8	faster growth of modern secondary	agriculture & forestry	4.5
industry	49.0	and tertiary sectors	industry	48.4
mining & quarrying	2.4	technological advancement	mining & quarrying	2.0
manufacturing	46.6	greatest losers: agriculture, food industry, public utilities, energy	manufacturing	46.3
construction	7.1	greatest gainers: business and financial services, chemical industry, construction, transport & communication	construction	8.0
services	37.1		services	39.1
market	23.8		market	26.1
non-market	3.3		non-market	13.0
Household incomes and expenditures				
% spent on food	48.2	growth of gross personal incomes by almost 100% (5.4% yearly)	% spent on food	29.5
% incomes saved	10.5	greater propensity to save	% incomes saved	22.9
% incomes of 1st quintile	11.3	polarisation of personal incomes	% incomes of 1st quintile	8.2
% incomes of 5th quintile	34.9		% incomes of 5th quintile	38.9
Foreign trade				
exports total to (in%):		increase of exports three times (by 9% yearly)	exports total to (in%):	
EU	47.9	greater access to EU markets, especially after 2000	EU	47.2
Central Europe	7.1	constant trade deficit	Central Europe	6.9
Eastern Europe	14.8	growing share of investment goods in imports, by 10 points (to 18.2% in 2005)	Eastern Europe	14.6
other countries	30.2		other countries	31.3
trade balance	–0.3 billion USD		trade balance	–1.6 billion USD
Inflow of foreign capital				
2 billion USD invested,		1993–1998: 2–3 billion	aggregate foreign capital invested:	
1.3 billion inflow in 1992		1999–2001: 1 billion	50 billion USD	
		2002–05: 7–14 billion USD yearly	10.6 billion USD foreign investment inflow in 2005	
		joining the EU around 2000—the main factor of capital inflow	after membership granted: net transfers from the EU 2.5 billion USD	
Foreign debt				
48 billion USD		agreement with creditors, reduction by 50% of 1993 level	38 billion USD	
Finances				
Inflation ca. 35% yearly		careful financial measures	inflation: one digit	
Deficit of state budget 5.5%		stabilisation of economy	deficit: 3.5%	

Source: Gorzelak, Jałowicki (1993).

per cent yearly) is feasible as well. It seems, however, that unemployment will remain one of the major economic and social problems of the country, since (given, among other things, the need to restructure Polish agriculture) its decline to a level well below 10 per cent seems unrealistic in the next 10 years, even if a high rate of growth is achieved (at a lower growth rate even fewer jobs would be created). Poland will not differ in this respect from most economically better developed countries. It should be stressed that the scenario does not assume rapid technological advancement.

Reduced access to the EU market may result in an important slowdown of economic growth. Favourable economic relations with other countries appear to be of crucial importance for the assumed path of development.

Chapter 5

BUSINESS AND INSTITUTIONAL BACKGROUND

5.1. Business development

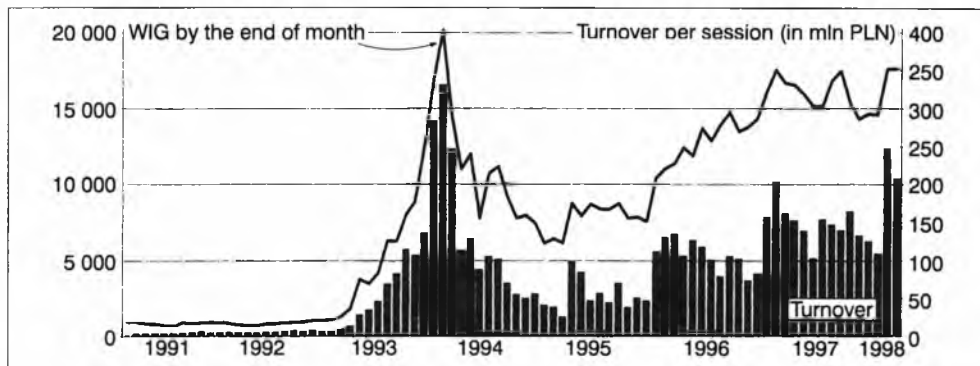
In 1997, over 120 firms offered their shares on the *Warsaw stock market* (banks, insurance companies, breweries, construction-design firms, foreign trade companies, companies manufacturing electric appliances and materials, clothes and shoes, food products of several kinds, the most famous producers of confectionery, producers of paints, producers of furniture, of furnaces etc.). Foreign capital—already present here—looks at the Polish stock exchange with growing interest, though it is still worried by the relative instability of the stock exchange and its immaturity¹. Table 5.1 presents the development of this financial institution in Poland.

In 1996, the value of 70 companies present on the Polish stock exchange amounted to 18 billion zł (approximately 7 billion USD), i.e. some 5 per cent of Poland's GDP.

The *banking sector* has been developing rapidly after 1990. The National Bank of Poland (NBP) has given up all of its commercial activities and performs only the duties of money emission and controlling the financial situation of the state. The NBP is independent from the government and the parliament and is able to formulate and

¹ The Polish stock exchange completed a full cycle: from neglect and suspicion at its very beginning in 1991 to enthusiasm and national sport at the end of 1993, back again to frustration and disbelief after the shock of spring 1994. During its most active days, the turnover of one session reached 10 billion zlotys (approximately 500 million USD) and the index exceeded the 20,000 level. After the three-month market slump (which started on March 17, 1994) the index fell twofold, to a level of 7,000. It is said sometimes that the fall was due to a self-fulfilling prophecy by Stanley Morgan, according to which the Polish stock market was labeled as unsafe, which led to the withdrawal of foreign capital. Since the crash, the index has recently exceeded 17,000, and the Polish stock exchange became more predictable, and also profitable. The Warsaw stock exchange has rooted itself in public consciousness, thus becoming the most popular nation-wide educational institution in modern business. It has also become an important source of capital for Polish companies which have issued shares (see figure 5.0).

Figure 5.0. WIG and turnover of WSE



Source: Giełda papierów wartościowych w Warszawie, dodatek Gazety Wyborczej z 16 kwietnia 1998 (Special issue of Gazeta Wyborcza, 16 April 1998).

Table 5.1.

Development of the Warsaw Stock Exchange

Indicator	1991	1995
Number of companies	9	53
Number of sessions in a year	36	249
Number of orders per session	1 400	26 500
Average turnover per session (USD)	0.35 million	20 million
Number of accounts	50 000	820 000

Source: modified data from Fitz (1997).

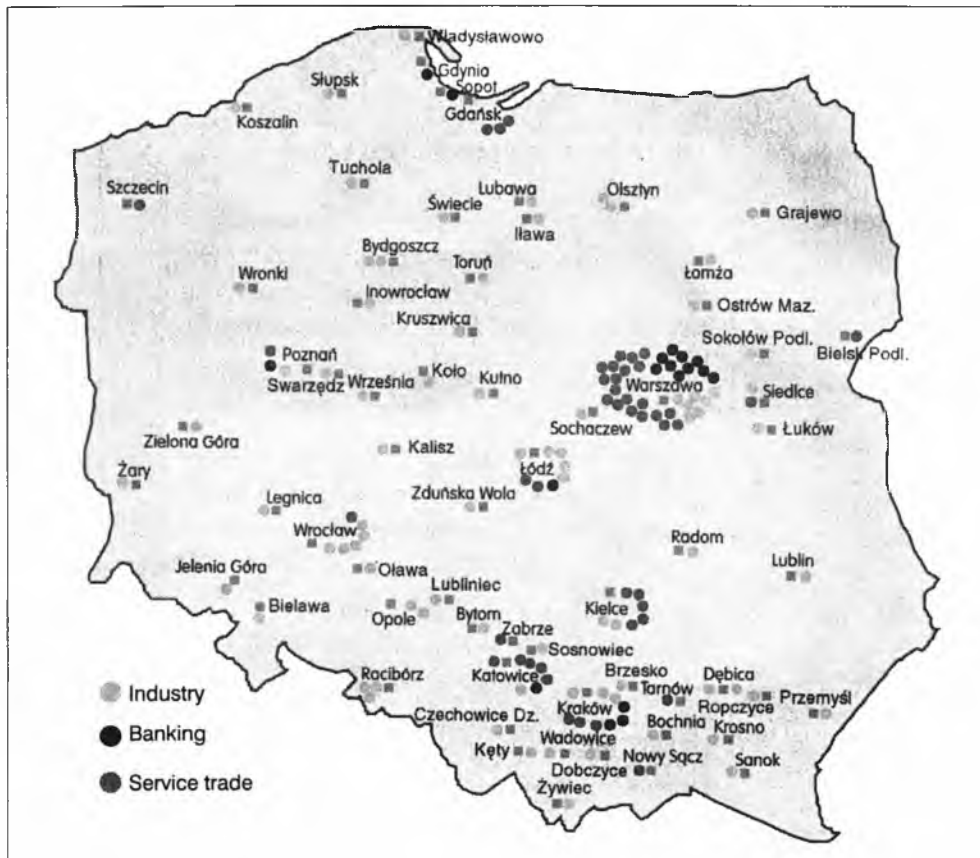
implement its own monetary and financial policies. Nevertheless, disputes between the president of the Bank and the Minister of Finance have been common feature of the Polish political landscape. These disputes, however, cannot result in dismissal of the president of the bank since that person is appointed for a five-year term by the parliament upon nomination by the president.

As regards regional development, an important institution—the Polish Agency for Regional Development—was created in 1993. It is responsible for co-ordinating several programmes of regional and local assistance. Polish Agency for Regional Development collaborates with locally based regional development agencies across Poland (see insert at the end).

5.2. Regional differences

Business institutions are the most differentiated sector in Poland. The domination of major cities is clearly visible, though high numbers of small, local, agricultural banks in the rural areas make these quantitative differences more shallow. Warsaw and Kraków voivodships are the greatest concentrations of business employment, the Katowice region and other regions with big urban agglomerations follow.

Figure 5.1. Companies listed on the Warsaw Stock Exchange, 1st quarter 1998



Source: Giełda papierów wartościowych w Warszawie, dodatek Gazety Wyborczej z 16 kwietnia 1998 (Special issue of Gazeta Wyborcza, 16 April, 1998).

Chambers of commerce are located in all Polish regions. Their activities are assisted by the National Chamber of Commerce. The main objective of the chambers is assistance in establishing contacts between Polish and foreign entrepreneurs. In order to perform this task, the chambers collect and disseminate information about Polish firms among domestic and foreign entrepreneurs. At the end of 1995, there were 212 Chambers and 161 Business Associations. They were mainly located in big city regions like Warsaw, Katowice, Łódź, Poznań. The domination of Warsaw is evident: over 60 such units exist in the country's capital. Several of the chambers are very weak and operate like clubs of local entrepreneurs—several others, however, conduct successful promotion of economic activity and transfer of experience.

Centres for innovation and entrepreneurship are exclusively local initiatives. There are over 50 such institutions in Poland—more than 20 business incubators, a few innovation and high technology centres and about 30 centres for business support.

Institutions of a special kind that contribute to the regional development are *management or business schools, counseling centres, and banks of information*. There are

about 120 such organisations in Poland, distributed over a vast majority of voivodships (though mainly concentrated in the Warsaw, Poznań, Wrocław, Gdańsk, and Łódź regions).

5.3. Institutions for regional development in Poland

5.3.1. Regional development agencies

In mid-1996, there were 66 regional development agencies in Poland, distributed almost evenly across the country (see fig. 5.2). Due to the fact that these agencies play a significant role in regional development, their activities will be discussed in more detail²

Figure 5.2. Regional development agencies in Poland, 1996



Source: Polish Agency for Regional Development.

In fact, there is no post-communist country without at least one regional development agency (RDA). As a rule, however, not more than two or three agencies have

² The following section is based on Gorzelak, Kozak, and Roszkowski (1998).

been established. Poland, with its 66 RDAs (including local ones), is an absolute exception. To compare, in Ukraine, one agency operates in Zaporozhe; in the Czech Republic—an agency in Ostrava, and in Slovakia—one in Zilina. Two agencies, with changing luck, operate in Bulgaria (in August 1995 their financing was suspended; temporarily, it is to be hoped). One agency operates in Narva (Estonia). Sometimes one encounters an opinion that a well-developed network of agencies has been set up in Hungary. It should be noted, however, that they are not as much regional development agencies as centres for supporting SMEs, operating on a subregional scale. About 90 per cent of all RDAs established in the post-communist countries operate in Poland. Polish RDAs are more and more visible on the European forum, successfully undertaking joint projects with their partner organisations in the European Union³.

The majority of RDAs in Poland have the form of joint stock companies. This situation has distinct advantages since the Commercial Code imposes stringent criteria of financial effectiveness on the management of companies. Some of the regional (local) development institutions were established as foundations, that is, on the basis of the Act on Foundations of April 6th, 1994. It seems that, unlike in some neighbouring countries, Polish law offers a wide selection of legal formulas for establishing development agencies. In order to optimise regulations, the notion of not-for-profit activity should be introduced, which would confirm the public character of RDAs.

At the *central level*, there are three institutions which are important for the functioning of RDAs:

1. Polish Agency for Regional Development (PARR), closely collaborating (on the basis of signed agreements) with agencies operating in regions included in complex financial aid programmes for the sake of restructuring and growth.
2. Industrial Development Agency (IDA), which is a shareholder in many regional and local agencies.
3. National Association of Regional Development Agencies, which functions as an association, but is also an organiser of a number of training programmes and other projects. Most RDAs belong to the Association as supporting members.

IDA and PARR are institutions established by the government, serving to implement its policies. PARR is the only government agency specialising exclusively in implementation of the regional programmes. It should be added that support for regional development programmes and institutions is also provided by numerous other institutions and organisations both at home and abroad, governmental and non-governmental ones alike. A particularly valuable contribution has come from the PHARE programme financed by EU. In our further discussion of RDAs, we shall disregard central level institutions.

On the *regional level*, RDAs do not exist in the voivodships of: Nowy Sącz, Piła, Siedlce, Sieradz and Wrocław (in Sieradz there is an agency under preparation).

Local agencies (foundations) restrict their activities to the areas of their *gminas* (*gminas*, which usually comprise a town) or groups of *gminas*. Local self-government authorities are their primary partners. Regional agencies (foundations) normally operate within the boundaries of one voivodship. There are a few exceptions to this

³ For example, in the exchange programme organized by EURADA, Polish agencies participated in 12 projects while the second next country, Great Britain, only in 6 projects.

rule, e.g. the Mielec RDA comprises part of the Rzeszów voivodship, just like the Nowa Ruda RDA in the voivodship of Wałbrzych.

The first institutions using the name of regional development agencies came into being in the beginning of 1991; the agency in Suwałki was registered in January 1991. Generally, most agencies were set up in 1993, and the largest number was established in 1995.

In most cases (85 per cent), the establishment of RDAs was initiated by the voivods, local self-government, or the Polish Agency for Regional Development. In several cases the idea came from other entities (e.g. chambers of commerce and industry, research institutions).

Among the surveyed RDAs, almost 80 per cent had problems during their creation stage. The basic problem they encountered was the shortage of financial resources. Besides, it was difficult to win support for the idea of establishing an agency among the authorities and local elites alike. Relatively fewer problems were connected with legal and organisational issues and with finding suitable personnel. Poor financial situation was also quoted as the major obstacle in the initial period of RDAs' activities. Some problems were also encountered in connection with gaining the support and understanding of the authorities and local environment. There were also some difficulties related to the organisation and furnishing of offices. It proved rather difficult to hire adequately qualified staff. Finally, obstacles in entering the market were listed among initial problems.

The *total capital of RDAs* can be assessed at about 80 million zł (about 25 million USD). The most affluent agency represented the initial capital of approximately 4 million USD⁴, while the financially smallest agency (though not the weakest one)—of about 2,000 USD. The initial capital of a typical RDA amounts to 500,000—1,000,000 zł (300–400 thousand USD).

Almost every second one of the surveyed agencies was additionally co-financed by the Agency for Industry Development⁵ in the amount varying from 10,000 zł to 3,200,000 zł. Over half of the initial capital came from a given region. Recently, IDA has reduced its share in newly founded RDAs to 10 per cent. On the whole, an extremely positive contribution of IDA in the financing and promotion of RDAs in the initial period of their operation should be emphasised, even though IDA is a shareholder only in some agencies (foundations). As a rule, the most significant shareholders are voivods, IDA and local self-governments.

The differentiation of ownership structures is so enormous that we can find agencies in which 95 per cent of the shares were taken over by IDA and the voivod (more or less half of the shares for each party, like in Suwałki), and those in which a prevailing number of shares is owned by local self-government (Olsztyn). The agency in Szczecin has an exceptional structure of capital since all its shares were taken over by the State Treasury. Majority blocks of shares usually belonged to the voivods and self-governments, while the blocks owned by enterprises, although greater in number, were much less significant.

⁴ The Upper Silesia Agency for Enterprise Restructuring is an exception since it specialises in cooperation with state enterprises.

⁵ AID had the biggest shares in the agencies in: Suwałki (48 per cent), Wałbrzych (47 per cent), Bielsko-Biała (46 per cent).

Unlike many agencies in the European Union, Polish RDAs, as a rule, were provided with a one-time "dowry" and were left to themselves. Neither voivods nor local self-governments grant subsidies for their operations and activities. This is partly due to legal obstacles, and partly to insufficient understanding of the benefits that a well managed agency can provide to a region or locality. We often witness a vicious circle: the environment constantly has new expectations of the agency, the agency often has to refuse due to the shortage of funds, and this, in turn, invites the question: "*what do we need the agency for?*"

Warmińsko-Mazurska Agencja Rozwoju Regionalnego (Varmian-Mazurian Regional Development Agency) was created in 1993. Since 1994 it has managed the PHARE-STRUDER programme in the *Olsztyn* region. STRUDER is the main (if not the only) source of funds and a vast majority of the agency's activities is focused on it: primarily supporting localities in preparing proposals for small infrastructural projects and then assisting them in their managerial tasks. The training component of the STRUDER programme is the most difficult of its components.

The agency has not undertaken any serious commercial activity of its own. For example, in 1995 it has organised training courses for only 49 persons. It has run only one privatisation programme for a state enterprise. The agency has supported financially only one firm, which produces electronic devices.

The agency begun its own commercial activities in training and consulting. It was hired by several municipalities of the *Olsztyn* region to prepare their local development strategies. Together with external experts, the professional staff of the Agency have been collaborating closely with local authorities and by the end of 1997 a set of strategies was ready.

Agencja Rozwoju Regionalnego w Suwałkach (Regional Development Agency in Suwałki) was created in 1991 with the initial capital twice as big as it was in the case of the *Olsztyn* agency. Since 1994 it manages the STRUDER programme for the Suwałki region, which is adjacent to *Olsztyn* voivodship.

The Suwałki agency is in a much more comfortable situation due to its commercial activity—it runs a big department store in Suwałki, which provides the agency with its own financial resources. It also has its own printing house, adding to the financial autonomy of the agency. Profits from these two main sources enable the agency to undertake activities for the benefit of the region, such as training for the unemployed, regional promotion, creation of jobs etc. STRUDER programme implementation is another pillar and a source of success.

Additional financial resources were secured by the majority (over 70 per cent) of the surveyed agencies. The percentage of RDAs which used external sources of financing grew systematically every year, from 16 per cent in 1992 to 50 per cent in 1995.

The donated financial means usually came from institutions and agencies financed or set up by the British Government (40 per cent of cases of using the aid) and by the European Union (34 per cent). RDAs were also financed, though on a much smaller scale, from Polish funds (8 per cent).

Two thirds of RDAs used the donated funds for the implementation of specific projects, and for their own needs (in 26 per cent of cases).

Ten agencies have budgets for development activities amounting to 2–3 million USD per year⁶. These are the RDAs that operate in voivodships covered by complex development programmes financed by foreign aid funds. Two such programmes are of major importance: PHARE-STRUDER (Programme for Structural Development in

⁶ This applies to the agencies in: *Olsztyn*, *Suwałki*, *Łódź*, *Rzeszów*, *Mielec*, *Katowice*, *Wałbrzych*, *Nowa Ruda*, embraced by STRUDER, and the foundations in *Lublin* and *Białystok*, which collaborate with the British Know-How Fund.

Selected Regions, co-ordinated by the Polish Agency for Regional Development) and the Polish-British Programme for Enterprise Development. It should be stressed that if foreign aid in financing the programmes were curtailed (which is highly unlikely), it would not mean automatic downfall of the agencies. A vast majority of those RDAs are efficiently managed and have sufficient resources of their own at their disposal to continue their activities on behalf of their regions, though maybe on a smaller scale. Their unique achievement is the creation of a sustainable mechanism for the mass transfer of funds for the needs of regional development which remains at the disposal of the government, but which is also compatible with EU mechanisms and practices. This is an undeniable accomplishment in preparation for European integration.

Local development agencies basically operate in a single commune (*gmina*) or a group of neighbouring *gminas*. Very few of them have substantial financial resources, like the agency in Kleszczów near Bełchatów, which hosts the country's biggest brown coal open mine (which is the reason why so few such agencies have been set up since only wealthy *gminas* can afford to maintain them). An exception to this rule are nine local development agencies which were wholly or substantially financed from the resources of the PHARE Programme for Local Initiatives as a result of a national competition⁷. Each of these agencies received about 650,000 ECU (about 2 million zł). Only few of them were created solely from the funds of foreign aid, without any local financial contribution.

Górnślaska Agencja Przekształceń Przedsiębiorstw (Upper Silesian Agency for Enterprise Restructuring) in Katowice, established in 1994, is by far the "richest" regional development agency in Poland. Its initial capital amounted to some 5 million USD which was contributed by three main benefactors: the State Treasury, represented by the Katowice administration, the State Fund for rehabilitation of Disabled Persons, and the Agency for Industry Development. The main task of the agency is to facilitate the restructuring of the ownership of state enterprises (though reluctance on the part of the enterprises themselves for this restructuring is pointed to by the agency as one of the most severe obstacles that they encounter in their functioning). The agency is active in such specialised fields as innovation creation and promotion. It also purchases and runs some enterprises, like the china factory, or buys shares in companies. It has created some 500 new jobs. The agency also runs training courses and offers consulting to firms. The agency finances its operations from profits that are created by its firms.

It has to be conceded that the volume of RDAs' available capital is not a satisfying criterion for evaluation and can be confusing. There exist local agencies whose resources are much bigger than those of many regional agencies. What constitutes the difference between them is not capital but their range of activities, which often implies shareholders and goals.

The number of staff in RDAs normally matches their capital, and varies considerably: from 1 to 83 employees, the average for all agencies being 19 persons and 10 persons of office staff. There is no doubt that RDAs managed to hire the best available staff, particularly in weaker regions. If only such a trite criterion as command of foreign languages is taken into consideration, RDAs outdo many other regional institutions. Undeniably, *the "human capital" is one of RDAs' strengths*.

Almost every Polish RDA pursues the following types of activity:

⁷ These are agencies in: Wiczo, Nidzica, Starachowice, Biłgoraj, Działdowo, Kutno, Lubawka, Ustrzyki Dolne, Żelów. More information about their functioning can be found in a study Drażkiewicz, Gęsińska, Szczucki (1995).

- (a) business activity conducted according to general principles of competition and undertaken for profit,
- (b) activity undertaken according to the "break even" principle, without producing profit,
- (c) strictly developmental activity, financed from the agency's own resources or donated resources (e.g. domestic or foreign programmes), for example co-financing of analyses, fairs, events, promotions, training projects.

In the opinion of most RDAs, their business activity is the least important, *the most important activity being the promotion of the region among potential investors and tourists* (see table 5.2).

Bilgorajska Agencja Rozwoju Regionalnego (Bilgoraj Regional Development Agency), created in 1994, is a typical local agency created for the PHARE Local Initiative in Employment Programme. Its task was to manage this programme at the local level. In addition to that, it has undertaken its own commercial activity in either training or consulting. One of two in Poland Communal Mutual Guarantee Fund (the other operates in Dzierżgoń) was created by the Agency, which assists local firms in obtaining bank credit. This agency was selected for managing the new edition of the STRUDER programme, which in its second stage will also embrace Zamość voivodship.

The list of activities of *Agencja Rozwoju Regionalnego w Żelowie* (Żelów Regional Development Agency), which has also run the PHARE local initiatives programme, is much longer than that of the agency in Bilgoraj. In addition to the typical activities of the programme, Żelów has initiated several unconventional projects, such as catering for all in need, a work club for the unemployed which changes their attitudes towards job seeking, meetings for school pupils to strengthen their ecological awareness, educational pre-school, an information system on a communal level etc. Besides these initiatives, the agency has engaged in several other types of activity that enhance local development potential, like the "entrepreneurship incubator" or the Żelów Business Centre.

It has to be admitted that these initiatives of the Żelów community are only partially financed through the PHARE programme on local initiatives. The municipal budget, as well as some firms, support these projects to a considerable degree.

Table 5.2.

Significance of specific types of activities of RDAs

Types of activity	Very important	Important	Not important	Does not occur
Promotion of region among investors and tourists	86	14	0	0
Business consulting	45	45	10	0
Training programmes	57	31	10	2
Setting up of business incubators	36	36	24	5
Securing and granting loans	41	21	36	2
Organising fairs and commodity exchanges	24	38	33	5
Forming companies and partnerships, bringing in shares to companies	21	45	26	7
Own business activity (production, trade)	31	19	45	5
Other	36	5	0	60

Source: Gorzelak, Kozak, Roszkowski (1998).

In seeking financial means, half of the RDAs conduct their own business (in services, trade or production), thus entering into competition with other business

entities (e.g. submitting tenders for the liquidation of state enterprises, running trade or production companies). It is of no special significance in larger urban or industrial centres. In poorly developed rural areas, business activities of RDAs ought to be carefully analysed due to a likely risk that the institution responsible for promotion and development may, in some sectors, effectively restrict potential competitiveness of new entities (e.g. in the sphere of consulting or training). On the other hand, it is difficult to overestimate the role of many of the agencies in the creation of a network of business-related institutions, such as business incubators, special economic zones, trade fairs and exchanges, centres for business support, and technology parks. There are agencies which run their own shops or rent commercial premises to private businesses. Some have their own printing facilities. Other RDAs opened brokerage houses, conduct lending activity (virtually all agencies) or manufacture specialised microscopes.

Due to conducting economic activity and their own statutory activity, more than half of RDAs contributed to the creation of new jobs. On average, every agency generated 110 jobs (median value, which excludes extreme numbers, is 13 jobs).

Konin Regional Development Agency is a typical business-oriented agency that runs its operations from its own resources (it does not manage any PHARE or other foreign assistance programme, and the contributions of external funds that are related to the SME sector promotion do not exceed 5 per cent of its own capital). The agency, established in 1992 with the initial capital coming in over 80 per cent from the regional administration and some minor support from the IDA, has created several institutions supporting business creation in the region. These are: Business Support Centre, which provides training and consulting for local firms; Foreign Business Bureau, whose main tasks are to promote the region abroad and to help local firms with establishing contacts abroad; Business Information Centre, to support SMEs located in the region; Mutual Guarantee Fund, to support start-ups and growth of already existing companies. The agency rents office space to SMEs on preferential rates, thus supporting local companies during their first years of operation.

The surveyed agencies point to *bad regional policy of the state or lack of it* as the most serious obstacle hindering their operations, and to shortage of financial resources as the second most serious problem. Additionally, inappropriate regulations and the legal system constitute strong obstacles as well.

Most agencies (43 per cent) regarded conducting sustainable regional activities such as support in the creation of new companies, new jobs, participation in local economic initiatives (e.g. privatisation), organisation of such events as trade fairs, promotions etc. as their successes. At the same time, equally frequently (41 per cent), the improvement of the internal standing of the agency by way of raising sufficient funds for operations, maintaining good relations with the environment, and building up a positive image of the RDA was regarded as a success.

The surveyed RDAs have managed—in their opinion—to permanently affect the growth of their regions; this is the opinion of almost three fourths of the responding agencies. Among those RDAs which believe they permanently contributed to the improvement of the situation in the region, most did so primarily through the creation of new jobs (almost 30 per cent) and through promotional or advisory activities (slightly above 25 per cent). Somewhat lesser significance was attributed to the establishment of institutions serving the general public, such as business incubators

Table 5.3.

Barriers to RDAs' activities

Main barrier	Very strong	Strong	Weak	Very weak	Irrelevant
Bad regional policy of the state or lack of it	50	33	7	—	10
Meager financial resources	50	31	5	12	2
Inappropriate regulations/legal system	38	36	12	—	14
Inactivity of local elites	5	55	16	12	12
Lack of external aid	10	40	31	7	12
Lack of adequately qualified personnel	2	26	37	14	21
Difficult cooperation with self-governments	2	17	38	17	26
No concept of sensible activity	2	14	14	14	56
Difficult cooperation with voivodship authorities	5	12	29	14	40
Insufficient independence of the managing board	2	12	10	5	71
No agreement between main shareholders	5	5	17	13	60
Inappropriate territorial division of the country	7	2	21	7	63
Other	7	2	—	—	91

Source: Gorzelak, Kozak, Roszkowski (1998).

or guarantee funds (20 per cent), and to the support in attracting or securing capital (10 per cent). Those agencies which were not able to prove their contribution to the improvement of the situation in the region (town) pointed to the lack of funds, short period of operation, and lack of a conception for the functioning of the agency, as reasons for the inefficiency of their activities.

5.3.2. Training institutions

There are several training institutions for local governments and regional administration (though the first component is much better covered by the training than the latter). The Foundation for the Support of Local Democracy and the Foundation for Socio-Economic Initiatives conduct training programmes for local governments.

The *Foundation for the Support of Local Democracy*, established in 1989 on the wave of reform of the local government in Poland, is one of the strongest organisations of this kind in Poland. It manages several foreign-assisted programmes directed towards local authorities and local social and economic initiatives. The Foundation operates through its 16 regional centres and four local government schools, which are recognised by official educational authorities and which, during two- or three-year courses, prepare specialists for self-governmental administration. In particular, the Foundation manages, on behalf of the Polish government, the EU-sponsored PHARE Programme "Municipal Development and Training in Poland".

The *Foundation for Social and Economic Initiatives* (FISE) is another such NGO involved in regional development. The foundation has its own agency with 14 local units, the Local Project Workshop, and the Entrepreneurship School. The fourteen local offices are located in different voivodships. Each office employs two to four persons specialising in counseling small—and medium-sized companies. These activities are local in character—the Agencies help the local communities and collaborate with local partners.

Another interesting initiative intended to facilitate contacts between local authorities and potential investors is the *Foundation for Polish Gminas Promotion*. The

foundation was set up by the State Agency for Foreign Investment and promotes co-operation between different institutions involved in providing support for local entrepreneurs. Among the Foundation's members are: the Convention of Maritime Cities and *gminas*, Gliwicki Bank Handlowy, the Foundation for the Support of Restructuring the Łódź region, Polish Agency of Tourism Development, Bank Świętokrzyski and many others.

5.4. Foreign assistance in regional and local development

There are several programmes of foreign assistance for regional and local development that have been operating in Poland since 1989.

1. *Municipal Development and Training in Poland*—one of the first PHARE programmes, commenced in 1991 by the International Union of Local Authorities in the Hague and then transferred to the Foundation for the Support of Local Democracy in Warsaw. Training embraces several groups of local actors, trainers, managers. The program provides grants for particularly promising local initiatives and for consulting expertise provided to local authorities. The programme has resulted in the creation of 15 regional training centres for local government and of 4 colleges educating specialists for local administration. The training and educational institutional structure created with the support of this programme should be regarded as one of the most important outputs of foreign assistance in the transformation process of the “local Poland”.

2. The *Local Initiatives Programme* was aimed at assisting selected localities in their efforts to prepare local development strategies. Similarly to several other PHARE programmes it has been managed by the Co-operation Fund, a governmental agency created to co-ordinate several externally financed programmes. The Local Initiatives Programme started in 1993 and terminated in 1996. At the beginning of the programme, 15 small or medium sized towns and municipalities were selected and broadly-based local elites participated in preparation of local strategies. After the evaluation of their performance, 9 localities were finally selected to take part in the programme. All the selected municipalities had problems with the job market and with the development of local economy.

The programme was conceived as a platform for broad public participation. In each of the localities, a citizens' council was created in order to channel the activity of the inhabitants. Each of the localities received 500,000–650,000 ECU over a three-year period for small-scale infrastructural projects that were planned in the local strategy.

The programme was an interesting exercise in mobilising local communities around common goals. The final results of this exercise demonstrated that only in a few localities the external intervention produced long-lasting effects and changed these communities in a fundamental way. In general, it was not proven that wide participation in formulation of the local development strategy and in its consecutive implementation was a necessary condition for local success—on the contrary, it was rather demonstrated that visionary leadership was a prerequisite for achieving local change and development. It was also indicated that—especially in economically

weaker localities—institution building, both in economic and civic spheres, appeared to be the most efficient and durable means of overcoming developmental barriers.

3. **STRUDER** Programme, with the budget of 76.7 million ECU for the years 1994–1995 (and in fact extended to 1996), has been operating in five Polish regions (Łódź, Katowice, Suwałki-Olsztyn, Wałbrzych and Rzeszów) and since 1996 this list has been extended to embrace several rural regions (the voivodships of Nowy Sącz, Krosno, Sieradz and Piotrków). The STRUDER programme was the first programme of EU assistance for Poland in which not only technical assistance and training was financed by the European resources, but also infrastructural projects and even investments in selected regions received direct financial support.

STRUDER funds have been primarily used to support regional institutions and operations promoting development, including support for investment projects creating new jobs in the small business sector. Support has also been given for the development of small infrastructure projects which directly benefit SMEs. Within the framework of the STRUDER programme, the Polish Agency for Regional Development is implementing:

- Grant Scheme.
- Guarantee Scheme.
- Regional Investment Funds.
- Small Infrastructure Projects.
- Training and advisory services for entrepreneurs, start-ups and the unemployed.
- Support for regional structures and operations.

The Polish Agency for Regional Development co-operates with locally based regional development agencies throughout Poland—some of them, like the agency in Olsztyn, were created in order to manage the STRUDER funds. Creation or expansion of regional development agencies is one of important results of this project.

The activities undertaken within the STRUDER Programme can be divided into four main fields: infrastructure development; institution building; human capital; business activity.

The extension of **STRUDER II** (after 1996) has embraced four new regions: Zamość, Ostrołęka, Koszalin and Elbląg. Four other regions (Nowy Sącz, Krosno, Sieradz and Płock) are embraced by the new programme named **RAPID** (Rural Areas Programme for Infrastructure Development), which receives funds of approximately 20 million ECU yearly. Two major components of STRUDER are being continued: infrastructure development and institution building (a regional agency will be created in Sieradz voivodship). Additionally, relatively small funds have been assigned to research on regional development and programme implementation.

4. The **PHARE-CROSSBORDER** programme, which was begun in Poland in 1994, now has seven ongoing projects. During the period 1994–1996, it was assigned almost 162 million ECU. Most of these funds (over 90 per cent) were earmarked for the project undertaken on the Polish-German border and the remaining part for projects undertaken at the Polish Baltic Sea shore, within the framework of Polish-Danish cooperation.

There are two main aims of this project: equalising the levels of development on the two sides of the Polish-German border and improving the quality of environment on the sea shore and in the Baltic Sea itself. In accordance with these two priorities, the following fields are supported by the CROSSBORDER funds:

- development of transport networks and transport infrastructure;
- environmental protection;
- economic development of local and regional systems;
- municipal infrastructure;
- human capital.

Some funds may be allocated to studies and research.

5. The *PHARE-COMET* programme is directed at assisting the eastern Polish regions in their efforts to prepare themselves to become the eastern frontier of the enlarged European Union.

6. The *Municipal Service Restructuring and Privatisation Programme (PHARE)* is another major attempt at changing the institutional and economic structure of several municipalities in Poland. The most important goal of this programme is to support the process of structural and ownership changes in municipal service management, with a particular focus on local business in the area of public utilities.

Outside PHARE, there is another important initiative supporting Polish regional and local development: the *Polish-British Programme for the Support of Local Governments*, financed by The British Know-How Fund, with the budget of 19.5 million USD. The Programme was initiated in 1992. Its primary goal is to initiate and maintain training and advisory assistance programmes for local government administrations and to provide funding for them. The Programme provides advice and training assistance for employees of local government administrations in the following areas: local finance, municipality management, local business development promotion, spatial planning and land use, housing management, regional public audit chambers.

The *Polish-Swiss Regional Programme*, financed by the Swiss government with the budget of just below 10 million USD, aims at supporting some selected rural areas (4 localities in eastern and central Poland) by sharing with them Swiss experiences.

There are also several other programmes that use foreign assistance funds to support certain types of economic activities or training and consultancy. These programmes—like US AID programme, which supports decentralisation and strengthening of local democracy, or the World Bank support for preparing regional development strategies—operate in the entire territory of Poland or their “spatial” factor is of secondary importance.

Without questioning the high efficiency of these programmes, it has to be openly admitted that most of the foreign assistance remains uncoordinated in the regional dimension. Different programmes are subordinated to different ministries, and the only institution which is officially in charge of co-ordination is the Government Office of European Integration and Foreign Assistance. However, inside the ministries, expertise in the rational use of foreign assistance is growing. More needs-assessment analyses are being performed and awareness of the necessity of co-ordination and negotiations with donors is increasing. The problems related to the programmes result not only from recipients’ lack of experience, but also from inadequate donor conceptions. In most of the cases, programmes are fragmented because of donors who sometimes want to finance idiosyncratic small projects. Even if the objectives of the programmes are in accordance with Polish priorities, which is not always the case, the means are often very limited and this makes any significant progress difficult.

Chapter 6

INFRASTRUCTURE

6.1. Physical infrastructure

Poland is a country with a relatively well developed physical infrastructure in terms of its quantity and accessibility. The qualitative characteristics of this infrastructure are at a much lower level, and the improvement of the standards of roads, railways, water links, and telecommunications infrastructure is of major importance for future development of the country.

The structure of cargo transport is given in table 6.1. It shows that the total of freight transport declined twofold in 1996 in comparison with 1980, which demonstrates the scale of inefficiency of the centrally planned economy, in which transportation costs were not considered as a location factor. It also shows that the structure of freight transport has not changed, with the vast majority of cargo transported by road.

There are 235,000 kilometers of roads in Poland, and 46,000 kilometers are prepared for the accommodation of international transit. These roads are, however, of a relatively low quality —there are only a few sections of modern motorways, not more than 300 kilometers in the entire country. The modernisation of the road network has become one of the most important tasks for the future development of Poland.

The importance of road transport will constantly increase, at the expense of rail shipments. Already in 1992, the number of trucks crossing Polish borders grew by 50% in comparison with 1991 and further fast growth is inevitable.

Poland has relatively well developed rail connections. In 1996, there were 23,420 kilometers of railways under exploitation, out of which 22,285 were of normal gauge. The length of railways slowly decreases. Half of the wide-gauge rails

Table 6.1.

Freight transport by major means, 1980, 1996

Means of transport	1980		1996			
	weight (million tons)	distance-weight (million kilometer-tons)	weight		distance-weight	
			million tons	per cent	million kilometer-tons	per cent
Rail	482.1	134,734	223.5	16.1	68,332	22.7
Road	2,167.9 ^a	44,546 ^a	1,091.9	78.8	56,513	18.8
Pipelines	40.7	26,222	35.3	2.5	15,326	5.1
Sea	39.6	257,428	25.7	1.9	168,161	55.9
Inland waterways	22.2	23,325	9.0	0.6	851	0.3
Air	0.017	30	0.03	0.0	89	0.03
Total	2,753.3	456,183	1,385.5	100.0	309,272	100.0

^aWithout private transport.

Source: *Mały Rocznik Statystyczny (Concise Statistical Yearbook) 1997*, table 2(231).

were electrified (11,626 kilometers). 8,000 kilometers of railroads are suitable for transit in the East-West direction. However, the Polish rails need modernisation and improvement of speed and safety standards. The same applies to loading/unloading facilities of the main rail harbours.

Passenger traffic at the international airport in Warsaw is relatively small, equal to some 3 million passengers yearly, out of which over 2.5 million cross the Polish border there; half of this 3 million are foreigners. No other Polish airport can compete with Warsaw in this respect—Kraków with 70,000 passengers (with 46,000 foreigners) and Gdańsk (50,000 total traffic, 28,000 foreigners) are the next two largest airports with respect to international traffic. All the other Polish airports operate aggregate traffic not exceeding 17,000 passengers per year.

Inland waterways do not play an important role in Polish cargo transport. The longest Polish river, and one carrying most water—the Vistula (Wisła) is not regulated and is not used for major water transportation. The second biggest Polish river, the Oder (Odra), is the main Polish waterway and connects, through the Gliwice Canal, Upper Silesia with the major Polish sea harbour Szczecin-Świnoujście. The Oder-Spree canal connects Poland with the North Sea harbours and barges from Poland can be seen in Berlin, for example. There are several other canals used for water transport, but their importance is not great. Altogether, inland waterways are 3980 kilometers long.

Poland entered the transformation period with a very poor telecommunications network. Improvement in this sector should be considered one of the major manifestations of the transition to modern economy. The Polish Telecom operator is still a public enterprise and though there are a few local operators, it has, in fact, a monopolistic position on the market, since it controls all international connections. Private operators have entered the cellular market, and three modern digital GSM networks are being rapidly developed.

In 1996, there were 6,532,000 telephone lines, out of which 5,542,000 in cities. Almost 4 million new lines were created after 1989. There were 170 telephone numbers per 1,000 inhabitants, which shows the amount of work that still has to

be done in that area. The picture should, however, be changing relatively fast due to the rapid expansion of the telephone network. This network is strongly differentiated regionally—the situation is clearly much better in highly urbanised areas. However, the rapid development of the mobile telephone network (analogue and digital, operated in three networks) may help to overcome the shortages of traditional telephone connections in rural and peripheral regions.

After 1989, passenger traffic across Polish borders grew threefold (see table 6.2).

Table 6.2.

Border crossings, 1990–1996

Years a: in thousand b: 1990=100	Total border crossings	In this:	
		Poles going abroad	Foreigners coming to Poland
1990 a	73,308	22,131	18,211
b	100.0	100.0	100.0
1991 a	113,920	20,754	36,846
b	155.4	93.8	202.3
1992 a	154,064	29,268	49,015
b	210.2	132.2	269.2
1993 a	183,000	31,935	60,951
b	249.6	144.3	334.7
1994 a	215,180	34,296	74,253
b	293.5	155.0	407.7
1995 a	234,871	36,387	82,244
b	320.4	164.4	451.6
1996 a	260,125	44,713	87,438
b	354.8	202.0	480.1

Source: GUS (1997b).

This movement is very likely to grow in the future, due to Poland's increasing openness, growth of incomes and lifting of restrictions on international travel.

Border crossings are one of the most severe barriers to further development of international contacts, both in commodity and passenger transport. At present, there are 140 road border crossings in Poland (115 road and 25 railroad), but only 50 of them are used by more than 1 million people per annum and 17 by more than 5 million people per annum. The most important entry points on the Polish borders were the following (in brackets: number of crossings in 1996):

- on the Eastern border: Terespol (5.4 million) and Medyka (3.5 million);
- on the Southern border: Cieszyn (30.3 million), Kudowa (8.1 million), Chałupki (5.2 million), Chyżne (5.1 million), Jakuszyce (4.1 million), Zawidów (3.5 million), Barwinek (3.1 million) and Marklowice (3.0 million);
- on the Western border: Świecko (14.9 million), Słubice (12.5 million), Olszyna (11.4 million), Gubin (11.0 million), Kostrzyn (10.8 million), Zgorzelec (9.6 million), Sienawka (9.5 million), Lubieszyn (6.6 million), Krajnik (6.1 million), Świnoujście (5.4 million), Łęknica (5.1 million) and Kołbaskowo (5.1 million).

broader programmes of trans-European rail and road networks. Three corridors will play the most important role: two in the East-West direction (one central, and one southern) and one (central) on the North-South axis. All these corridors will be filled by highways and railroads meeting the requirements for fast trains (the first fast train will be in operation on the Berlin-Moscow route, which will run parallel to the East-West central highway). In the first stage of the programme, 350 kilometers of motorways are to be constructed, and the entire programme is to be finished by 2007. The intersections of these corridors are expected to become areas of the fastest economic growth.

These plans are congruent with the projected dynamics of the movement of people and goods in the two strategic directions: East-West and North-South. The East-West direction appears to be more promising than the North-South one. Poland seems to have already lost the competition with the former East Germany in capturing the European North-South transport. This direction, in light of the instability in the Balkans and the accession of two Nordic countries to the European Union (Finland and Sweden), has now become of secondary importance. The East-West direction has, therefore, taken on greater importance for Poland, given its particular geo-political location. It is estimated that even during the next two years the overall transit transport westward should increase by 60 per cent, while in the North-South direction only by 30 per cent. In any case, Poland will be in open competition with the other three Central European countries, which also claim to be strategically located and which are also trying to capture as much of the East-West transit as possible.

6.2. Social infrastructure

6.2.1. Primary/secondary education

The system of education during real socialism was characterised by the domination of specialist vocational training. Despite certain changes aimed at increasing general education at the secondary school level, pupils attending four-year general secondary schools constitute only 25 per cent of the total number of youths attending secondary schools. Another 34 per cent attend four-or five-year vocational secondary schools and as many as 41 per cent attend elementary, three-year technical schools which do not issue secondary school certificates, i.e. do not give their students the right to enter a university-level academic institution. In the coming years, the system is expected to be reformed and a considerable increase in the number of students of general secondary schools is anticipated.

Likewise, the indices of education by age groups are disadvantageous. While in the age group of 7–14 years 98 per cent of youths attend schools, in the group aged 15–18 it is 80 per cent, and in the group aged 19–24—only 15 per cent.

The financial means allotted to education are lower in Poland than they are in other countries. In 1987 they constituted only 4.4 per cent of the gross national income; this share—this time related to the GDP—was similar in 1992 and amounted to 4.2 per cent.

The characteristic features of the Polish education system are:

- enrolment ratio equal to almost 100 per cent for primary schools and non-existence of illiteracy among the young;
- lower levels of enrolment for secondary schools and too large a role of three-year vocational schools at the expense of general full secondary education;
- significant differences in skill levels between subsequent stages of education, expressed also through long periods of schooling at each stage (secondary school: 4 or 5 years, full-term university studies: usually not less than 5 years);
- growing role of undergraduate vocational (three-year) studies;
- interminable validity of the acquired licenses, titles, diplomas etc.
- validity of the above being independent of the location and manner of acquisition.

In the recent period private schools of all profiles and levels have been developing rapidly. This growth occurs primarily in big cities, since the demand for paid education is much lower in the countryside. However, there have also emerged several three-year professional schools in smaller towns. Extramural learning (correspondence courses) has become one of the new ways of acquiring skills.

6.2.2. University (and equivalent) educational and scientific institutions

For the last several years, Polish universities have had a far-reaching autonomy, which enabled them to adapt their internal mechanisms to the requirements of the market economy.

In the academic year 1996–1997 there were over 210 institutions at the university level in Poland, including 12 universities¹, 29 higher technical schools, 10 agricultural academies, 71 higher economic schools, 16 pedagogical schools, and 11 medical academies. The remainder include artistic, theological, physical education academies etc.

Since 1989, a rapid development of private educational institutions has been observed. Their curricula range over a variety of fields. Several vocational, post-secondary schools have been established, mostly in economics, business and administration, marketing, and similar market-oriented disciplines. These vocational, three-year schools are mainly opened in big centres, although, several schools have been established in smaller towns (though not too far from big agglomerations), like the highly rated business school in Nowy Sącz (near Kraków) or the humanities school in Pułtusk (near Warsaw), which offer full MA-level studies. Due to shortages in academic staff, especially the shortage of full professors, these schools employ on a part-time basis professors working for renowned universities in big academic centres. Such initiatives improve the educational opportunities in several localities that have been traditionally deprived of full university courses and might prepare qualified staff for business activity which will, by extension, support the economic development of these localities.

Table 6.3 illustrates the fast development of university level education in Poland after 1990. This growth has manifested itself in an increase in the number of institutions of higher education and also in the growth of the number of students

¹ In Poland, the “university” is an establishment of higher education of mainly theoretical profile. Typical departments of a university follow the main academic disciplines. “Professional” higher schools are called “academies” or “higher schools” with a clear indication of their profile (agricultural, economic, artistic etc.). Technical higher schools are called “polytechnics”.

Table 6.3.

Staff and students at universities and equivalent establishments

Years	Number of			Student/teacher ratio	Students per 10,000 inhabitants
	universities & equivalent	students	teachers		
1985/86	92	340,709	57,280	5.95	91.3
1989/90	97	374,112	60,333	6.20	98.4
1990/91	112	403,824	64,454	6.26	105.7
1991/92	117	428,159	63,176	6.78	111.8
1992/93	124	495,729	63,076	7.86	122.0
1993/94	140	594,009	65,261	9.10	154.3
1994/95	160	682,200	67,066	10.26	176.7
1995/96	179	794,600	66,973	11.86	205.9
1996/97	213	927,480	70,372	13.18	241.0

Source: Gorzelak, Jałowiecki (1993); *Rocznik Statystyczny (Statistical Yearbook) 1994*, table 23(616); 1996, tables 26(316), 30(320); 1997, tables 30(324), 33(327).

(although, as table 6.4 reveals, to some extent this growth has been located in extra-mural type of studies²).

The distribution of students by discipline is the following: 26 per cent study humanities, 22 per cent technical sciences, 17 per cent economics), 10 per cent mathematical and natural sciences, 6 per cent medicine, 8 per cent law and administration, and 5 per cent agricultural sciences. The remaining studies comprise physical education (4 per cent), art, theological studies, and other (2 per cent).

Table 6.4.

University students according to type of school (in per cent of the total)

Types of schooling	1980/1981	1985/1986	1990/1991	1991/1992	1992/1993	1993/1994	1995/1996	1996/1997
Intramural	65.9	78.0	76.7	76.3	72.5	67.6	57.2	53.3
Evening	4.9	1.4	0.5	0.4	0.7	1.6	3.4	4.2
Extra-mural	27.8	20.0	22.4	23.0	23.6	30.3	38.7	41.7
Extension	1.2	0.5	0.4	0.3	0.5	0.5	0.6	0.6

Source: Gorzelak, Jałowiecki (1993); *Rocznik Statystyczny (Statistical Yearbook) 1994*, table 25(618); 1996, table 28(318); 1997, table 31(325).

Academic centres are distributed rather evenly throughout the country. The major regional centres of higher education are presented in table 6.5 (excluding the military and police schools of university level).

Apart from the centres enumerated in the table, there are 9 more voivodships in Poland with the number of students exceeding 10,000 (these are: Białystok—over

² This process has its "hidden" rationale. According to the new Constitution, education in Poland should be free. By organising extramural and evening courses, higher schools create the possibility of charging tuition fees, which may reach 1000 USD per semester (some private schools charge much more). Such additional revenue is very important for state universities and equivalent schools, which are permanently short of funds received from the state budget.

Table 6.5.

Academic centres in Poland and employment in science, 1989–1996 (in thousands)

No	Main academic and scientific centres	Students				Academic teachers				Employed in science	
		1990/91	1992/93	1993/94	1995/96	1990/91	1992/93	1993/94	1995/96	1989	1994 ^a
1.	Warszawa	68.2	84.5	97.2	132.7	10.5	10.1	10.3	10.8	48.3	55.6
2.	Kraków	50.0	58.9	66.7	83.1	8.2	7.1	8.1	8.5	9.3	23.0
3.	Wrocław	35.9	43.4	48.3	59.3	6.2	6.0	6.2	6.2	5.2	16.6
4.	Poznań	34.9	43.9	52.0	67.5	5.5	5.7	6.0	6.1	6.2	15.6
5.	Lublin	33.2	39.6	44.2	53.5	4.0	4.1	4.2	4.3	2.6	10.5
6.	Katowice	32.7	43.6	50.8	71.2	5.3	5.1	5.4	5.2	12.7	19.1
7.	Gdańsk	25.6	28.7	33.0	39.7	5.4	3.9	3.6	4.0	3.6	11.1
8.	Łódź	22.9	28.9	32.8	45.3	4.7	4.6	4.6	4.8	8.8	12.9
9.	Szczecin	16.1	20.5	25.4	36.0	2.6	2.5	2.5	2.6	0.6	
	Poland	403.8	495.7	584.0	794.6	64.5	63.1	65.3	67.0	115.4	70.2

^aaccording to Task Force (1996).

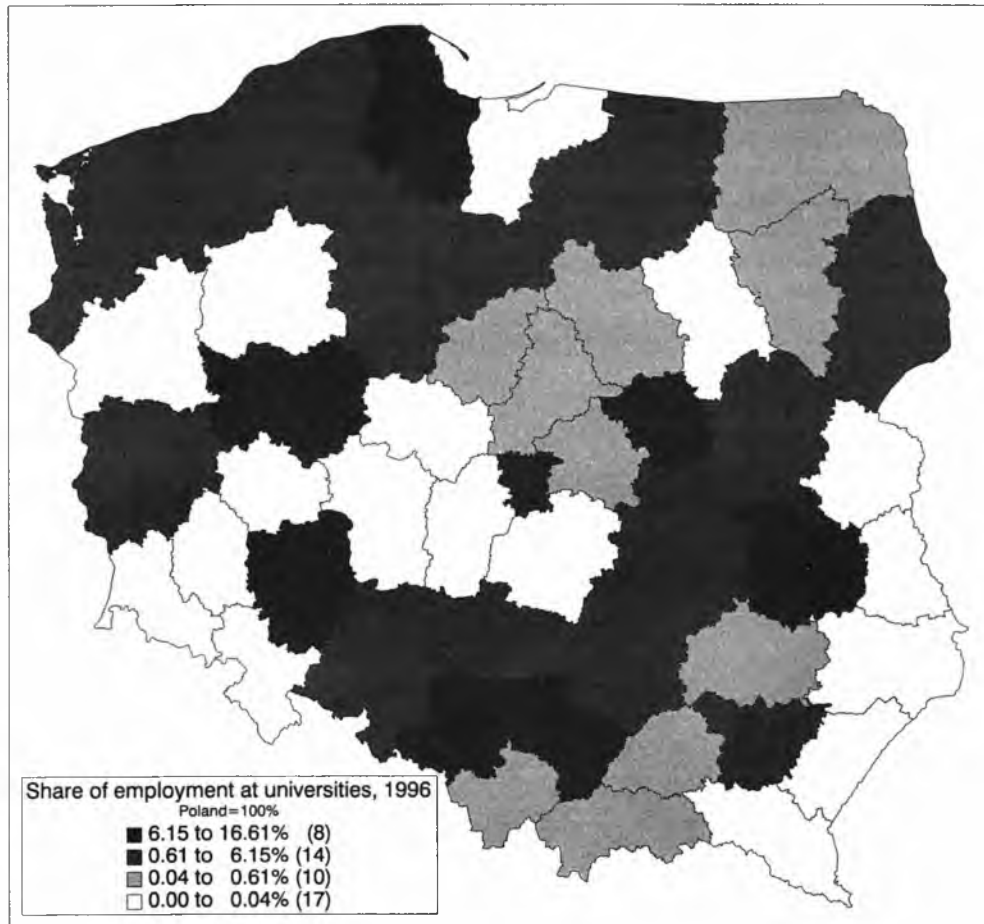
Note: data on the employment in science for 1989 and 1994 not fully comparable. For 1995/1996 data for the entire region, not only its main town.

Sources: *Rocznik Statystyczny (Statistical Yearbook) 1991*, table 23(621), 5(100); 1993, table 24(624); *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1993*, table 2(101). Task Force (1996), table 8.

20,000 students, Bydgoszcz, Kielce, Olsztyn, Opole, Radom, Rzeszów, Toruń, Zielona Góra). The table also shows that Warsaw is clearly the leader in the country. It has 25 schools of university standard (out of 140 existing in Poland), and 7 of them are private. Out of the 7,500 full professors employed in Polish universities and equivalent schools, 20 per cent work in Warsaw. 18 per cent of all Polish students study in Warsaw. All of the university-level schools operating in Warsaw are placed high in all rankings of Polish institutions of higher education. This may be proven by the high efficiency that they demonstrate in qualifying new staff for academic careers: one-third of all newly nominated professors, habilitated doctors and doctors work in Warsaw. This also means that the academic establishments located in Warsaw support other, weaker, academic centres (also some foreign ones, as evidenced by the 10–15 per cent “brain-drain” from Polish science in the period 1990–1996, see Hryniewicz, Jałowiecki, Mync, 1992, 1994, 1997). Three fourths of the country’s total employment in academia are concentrated in eight voivodships (see fig. 6.2.).

Poland needs to develop university-level education in an accelerated manner, to reach enrolment ratio of some 30–40 per cent. It will be impossible to achieve if the resources allocated to education are not at least doubled (nowadays outlays for academic education are below 3 per cent of GDP). It is very likely that in the new constitution the principle of free education will be maintained, which will place the main responsibility for the development of Polish universities and equivalent schools almost entirely on the state.

Figure 6.2. Share of employment at universities, 1996



Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

6.2.3. Health care

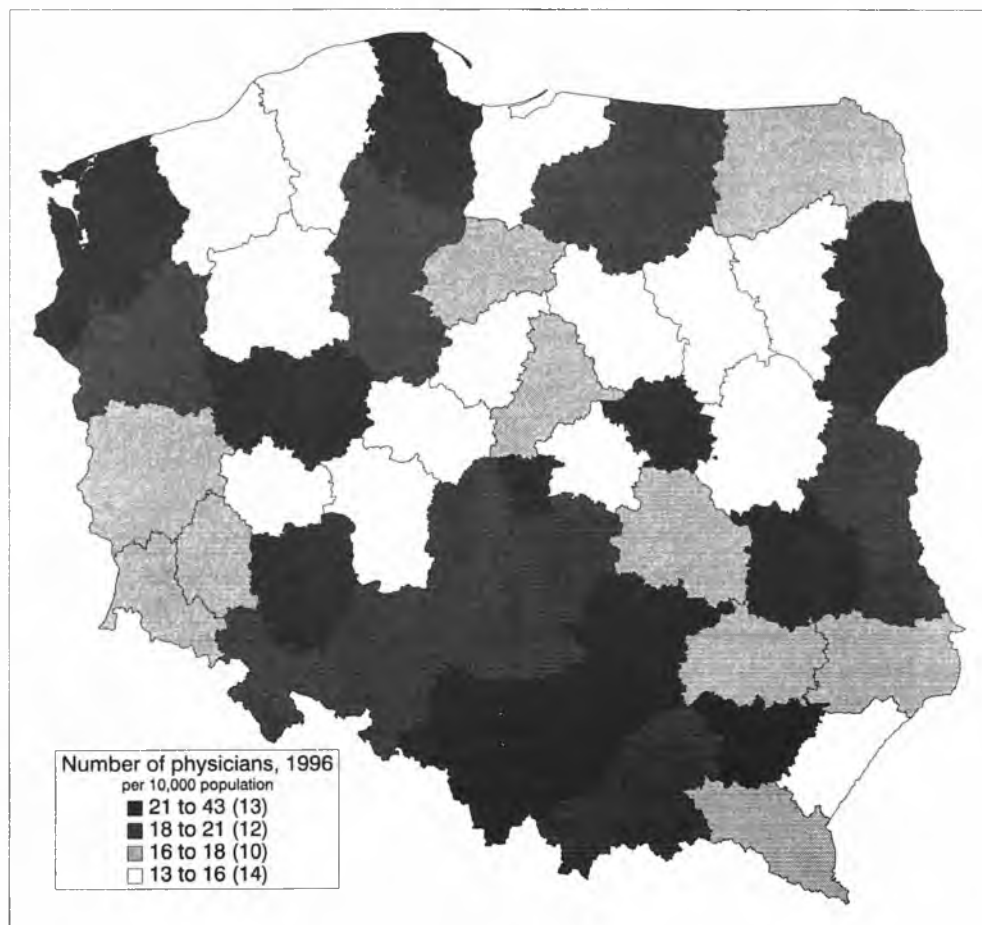
The Polish health care system is relatively well developed, although the standard of its services is regarded as unsatisfactory. This is due to several reasons, and managerial and organisational factors (qualitative) are as important as quantitative ones.

There are 22.7 working physicians and 55.8 hospital beds per 10,000 inhabitants. There are 12 independent medical academies (equivalent to universities) and one medical department, at the Jagiellonian University in Kraków. Health care is officially free of charge, though, owing to a number of limitations, in many cases the patients have to pay for treatment in the state medical establishments in the form of officially voluntary (and in fact compulsory) donations. Corruption is also widespread—in some cases, physicians demand a payment from patients for admitting

them into specialised hospital.³ In addition to being employed in the state health care system, many physicians provide commercial services in private establishments. In addition, there are private analytical laboratories and a number of private hospitals. Several of the ministries run their own medical care systems, like the Polish railways, police, and army; there is also an industrial medical service.

Polish health care system is financed almost totally from the state budget. The private health insurance system is very poorly developed. This way of financing health services results in the sector's low position on the priority list when the state budget is prepared by the Ministry of Finance. Health care is, therefore, permanently underfinanced, both in terms of constructing new hospitals and clinics, and in terms of covering operational costs.

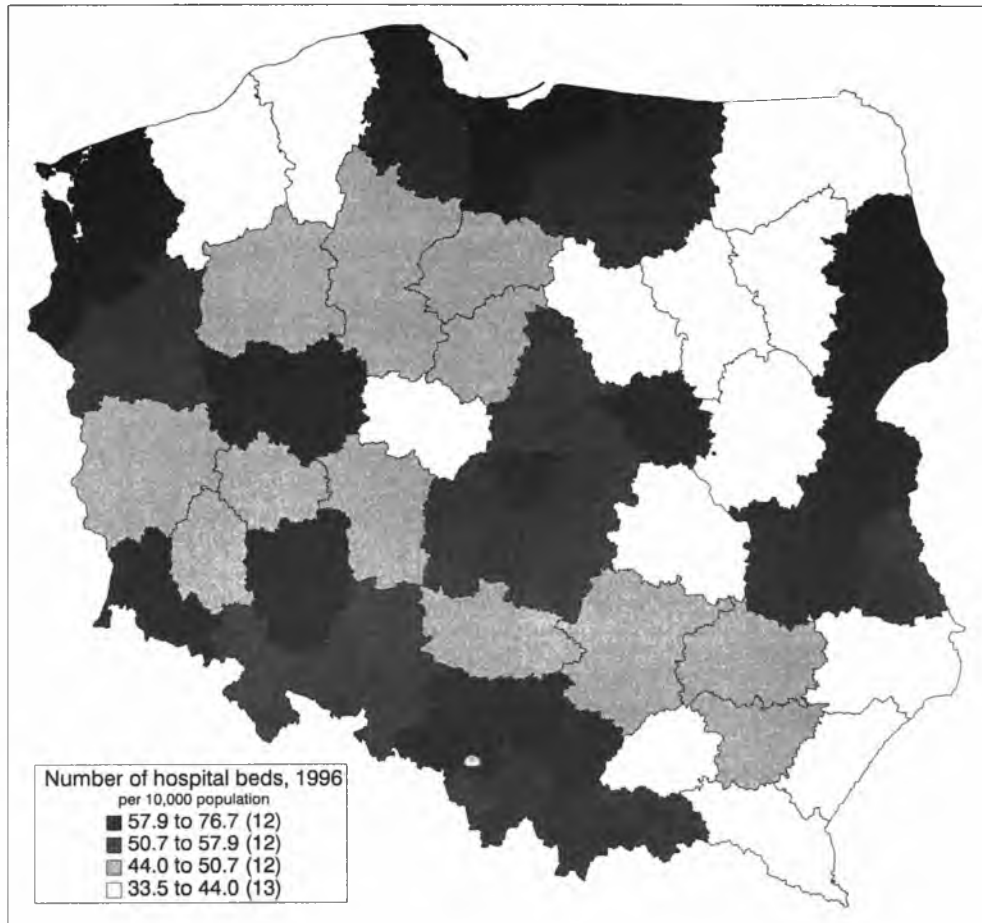
Figure 6.3. Number of physicians per 10,000 population, 1996



Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

³ According to sociological surveys (Halik 1995) some 30 per cent of patients (or members of their families) give informal payments to the medical personnel. This phenomenon is more widespread in the eastern and central regions than in the northern and western ones.

Figure 6.4. Number of hospital beds per 10,000 population, 1996



Source: *Rocznik Statystyczny Województw (Statistical Yearbook of Voivodships) 1997*.

Medical services are differentiated in the urban-rural dimension, which is understandable, since the hospitals are located in towns. They are also strongly differentiated regionally (see fig. 6.3 and 6.4). The positive impact of medical academies is evident; the differences, in terms of numbers, between regions with such academies and other regions are larger in terms of medical personnel rather than absolute numbers of hospital beds. The “backwash effect” around Warsaw can be observed.

A reform of the state medical care system is now under preparation. A set of 16 regional sickness insurance systems will be introduced.

6.2.4. Housing

Housing has become one of the weakest sectors of Polish transformation and this situation constitutes a major impediment to regional restructuring of several areas.

Housing, for the entire post-war period of the “economy of shortage”, has been one of the most acute social and economic problems. There has always been a shortage of new dwellings, even in spite of a very serious effort—at least in quantitative terms—to build more and more houses. At its peak, in mid-1970s, over 200 thousand new flats were built.

The rural areas were left to themselves. Only limited state support—in the form of cheap loans—was available for private farmers to aid them in their efforts to construct new dwellings and farm buildings. In towns, co-operatives that were totally subordinated to the state administration constructed relatively cheap, sub-standard (by present criteria), and heavily subsidised blocks of flats. The following table 6.6 presents major data on housing and its urban-rural differentiation.

Table 6.6.

Housing situation, 1996

Categories	Towns	Rural areas
Equipment of dwellings with facilities, in per cent		
piped water	96.9	77.8
water closet	88.7	58.4
bathroom	86.5	62.9
piped gas	75.4	13.1
central heating	78.3	50.9
Construction of new dwellings		
number of newly constructed dwellings per 1000 marriages contracted	376	202
number of rooms in newly constructed dwellings per 1000 population increase	23857	2602
average size of dwellings constructed by individual persons, in sq. meters	132.1	121.4

Source: *Rocznik Statystyczny (Statistical Yearbook) 1997*, tables 25(283), 30(288).

During the last few years the progress in equipping dwellings in the rural areas with amenities has been remarkable. The proportion of those using particular installations grew by several percentage points, while in towns this increase was much smaller.

The shortage of housing is manifested by the fact that there are 118 households per 100 dwellings. Almost every fifth family cannot live in their own dwelling. The quality of many dwellings is also poor, since during the previous decades almost all apartments built in cities were constructed of concrete, in huge settlements composed of ugly, high-rise buildings and located at the outskirts of these cities. The average size of such an apartment was around 50–60 sq. meters and official standards safeguarded that not too few persons could live in an apartment of a given size (normally, the number of inhabitants should be greater by one than the number of rooms).

After 1990 state support of housing was virtually withdrawn. The number of newly constructed dwellings dropped by 70%, though some of the new ones are of very high standard. Nowadays, almost all of new housing is financed by the future owners, with a very limited participation of bank loans. The most important changes took place in regulations related to the ownership of houses and dwellings. The restriction, according to which one household was allowed to own only one dwelling, was lifted. It opened possibilities for building apartments and houses for rent and for creating a more healthy housing market. Even though these measures have not solved the

housing problem in Poland, they have raised some hopes that the construction sector will develop in the future, in the wake of economic recovery and an increase in incomes and domestic demand.

It should be expected that in the near future this difficult situation should be improved. Once the inflation is reduced to a one-digit figure, a general housing loan system will be created. This, if coupled with growing personal incomes, will, undoubtedly, result in a rapid acceleration in the construction of new dwellings. This, in turn, would speed up migrations to the centres which offer best working and income conditions.

Chapter 7

NATURAL ENVIRONMENT

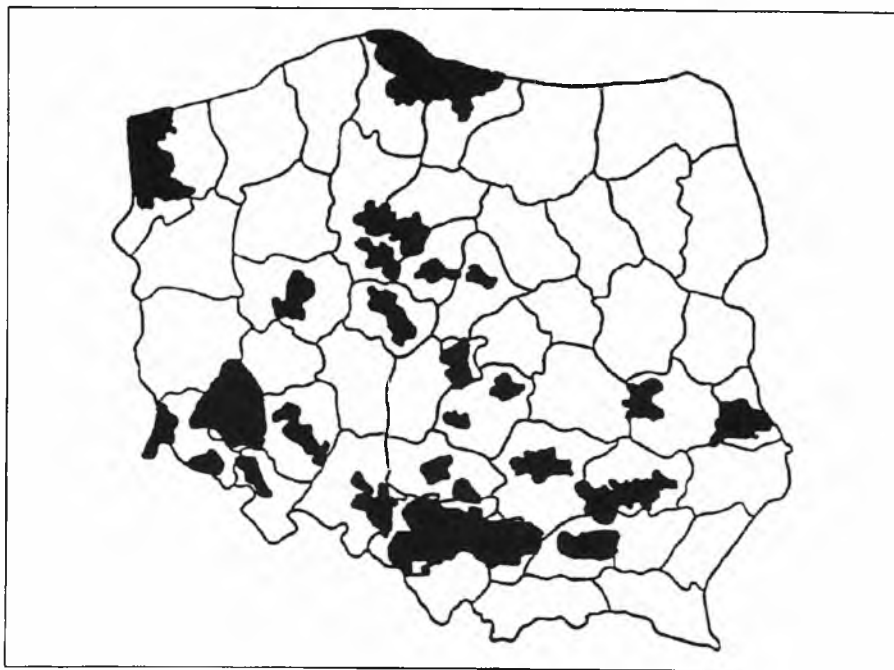
Poland and other post-socialist countries are generally considered to be the most polluted countries in Europe. The mistaken strategies of socialist industrialisation neglected the environmental dimension of development for a considerably longer period of time than the Western world. To a great extent, this bleak picture should be now at least partly revised.

In Poland, 27 “environmental hot spots” were officially recognised in 1983 and given special status as “ecological hazard areas” in some policy decisions (see figure 7.1). On the top of the list were the Legnica-Głogów Copper Basin and the Katowice-Rybnik Coal Basin, which is geographically linked to the Czech Ostrava region.

Undoubtedly, the worst situation was and is found in the Upper Silesia region. Its economy emits 742 dangerous pollutants into the environment. This region “produced” 25 per cent of all industrial dusts, almost 30 per cent of all gases, 25 per cent of all untreated sewage and some 60 per cent of all industrial solid waste. Ecological norms were exceeded by up to 12 times. However, there were localities in the region where these norms were exceeded by 100–200 times. On 72 per cent of the region’s territory noise exceeds norms. All these environmental hazards have had a direct influence on the state of health of the inhabitants of the region. There are 10 per cent more deaths from cancer than the national average and 20 per cent more due to heart diseases. 45 per cent of all women have high-risk pregnancies and 10 per cent of births are premature.

There are other regions in Poland where the natural environment is endangered. The copper mining basin near Legnica is the most glaring example of an industrial region on the edge of environmental catastrophe. Forests in the south-western corner of Poland (polluted by Czech and East German industry as well as Polish) have died almost entirely. In fact, each of Poland’s industrial centres creates danger to the

Figure 7.1. 27 ecological hazard areas in Poland, 1992



Source: Kassenberg, Rolewicz (1995).

environment. As a result, some parts of Polish forests are in relatively poor biological condition.

On the other hand, *Poland still possesses a number of large areas almost completely clean and unspoiled by unwise human activity.* According to some estimates (Żylicz, Spyrka, 1993) 8.5 per cent of Polish territory remains relatively untouched by the negative aspects of economic development. Forests and farms operated according to sustainable and ecologically acceptable principles make up about 19 per cent of Polish territory. Hence, over a fourth of Poland represents an asset that many areas of Europe no longer have. These clean Polish areas maintain an ecological balance on a much wider geographical scale and include stretches of truly natural environment.

Poland's biological diversity is high, particularly with respect to forest and bog communities. In the last 400 years, the Polish vertebrate fauna have lost 15 species (2.5 per cent), including 3 mammals, 11 birds and 1 fish species. At the same time, the Polish flora have lost 31 species of vascular plants. Sad as these figures are, they are still much less alarming than in other, more developed, European countries in the same bio-geographical zone.

The ecological value of Poland's natural assets has been internationally recognised. All of its 17 national parks are on the IUCN list, as they meet all the criteria for this highest degree of protection. Three of them have been included by UNESCO in a network of biosphere reserves representing typical, well-preserved examples of

the world's ecosystems. One of them—the Białowieża National Park (whose natural extension in Belarus also enjoys national park status) has been declared an object of exceptional importance to the world heritage as the last remaining area of typical Central European lowland primeval forest. Also, a number of smaller-scale “nature reserves” were found to be of international importance, some of them being protected under the Ramsar Convention on wetland ecosystems.

The environment seems to be benefiting considerably from the changes in the structure of industrial production. At the beginning of the transformation period, one could assume that the improvement in the state of environment was solely the effect of the overall recession and the decrease of production, not only in Poland but also in the neighbouring countries which traditionally “exported” their pollution to Poland (mainly the former GDR and the Czech Republic¹). Recent statistics prove that both emissions have been constantly decreasing since mid-1980s (see table 7.1). Industrial non-treated sewage has decreased by half during the last ten years, emission of dusts by two thirds and of gases by 40 per cent. This trend has even been maintained after the return to positive growth, which should lead to the conclusion that structural changes (including technological improvements) have a major role in improving the state of Polish natural environment.

Table 7.1.

Emission of industrial pollution, 1985–1996

Years	Untreated sewage	Air pollution	
		dusts	gases
	in hms ³	in thousands of tons	
1985	2,206	1,788	4,933
1988	1,989	1,615	5,193
1989	1,962	1,513	5,113
1990	1,801	1,163	4,115
1991	1,588	923	3,552
1992	1,386	684	3,155
1993	1,170	599	3,001
1994	809	529	2,941
1995	707	432	2,785
1996	619	391	2,672

Sources: Roczniki Statystyczne (Statistical Yearbooks) 1989–1994; *Mały Rocznik Statystyczny* (Concise Statistical Yearbook) 1995–1997.

To some extent, this has also been the result of growing efforts to stop the further increase of pollution in Poland. Public and private outlays directed at environmental

¹ In Slovakia, particulate matter emissions and SO₂ emissions have decreased by 40 per cent since the mid-1980s. Some other pollutants (e.g. carbon monoxide) started to decline in 1989, others (e.g. nitrogen oxides and hydrocarbons) in 1990. In the Czech Republic, a moderate decline in particulate matter emissions has been observed since 1980, but the process was intensified after 1989. Between 1989 and 1991, emissions of particulates and of SO₂ decreased by 10 per cent, and of nitrogen oxides by 20 per cent. In Hungary between 1988 and 1991, the emission of particulate matter declined by 40 per cent, of SO₂ by one third and of nitrogen oxides by almost 20 per cent. In all these countries, like in Poland, even after the decline of industrial production had been reversed, the emission of pollutants has not increased.

protection have grown over the years: from 540 million USD in 1988 to 850 million in 1992 (in 1991 dollars). These sums represent between 0.6 and 1.1 per cent of GDP in respective years. In terms of the structure of this expenditure, water protection and utilisation of solid waste received less funding than air protection, which consumed almost half of all funds spent on the environment. 40 per cent of these funds have been collected as pollution charges from the pollutants (already these charges are relatively high by OECD standards).

Emissions of many pollutants—in particular, sulphur dioxide, untreated sewage, etc.—reached their peak levels in the 1980s, and have been declining since. Nonetheless, if compared with GDP, these emissions are far higher than in Western Europe.

In recent years the approach to environment protection in Poland has been changing dramatically. Instead of “static” protection of particular areas of rich natural potential, a dynamic, functional attitude has come to dominate. Poland has been incorporated into the ECONET system of Europe, in which concentrations of natural potential are *connected* by “ecological corridors” (see colour figure A at the end of the book). This approach takes account of interrelations between particular elements of the continental European ecosystem, of which Poland appears to be one of the strongest elements. If applied in practice, this approach will help this ecosystem to retain its equilibrium (already shaken by the influence of humankind). The idea of ECONET was introduced into the concept of the spatial policy of Poland as one of its “hard” stabilising elements, to which the economic element should be subordinated, and not vice versa, as was the case in the past.

Immense as they are, environmental problems in Poland—as in other countries of Central Europe—are neither unique nor irreparable. The awareness of this fact is not universal, but Poland undoubtedly has an opportunity to recover from the current predicament. The success of the environmental recovery process crucially depends on the success of economic reforms.

Chapter 8

LOCAL POTENTIAL FOR TRANSFORMATION¹

As has already been demonstrated on the regional scale, the process of transformation is strongly differentiated spatially. These differences are manifested also in the performance of local authorities, which have become one of the leading forces in Polish transformation. This performance was measured by a postal questionnaire sent to all *gminas* with population under 50 thousand (in 1995 1034 responses were obtained, which made the response rate equal to 44 per cent and in 1996 825 responses were sent—the rate fell to 35 per cent).

What factors would differentiate the performance of local governments in their efforts to promote local development? Four such factors can be identified:

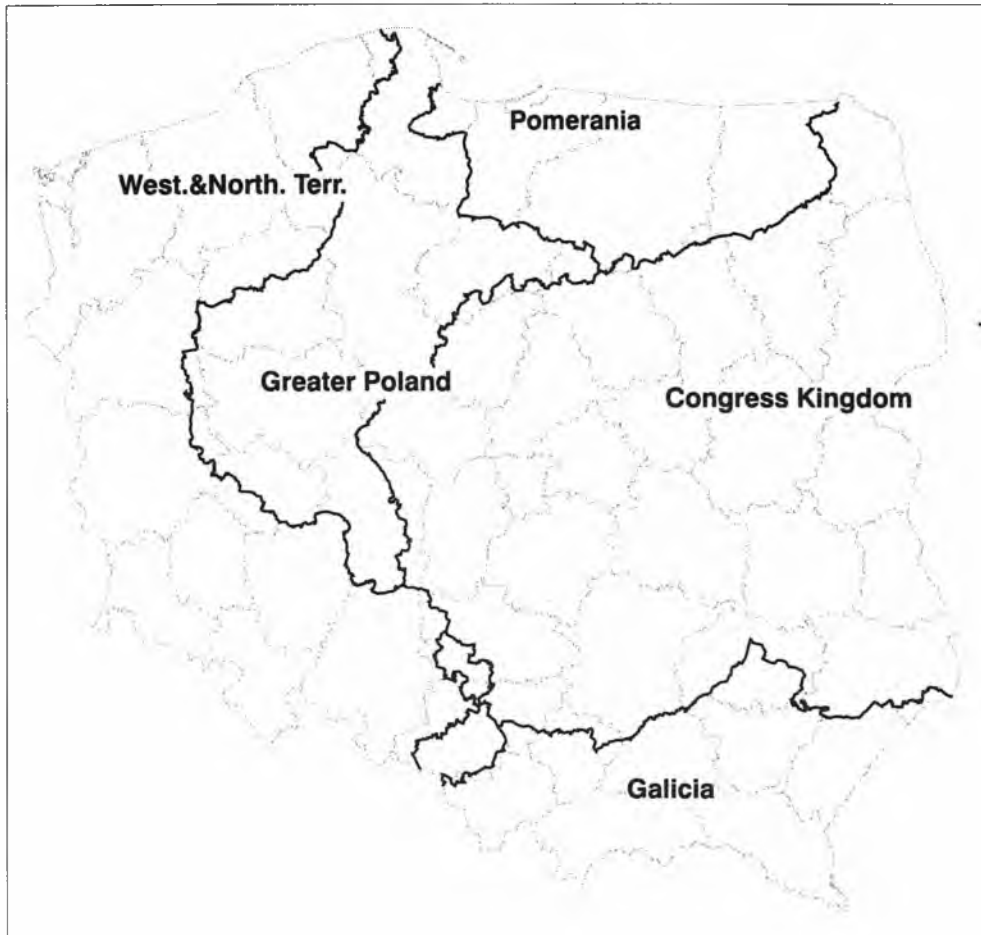
- location in a historical region (the Congress Kingdom, Galicia, Wielkopolska (Greater Poland) and Pomorze (Pomerania), and the Western and Northern Territories² (see fig. 8.1);
- administrative status (urban vs. rural *gminas*);
- attractiveness for tourism;
- location within agglomeration.

Location in a specific historical region proved to be the strongest factor of differentiation of the local government performance in Poland. In terms of economic and social activity, enterprise, and dynamics of development, the most favourable situation is observed in the Northern and Western territories. *Gminas* located in this part of the country appear to be the most active and successful ones. Within

¹ This chapter was written together with B. Jałowiecki.

² These names denote the following regions: the Congress Kingdom—the Russian sector of partitioned Poland; Galicia—the Austrian sector; Wielkopolska and Pomorze—the Prussian sector (this region also includes a small part of Upper Silesia belonging to Germany before 1918, and in the interwar period to Poland. The Western and Northern Territories (here in short referred to as the Western Territories) comprise the territories regained by Poland after 1945 (Lower Silesia and Opole, Pomorze, Gdańsk and Eastern Prussia).

Figure 8.1. Historical divisions of Poland



this big region, the *gminas* from the voivodships located by the German border manifest a better performance than the *gminas* from the Northern belt (which have severe unemployment problems due to the collapse of state agricultural farms). Next comes—surprisingly, since this region was expected to be far ahead of the other Polish regions—Upper Poland (Wielkopolska), with its capital in Poznań, the region with the best and longest modern economic experience and administrative/organisational skills. The former Austrian territories (Galicia), located in the south-eastern part of the country (with Kraków as the main city), come third and the former Russian part—the central and eastern part of the country—demonstrate the weakest performance of local governments (see table 8.1).

There are also great differences in the performance of urban and rural local governments (see table 8.2).

It is quite obvious that whether a given *gmina* is rural or urban in nature affects the phenomena under analysis. However, differences between town and country seem

Table 8.1.

Indicators of performance of Polish local governments in great historical regions, 1995

Indicators of local government performance	Historical regions					
	Northern and Western			Greater Poland	Central and Eastern	Galicia
	Northern	Western	Total			
Per cent of <i>gminas</i> having companies with foreign capital	34.0	47.3	42.6	34.7	15.0	18.8
Per cent of <i>gminas</i> conducting promotion	85.0	84.1	84.4	78.7	56.2	72.7
Per cent of <i>gminas</i> with international contacts	44.0	53.8	50.4	52.7	17.1	32.0
Per cent of <i>gminas</i> with a newspaper	38.0	57.1	50.4	58.0	32.3	54.7
Number of new firms registered in a <i>gmina</i>	142	155	150	130	99	113
Number of companies closed down in a <i>gmina</i>	71	75	74	60	48	57
Balance of firm creation/closure (average number of companies)	+71	+80	+76	+70	+51	+56
Number of responding <i>gminas</i> in each historical region	100	182	282	150	459	128

Source: Gorzelak, Jałowiecki (1996).

Table 8.2.

Performance of Polish urban and rural local governments, 1995

Performance indicators	Per cent of <i>gminas</i>	
	urban	rural
Existence of social and political organisations:		
•business association	25.6	8.1
•sport club	92.5	67.3
•Polish Farmers' Party	75.6	71.2
•Alliance of Democratic Left	57.8	14.8
Existence of a local newspaper	72.6	30.3
Socio-cultural co-operation with municipalities abroad	34.0	7.1
Conducting municipal promotion in any form	90.7	59.1

Source: Gorzelak, Jałowiecki (1996).

to be smaller than interregional differences. The third variable differentiating the *gminas* covered by the research is the level of their attractiveness for tourism, which was assessed using about twenty features³.

³ *Turystyka na obszarach wiejskich i zalesionych Polski (Tourism in the rural and forested areas of Poland)*, a study prepared by EUROREG in 1995, financed by PHARE TOURIN II.

8.1. Factors in economic local development

8.1.1. Regional differentiation in the affluence of *gminas*

An analysis of the relationship between the *gmina* budgets and their regional location indicates that the *gminas* of Wielkopolska and the Western Territories are considerably more affluent than the *gminas* of Galicia and the Congress Kingdom. With regard to municipalities, the Congress Kingdom is the poorest region, while Galicia is the poorest with regard to urban-rural and rural *gminas*.

The interregional differences are relatively small with respect to towns; average revenues in the most affluent region (the Western Territories) amount to approximately 120 per cent of the revenues in the poorest region (the Congress Kingdom). The disparities at the level urban-rural *gminas* are slightly greater (respectively about 130 per cent), while at the level of rural *gminas* the disparities are significantly bigger. *Gminas*' own revenues per capita in the Western Territories are almost two and a half times bigger than in Galicia. Due to the inflow of equalising subsidies the disparities are a little smaller with respect to the total budget revenues; the revenues of the *gminas* in north-western Poland amount to approximately 160 per cent of *gmina* revenues in south-eastern part of the country. These data indicate that these disparities are rather stable, and showed only a slight variation in the years 1992–1994.

At the same time, these data contradict the commonly accepted thesis on the depth of economic crisis in the Northern and Western Territories, particularly in the former state farms areas. The data prove that the decrease in revenues following the collapse of state farms (and therefore reduced revenues for *gmina* budgets from shares in corporate income tax and real estate tax) was not so sharp as to equalise their self-government budgets with those of the traditionally poorer eastern and south-eastern part of Poland. A more detailed analysis of the disparities within those regions might probably add the interpretation. With respect to the Western Territories, it would be worthwhile to separate the Lower Silesia region from the voivodships of northern Poland, severely hit by unemployment. Moreover, it should also be taken into consideration that the average values for the region might be artificially high because of the *gminas* situated directly along the German border. These *gminas* are currently enjoying a period of extraordinary economic boom, and the local budgets benefit from this, e.g. by exceptionally high revenues from market fee imposed by *gminas* in some places.

In order to verify this interpretation, 57 *gminas* located in the voivodships of Suwałki, Olsztyn, Elbląg, Gdańsk, Stupsk, Koszalin and Piła (that is, in the voivodships not neighbouring with the German border and not belonging to Lower Silesia) were isolated among rural *gminas* of the Western Territories. It turned out that the *gminas*' own revenues are a little lower (by over 10 per cent) than the average in the Western Territories, but nevertheless remain significantly (about two times) higher than in central, eastern, and south-eastern Poland. However, it should also be pointed out that the revenue situation of *gminas* in northern Poland is constantly deteriorating (in comparison to the averages in the other regions). While in 1992 the revenues of rural *gminas* in northern Poland amounted to 225 per cent of *gmina* revenues in Galicia, in 1993 this value was 195 per cent, and in 1994—only 185 per cent.

The role of historical factor in conditioning the economic situation of *gminas* is clearly illustrated by the map presenting the location of 20 per cent of *gminas* with the highest and lowest levels of revenue per capita⁴ in 1996, presented in figures 1.2. and 1.3. As we could see, these *gminas* are located solely in the eastern and central part of the country, and the arc along the former border between the Russian and Prussian sectors of partitioned Poland is a proof of the negative impact of this historical border, and barrier, on the local development.

On the other hand, it should be observed that the spatial pattern of investment expenditures is radically different. Municipal investments in towns are the lowest in the Western Territories, while the disparities between the remaining regions are slight, with a little higher level of such expenditures in Galicia and Wielkopolska than in the areas of the former Russian sector. With regard to urban-rural *gminas*, the highest level of investment was recorded in the Congress Kingdom, the next highest in Galicia, the Western Territories and Wielkopolska. Thus, the ranking in terms of investment outlays is almost the reverse of the *gminas*' affluence. These greater development efforts (measured by the ratio of investment expenditures to the budget revenues) seem to be explained by the necessity to make up for the civilisational backwardness of towns in eastern and south-eastern Poland. This thesis is corroborated by the fact that the *gminas* in those regions more often use loans to finance investments. For example, in 1994, 30 per cent of towns of the Congress Kingdom and Galicia, and only about 10 per cent of towns in Wielkopolska and the Western Territories, used bank loans. The disparities between urban-rural *gminas* in different regions were generally similar.

The disparities between the levels of investment in rural *gminas* virtually duplicate the disparities between the levels of affluence of the *gminas*; local self-governments in Wielkopolska and the Western Territories invest almost two times as much as the *gminas* in Galicia and the Congress Kingdom. It should be emphasised, however, that the *gminas* in the voivodships of northern Poland spend fractionally less on investments than the local self-governments of the poorer regions of the country. Therefore, the observable investment boom in the rural *gminas* of the Western Territories is in fact limited to the border *gminas* and Lower Silesia.

Gminas with tourism potential are characterised by greater affluence. The development of tourism stimulates the local economy, and hence increases the revenues of local self-governments. Therefore, it is not surprising that the tourist towns and *gminas* in the researched sample have higher total budget revenues (on the average 38 per cent higher than in non-tourist units), and particularly higher own revenues (by 60 per cent on the average). Tourist *gminas* tend to invest more; for towns, the difference in relation to the other units is about 20 per cent, while for rural *gminas* it is over 70 per cent.

Another factor differentiating the *gminas* covered by the research is their location in relation to large agglomerations. This factor differentiates the affluence of self-governments and plays a significant role, particularly in the case of rural *gminas*. It has been established that *gminas* situated in the direct vicinity of the biggest cities (e.g. Warszawa, Poznań, Gdańsk), are much more affluent than *gminas* in other areas. This difference is substantial; the revenues of rural *gminas* in agglomerations reach on

⁴ This pattern is very similar to the distribution in 1994. See J. Hryniewicz in: B. Jałowiecki (1996).

the average 150 per cent of the revenues of the more peripherally located units. The difference in levels of investment reaches 80 per cent, which is, naturally, due to the more dynamic growth of the economy in the vicinity of big cities. Contrary to some popular opinions, this growth is directly translated into the level of revenues of local self-governments. This is achieved through the revenues from the local share in the corporate income tax (and also from personal income tax), increased revenues from real estate tax, the tax charter, and also an increased potential for revenues from the *gmina* property (by its lease or sale).

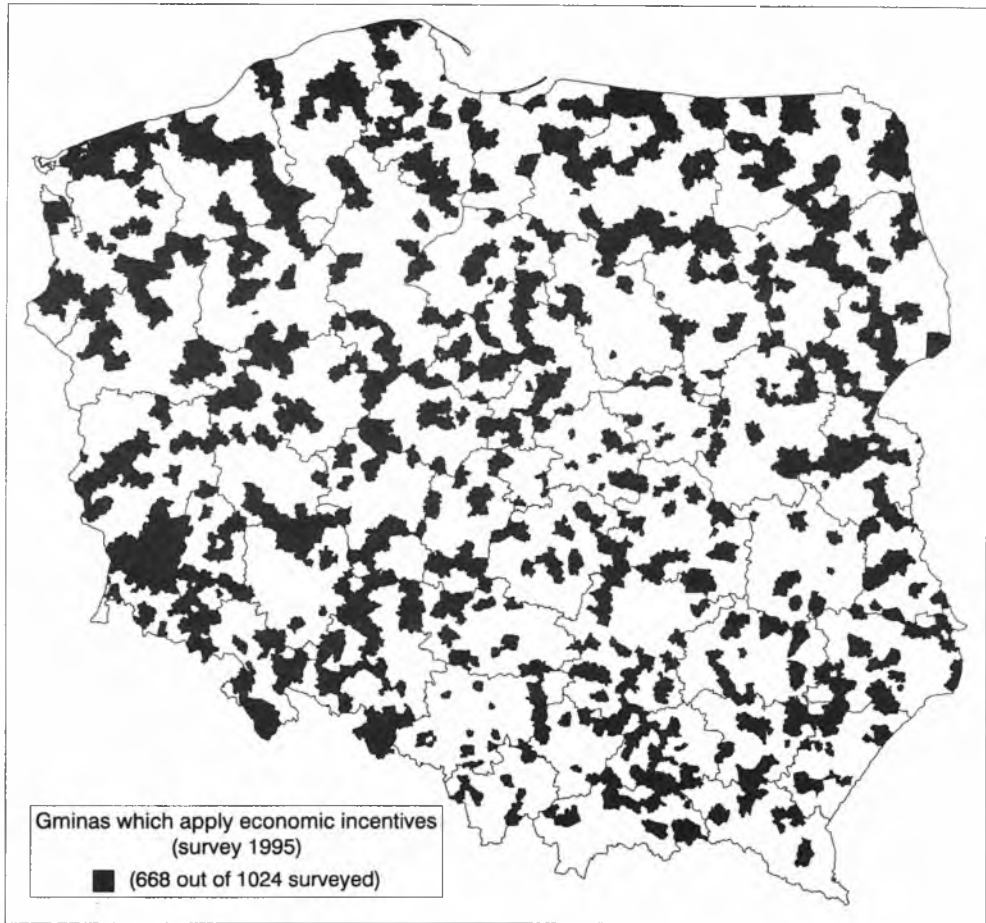
8.1.2. Local development strategies

Economic success obviously results from a number of interrelated factors, among which the active attitude of the local elites, and mainly of the local authorities, plays a key part. Only a minority of *gminas* undertake efforts aimed at stimulating their own development. Although 1011 of 1034 surveyed *gminas* (98 per cent) developed land use plans, only about 300 (30 per cent) formulated development programmes (also called development strategies). The physical plans are mandatory since the *gmina* authorities cannot in fact issue building permits if such a document has not been approved. Development plans, on the other hand, are discretionary, albeit indispensable tools for the efficient functioning of the *gmina* authorities. More than two thirds of all *gminas* lack this instrument for “organising their future activity”.

8.1.3. Incentives

Local authorities have certain tools which can be used to support the local economy. Two thirds of *gminas* make use of incentives addressed to entrepreneurs: tax relief, improving the infrastructure, advertising business opportunities in the mass media (see fig. 8.2). However, these instruments are not, as yet, used in a fully effective manner, due to the scarcity of funds. There seems to be no distinct relationship between the offered incentives and the economic performance of the *gmina*. This is due to the fact that the instruments to encourage investors at the disposal of the *gmina* are of limited effectiveness, although they can be of crucial importance to some businesses, especially start-ups. Often the fact that the local population or the local authorities do not interfere with the establishment of a company with a foreign capital share can be a more effective incentive than granting small reliefs (in real estate taxes) or facilitating transfer of grounds. On the other hand, infrastructure investments, particularly sewage treatment plants, can play a positive role. Despite the limited funds, Polish *gminas* are extremely innovative and determined to invest in technical infrastructure and sewage treatment plants, which attracts investors, to create opportunities for profitable lease or sale of property, and also to make improvements in local living conditions, which is important with regard to local elections. Urban and rural *gminas* offer incentives for investors almost equally frequently, though the former more tend to offer tax relief.

Attracting capital and supporting local enterprise are results of active promotional activities and the use of incentives for investors by the local authorities. Companies with foreign capital have been established in only a little more than one fourth of *gminas* (see fig. 8.3). However, the number of such companies in *gminas* which carry

Figure 8.2. *Gminas* which apply economic incentives

Source: Gorzelak, Jałowiecki (1996).

out promotional activities is two times larger (over 33 per cent). Over 90 per cent of *gminas* which have attracted foreign capital are engaged in promotion.

§.1.4. Promotion

International contacts can also be an effective form of promotion; they have been established in 34 per cent of *gminas*. Apart from economic and cultural contacts, some *gmina*s have initiated youth exchange as part of partner relationships with foreign *gminas*.

Attracting inward investment is one of the major ways to improve the economic situation of the local system (although the experiences of highly developed countries prove that strengthening and developing existing businesses is far more effective). Under increasing globalisation of economic processes, accompanied by increasing ease of movements of capital and Poland's emerging role in the international division of

labour, competent promotion by the local authorities can have a strong influence on the economic performance of *gminas*. The questionnaire reveals that almost 70 per cent of *gminas* are engaged in such promotion. This is a high share, demonstrating that Polish self-governments have learnt the ABCs of effective market activity.

The highest number of *gminas* carrying out promotional activities are situated in the Western Territories and Wielkopolska, slightly less in Galicia, and the least—just over half of the total number—in the Congress Kingdom. Almost every second *gmina* in the western areas of Poland and every third in Galicia and the Congress Kingdom advertise in the mass media. Over two thirds of *gminas* in western Poland, a half in Galicia and considerably less than half in the Congress Kingdom published promotional brochures. Participation in domestic and international fairs is a very effective means of promotion, as well. In this respect, the Western Territories are also the leaders: every third *gmina* in this region takes part in fairs, while only slightly more than every fourth in Wielkopolska, less than every fifth in Galicia and less than every tenth in the Congress Kingdom engage in this kind of promotional activity. Co-operation with science and research centres and with consulting companies is generally less common.

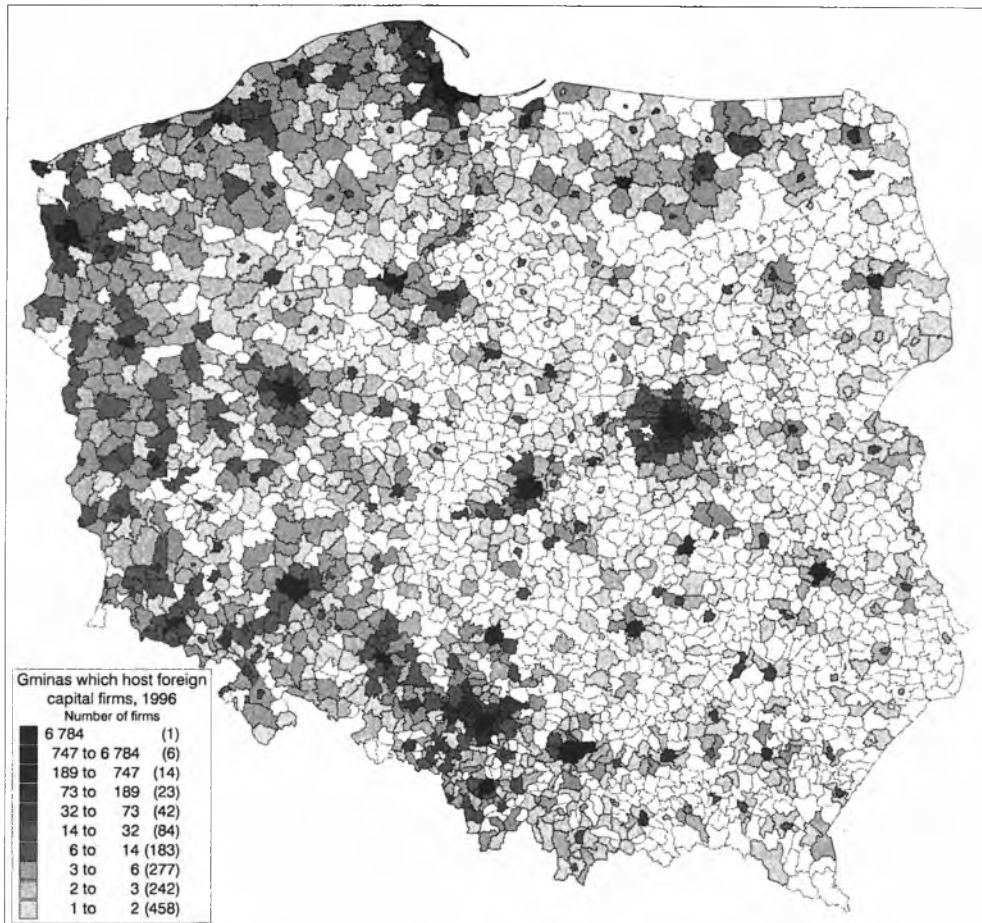
Promotional activities are more frequently undertaken in urban municipalities. For example, every second municipality and every third rural *gmina* advertise in the mass media. Every third municipality and every ninth rural *gmina* participate in fairs. Municipalities also issue videos and brochures more often than rural *gminas*. *Gmina* development plans, which can be regarded as a kind of promotional activity, have been developed in over one third of municipalities and one fourth of rural *gminas*; the differences regarding the latter are thus not as marked as with the preceding indicators.

The most visible interrelationships concerns that between *gminas*' promotional efforts and the level of their attractiveness to tourists. For instance, almost all *gminas* with the highest attractiveness indicator use some kind of promotion, while only half of the *gminas* with the lowest attractiveness level do so. Two out of three *gminas* with the highest attractiveness level, and every fifth with the lowest attractiveness for tourism advertise on television. The situation is similar with respect to other forms of promotion; participation in fairs is virtually non-existent in the *gminas* with lowest attractiveness, while it reaches 40 per cent in the group of *gminas* with the highest attractiveness. Videos presenting the *gmina* were shot by every twentieth *gmina* in the former group, and every third *gmina* in the latter group. Every fourth *gmina* with lowest attractiveness for tourism and almost every *gmina* with the highest attractiveness for tourism published promotional brochures.

Gminas located within the range of agglomeration influence are also characterised by relatively greater promotional efforts. For example, two thirds of *gminas* outside agglomerations but over three fourths within agglomerations conduct such activities. The latter *gminas* more often advertise in the mass media, cooperate with science and research centres, participate in fairs and issue promotional brochures.

8.1.5. Attracting foreign capital

Economic co-operation, in terms of the presence of enterprises with foreign capital, and other forms of contacts, is one of the major indicators of the assessment

Figure 8.3. *Gminas* which host firms with foreign capital

Source: Central Statistical Office.

of economic performance in *gminas*. As regards companies with the participation of foreign capital, Poland can be divided into two distinct areas: the Western Territories and Wielkopolska, and Galicia and the Congress Kingdom. The number of *gminas* with such companies in the Western Territories is almost three times bigger than in the Congress Kingdom, and the average employment in these companies in 1995 in the former region was 3.3 times higher than in the latter. Wielkopolska is rapidly closing the gap with the Western Territories, although the top position of the latter is still not threatened. In this ranking, Galicia has a better position than the Congress Kingdom, although the number of foreign enterprises in Galicia is almost two times smaller than in Wielkopolska.

Urban and rural *gminas* differ distinctly in terms of the frequency of operation of companies with foreign capital participation which, quite naturally, are located primarily (three times more frequently) in municipalities. Likewise, average employment in such companies is almost nine times higher in municipalities than in rural *gminas*.

Enterprises with the participation of foreign capital are decidedly more frequently located in *gminas* with a potential for tourism. For instance, their number in the group of *gminas* with highest attractiveness is three times larger than in the *gminas* with lowest attractiveness. A relatively higher number of enterprises with foreign capital operate in *gminas* located within agglomerations. However, there are no differences as far as average employment is concerned. This is due to the fact that companies with foreign capital located within agglomerations are more numerous, but employ less personnel.

8.2. Economic performance of the local units

The assessment of economic performance in *gminas* is ambiguous, therefore it is difficult to find appropriate indicators. Furthermore, such indicators must be simple enough to be grasped in mass surveys. The following criteria as indicators of economic performance were adopted: increase in the number of new jobs; balance of the increase in the number of new enterprises; and increase in investment outlays. Values for a given year are compared with the values for the previous year. In addition, some additional, subjective indicators are adopted, including the unemployment forecast and the optimism of local authorities as expressed in their answer to the question of whether the coming year would be better than the past one.

8.2.1. Local labour markets

In 1996, the number of new jobs increased in more than every third *gmina*, although at an uneven pace. The highest number of *gminas* which recorded a general increase in the number of new jobs were located in Wielkopolska (almost 50 per cent) and in the Western Territories (a little less than in Wielkopolska). The lowest increase in the number of jobs was observed in the *gminas* of the Congress Kingdom and Galicia. Those increases were moderate (about 10 per cent), although in some *gminas* this value exceeded 20 per cent. The majority of such *gminas* were located in Wielkopolska and the Western Territories. The number of new jobs remained unchanged as compared with 1995 in about one third of *gminas*, and about one fourth recorded a decrease. In all the regions excluding Wielkopolska where a decrease occurred in every fifth *gmina*, the number of jobs decreased in approximately every fourth *gmina*.

To sum up the analysis of the regional differentiation of this indicator, it should be observed that, generally speaking, the number of jobs in *gminas* with a population under 50,000 increased slightly, particularly in Wielkopolska and the Western Territories. The spatial distribution of the dynamics of the number of new jobs conforms to the regional differentiation of transformation processes nationally. All studies dealing with this issue clearly indicate that those processes work particularly satisfactorily in the western areas of the country and in Wielkopolska, while the central and eastern voivodships without larger cities derive fewer benefits from the transformation.

As expected, economic performance measured in terms of the dynamics of the number of new jobs in municipalities is considerably better than in rural ones. While in the former over half of the *gminas* recorded an increase in the number of new

jobs, in the second case such an increase occurred approximately in every third *gmina*. Moreover, the dynamic of change is higher in towns than in villages, where the situation did not substantially change in two fifths of the *gmina*s, whereas it changed in 75 per cent of municipalities. Finally, in both kinds of *gminas* a decrease in the number of jobs was observed in approximately the same number of units.

Unemployment in *gminas* covered by the research, though falling, still remains high, especially in the Western Territories, in post-state farms areas. In this ranking, Wielkopolska was rated second, followed by Galicia. Interestingly, the rate of unemployment is lowest in the Congress Kingdom, which might be due to the fact that given the high share of agriculture in the general vocational structure of the local work force, this sector function as the "store" for those made redundant in non-agricultural sectors of the economy or those not able to find employment in those sectors. This would point to hidden unemployment, something not revealed in official statistics.

One can observe clear stabilisation on the local labour markets (see table 8.3).

Table 8.3.

Dynamics of local labour markets

Number of jobs compared to the previous year		Total	Central and Eastern	Galicia	Greater Poland	Northern and Western
increased	1996	39,3	32,5	40,4	49,0	45,5
	1997	22,6	29,2	33,0	33,0	38,8
decreased	1996	24,9	26,0	25,5	19,6	25,0
	1997	14,9	14,3	16,5	14,3	15,4
has not changed	1996	35,8	41,4	34,0	31,4	29,4
	1997	43,3	49,4	42,5	39,4	35,1

Source: Gorzelak, Jałowicki (1998).

The level of optimism expressed by representatives of local governments regarding how they view the future labour market situation is growing (table 8.4).

Table 8.4.

Outlook for local unemployment

In the next year unemployment in your <i>gmina</i> will be		Total	Eastern and Central	Galicia	Greater Poland	Northern and Western
greater	1996	32,2	38,9	48,0	24,8	20,5
	1997	15,5	18,5	22,8	8,9	9,0
smaller	1996	18,2	15,3	11,8	21,1	24,7
	1997	42,4	31,7	44,1	54,5	54,3
the same	1996	48,5	45,5	40,2	54,1	54,8
	1997	39,2	46,6	31,5	31,5	32,5

Source: Gorzelak, Jałowicki (1998).

8.2.2. Changes in the number of enterprises

In 1996, the average overall balance of the increase in the number of enterprises in *gminas* slightly decreased in comparison with 1995. While in 1995 the average in the *gminas* covered by the research 61 companies, in 1996 the balance amounted to 42. This decrease was observed in all macro-regions. A more detailed comparison is the following (in brackets the overall balance for 1995): the Congress Kingdom 27 (51); Galicia 54 (56); Wielkopolska 60 (70); the Western Territories 50 (70). Only in Galicia this value remained unchanged. The decrease in the overall balance of the increase in the number of new enterprises does not definitely imply a decrease in economic performance since the number of new companies is still growing, and some of them can become stronger and more stable. Furthermore, the increase in the number of larger enterprises (employing more than 6 staff), a measure of central importance, is also being recorded. The changes in the number of companies are more favourable in municipalities than in rural ones. It is quite probable, therefore, that interregional differences result partly from differences in the degree of urbanisation between the individual historical regions.

8.2.3. "Black" economy

The estimated range of the "grey zone" in the economy is 15–25 per cent GDP. There seems to be considerable truth in the opinion that although the existence of the illegal economy is undoubtedly a negative phenomenon, excessive attempts at its radical restricting would bring about more damage than profit. It is also quite true that the grey economy largely owes its existence to stringent fiscalism, unstable and inconsistent regulations, and inefficiency of the state administration.

We based our question on the extent of the "grey zone" on the assumption that the *gmina* authorities have significant informational knowledge of that matter. The survey reveals that employment in the "grey zone" occurs on a large scale in all *gminas*. Approximately two third of the *gminas* declare that up to 10 per cent of the working population work outside the official economy, while respondents in the remaining *gminas* assess the percentage of people working in the "grey" economy is even greater. The highest number of *gminas* with the largest share of the "grey" sector is located in the Congress Kingdom and Galicia, although interregional differences generally are not significant. The comparison of those estimates with the data on unemployment rates indicates that only a small share of the labour force remains truly unemployed in *gminas* covered by the research.

8.3. Mobilisation of the local communities

The presence of business organisations, political parties and the local press in *gminas* constitutes the foundation of social mobilisation. Business organisations are most common in the Western Territories and Wielkopolska. There, they are encountered in approximately every fifth *gmina*, while in the Congress Kingdom and Galicia—in every tenth unit. These differences are considerably smaller with regard to social organisations, although the supremacy of the Western Territories is distinct.

The distribution of political parties is also interesting. Only three parties have any significant presence in the *gminas*. PSL (The Polish Farmers' Party) is the leader, with activities in $\frac{3}{4}$ of *gminas*; it is followed by the SdRP (Social-Democracy of the Republic of Poland), active in almost every third *gmina*, and UW (Union for Freedom)—in every tenth unit. PSL is the strongest in the Congress Kingdom, and the weakest in the Western Territories, where *gminas* are under strong SdRP influence, and, to a lesser extent, UW influence. Proportionally, SdRP has a similar range of influence to UW in the Western territories and Wielkopolska, while it is certainly less popular in Galicia, and its advantage over UW is fragile. On the other hand, SdRP is well rooted in the Congress Kingdom, unlike UW, whose influence in this region of the country is minor.

Social and political activism is generally greater in municipalities. For instance, business organisations operate in every fourth municipality but in less than every tenth rural *gmina*. The difference in the frequency of the occurrence of social organisations and sports clubs is smaller. Quite naturally, political parties function in more municipalities than in rural ones, with the exception of PSL, which has its units almost evenly distributed both in towns and villages. "Solidarność" RI ("S" of Individual Farmers) also more frequently functions in the villages than in towns.

The economic life of the *gmina*, particularly in rural *gminas* or small towns, predominantly consists in providing services to the local market by local manufacturers and service providers. The provision of speedy and cost-effective information to potential customers is one of the key tasks facing small family businesses operating in such markets. Therefore, the local mass media can, and should, perform a significant role. The results of the survey indicate that the local media operate in a high number of *gminas*. Local magazines are published in 45 per cent of *gminas*, and they are in two-thirds of the cases financed by the *gminas*. Local television is a rarer phenomenon, while radio is an even less popular medium of local communication.

The presence of the local press, whether supported by local budgets or not, is undoubtedly an important indicator of the activity of local communities. The local press is most prominent in Wielkopolska, where almost two thirds of *gminas* issue their own publications. In Galicia and the Western Territories, local press is published in slightly more than every second *gmina*. The worst situation is in the Congress Kingdom, where only every third *gmina* has its own press publications. Moreover, the share of *gminas* financing those publications is the lowest in this region. In Wielkopolska, every tenth *gmina* has its own cable television channel; in the Western Territories—every eighth unit. In the remaining regions, the share of *gminas* with this medium of communication is very low.

Local magazines are published more frequently in towns than in villages (in $\frac{3}{4}$ of municipalities and $\frac{1}{3}$ rural *gminas*), whereas cable TV operates only in towns. The relationship between publishing a local magazine and the level of tourist attractiveness of a *gmina* is direct and linear. The *gminas* that are the most attractive for tourism have their own press publications more than twice as frequently as the *gminas* with the lowest tourism attractiveness level. Additionally, *gminas* with a better potential for tourism more frequently finance the local press. There also exists an interdependence between the distribution of cable television and attractiveness for tourism.

8.4. Barriers for local development

Self-government reform has become one of the pillars of economic and social change during the transformation period. However, this process has not yet been completed, and the state continues to function in an organisational and legal format similar to that obtaining in the 1980s. As in other post-Communist countries, Poland remains a strongly centralised state, while the regional system is even more influenced by the central government than it was under the former regime. The *gmina* boards are well aware of this situation, and their assessment of the present territorial organisation of the state understood both as a division of competence between the separate levels and as ascribing a specific spatial scale to those levels, is basically negative.

Practically all *gminas* call for changes in the financial and legal regulations for local government. Over 80 per cent of *gmina*s demand changes in the financial system, while almost three fourths call for increased competence of the *gminas*. Surprisingly, representatives of *gmina* boards who filled out the questionnaires, seemed to be basically satisfied with the range of their competencies. It should also be emphasized that almost 60 per cent of *gminas* are in favour of reducing the number of voivodships and introducing counties.

The developmental barriers of *gminas* result, among other factors, from high costs of bank loans, and are also in part due to the high rate of inflation (about 22 per cent in 1995). Therefore, *gmina* boards are very cautious in using commercial loans. Nevertheless, almost every fourth *gmina* declares interest in contracting such a loan. Naturally, such an attitude invites the question of whether such declarations result from poor understanding of *gmina* payment capability, sheer recklessness induced by the conviction that "*we will manage somehow because a gmina cannot go bankrupt*", or sober calculation taking into account reasonable risk. The data we have at present are insufficient to allow us to answer this question. However, it is characteristic that the *gminas* of Galicia, which are not very dynamic economically, are the most inclined to draw commercial loans while the *gminas* of Western Poland, where pro-developmental attitudes obtain, tend to abstain from such loans. This could be due to the fact that the western local units may have higher own resources, which enables them to avoid bank credits with high interest rates.

8.5. Optimism level of the *gmina* authorities

The assessment of the future is an important indicator of economic performance. For three consecutive years we asked the question whether the coming year would be better; worse, or the same as the present one. In our previous research we discovered that there was, however feeble, a positive relationship between the optimism level of *gmina* authorities and their involvement in the promotion of regional development.

The optimism indicator of the representatives of local government is constantly growing (see table 8.5).

The increase of optimism is particularly evident in the northern and western regions, where the situation on the labour markets hit its lowest point much earlier

Table 8.5.

Optimism indicators of the representatives of local government

The next year will be:		Total	Eastern and Central	Galicia	Greater Poland	Northern and Western
better	1995	18,3	18,5	15,0	17,3	19,9
	1996	22,2	17,5	28,8	22,5	26,0
	1997	27,8	23,3	29,1	25,0	37,2
the same	1995	21,3	22,4	26,0	18,7	18,8
	1996	25,3	27,4	25,0	20,7	24,2
	1997	21,9	22,2	24,4	25,0	18,1
worse	1995	28,9	30,3	20,5	28,0	30,9
	1996	23,2	26,1	21,1	26,1	17,5
	1997	11,6	14,6	6,3	10,7	10,1
difficult to say	1995	31,5	28,8	38,5	36,0	30,4
	1996	29,3	29,0	25,0	30,6	31,4
	1997	38,7	39,9	40,2	39,3	34,5

Source: Gorzelak, Jałowicki (1998).

and there is high efficiency in stimulating local economic development, to some extent due to the benefits from their cooperation with Germany.

8.6. Conclusions

Analysis of four variables—location in a historical macro-region, administrative status (town/village), level of attractiveness for tourism, and location within an agglomeration—testifies to a strong differentiation amongst Polish *gminas*.

The factors most central for this differentiation part are the following: the situation in a given region; urban or rural status; level of attractiveness for tourism; and location within the range of influence of large agglomerations. Those differences only become evident with the emergence of the democratic system, on the one hand, and the market economy and economic relations based on competition, on the other.

The top position of *gminas* in the Western Territories in terms of social mobilisation and economic performance is not surprising, although it does not conform with the stereotype interpretation used in analyzing political behaviour. Communities inhabiting the Western Territories were shaped by post-war migrations, as a result of which in this region the share of the population born and bred in a given *gmina* is considerably lower than in Galicia or the Congress Kingdom. This applies particularly to the rural *gminas* since in the latter regions the towns are also characterised by a high share of migratory population. However, these are often people who moved in from the neighbouring areas. Populations shaped by migratory processes, i.e. those genetically and culturally mixed, is typically characterised by such features as activism, innovativeness and enterprise. Secondly, the population of the Western territories is much younger than the population of the remaining great historical regions of Poland. Because of these two factors, the inhabitants of the Western Territories more readily adapt to the changes in the political and economic system and are more adept in responding to modernisation processes than the inhabitants of other regions.

They also demonstrate more resourcefulness and self-reliance, and less often resort to populist demands.

The greater dynamism and better economic performance in the *gminas* of the Western and Northern Territories to some extent contrasts with the common opinion that the northern part of Poland is still inhabited by a disintegrated society frustrated by the high costs of restructuring (i.e. mass unemployment; see section 9.3.5) particularly prominent in regions dominated by state-run agricultural cooperatives. It appears that this alleged "disintegration" is a mere "journalistic fact" and is not proven by research. Moreover, restructuring of agriculture has proceeded well, which in turn countervails the attitudes of frustration and hopelessness. The *gminas* neighbouring with Germany have benefitted greatly from transborder cooperation (see section 9.3.4 on this).

The differences between the Western Territories and Wielkopolska on the one hand, and Galicia and the Congress Kingdom on the other, are now considerable and will increase as a result of spontaneous economic processes. This implies a great challenge for national regional policy.

It should also be stressed that apart from differences between the towns and the villages outlined above, differences occur between localities with varying tourism potential. Out of the 90 analysed variables, 24 differentiate the level of attractiveness for tourism. The tourist *gminas* are more active and enterprising than other *gmina*s, particularly with regard to promotional activities.

To sum up, ***it can be said that the municipalities of the Western and Northern Territories and Wielkopolska are in the best situation.*** Their relatively good economic performance and the activism of their local self-governments justify the that they have the best developmental prospects. *Gminas* with a marked potential for tourism, particularly those in the Western Territories and in Pomorze and Galicia, can also be included into this category. Undoubtedly, the rural *gminas* of Galicia and the Congress Kingdom, located outside the range of impact of agglomerations and lacking tourism potential, are in the worst situation.

Chapter 9

REGIONAL DEVELOPMENT

9.1. The historical heritage of the Polish socio-economic space

Already in several places in this book, we have referred to regional differentiation in Poland having its roots in history. In fact, it is amazing how deeply current processes and the form they take in particular regions are rooted in the history of the country. As we have seen earlier, the historical heritage is crucial when analyzing not only “hard” processes, such as differentiation of material outcomes. We have to use this analytical framework also in explaining voting behaviours, the performance of local governments, networks of social associations and public organisations constituting the structure of civil society, and so on. For these reasons, a short explanation of the historical background of Polish regional differentiations (based on Gorzelak, 1996, chapter 2) should be provided in this chapter devoted to regional problems.

The cradle of the Polish nation and of the Polish state was located (at the turn of the first two millennia) in the mid-western part of contemporary Poland in the region called Wielkopolska (with its centre in Poznań). Within a century, Małopolska (with its centre in Kraków) became the subsequent centre of political and economic power. For the next few centuries, these two regions constituted the heart of the country. It was only later (from the 14th century onwards) when the economic power of the Hanseatic harbour city—Gdańsk—emerged, and it took another two centuries until Warsaw became the capital of the country, spurring economic development in this region. In the meantime, Lower Silesia (with Wrocław as the main city) was lost, first to the Czech state, then to Austria, and finally came under German domination.

This spatial pattern of Poland, to a large extent, resulted from the location of the country on two major transcontinental commercial routes: the so-called amber route from the South to the North, and the East-West route connecting Northern Europe

with Asia. Over time both these routes maintained their significance, although their meaning for social, political and economic processes changed. Figure 9.1 presents regionalisation patterns in Poland in the X–XII century (under its contemporary boundaries); these have persisted until the present day.

Figure 9.1. Provinces of Poland, X–XII centuries (Piskozub, 1987)



Source: Piskozub (1987).

Poland in its present boundaries has always belonged to the eastern part of Europe. Two indicators demonstrate this: the extent of non-Orthodox Christianity (fig. 9.2) and the expansion of the ancient romanesque and gothic styles in arts and architecture (fig. 9.3).

In fact, this particular regional structure continued in Poland throughout the entire millennium. The period of partitions (1795–1918) was the only one in which a different regional breakdown of the Polish territories operated.

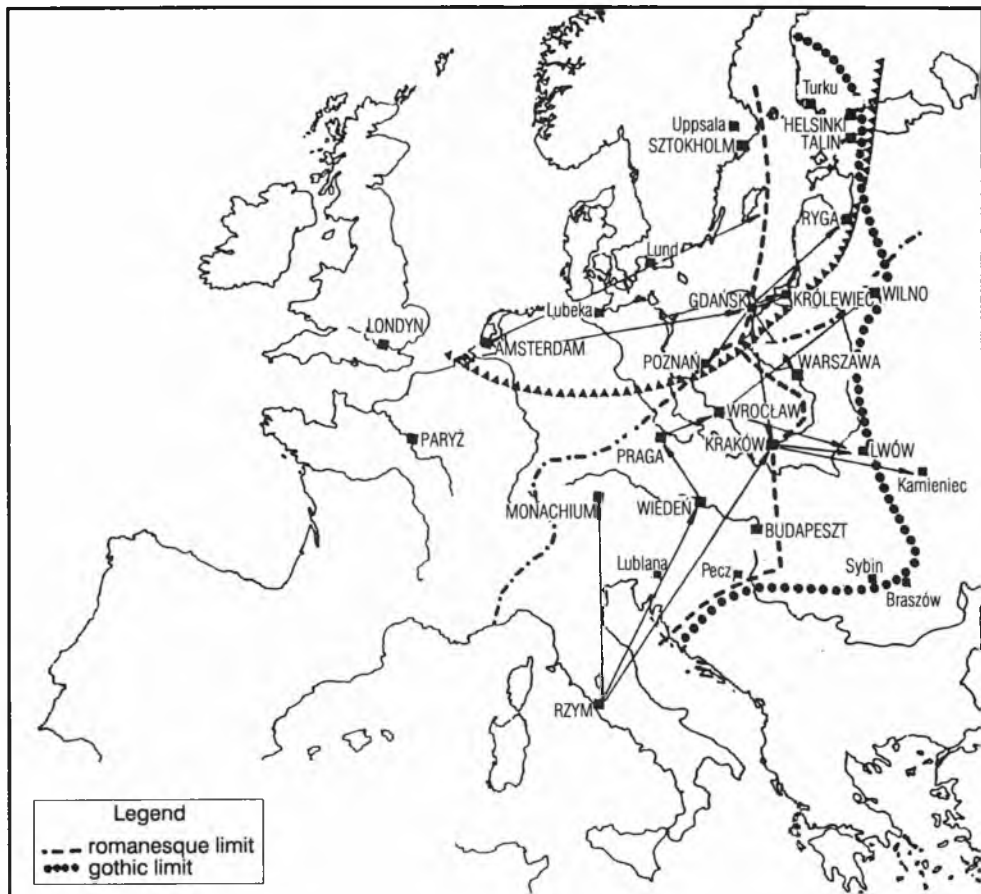
Throughout the centuries, Poland changed (or was forced to change) its boundaries numerous times. The thousand years of Polish history can be encapsulated in one phrase: constant pressure from the West and constant pressure and expansion to the East. Only once, in 1945, did the Polish state territory move in the opposite

Figure 9.2. Extent of the non-Orthodox Christianity



Source: Huntington (1997).

Figure 9.3. Expansion of romanesque and gothic style in architecture



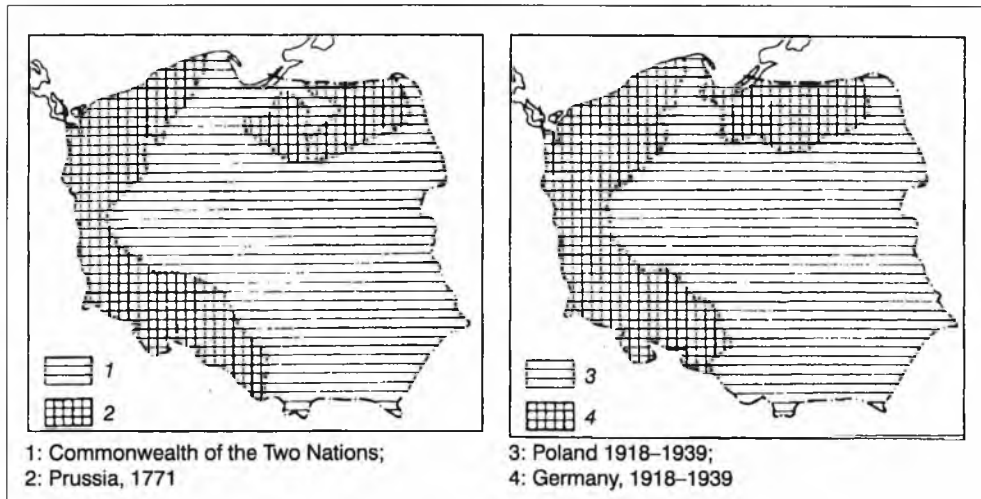
Source: Karlowska-Kamzowa (1997).

direction—from east to west. With this one exception, the border with different German states has been throughout the centuries the most stable international frontier for Poland. Even though this frontier has undergone several changes, its impact is still visible in the demographic, economic and social makeup of Poland. Figure 9.4 presents this pattern of stability during the last 200 years.

These historic processes created a deep-rooted and long-lasting division of the country into two parts: the western, better developed one, and the eastern one, less advanced in economic development. This division was reinforced by Poland's 123 years of partition when it was absent from the map of European states (1795–1918). The shift of the national state's boundaries to the west in 1945 did not change this pattern, despite the fact that the previously most backward areas were incorporated into the former Soviet Union.

These varying regional trajectories corresponded to different material, demographic and social structures. The first type of difference is the easiest to demonstrate.

Figure 9.4. Stability of Polish western border (Piskozub, 1987)



Source: Piskozub (1987).

The “softer” dimensions also manifest themselves, as mentioned in the first chapter (see fig. 1.1) and in the proceeding sections.

9.2. The regional patterns of transformation

The heritage of history coupled with varying natural endowments placed the regions of Central Europe in different positions at the beginning of the transformation. The most general pattern of reaction of particular regions to this new situation is displayed in the following simple scheme (table 9.1).

Let us examine the four general types of regional response to the new economic, social, political and international conditions.

Table 9.1.

Typology of regions under transformation

		Post-socialist transformation	
		<i>positive</i>	<i>negative</i>
Position in the socialist economy	<i>good</i>	positive continuity (eg. big urban agglomerations)	negative discontinuity (eg. old industrial regions)
	<i>bad</i>	positive discontinuity (eg. Western regions)	negative continuity (eg. the “Eastern Wall”)

The leaders (positive continuity)

Poland—like other Central European countries—has regions which are unquestionable **leaders of transformation** demonstrating great potential for restructuring and high adaptability to new conditions. These processes are manifested by the following phenomena:

- shallow recession, quickly turned into positive growth;
- rapid restructuring of industry;
- accelerated development of business services, banking sector etc.;
- massive inflow of foreign capital (eg. over one third of all foreign investment in Poland is concentrated in Warsaw);
- fast process of privatisation.

The regions with the greatest agglomerations: **Warsaw, Poznań, Wrocław, Gdańsk and Kraków** are the definite leaders of transformation. **Szczecin** and **Łódź** (this is discussed in more detail in the next section) might be added to this group. Usually, these nodes are surrounded by an innovative and progressive hinterland.

These regions constituted the core locations in the previous economic system as well. In a natural way, they took advantage of the fact that their features complied with the new requirements: economic diversification, a high level of investment, and proximity (by means of modern transport and telecommunications) to sources of capital. Relatively high qualifications of the labour force and the entrepreneurial spirit of the population coupled with well developed academic and research structures create foundations for the prosperity of these regions.

The newcomers (positive discontinuity)

The western regions have become the new winners of the transformation processes. They have overcome their earlier isolation through collaboration with their more developed western neighbours.

The geographical location of the “**western belt**” is the source of its potential. This region is located in the centre of Europe and is closest to the Western centres of economic activity. It is also the natural “border market” for Germans, who take advantage of price differences and increase the demand for basic commodities and services. Estimates show, for example, that German buyers leave some 4 billion DM yearly in western Polish regions, which becomes an important economic factor in the development of this area.

Moreover, this is the region which has transport advantages for investors from Germany seeking cheaper labour and financial incentives for their production. Berlin, the largest agglomeration in Central Europe, is located just 70 kilometers from the Polish border and its positive economic influence can already be noticed in the form of investment and other commercial contacts. The resulting development of manufacturing and service sectors will provide jobs to currently unemployed. The proximity of the German market will, no doubt, be a positive factor.

Proximity encourages common programmes and projects, institution-building (such as the Viadrina Pro-Europa university in Frankfurt/Oder-Słubice, a joint academic institution in Zittau and Jelenia Góra, the **EUROREGION** initiatives, etc.).

The losers (the old industrial regions)

In the socialist countries, the role of industrial production in the overall economy was particularly high in contrast to that of the service sector. Within the former, mining and heavy industries were of special importance. They were concentrated in two types of areas: traditionally better developed ones, in which spatial concentration continued throughout the entire post-war period, and in newly industrialised centres with immature socio-professional and infrastructural patterns.

The reasons for these *biased structures* were obvious. Due to the technological and organisational backwardness of socialist economies, the demand for energy and raw materials was several times higher per unit of national product than in the West. The socialist "race for growth" triggered a high rate of investment, which also led to higher demand for these basic products. Finally, to a large extent, several industrial complexes operated in a kind of "closed circuit" (production of coal for the production of steel which, in turn, was consumed by the coal mines and so on).

Correspondingly, several regions of Poland have recently been strongly affected by the industrial decline, thus losing their privileged position in the national economy. Upper Silesia poses the greatest threat to the continued progress of the Polish economic transformation (see Szczepański, 1997; see also section 9.3.2 of this book).

Upper Silesia is facing massive restructuring and a dramatic increase of unemployment. Coal-mining, the most important branch in the regional economy, will have to undergo deep structural changes. Heavy and chemical industries, in decline at the moment, are the other dominating sectors of Upper Silesia and will produce massive unemployment in the nearest future. The whole process will affect an agglomeration inhabited by 4 million people, and overall employment in the endangered sectors amounts to approximately 800 thousand¹.

However, *as yet, it appears that genuine restructuring processes have yet to be initiated in the region*. This results from the lack of political will and determination by consecutive post-socialist Polish governments, afraid of the political consequences of bold or radical attempts to change these obsolete regional economic structures. As both European and American experiences prove, however, the more postponed the adjustment of employment in a region, the more massive the reductions and the higher the social costs.

The Łódź region—a traditional centre of textile and clothing industries developing in the 19th century—provides a positive example of industrial restructuring (see Markowski, Stawasz, 1997; see also section 9.3.3 of this book). These industries underwent a rapid collapse at the very beginning of the transformation. No one defended the politically weak, mostly female, workforce in textile and clothing factories. In comparison with the coal mines, these industries were of minor importance for the national economy. Łódź was left to itself and this was one of the factors underlying the social mobilisation of regional and local elites. Using its diversified academic and scientific structure, in addition to its textile tradition, Łódź managed to revitalise its economy in an amazing way and now is on the verge of catching up with other leaders. Its central location and anticipated vicinity to the

¹ For example, the Polish programme of coal mining restructuring envisaged the closing down of 14–17 coal mines and a reduction of employment in this sector by 170,000 people. 5 steel mills in the region are to be closed in the same time horizon, leading to layoffs of a further 30,000 workers. Further reductions of employment will take place in factories cooperating with the liquidated mines.

intersection of the two first motorways (A1 from Gdańsk to Katowice and further to the south direction and A2 from Berlin to Moscow) is another important factor stimulating economic development of the region.

The backward peripheries (the Eastern Wall)

Poland has its very clearly marked *periphery*—the eastern part of the country. These are the least developed, relatively sparsely populated rural areas with a poorly developed urban system and infrastructure. The main transportation routes going in the East-West direction cut through those areas; however, no major artery exists nor is envisaged in any immediate future which would run through them in the North-South direction. As it has been pointed out several times in this report, the transformation processes are relatively slow there. The level of education is low and the area does not attract the attention of foreign investors. The proximity of the border could be considered as a development factor. However, until now, the role of the border has been relatively small and it consists, primarily, in the development of the “grey” economy. There are no sound proofs yet, though there are some indications, that the influence of the border leads to durable, positive effects for the region in the form of investment in production assets.

What is even more important, for the long-term perspectives of the region, these areas cannot expect to receive inducements for transformation and recovery from their neighbours on the other side of the border (Lithuania, Belarus, Ukraine). Even if the scenario of chaos and permanent recession in these post-Soviet republics is ruled out, there are no realistic chances that the trans-border co-operation could create any important impulses for growth and modernisation. Moreover, since the economic power of the *Polish Eastern Wall* is very limited, the indigenous capital which could take advantage of the existence of the market behind the Eastern border is limited. These opportunities, if made use of at all, could bring more benefits to the more prosperous core regions of Central Europe and of the West.

Consideration should also be given to the fact that within the next ten years the Polish eastern border region will become the external frontier of the enlarged European Union. What consequences could this development bring to these territories? One can assume that the deeply reformed structural funds will in part be located there, in order to strengthen a vital part of the integrated European territory. On the other hand, if the transformation of the former Soviet republics (and especially Belarus and the Ukraine) and the Kaliningrad Oblast in Russia does not proceed smoothly, the external eastern part of the European Union could become “a dead end” of wider Europe. If that were to be the case, the Polish eastern regions could expect no benefits from trans-border co-operation.

It can, therefore, be said that the post-socialist transformation has initiated general processes of polarisation, which have manifested themselves in all dimensions: between individuals, enterprises, economic branches, and also spatial units. The strong have become stronger, the weak are weaker. The two poles are the two types of regions which manifest *continuity* of their development—the most advanced and the most backward. As has already been stated in this report, it is very likely that the polarisation effect will also manifest itself in the future.

9.3. The regional cases

9.3.1. Warsaw-Mazovia: an example of a dichotomous region²

According to all analyses, Warsaw is the undisputed leader of the Polish transformation. The situation of the city is exceptional: it is surrounded by areas at a particularly low level of development, hardly coping with the systemic transformations.

In the Warsaw voivodship, GDP per capita in 1992 was 158 per cent of the national average and in 1995 it grew to 182 per cent (in both years it was the highest in the country). The other voivodships of Mazovia (excluding Płock, which owes its high second position to its oil refinery) with GDP levels not exceeding 78 per cent of the national average were rated among the voivodships at the bottom of the list: Ciechanów: 77.7 per cent of the national average in 1992 and 65.5. in 1995; Radom: 77.5 and 87.5; Skierniewice: 73.0 and 73.2; Siedlce: 71.8 and 65.0; Łomża: 70.4 and 61.7; Ostrołęka: 69.9 and 69.7. Personal disposable income per capita in the Warsaw voivodship was also the highest in the country and amounted to 131 per cent of the national average in 1992 and to 182.4 per cent in 1995. All the other voivodships in the region, including Płock (the country's second with respect to GDP per capita) registered lower values than the national average.

The dominance of Warsaw in the region is particularly clear in those spheres in which Warsaw performs the functions of the centre not only with relation to the region, but also the whole country. These spheres include: scientific and research base (including higher education) and business environment (including financial and insurance institutions). An even greater supremacy of the region in the country, and of Warsaw in the region, can be seen in the sphere of science and higher education. The Warsaw region is an unquestionable leader of private entrepreneurship, as well.

The transformation period brought about essential differences in the situation of Warsaw and its Mazovian surroundings. An average inhabitant of Warsaw basically did not experience the threat of joblessness, losing means of support, lack of money for commuting to work etc. It does not mean that the issues of poverty, unemployment, uncertainty about the future did not appear in the city; however, they were marginal. On the other hand, the recession of the first stage of the transformation brought about a sharp and deep decline of farmers' incomes, which caused a socio-economic crisis in the Mazovian villages, which later also affected the small towns of the region. Employment dropped down and unemployment appeared, along with an increase in the number of disability pensions and premature retirements. Warsaw also played its part in the deepening of the crisis in the Mazovian periphery by "exporting" its problems there—the reduction of employment in industry in Warsaw first of all hit the commuters. The situation of the Mazovian periphery stopped to deteriorate in the second, growth phase of the transformation, when the incomes of farmers improved to some extent, and they started to invest and buy manufactured products, and when the restructured industrial plants stabilised their position in the market or found new sales markets.

Warsaw and its Mazovian environs are facing a number of challenges resulting from the present processes of transformation and globalisation (of which integration

² This section is based on R. Szul (1997).

with the European Union is one part) that the Polish economy and the Polish society are undergoing.

The challenge for Warsaw, the country's capital, is to ensure the best possible position among the competing cities of the world, especially of this part of Europe. The challenge for the rest of the region, particularly for its north-eastern part, is to improve the living conditions of its inhabitants, making up for civilisational backwardness, and to foster economic development, preparing for the competition within the European Union.

In light of the above, if a Warsaw-Mazovia administrative region were to be created, with its own funds and its own regional policy, a question would arise: how should those resources be allocated? Those resources would be quite substantial; the analysis of financial flows demonstrates that the nine Mazovian voivodships would have at their disposal a surplus of approximately 10 billion zł (approximately 3 billion USD); this surplus would be the difference between the public revenues generated in this area (mainly in the Warsaw and Płock voivodships) and the public spending in these voivodships. In the event that at least some of these funds were earmarked for the development of Warsaw and its promotion internationally, the civilisational and economic problems of Mazovia would be solved at a relatively slower pace. On the other hand, allocation of these funds to the leveling out of the differences would diminish the chances of Warsaw against the international competition.

One of the possible ways of solving this dilemma might be to undertake activities aimed at increasing the competitiveness of Warsaw itself, which, as the centre of science, international contacts, inflow of capital, as the greatest Poland's "motor of change", might pull along the whole country, including Mazovia. According to these lines of thinking, the biggest possible share of resources generated in the region should be reinvested there because the region yields, and will yield, as the one best adjusted to the requirements of the contemporary, open, competitive economy, the highest returns from the employed capital. The future of Mazovia, even to a larger extent than the future of the whole country, depends on the international success of Warsaw. This statement should become the main tenet of the policy of the central and regional authorities alike.

Opinions are formulated sometimes that the prosperity of the core depends on its relations with the periphery. Following this line of reasoning one might state that too great differences between Warsaw and its immediate hinterland could jeopardise the growth potential of this city. The experience of last few years does not support this opinion—Warsaw was able to accelerate the growth of its economy, which was not necessarily the case for the surrounding regions. In addition, more tangible empirical evidence from Italy (Putnam, 1993) demonstrates that a city core may develop "forgetting" about the surrounding areas—which may be hard to acknowledge from the point of view of "social justice", but which perhaps is a strong argument for more efficiency-oriented regional policies.

9.3.2. Upper Silesia—Europe's biggest problem region³

At the end of the 20th century, the population of the Katowice voivodship is facing crucial civilisational challenges. Despite the seven years that have elapsed since the

³ This section is based on M. Szczepański (1997).

systemic change, radical restructuring decisions in the region's heavy industry, due to political and social reasons, are still postponed or brushed aside. The policy of instituting merely superficial changes in the mining industry is still being carried out, and it is primarily justified by the apparent concern for the energy security of the country. Slow reduction of employment in this sector is due to the political power of the working class and its trade union representation. Also, the demographic, and election—in political categories—potential of the population, concentrated in a small area of Poland, and hence easy to mobilize, cannot be overlooked. The social reasons should not be disregarded: poor preparation of the process of vocational retraining, lack of an alternative labour market, and the lingering conviction on the civilisational role of the extraction industry. Owing to those reasons, the Katowice voivodship and its economy did not undergo the restructuring process through the closing-down strategy, which has been the case e.g. in the Łódź voivodship. The political power of the Łódź textile-workers has been incomparably smaller than those of the mining industry and the miners from Upper Silesia.

In 1989, in this small region (2 per cent of the country's area) there were 520 state-owned industrial enterprises, that is about 10 per cent of the national number, including 65 hard coal mines, 13 power stations and 19 iron works. In addition, 255 construction enterprises operated in the region as well as 82 agricultural enterprises, including 20 state farms. There were also 45 foreign companies and 34,834 small, mostly family businesses. 1.3 million people were employed in the public sector of the economy, including: 779.8 thousand in industry (20.9 per cent of the employed in Poland); 112.7 thousand in the construction industry (15.6 per cent); 59.7 thousand in transport (9.1 per cent), 14.0 thousand in communications (8 per cent), and 45.4 thousand in trade (19.8 per cent). In the same year, 265.5 thousand were employed in the private sector (4.1 per cent of the total number of employed in this sector in Poland), including 89.6 thousand in industry (11 per cent); and 40.2 thousand in the construction industry (12.3%). 97.6 hard coal was mined here, 48.7 per cent of all cars manufactured in Poland, 56.6 per cent of steel; 53.2 per cent of rolled products and 100 per cent of tin and lead. 25 per cent of the domestic product and 20 per cent of all Polish goods exported abroad were produced in the voivodship.

In the years 1989–1990, the educational capital of the employed in the voivodship's economy was poor and did not meet the requirements of a modern economy. The level of formal qualifications of the employed, measured by their level of education, is low. In 1989, 2 per cent inhabitants had incomplete elementary education, 36 per cent—elementary education; 31 per cent—basic secondary vocational education, 25 per cent—secondary, and only 6 per cent—higher (university-level) education. This structure has not changed much since then. The Katowice voivodship was ranked 32nd in Poland according to the share of with higher education in the overall number of the employed, and according to the share with post-secondary and secondary vocational education it occupied the 48th position—second to last among all Polish regions.

In the same period, the voivodship's economy emitted 742 pollutants, while 240 industrial plants were regarded as ecologically hazardous. People lived and worked in this deteriorated natural environment, suffering the consequences of this

difficult situation. In 1990, it was estimated that one million people daily were in places of greatest hazard, in which ecological norms were breached.

The scale of the problems facing the voivodship on the eve of the transformation was the reason why this region was described as a *catastrophic and obsolete area* of Poland or even Europe. It was due to the fact that a point of no return has been passed, and even the greatest efforts undertaken by the region's population and local communities cannot be effective without the economic and political support from outside the voivodship. Thus, the problems of the Katowice region became a matter of interest for the whole state, and the success of the regional transformation was regarded as one of the prerequisites of the success of the Polish political and economic reform and fulfillment of Poland's aspirations to join the European Union.

Initiated in the years 1989–1990, the processes of systemic transformation directly affected the changes of the Katowice voivodship in at least four dimensions: economic, ecological, social and spatial ones. A dramatic diagnosis of the years 1989–1990 did not imply that no positive phenomena, stimulated by the transformation, occurred in the Katowice voivodship. All these phenomena and processes, however, cannot obscure the obvious truth that the region and its components are facing grave difficulties.

The most symptomatic sign of the transformation was the slow, yet continuous privatisation of state-owned enterprises on the one hand, and, on the other, the collapse of the most ecologically hazardous and least productive plants. The past few years (1990–1995) saw a considerable decrease of the share of employment in the public sector (from 76 per cent in 1990 to 58 per cent in 1994 and 56 per cent in 1995) with the simultaneous proportional increase of employment in the private sector (respectively in this period: 24 per cent, 42 per cent, 44 per cent). Nonetheless, the pace and range of privatisation processes in the region are far from satisfactory.

In the recent years, starting from the end of 1991, the ecological situation of the voivodship has not been aggravated. A state of stability has been reached; in some cases, e.g. dust emission, the situation has considerably improved.

The key problems of the Katowice voivodship inevitably entail a radical reconstruction and reduction of employment in the heavy industry, particularly in extraction industry. All programmes of regional restructuring can prove ineffective if the situation in the mining industry, especially regarding gas and coal mining, develops in an uncontrolled and unrestrained way. Gas and coal mining is strongly dependant on the economic situation, or rather slump, in metallurgy, and is undergoing crisis along with that branch of industry. It is crucial that a careful choice of the most advantageous restructuring strategy for the voivodship should be made; a choice based on a profit and loss balance related to various variants and combinations of the implementation of this strategy. However, the liquidation variant should not be ignored with respect to the Katowice voivodship; it has been recently made use of in the economic restructuring of the new German *land*, and—to some extent—in the Łódź voivodship. In any case, however, the restructuring of Upper Silesia, a region based on traditional industry, requires *mobilisation* and *cooperation of numerous partners* on many planes and many levels. In the first place, financial and substantive preparation of the government and the central budget. plays a vital part. It should be supplemented by the conceptual, financial and organisational readiness of the regional (voivodship) establishment, local authorities, management of the enterprises

undergoing restructuring, and the trade unions. Finally, the psychical willingness of people working in individual plants and individual workers as well as members of their families to accept the coming changes.

Thus far, none of these conditions has been fulfilled, and the regional trade unions firmly preclude radical yet inevitable solutions; they reject all forms of lay-offs, lowering of subsidies, and prompt closing down of unprofitable coal mines.

The restructuring of the Katowice voivodship, Europe's biggest basin of traditional industries, will undoubtedly constitute the main arena of the Polish regional policy in the coming decades. The Polish economy is strongly dependant on the supplies of products from Upper Silesia. Furthermore, the country's functional and spatial system is strongly dependant on this region, which is due to the fact that the Katowice voivodship plays a key role in the two international axes crossing Poland: the North-South axis and the South axis in the East-West direction. Additionally, the political significance of this region is another very important factor.

The success of activities undertaken in this region can be achieved only if a principle is adopted to remove the social welfare aspect from the sectoral policies addressed to the region. This is not currently the case, since a significant amount of funds transferred for enterprises are used to artificially sustain excessive employment rather than to undertake activities that would create new jobs, and to financially support people who were made redundant in the closed-down mines. Another prerequisite for success is simultaneous initiating of sectoral restructuring and regional restructuring processes. The separation of those two spheres, which is currently taking place, is one of the reasons (apart from political fear) for procrastinating any substantive action regarding Silesia.

The restructuring of Upper Silesia is a national problem, which entails two broad and basic issues. Firstly, the scale of necessary activities aimed at the reconversion of the coal industry complex is far beyond the region's capability, and therefore support from the central budget is required. It is obvious that after Poland's entry to the European Union co-financing of the restructuring of Silesia will be one of the main directions of allocating Union's funds in Poland (which, naturally, does not mean that the Union will be able to finance the whole restructuring activity in the Katowice voivodship).

However, another aspect is more important. It should be borne in mind that there is a distinct negative relationship between the pace and depth of the restructuring of Upper Silesia and the degree of dependency of the national economy on hard coal extracted in Silesian mines. If this state of *dependency* persists, the mining lobby will be able to block, or definitely slow down any changes in the mining sector. Undermining the economic, and thus the political, significance of the Silesian coal can be effected by means of complex measures, aimed at replacing coal with other energy carriers. Therefore, the restructuring of Upper Silesia is conditional upon the implementation of an energy conservation programme; development of transmission networks and the capacity for storing other fuels (e.g. gas, oil); obtaining energy from renewable sources (e.g. water, wind); adapting furnaces to other fuels (e.g. gas, oil); construction of coal unloading facilities in the Polish seaports, which will allow to import coal etc.—that is, activities undertaken throughout the country.

9.3.3. Łódź—successful though shallow (?) restructuring⁴

The Łódź voivodship is one of the Polish regions which suffered an extremely high scale of economic recession, and its consequences were particularly acute for the local communities. It was manifested by the reduction of employment by 15 per cent in the years 1989–1990 (against the national value of 7 per cent). The reduction was even bigger in industry, the voivodship basic sector, where employment was reduced by 19 per cent, while 1993 saw further reduction of employment by 2.1 per cent. The situation in the labour market rapidly deteriorated: in October 1993, the unemployment rate amounted to 20.1 per cent, against 15.3 per cent of the national average. In February 1992, the number of unemployed in the voivodship exceeded 100,000. All the *gminas* of the Łódź region were included into the group of localities endangered by structural unemployment.

The recession of the Łódź region was directly caused by the changes in the principles of economy operation, introduced in Poland in 1990 as well as altered conditions of trade exchange with the former CMEA (Council for Mutual Economic Aid). The region's principal industry, the light industry, was the first to face the severe test of the market, and suffered the biggest decline in production and sales.

Over a few years, the declining state industry was to a large extent replaced by private business activity in production and trade. The unrestrained and spontaneous, frequently speculative form of privatisation of the economy in Łódź positively resulted in a relatively high ranking of the voivodship with regard to its attractiveness for investments. The official statistics cannot adequately reflect the purchasing power of the voivodship, in which the so-called grey zone of the economy is so well developed. The phenomenon of the enterprising Łódź and its potential has its physical manifestation in the near-by markets of Rzgów and Tuszyn. About 100 thousand people, mainly from the Łódź region, are directly and indirectly involved in the operation of these markets. Wholesale trade, on a much larger scale than before, has been revived, and its location was determined primarily by the vicinity of the express highway linking Łódź from the South of Poland. It is the South of Poland, and specifically the conurbation of Silesia, which is the biggest market for products offered in Rzgów and Tuszyn at wholesale prices. Other principal buyers include wholesalers transporting the purchased goods to western Poland (where they are bartered with the Germans) and representatives of Russia and the former Soviet republics. In 1994, the volume of sales in the markets of Tuszyn alone was estimated at 2 billion zł (over 600 million USD, six times more than the sales volume of the biggest chain of department stores throughout the country). The markets have created great opportunities to individual people—like Mr. Ptak, who owns the constantly growing Centrum Handlowe (Trade Centre) “Ptak” near Rzgów, where hundreds of selling outlets of private manufacturers are localised.

The phenomenon of wholesale and market trade is considered one of the causes of positive economic changes, which can be observed in the Łódź voivodship. Owing to the location of markets only 20 kilometers from Łódź., the town is daily visited by numerous groups of people coming both from other parts of the country and from abroad. Other advantages of the markets' operation include exchange of information, establishing new contacts, promotion of the region, revenues and the development of

⁴ This section is based on Markowski, Stawasz (1997).

enterprise. The combination of textile manufacturing and wholesale trade "In one place" creates a basis for generating long-term, lasting incomes for a significant part of the voivodship's population.

Łódź is perceived by foreign investors as an attractive region of the country, which is due to a number of reasons, such as: location of the city with a relatively good network of transport routes, a large sales market (with the Łódź agglomeration of 1.25 million), low real estate prices and a relatively high level of education of the local community. The premises used by light industry plants can be adapted for diverse business activities. Over 700 joint venture companies in various branches of industry (mostly outside the light industry) are already in operation here.

The directions of the redevelopment of the Łódź region are related to the question of the further role of industry, including primarily the whole textile-clothing sector. Development of non-industrial functions in the agglomeration, and supra-regional functions of Łódź itself, resulting, among other factors, from the town's considerable research and academic potential, will not suffice to halt the negative tendencies in the economy and ensure the desirable development trends. It can be assumed that the Łódź textile industry is able to compete on domestic markets with goods imported from the far East. The Łódź light industry has reasonable chances for increasing exports to Western Europe, too. The chance for the development of the light industry in Poland lies in accession to the European Union, especially in view of the fact that many of the Member States do not have development plans for this particular industry.

Hopes for enhancing the region's economy and broadly understood restructuring are related to plans to build two international motorways intersecting in the vicinity of Łódź, and a fast railway route near Łódź, along with a better utilisation of the existing container station in the Łódź district of Olechów.

The causes of the positive changes which recently took place in the Łódź region should be sought in the past of the 19th century (when Łódź was created): in the cultural traditions and demographic processes which had shaped the multi-ethnic society of the town, where Poles, Germans and Jews operated in mutual economic relations⁵. Spared from destruction during the World War II, Łódź attracted many Poles who had left the town during the war. This community, along with people who survived the war in the city, were able to make use of German and Jewish ways of economic behaviour. Small private businesses were opened and prospered even in the worst times for conducting private business activity. Trade, small manufacturing and service entities survived all initiatives aimed at their elimination.

The regional network of highly specialised and mutually related institutions (e.g. companies, suppliers, applied technologies, advisory or training organisations) has constituted a powerful potential, sufficient to introduce changes and depart from the old, negative patterns. The local intellectual elites form the basis of creating a regional network. Higher education institutions localised in Łódź and a considerable

⁵ There is a saying that science could never compete with arts in describing and explaining social reality. To some extent, this can be proven by an excellent novel by a Polish Nobel-prize winner in literature, Władysław Reymont, entitled *"The Promised Land"*, which then became the basis for an excellent film by Andrzej Wajda under the same title. The origins of expansive and ruthless capitalism in a backward country are presented in these two works of art in a much richer and more truthful way than it could ever be done by social sciences.

number of students definitely contribute to the reinforcement and creation of links and relationships between various entities.

The Łódź region is now entering a new phase of restructuring, which means broader interest in the production of new, modern, quality goods. More and more attention is given in various circles to technological progress (e.g. the recently started business incubator focusing on the promotion of modern technologies).

Nevertheless, all the positive changes observable in the Łódź voivodship do not justify the thesis that the city's development will continue without any crises. There are a number of factors indicating serious problems facing the Łódź community. A high share of people who have not worked for years still persists. The scale of social pathology is growing, so as the process of the spatial polarisation of the society. The poorest people remain in the town's central neighborhoods. Inner city areas start to be visible.

The fact that the restructuring of the light industry is still superficial, and there is no guarantee that in the long-term perspective it will meet the competition of the global market, are important factors that can determine the region's further development. Furthermore, the light industry is not an industry that is modern enough to induce positive synergy effects both with regard to demand (incomes generated by the this industry are relatively low) and to technological and technical relations (this industry is not very modern and highly consuming, and not creating innovation). As a result, basing the region's development on the textile-clothing sector alone will not be sufficient for a stable development of the region, which needs also to utilise the research and academic potential of Łódź and its city functions if any sustainable development is to take place.

Leaving the city to cope on its own seems to have brought more long-term advantages than if an attempt at aiding industry by the government had been made. However, it may have been successful due to the inner vitality of their community, which was usually underestimated during the past fifty years. This is a good forecast for the future; the region has a dormant potential which, if activated anew, might make the region meet the challenges it is facing.

9.3.4. The border regions of Poland⁶

Cross-border co-operation is a factor of regional and local development which emerged only as a result of the systemic transformation after 1989. For various reasons, both internal and external, this co-operation is realised in different ways on the eastern and western borders of Poland.

The traditions of cross-border co-operation between Poland and Germany date back at least as far as the 1970s (in the earlier period they were more formalised and occasional), that is, to the agreement with GDR which allowed citizens to cross the border on the basis of ID documents only (and not passports). At approximately the same time the East German enterprises started to employ Polish citizens (mostly women) on a mass scale, particularly in the light industry. These relationships came to an end in the 1980s due to economic (the crisis in Poland) and political reasons.

The opening of the border and political changes in Poland created new opportunities for cross-border co-operation, which now, in addition to individual traffic, included

⁶ See Winiarski, Przybyła, Bobowski (1997); also Kowalczyk (1997).

co-operation between Polish and German local authorities. In 1991, the first Euroregion was established (the Polish-German-Czech Euroregion "Nysa/Neisse/Nisa"), soon followed by other euroregions: "Pro Europa Viadrina" and "Spree-Neisse/Nysa-Bóbr". At the same time, bilateral co-operation agreements, mainly in the spheres of culture, municipal economy, spatial planning and environment protection, were concluded between some border towns and gminas (e.g. between Stubice and Frankfurt/Oder, Gubin and Guben, Zgorzelec and Görlitz). There are also Euroregions on the eastern border (e.g. Carpatia, Bug), but their importance is much lower—at least in the eyes of the representatives of local authorities, who were surveyed in 1997⁷ (see tables 9.2 and 9.3).

Table 9.2.

Membership of Polish *gminas* in Euroregions

Question: Does the gmina belong to any Euroregion?						
Region	Yes		No		No answer	
	No.	%	No.	%	No.	%
Western	33	92	2	6	1	3
Southern	26	49	25	47	2	4
Eastern	17	29	37	63	5	8
Total	73	50	64	44	8	6

Source: Survey.

Table 9.3

Benefits that the Euroregions bring to Polish *gminas*

Question: If the gmina belongs to a Euroregion, does it have any advantages from this?										
Region	Big		Medium		Small		None		No answer	
	No.	%	No.	%	No.	%	No.	%	No.	%
Western	1	3	13	39	15	45	3	9	1	3
Southern	1	4	9	35	13	50	2	8	1	4
Eastern	0	0	0	0	8	47	7	41	2	12
Total	2	3	20	27	35	48	12	16	4	5

Source: Survey.

The cross-border co-operation on the eastern frontier (the border with the Kaliningrad District, Lithuania, Byelorussia and the Ukraine) looked quite differently. In the past, the cross-border co-operation between Poland and the Soviet Union virtually did not exist, which was due to the restrictions (on the part of the Soviet Union) regarding individual traffic and restrictive internal Soviet regulations for traveling within the country, both with respect to foreigners and Soviet citizens (this particularly applied to the border zone).

Even though the situation on the eastern border of Poland has changed to some extent following the political changes in Poland and the collapse of the Soviet Union,

⁷ Within the state-financed project run by EUOREG "The Role of Crossborder Cooperation for Local and Regional Development".

it is still difficult to talk about Polish-Byelorussian or Polish-Ukrainian co-operation in the true sense of the word. This state of affairs is the result of the visa duty (although obtaining the so-called vouchers is not difficult for Poles) and the restrictions on traveling still enforced in some areas of Byelorussia, Russia, and the Ukraine. There are also other factors dissuading Poles from traveling to the former Soviet republics: low quality of everyday life (e.g. electricity shortages, lack of running water, exorbitant prices for basic food products, unsatisfactory level of services in the catering sector) and a low level of public security. Due to those considerations, while the inhabitants of the border regions of Byelorussia, Lithuania, Russia and the Ukraine willingly visit Poland, the travels of Polish citizens across the eastern border are still rare (this applies even to people who make their living off trade with customers from the former USSR). As a rule, citizens of CIS countries and Lithuania travel to Poland for business (trade) purposes, and they are practically uninterested in the tourist or cultural aspects of traveling abroad.

With regard to the people crossing the eastern border in 1995, their average expenditure amounted to over 248 zł per capita, while this value was only 112 zł on the Polish-German border. This considerable difference obviously does not result from the grater wealth of the citizens of the former USSR, but from the wholesale and semi-wholesale purchases they made. However, due to the mass inflow of German citizens into Poland, the value of the products and services purchased by them significantly exceeded the value of the purchases made by the citizens of CIS countries and Lithuania. In 1995, the aggregate expenditures of Germans in Poland amounted to over 4,470 million zł, Byelorussians—778 million zł, Ukrainians—578 million zł, Lithuanians—over 130 million zł, and Russians—84 million zł. At that time, the value of the purchases made by Byelorussian citizens topped the value of Polish exports to Belarus (778 million zł against less than 585 million zł). These data clearly indicate that the purchases made by German citizens are two times bigger than the aggregate purchases of the citizens of all the other neighbouring countries.

Location near the border is a factor distinctly stimulating commerce and services. This applies both to the Polish-German border and (to a smaller degree) to the borders with CIS countries and Lithuania. On both frontiers, a rapid growth of retail trade is observed, as well as many-fold (sometimes more than ten-fold) growth in the number of shops, as compared with the situation before 1989. The boom in retail trade could be observed particularly in the early 1990s and was related both to the emergence of external demand (purchases of clothing and food products by the Germans, especially the unemployed), as well as internal demand (which could be observed across Poland). However, in the recent years, retail trade in localities near the German border has begun to suffer some difficulties. Big supermarkets situated in German border towns and frequent discount sales at prices lower than those in Polish shops constitute a threat to retail trade on the Polish border. The lower volume of sales and still high rental costs (sometimes higher than in commerce facilities in downtown Görlitz) meant bankruptcy for some of the Zgorzelec shops (particularly those selling clothing, cosmetics, consumer electronics, sports articles and household appliances). Nonetheless, the markets located on the border—especially those selling cigarettes and petrol—remain a significant source of income for both the local inhabitants and the local authorities.

This phenomenon does not occur on the eastern border. The prolonged economic crisis in the CIS countries makes it impossible for the trade outlets located on their side of the border to threaten the retail trade on the Polish border. Trade on markets in the localities along the border with the CIS countries differs from such trade along the western border; markets comparable in size with those on the western border can only be found in Białystok, Przemyśl and Rzeszów. Normally the markets along the eastern border are much smaller than those along the western border of Poland.

Poles also do shopping on the other side of the border, though much more frequently in Germany than in the post-Soviet republics. This is another factor differentiating the impact of transborder cooperation on local development along the eastern and western borders (see table 9.4).

Table 9.4.

Transborder shopping of the Polish citizens, by region

Question: Do the inhabitants do shopping on the other side of the border?										
Region	Often		Sometimes		Very rarely		Never		No answer	
	No.	%	No.	%	No.	%	No.	%	No.	%
Western	15	42	14	39	5	14	1	3	1	3
Southern	17	32	17	32	11	21	2	4	6	11
Eastern	5	8	19	32	18	31	13	22	4	7
Total	35	24	49	34	34	23	16	11	11	8

Source: Survey.

Border location is also a factor stimulating agriculture. This phenomenon can be particularly observed in eastern Poland, which is gradually becoming the main farming base for the border areas of Belarus, Ukraine, and especially the Kaliningrad District.

In the border regions, the “grey sector” of the economy plays an important role; this applies particularly to unregistered commercial activity, smuggling, and illegal employment (frequently of foreigners).

Apart from economic benefits, cross-border cooperation also has a positive political, social and cultural dimension (improved knowledge of foreign languages, better personal contacts with representatives of neighbouring nations and knowledge of their culture and traditions, etc.). This is particularly visible on the Polish-German border. On the other hand, the border location is connected with the threat of various social pathologies, like criminality, prostitution, and in some regions—increased alcohol consumption and drugs.

Cross-border cooperation in the west of Poland is an important and lasting element of social and economic life. There is a slow, but distinctly increasing share of German capital in economic entities there (including small and medium-sized industrial enterprises). In addition, purchases of land and other real estate by German citizens have been recorded. It is difficult to predict in what way these processes, officially not registered on a larger scale, will affect legal regulations liberalising trade in land and other real estate in Poland. It would therefore be desirable to introduce constant monitoring of changes in the ownership structure and, if necessary, modify present rules and procedures.

Despite considerable similarities, the social and economic situation along the eastern and western borders of Poland is different in some areas. The benefits coming in from across the eastern border are significantly more shallow than in the western regions; the eastern regions do not attract investment capital or new organisational experiences and technologies. The profits from cross-border cooperation in the east have not taken root to the extent observed along the western border. Likewise, the eastern border contributes less than the western border to generating closer relations with neighbouring societies and cultures.

These differences are reflected by the opinions of representatives of local governments located in the border regions. According to our questionnaire from 1997 (with a 27 per cent response rate), the intensity of positive and negative effects of transborder cooperation is much greater in the West than in the East of Poland (see tables 9.5 and 9.6)

Table 9.5.

Influence of the border on local development

Question: Can any influence of the border be noticed in the gmina?								
Region	Yes		No		Hard to say		No answer	
	No.	%	No.	%	No.	%	No.	%
Western	30	60	14	28	4	8	2	4
Southern	31	30	50	49	18	17	4	4
Eastern	49	45	50	46	7	6	3	3
Total	107	41	113	44	29	11	9	3

Source: Survey.

Table 9.6.

Strong advantages of border location, by region

Types of positive influence	Regions							
	Total		Western		Southern		Eastern	
	No.	%	No.	%	No.	%	No.	%
Income opportunities for inhabitants	13	9	7	19	4	8	3	5
Increased revenues for local budgets	6	4	5	14	2	4	0	0
Access to cheaper commodities abroad	9	6	4	11	4	8	1	2
Cooperation with municipalities abroad	12	8	3	8	7	13	2	3
Job opportunities abroad	10	7	3	8	5	9	2	3
Other	4	3	1	3	4	8	0	0

Source: Survey.

To what extent can cross-border cooperation become a lasting factor in the regional development of Poland? With regard to the border with Germany, the structural price differences will continue for a long time to come, even though a distinct equalising tendency can be observed. Polish agriculture and the Polish trade sector will take advantage of market shortages in the east for a long time to come. Furthermore, in the near future the eastern frontier will become the external frontier of the

Table 9.7.

Strong disadvantages of border location, by region

Types of negative influence	Regions							
	Total		Western		Southern		Eastern	
	No.	%	No.	%	No.	%	No.	%
Road traffic	63	43	22	61	14	26	29	49
Increased crime	30	21	13	36	3	6	16	27
Prostitution	8	6	7	19	1	2	1	2
Too large a number of visitors from abroad	13	9	6	17	4	8	4	7
Other	4	3	0	0	0	0	4	7

Source: Survey.

Table 9.8.

Cross-border cooperation of local authorities

Question: Do the <i>gmina</i> authorities cooperate with their neighbours on the other side of the border?						
Region	Yes		No		No answer	
	No.	%	No.	%	No.	%
Western	29	81	7	19	0	0
Southern	39	74	11	21	3	6
Eastern	22	37	34	58	3	5
Total	88	61	51	35	6	4

Source: Survey.

Union, which will generate an inflow of structural funds which, paradoxically, can turn peripherality and backwardness into developmental factors. However, it would be futile to expect that cross-border cooperation can generate a speedy recovery of the whole eastern border belt, which does not imply that it will not contribute to the desirable development of some localities and areas situated along the main transportation routes. As regards the western regions, currently at a higher level of development, positive influences from across the border will reinforce the currently observed benefits even if we assume that the present disparities in the developmental levels of Polish and German regions are not balanced quickly.

On the other hand, the supremacy of German enterprises with regard to capital and technology may lead to the reinforcement of the structural economic dependency of the Polish regions. It is possible that the latter will be confined to the role of supplier of material, energy and human resources, while production technologies and organizational know-how will flow in from Germany, where decision centres will be located. Such a situation would definitely be undesirable, and counteracting it should become one of the elements of central spatial policy.

9.3.5. The regions dominated by the state farms⁸

State farms were concentrated in the Western and northern parts of Poland, populated by migrants from other parts of Poland (mainly from the eastern territories

⁸ This section is based on E. Gorzelak (1997).

lost to the Soviet Union, but also from south-eastern and central parts of the country) after the German population had been expelled after the World War II. Up to 50 per cent of agricultural land was still under state ownership.

The rapid collapse of state farms, which in 1990 employed 470 thousand workers (a number similar to the total employment in coal mining in Poland), was undeniably one of the most spectacular and socially painful experiences of the post-socialist transformation period. At the same time, this phenomenon took on a distinct regional dimension since state farming was strongly concentrated in the north-western part of the country. Their present economic difficulties directly result from the collapse of this sector, one which was the dominant sector in these regions under state socialism.

There have been that this collapse was not necessary and that the revival of agricultural production in those areas is still possible, and in fact might create the basis for economic revival. Is that a justified claim?

Due to the emphasis placed in them on political conformity (Poland was the only socialist state in which full collectivisation of agriculture did not occur in the 1950s; still socialisation of agriculture was considered to be the proper route, as opposed to the tolerated, but not ideologically approved, route of private ownership), state farms were very poorly managed and unprofitable. Permanent loss-making was covered by large and constantly increasing subsidies for both ongoing production and trade activities and for investment. After the liberalisation of food prices in August 1989, the state budget began gradually to withdraw these subsidies, which in 1989–1991 created an extremely difficult environments for the state farms; over 70 per cent of them lost financial liquidity. The stock of farming animals rapidly decreased and the soil was not cultivated. Large areas of agricultural land were left idle, with employees becoming redundant, this producing massive unemployment reaching 50–60 per cent in some localities (with an average in these regions exceeding 25 per cent).

A slow, but consistent process of agricultural restructuring has been taking place in the region. Agricultural land, which had been in part left idle for several years, is now almost fully utilised; only the poorest soils have deteriorated into wasteland. Farms of several hundred—and often several thousand—hectares have been bought or leased by private investors from the Agency of Agricultural Ownership of the State Treasury. However, these new farms employ only about 30 per cent of the former workers of the state farms, and these are the best workers. Unemployment thus becomes one of the gravest problems of the western and especially the northern regions of Poland.

Solving the unemployment problem in these voivodships is extremely difficult, and quite likely impossible. Resource scarcity is an obvious hindrance, although it is doubtful whether even very large outlays will be of help in significantly lowering the unemployment rate amongst former state farm employees. In these areas, new jobs cannot be created by dividing large farms into smaller ones, since this would be a very costly process requiring strong motivation and good skills on the part of potential new farmers. Such qualities are scarce, however, in this region and almost nonexistent amongst the unemployed former workers of the state farms. Moreover, production in the existing individual farms cannot be intensified to absorb current surplus in the labour force, due to the production profile of those farms, which specialise in low

labour-intensive crops and pasture-type animal breeding. Even intensified forestation of marginal land would not stimulate the creation of a sufficient number of new jobs.

As we can see, agriculture has no chance to absorb those currently unemployed in the post-state-farm regions of Poland. Any significant reduction of unemployment in these areas can be achieved solely by means of developing other branches of economy. At the same time, however, the chances for their dynamic growth are meager, as agriculture will not generate sufficient demand for agricultural services, tourism will develop only in some areas (at the seaside, in lake districts), and industry will seek more favourable locations. The problem of post-state farm unemployment can only be solved by means of migration and natural demographic processes.

Improving the situation of post-state farm areas, and hence the situation of unemployed former state farms employees, depends primarily on whether non-agricultural sectors of the economy will be able to develop in these regions. This depends only partially on agriculture-related agencies; the local authorities must play a major role in the promotion of non-agricultural branches. However, in the coming years, charity and social welfare organisations will also play a major role, whereas state policy should be directed at liberating the younger generation from the vicious circle of unemployment and poverty through, for example, new educational initiatives.

9.4. Regional policies

9.4.1. National regional policies after 1989

Since 1990 problems of regional development have been completely absent from mainstream economic policy in Poland, which has been primarily focussed on the struggle for maintaining social stability, regaining economic balance, and reshaping economic structures. Regional aspects of economic transformation have occurred only in superficial official declarations and have not influenced the real activities of governmental agencies at the national level. Official government documents concerning the principles of Polish regional policy in the last years emphasize such general issues as:

- the need for restructuring many of the country's regions;
- the need for an active state policy towards old industrial regions and agricultural regions characterised by low income;
- the need for decentralisation as a necessary condition for a successful regional policy;
- the importance of creating a new, efficient institutional infrastructure.

Therefore, it is not surprising that at the beginning of the transformation period a comprehensive regional policy was not formulated in Poland and that regional concerns are absent from all social or economic policies. In fact, successive governments have left "regional problems" to the workings of spontaneous "market forces". As an official document of the former Polish Central Office of Planning stated (CUP, 1993):

"In practice, state regional policy has been shaped by the pressure exerted by the regions most affected by the social consequences of restructuring. Since the trade unions have been the primary agents for this pressure, its intensity was closely related to the

strength of the regional structures of the trade unions. This, in turn, accounts for the fact that the 'old industrial regions' have dominated the 'rural regions with low incomes'.

To some extent, only employment and labor market policy is the only one employing region-specific economic instruments. The use of these instruments is further reinforced by direct governmental financing of infrastructure projects located in regions endangered by structural unemployment.

The figures below specify the resources allocated from the state budget reserve as subsidies to projects in regions endangered by structural unemployment.

Year	Amount in million zł	As a percent of spending of the state budget
1991	50	0.17
1992	64	0.16
1993	50	0.10

This spending, if compared with the amounts of money directly allocated by particular state agencies (ministries, special funds, etc.) is very low. Although the percentage of resources allocated from the state budget is similar to that in several Western European countries, due to a much lower GDP the overall quantity of funds allocated within the framework of "explicit" regional policy is smaller than in the member states of the EU. Moreover, the distribution of funds earmarked for "regional policy" occurs mainly according to variations in the social needs of regions (i.e. the level of unemployment) or is determined by the pressure exerted on the central authorities by regional lobbies (according to the principle *"the squeaky wheel gets the grease"*).

There have been attempts to cope with specific "problem" regions. In two cases Government Plenipotentiaries were nominated for regional restructuring: one (within the structure of the Ministry of Labour and Social Policy) for the Wałbrzych region and one (in February 1993) for the Łódź region. In the former, a plan of regional restructuring was formulated which included estimates of the number and time-table of coal-pit closings, as well as calculations of social allowances for those laid-off. This plan was financed from state funds. To this point the results have been modest and the intensity of activities low.

Recent pressure coming from the most troublesome Polish region, Upper Silesia, resulted in the signing of the *"Contract for the Katowice Voivodship"*. This contract was signed by the Deputy Prime Minister and several other representatives of the national government, by the Katowice voivod, and by the representatives of socio-political organisations, i.e. local associations, trade unions, and so on. The contract states that the Katowice voivodship will receive special central budgetary funds (40 million zł in 1996 and a further 30 million zlotys in 1997, i.e. some 10 million USD yearly for consecutive two years). The region itself must provide co-financing in order to receive the funds from the central budget. Several regional institutions—like the Upper Silesian Fund—were to be created in order to facilitate the restructuring process.

This contract is overly general and furnished with too few resources to have any chance of becoming an efficient tool for restructuring the regional economy. There are no provisions for implementing sectoral restructuring programmes in coal mining and the steel industry, and it is only realistic but bold programmes which can effect

a change in the crippled economic structures of the region. The contract provides a "map of local interests" on the one hand, and, on the other, it allows the central government to demonstrate rhetorically that it is doing something for the sake of its most politically and economically dangerous region.

However, the contract appears to contain an important "hidden content". It is very likely (this would still have to be proved) that the contract may enable the *anti-coal lobby* in Upper Silesia to come to the fore and grasp some influence over the developmental trajectory (or rather the restructuring path) of the region. The number of people in the Katowice voivodship beginning to believe that coal is no longer a blessing for the region, but rather a curse, is growing. These people, for the sake of Upper Silesia, but also for the sake of the whole country, should increase in importance and their strategies should become more and more visible at both national and regional levels of decision-making processes.

A crucial problem of Polish regional policy is its *management and coordination*. There is no single administrative body responsible for regional policy. Traditionally, the policy has been prepared in the Central Office of Planning (which ceased to exist as of the end of 1996). CUP, however possessed no administrative powers to represent the government in this field. As a result, several ministries have employed their own "regional policies" with their own funds, programmes, and regional offices. These "policies" are rarely coordinated with each other, though when they are it is most often in the context of the most difficult regions.

At the beginning of 1997, the Central Office of Planning was replaced by the Governmental Centre for Strategic Studies. The Centre is responsible for, among other strategic duties, preparation of the elements of state spatial policy. However, these responsibilities are not translated into operational tasks and do not affect the activities of other departments of the government. Also, the funds allocated for realising the regional policies elaborated by the Centre are meager. As a result, it is unlikely that the Centre will have any significant impact on actual spatial processes in Poland. It can be said that this impact is mainly educational, exerted through the effects which the Centre's reports on regional development and regional policy have on the MPs and other Polish political and administrative elites.

The existence of ten regional offices of the Centre is perhaps the main channel by which this institution can influence real processes of regional development in Poland. These planning units conduct planning activities in the macro-regional scale and in several cases have influenced the strategies of particular voivodships. However, as is the case with the Centre itself, these planning agencies have no operational powers and are deprived of funds, so their influence can be only indirect and therefore rather weak.

The former Ministry of Spatial Economy and Construction limited its interests to the micro-scale of preparing urban and construction standards and physical plans. It also dealt with the municipal finances related to housing. This ministry by no means should have been considered as an actor in regional development, and this applies also to the activities of the respective departments of the newly reorganised Ministry of Internal Affairs and Administration.

Quite unexpectedly, the Ministry of Labour and Social Policy emerged at the beginning of the 1990s as the primary governmental agency conducting explicit regional policy. Its employment/unemployment policy is the only one which defines

special areas in which particular economic instruments are to be applied. It has to be said, however, that this policy is "by definition" oriented towards assisting the poor and the weak, since it deals with the regions that have been faced large-scale restructuring and in which unemployment is the greatest. This policy is also much more passive than active and in fact leads to the petrification of traditional regional structures (one may cynically say that fortunately this policy is too weak to counteract the natural processes forcing change in these structures).

In conclusion, one may say that since 1989 no sound and comprehensive regional policy has been formulated in Poland and, therefore, no sound and comprehensive regional policy has been implemented. Regional approaches to state policy have been pursued under the pressure of political instability in the old industrial regions and in the regions endangered by structural unemployment. In the first case, however, the actions undertaken under the pressure of the trade unions and under the threat of political instability aimed at assisting old, inefficient enterprises, rather than attempting to restructure them. In the second case, state assistance was of a passive character and enabled only in a marginal way the creation of new structures. Therefore, both these approaches had one clear outcome: they petrified the old spatial structures and delayed regional restructuring.

Following the recommendations of the Task Force for Regional Development in Poland which was in operation in 1995/1996 a Subcommittee for Regional Development within the Economic Committee of the Minister's Council was created. This Committee, however, was not equipped with any institutional support and was not assigned any decisive power. In 1998 it was liquidated. As a result, the regional policy in Poland has no governmental body of its own.

9.4.2. In quest of a new regional policy for Poland

The "classic" doctrine of regional policy contains a deeply rooted belief in the necessity of equalising naturally arising interregional differences. This problem has been addressed through numerous state activities, including direct investments, financial transfers, and contributions in kind, and indirect activities, i.e. instruments influencing economic entities. This doctrine, which is as old as regional policy itself, is inherently connected with the concept of an intervening state, a welfare state, a state with an economy based on Keynesian economic tenets.

In discussions of the goals, assumptions, instruments, and effectiveness of regional policy, since the middle of the 1970s an opposite model of the regional policy has also been taken into consideration. Here, the emphasis, rather than on the leveling of interregional differences, is on obtaining optimal economic effectiveness. In practice, this principle can be reduced to a focus on investment effectiveness; this latter thus becomes the basic aim of regional policy. Interregional differences under this perspective are a natural result of development, and their increase—in the short and medium-term—is fully admissible.

The assumptions underlying this attitude are the following:

1. Implementation of the policy of interregional differences leveling reduces economic effectiveness in the short to medium-term and hence the rate of economic growth. This results from the fact that leveling entails definite measurable and incommensurable costs (or costs that are more difficult to measure). Easily measurable costs

are: direct financing by the state of backward regions (construction of infrastructure) and of entities taking up activities in such regions (subsidies, subventions, cheaper credits, etc.); this is aimed at covering investors' losses resulting from the lesser effectiveness of investments in less developed areas. Costs more difficult to measure (or even incommensurable ones) include slowing down the development process resulting from the limited synergy effects in less developed areas. This accounts for the fact that external flows transmitted to these regions as investments and capital supplies, as well as highly qualified personnel attracted by salary and other preferences produce a weaker "echo" in the form of subsequent investments. Nonetheless this creates the basis for lasting and sustained development.

The above statements do not mean that an increase in regional differences is advantageous in itself. On the contrary, an incomplete use of resources, including human resources, in less developed areas is undoubtedly a loss in terms of the national economy⁹. This reduces the life opportunities of the inhabitants of these areas, which contradicts a wide humanistic perspective.

2. The assumption of the relation between the dynamics of growth and the depth of regional diversification based on the principles of the Williamson's curve plays an important role¹⁰. In line with this perspective, after a phase of intensive growth—"obtained at the cost" of an increase in interregional differences—it will be possible to allot increased funds for the development of backward regions than under less dynamic growth.

Here, then, we return to the classic dilemma of regional policies: *efficiency or equity?* Should regional policies buffer against the process of spatial polarisation, typically induced by the search of firms for the maximisation of their own, individual profitability? Should they intervene when it becomes obvious that particular regions are unable to cope with the new challenges of the free market economy? If the answer is positive—then from where should the resources be drawn, and which outlays should be decreased?

The traditional doctrine of regional policies provided a direct answer: equality at the expense of efficiency. However, the most recent approaches to this dilemma seem to challenge this deeply rooted principle. In a recent OECD (1994) document we read:

⁹ This cost is difficult to calculate. This, however, is not the basis for a refutation of the polarised development. Other elements of this calculation are also difficult to measure or are incommensurable, and the entire reasoning is based on analysis of a set of partial facts and speculations rather than on a precise economic calculation using a concrete set of data.

¹⁰ Criticism of Williamson's calculations is generally correct. However, Williamson, in a methodologically incomplete manner, confirmed the commonly observed regularity that after exceeding a certain level of GDP per inhabitant (and maybe in a certain civilisational—or secular—circle?) economic growth reduces interregional differences (therefore we omit here an assessment of the first part of Williamson's thesis asserting that at lower stages of development these differences increase together with economic growth). However, it is empirically confirmed that in more developed West European countries relative differences (related to the average GDP level per inhabitant) are smaller than in less developed countries and that in the long-term interregional differences tend to decrease. There is also a fluctuation of diversification dynamics which, roughly speaking, means that in the phase of fast development differences decrease, and in the phase of stagnation or recession—differences increase. This contrast derives from radically larger possibilities for the application of leveling instruments under development.

“(...) a major objective of regional policy is to ensure that the spatial allocation of resources contributes to create economic growth, that is to promote competitiveness and to reduce unemployment.”

We can also look at regional policies of the state from a different angle (see scheme 2). Intervention by the central authorities in a particular territory may be undertaken for the sake of a particular region (side A of the scheme) or because some problem of national-level importance may be solved in this particular region (side B of the scheme).

Scheme 2.

Systematisation of regional policies objectives

Objective A: improving the situation in a region	Objective B: improving the situation on a national scale
<p><i>Variant A1: assisting the poor</i></p> <ul style="list-style-type: none"> • equalizing regional policy: <i>“supported areas”, objective 1,5b regions</i> • priorities: <ul style="list-style-type: none"> — infrastructure — qualifications — institutions • questionable efficiency: the same “regional problem” for decades <p><i>Variant A2: assisting old industrial regions</i></p> <ul style="list-style-type: none"> • reaction to industrial restructuring: <i>objective 2 regions</i> • priorities: <ul style="list-style-type: none"> — renovations — re-training — environment — improving the region’s image • high efficiency 	<p><i>Variant B1: balancing the spatial structure</i></p> <ul style="list-style-type: none"> • limiting the dominance of one metropolitan centre: <i>Paris, Warsaw 1965–1970</i> • priorities: <ul style="list-style-type: none"> — degglomeration — developing supporting centres • totally inefficient—the degglomerated centre constantly grows <p><i>Variant B2: supporting the regions of key importance for the country as a whole</i></p> <ul style="list-style-type: none"> • regionalisation of strategic national goals: <i>Central Industrial District, Randstad Holland</i> • priorities: supporting regions crucial for strategic goals • efficiency limited by political pressures

The “A” approach involves the localisation of state regional policy objectives in a given region when the region cannot cope with its own problems and an external intervention is necessary. In the “B” approach, such an external intervention in a given region is undertaken only when it can solve a “national” problem (for example, the goal of expanding the international connections of the national economy may result in state funds being transferred to a region located along the coast for the construction of a new harbour).

Activities intended to initiate or accelerate development in “backward” or “underdeveloped” regions (“A1” type of regional policy), together with those aiding the “old industrial regions” (A2” type), are excellent examples of the “regional” approach to regional policy. In both cases, the national level intervenes in particular regions regarded as unable to solve their own developmental problems. This assistance may assume very different forms—from “assisting places” to “assisting people” (or “assisting activities”)—all these problems are well known from both literature and practice. However, long experience clearly indicates that the “A1” type of intervention is much less effective than attempts to improve the situation of the old industrial regions.

This is understandable, taking into consideration the fact that the overall material and human capital in these regions is incomparably richer than in the backward regions, which, in addition, usually are located peripherally to the centres of economic gravity¹¹.

Two types of regional policy objectives may be distinguished in the "B" approach, i.e. when national goals are to be solved and the "region" is just a place where this is to occur. In type B1, the national authorities attempt to improve the overall spatial structure of the country; this usually occurs in countries dominated by one great metropolis. The domination of Paris over France, of Budapest over Hungary, and, to some extent, of Lisbon over Portugal can be seen as cases of such unbalanced spatial structures. The French example may be especially instructive, since the creation of a more balanced structure has been the main goal of French regional policies for decades (though with only limited success). Similarly, during the second half of the 1960s "deglomeration" of Warsaw was said to be one of the main goals of Polish regional policy; this policy was implemented by relocating some state-owned firms to towns outside Warsaw and by "closing" Warsaw for immigrants. In fact, more jobs were created in Warsaw in this period than were removed (similarly to Paris, though in a totally different political and economic system!). Also, administrative restrictions for migration have not succeeded in limiting the number of inhabitants¹².

A different model of regional policy is presented in the "B2" approach. Here regional policy is subordinated to the goals of national development policy. For example, the objective of developing transportation connections with the outside world (through building or improving harbours, roads, border crossings, airports) may result in direct intervention in regions located along transportation corridors or which may host airports and harbours. In a similar manner, extraction of raw materials leads to accelerated (though usually unbalanced) development in the regions where these resources are located. Poland has strong traditions of pursuing such regional policies. Two initiatives from the pre-war period stand out: the construction of the Gdynia harbour and city itself (begun in 1928) and the regional plan for the Central Industrial District (in Polish: *Centralny Okręg Przemysłowy*, COP) begun in the second half of the 1930s (though halted by the II World War). The COP initiative, undertaken in the heartland of pre-war Poland (what is now the south-eastern part of the country) is particularly noteworthy. Two goals were to be achieved through it: development of a modern industrial complex able to supply the Polish army with modern equipment, and strategic location this complex in a region well protected from all potential enemies of pre-war Poland. Following these two criteria, massive state-led investments were made in the district. This occurred despite the fact that there were several other regions at that time (for example, the so-called "Poland C" located

¹¹ There is a strong argument indicating that the situation of the backward, peripheral regions may worsen in the "post-fordist" era, since the socio-economic and locational characteristics of these regions are very poorly adapted to the requirements of the "post-fordist" type of production.

¹² A "catch-22" system was in force for over two decades: in order to get a job in Warsaw one had to be registered as an inhabitant of Warsaw, and in order to be registered as an inhabitant of Warsaw one had to have a job in Warsaw. These administrative regulations resulted in abnormal development of localities around Warsaw, which became "freezers" for migrants to the city. Those who wanted to move to Warsaw obtained registration in these localities, and on the basis of this document they were employed by Warsaw state enterprises, which were permanently short of manpower. After a few years, usually with the assistance of their employers, such employees were given flats in the city itself and the "Catch-22" was bypassed (similar regulations with the same results were adopted for Kraków).

in the east of the country) which were in a much worse situation and which could rightly demand assistance from the national government. However, the strategic, all-national objectives prevailed and state funds were directed to CUP, located in a relatively better developed part of the country (the so-called "Poland B"). The Central Industrial District was, therefore, a programme of state intervention in the general spatial structure of the Polish pre-war economy and the choice of the regional location of this intervention was totally subordinated to strategic considerations.

The typology of approaches to regional policies proposed above indicates another interesting difference amongst them: their effectiveness. With great simplification, one may notice that the two models of regional policies presented in the upper part of the scheme (A1 and B1) represent much lower effectiveness than the two models present in the bottom part of the scheme (A2 and B2). This is not just a coincidence. The "upper" models of regional policies (A1 and B1) aim at changing spatial patterns deeply rooted in historical processes. Backwardness and peripherality—at least in Europe—may be dated back to the origins of the "Blue Banana", the cradle of capitalism along the Rhine river; similarly, the spatial structures of particular countries were shaped centuries ago and are very resistant to change. This typically only happens as the result of secular trends; even long-term regional policies have limited influence.

The policies allocated to types A2 and B2 refer to phenomena which may be changed at a much faster pace. Old industrial regions have typically passed through a stage of extensive development and their problem lies in the fact that there is no demand for the products that created their past prosperity. The construction of transportation corridors or the reindustrialisation of selected areas, and even creation of research-intensive industrial complexes, can be carried out within a relatively short period of time.

The success and failure of a given type of regional policy cannot be, therefore, separated from the *time factor*. Policies which aim at changing long-lasting spatial structures are—in a sense—fated to low effectiveness; on the contrary, regional policies whose goals focus on specific undertakings or on improving the situation of highly—but inadequately—developed territorial structures—may aspire to a higher level of success.

9.4.3. Regional policies for Poland—some suggestions in light of EU enlargement

Until now there has been no breakthrough in the neglect of spatial/regional problems of Polish development. Several new initiatives undertaken during last two years aimed at constituting the foundations of state spatial and regional policies, were not institutionalised. In short, nothing has changed in the policies implemented by state agencies.

The foundations of spatial policy of the state have been formulated in the following way (see Kołodziejcki, 1995):

1. Regional policies should be subordinated to the strategic objectives of the country as a whole. These objectives can be formulated as the necessity of catching up with those countries more advanced in socio-economic development by promoting a high rate of economic growth and deep structural change.

2. As polarised regional development has to be acknowledged as a real and inevitable consequence of national development, Polish regional policy at the turn of the century should be oriented towards efficiency. This principle allows for accelerated growth and the expansion of new capital formation is necessary for transforming obsolete economic structures. Therefore, regional policy should not, at least during the first 10–15 years of systemic change, be oriented towards equalisation of regional differences.
3. The regional policy of the state should concentrate on those undertakings most crucial for the spatial-functional structure of the entire country, in particular on those of importance in international relations. The state should be, along with regional authorities, co-responsible for the development (with the growing participation of the private sector) of basic transportation and telecommunications infrastructure, border crossings, sea harbours, air traffic facilities, etc.
4. The regional policy of Poland should include as one of its priorities assistance for regional restructuring of the areas dominated by traditional industries. This objective has to be undertaken for both economic and political reasons.
5. Since the tasks of equalising some of regional differences should not be totally neglected as they could lead to irreversible divisions in the country and the permanent marginalisation of some territories and their communities, a principle of “balancing regional development” has been formulated as a working hypothesis for the new regional policy of the state. “Balancing” does not mean a “leveling” the regional structure of the country. Instead, the alleviation of those differences which could permanently distort the development potential of the depressed or backward regions should be one of the explicit goals of such a policy.
6. Creation of self-governmental units at all levels of territorial organisation (i.e. voivodships and districts—*powiats*) appears to be a precondition for successful regional policies of the state. The territorial self-governmental units should be responsible for most of the duties and tasks that are currently performed by the governmental administration at the central and territorial levels. The Polish state should evolve toward a decentralised, but strong and definitely uniform state.

In a synthetic form the conclusions of this conception are presented on the colour figure B at the end of the book.

These suggestions correspond with the final conclusions of the Task Force on Regional development, a joint undertaking of the Polish government and the European Commission. In its Final Report, priority is placed on the efficiency principle, with the provision that equalising efforts should also be included in its priorities (Task Force, 1996, pp. 9, 32). In addition, the same report proposes the three-tier model of the territorial organisation of the state (i.e. with a large, strong region-voivodship and the district-*powiat* level) as a solution difficult to introduce, but better related to the needs of the country than the current two-tier model (Task Force, 1996, p. 9).

This situation is unfavourable in light of approaching negotiations with the European Union in which the regional sphere will no doubt play an important role. Table 9.9. is an attempt at presenting advantages and disadvantages of integration with the EU from two perspectives: that of the Union itself and that of the new aspiring countries. This account is, obviously, incomplete and generalised. In my opinion, its exploring and detailed analysis should constitute one of the main directions of preparation for EU integration. In any case, it should be recognized that the result of

the comparison between the advantages and disadvantages of accession of the Central European countries comes out positive from the perspectives of both the candidates and the Union itself.

Everybody understands, however, that the Central European countries will be joining a Union much different than the present one (different Hungary, different Poland, different...—etc.—will join different European Union). All estimations of the scale of disbursements for the new members which would be made if the currently binding principles remained unchanged indicate that the Union could not bear the costs. Instead, the EU has announced that the five Central-East European countries will be allocated 7 billion ECU in the pre-accession phase and 38 billion ECU after becoming the full members. It is doubtful that these proportions are correct, even assuming that the accession will happen as fast as 2003–2004. The amount of money for the pre-accession period is much too small, and the new member states will not be able to absorb that much money during the two to three year period after integration.

To what extent will the priorities of the Czech, Hungarian and Polish regional policies be financed by the Union? The answer depends on two factors: the overall volume of funds and the proportions by which they are divided between the central level (interregional policy) and the regional level (regional development policy). It is becoming more and more evident that a pro-growth regional policy cannot be effectively implemented with the present territorial organisation of the state; thus its reform becomes a historical necessity. Considerably fewer resources would be left for centrally implemented interregional policy than implied by extrapolations based on the present institutional situation (large structural funds, strong centralisation). Thus, the postulate of concentrating EU resources on key regional segments of the policy of development of the national economy as a whole becomes even more important, leaving interregional issues to the regions themselves.

In the course of its negotiations with the European Union some of the future EU members (and definitely Poland) should work to gain the consent of the Union for more “progressive”, pro-growth directions for utilising later structural funds. At an earlier stage of the accession process, aid granted to Poland during our adaptation phase should also cover those areas which might contribute to improving the competitiveness of the economy. For example, it is erroneous that the PHARE regional development programme (STRUDER) cannot finance the creation of regional systems of innovation or networks of centres of technology transfer or similar areas of activity. It should be postulated that such programmes as STRUDER should employ the approach taken by other directorates of the European Union, e.g. DG XII. Following this idea will naturally mean that a large portion of aid funds (it should be postulated that this be considerably more than the mentioned 5 per cent of the Structural Funds earmarked by the Union for financing R & D) and in the future structural funds will be allocated to big Polish cities with significant scientific and research bases. This process should not be opposed, since the modernisation of the country is achieved primarily through development in the biggest Polish agglomerations.

In the period of the coming ten to twenty years, Polish regional policy should aid less developed regions only to the degree necessary to keep rising social tensions from threatening the country's development or to assist some regions in warding off long-lasting, unrelenting recession (and not only relative recession as compared to areas developing at a faster pace), a development which could lead to the permanent

Table 9.9.

The balance-sheets for accessing the European Union by the Central European countries

The Central European perspective	
+	-
<ol style="list-style-type: none"> 1. Direct access to the largest single market in the world. 2. Access to sources of capital, new technologies, new organisational skills. 3. Taking advantage of the structural funds and other forms of assistance for the poorer member states, regions and individuals. 4. Modernising of administrative structures, legislation, norms and rules. 5. Taking advantage of political and military integration with the strong partner. 6. Accelerated development of regions bordering other member states. 	<ol style="list-style-type: none"> 1. Necessity of a general economic, social, technical and legislative adaptation to common regulations within the EU. 2. Entering into open competition with more technologically advanced producers on all markets. 3. Opening of the Central European economies to the intervention of international economic agents, which may result in permanent subordination of the CEC to an international capital. 4. Greater opportunities for those Objective 1 regions which border the new member states.
The European Union perspective	
+	-
<ol style="list-style-type: none"> 1. Getting access to an additional market of over 60 million consumers. 2. Securing political and military stability on Eastern side of the Union and thus achieving better control of a "buffer zone" between the Western European "core" and the potentially unstable post-Soviet republics. 3. Proceeding on the economic and political paths of integration. 4. Broadening access to new land acquisitions, to locations for retirement, to rich natural environment etc. 5. New development chances for the regions bordering new member states 	<ol style="list-style-type: none"> 1. Admitting competition on the "sensitive" markets. 2. Enlarging the scope of assistance directed to poorer countries, regions, institutions and individuals.

Source: Gorzelak, J alowiecki (1997a).

marginalisation of certain territorial communities. An increase in regional disparities should be allowed, if the regions which are developing at the slowest pace will improve their situation in absolute terms (that is, even if they record low, but positive growth rates). Aid should be extended only to those regions unable to achieve any positive growth. This aid should take the well-known forms of regional policy: construction of infrastructure, improvement of the educational potential, support to the most effective enterprises already existing or newly established in those regions. Redistribution policy should be conducted solely by means of supporting self-government budgets with equalising subsidies. To some extent, these needs will be financed from the resources of the European Union, whose regional policy will be informed by the basic principle of "cohesion" of the Union's territory. In spite of

reduced volume of aid funds directed outward and reduced structural funds within the Union, in the coming decade the funds acquired from this source (first as aid funds, and later, after Poland's entry to the EU, as structural funds) will carry some significance for the improvement of the situation in the poorest regions of the country. In addition, considerable social welfare resources will have to be directed to those regions. At the same time, migration outflow of the population from stagnating regions to other regions with higher growth dynamics should not be opposed. On the contrary, migration should receive state support in the sphere of housing construction; this will become possible after inflation is further curtailed to a one-digit figure (which should happen already in 1998).

For the needs of spatial policy, the areas eligible for aid on the basis of low GDP per capita should not be delimited. Additionally, the list of subregions entitled to obtain support due to high unemployment should be reviewed, and the instruments used in those regions should be to a larger extent directed to active forms of combating unemployment, and even to facilitating migration.

Owing to the scarcity of available resources, state (inter-)regional policy should be characterised by an intense concentration of outlays on those spheres and those areas where they will be utilised in the most effective manner. At the same time, a general rule should be adopted that the criterion of benefits on the national scale, and not on the scale of individual regions, should be an overriding one. Three spheres of strategic activities on which the state spatial policy should focus, can be listed: construction of strips of modern infrastructure, development of education (which is the only way to liberate the young generation from structural unemployment and dependency on social welfare), and broadly understood ecological activities.

Since the polycentric structure of the Polish settlement system is relatively well balanced, and there is no dominance of one great urban centre or region over the rest, Poland should not undertake activities aimed at undermining the dominance of big cities. On the contrary, the spatial policy should support centres of supra-regional importance as major centres of competitiveness, economic development and technological progress; this in turn should not disrupt the polycentric structure of the country. Furthermore, state policy should endeavour to significantly speed up development processes of less developed regional centres located in the eastern part of Poland (Białystok, Lublin and Rzeszów) whose development is crucial for balancing the spatial structure of the country and for successful cooperation with Poland's eastern neighbours. Their fast development should be achieved through the full utilisation of stimuli generated by cross-border cooperation.

A *sine qua non* condition of state spatial policy is strengthening the competitive advantage of Poland's assets: its location on the East-West continental axis. Delays in the construction of modern, high quality transportation corridors, along with the decline of science and higher education institutions, should be regarded as the most important failures of all of Poland's post-socialist governments (and, obviously, also of the earlier ones). Naturally, the impact of transportation corridors on the development of the regions they would cut through should not be overestimated; this impact will be manifest in individual locations, at the intersection of routes, in the vicinity of transportation junctions, border crossings, etc. Motorways and a fast, flexible railway are of national importance, and their regional role is of secondary significance and often leads to conflicts, as in the case of disputes over the location

of the East-West A2 motorway near Warsaw. The quality of border crossings plays a crucial role; their present quality constitutes one of the major hindrances to better economic integration of Poland into the international system.

Making use of cross-border cooperation as a developmental factor for regions and for the whole country should be a priority of state spatial policy. The role of the border is not limited to trade exchange in the vicinity of the border; cross-border cooperation should emerge in the spheres of environmental protection, infrastructure, municipal economy (in the towns divided by the border), flows of investment capital, etc. Moreover, transit traffic along transportation routes leading to and from the border crossings affects the economies of the gminas which those routes cross. Location along the border, apart from its positive impact, evokes many problems (excessive road traffic on roads with insufficient parameters) and dangers (illegal emigration, smuggling, criminality). Furthermore, the uneven economic potential on both sides of the Polish-German border may bring along permanent technological dependency of Polish manufacturers on German buyers. Polish spatial policy should support the positive aspects of cross-border cooperation, and at the same time endeavor to minimise its negative influences.

It is crucial that the activities undertaken by various government agencies be mutually coordinated in spatial terms. Obviously, not all activities of the state influencing the economy should be subject to the spatial policy consideration. For instance, not every case of social differentiation should be the object of this policy, but should rather be covered under social policy or employment policy. Regional policy, subordinated to the principle of effectiveness, should be responsible for creating the conditions of conducting economic activity in a given area while various limitations, e.g. relating to the natural environment, should be observed.

It is crucial that within those sectoral policies which have considerable spatial impact, their non-spatial, non-regional elements should be separated from those elements which should conform with the spatial (regional) policy of the state. For instance, research policy can have two components: one non-regional, concerning scientific research conducted in specific disciplines in a specified manner (e.g. on new technologies), and the other regional, conforming to the tenets of regional policy (e.g. stronger support to specific research or academic institutions located in centres regarded as priority ones under national spatial policy). Similarly, these two components can coexist in industrial, agricultural, technological, social, educational, or housing policies.

However, it is necessary to strongly emphasize that the regional components of individual sectoral policies must be subordinated to the assumptions of state regional policy rather than to the assumptions of those sectoral policies. Therefore, any spatial differentiation of financial and administrative instruments used by individual sectors should be treated as part of spatial policy, and not as autonomous activities of individual ministries.

CONCLUSIONS

The Polish transformation appears to be proceeding positively. However, the economic system appears to have become sufficiently autonomous from politics that it is unlikely that politicians will be able to spoil the “natural” course of economic transformation (though they definitely could make considerable strides in supporting it).

Regional breakdowns in the transformation processes prove beyond a doubt that the long-lasting features of areas and regions have an important impact on in the new social, economic and political reality. Changes of economic potential have occurred in the middle group of Polish regions—some of them lose, some of them win, according to the relationship between their potential and new location criteria. However, the regions most and least developed have not diverged from their trajectories: the best become even better, the worst become even worse.

Should regional policies react to these phenomena? There are no definite answers to this question. However, traditional approaches focussing on this as the main challenge for the regional policy are now seriously questioned in Poland.

In light of this, one may also challenge the applicability of the “equity-oriented” regional policies of the European Union to a country like Poland, whose goals lie closer to the efficiency pole. However, it does not seem that the doctrine of regional equity is as strong now in the EU as it was a few years ago. The EU may be changing its approach to regional policy and adapting it to even more acute competition on world markets and to the fact that those who do not win in this competition lose their chances for the future.

It might be more fruitful to look at the compatibility of the Polish regional policy with EU standards in a more specific way, i.e. relating it to some principles of policy formulation and implementation. Out of these principles, four are the most pronounced: concentration, additionality, programming, and partnership. All of them are of crucial importance for Polish regional policies, though the limitations

of domestic resources might cause some difficulties to the additionality principle (as already has been the case with the PHARE-STRUDER programme).

Concentration should, undoubtedly, be the main banner for those administering regional policies in Poland. It has already been established that the regional policies of the state should support only those undertakings of crucial importance for the whole country. This is nothing else but "concentration".

Programming means that policy should be oriented to the long-term and should be comprised of a number of activities in a comprehensive way. The shortage of strategic thinking in Poland, a consequence of the "overplanning" inherently afflicting the centrally planned economies, should be overcome. Even now, one third of Polish *gminas* and almost all voivodships have some strategic programmes for their development. Several initiatives that have recently emerged at the central level in order to formulate new principles for regional policies in the time span of 10–15 years should also be regarded as a practical implementation of the programming principle.

A prerequisite for sensible spending of the EU Aid funds and Structural Funds is the existence of a development strategy of the country that is bold, coherent, and that brings together the main political forces of the transition states. The examples of Greece on the one hand, and Ireland on the other, should be thoroughly analysed as models for our possible relations with the Union. We would do well to follow the best examples. The following suggestions could create a framework for these negotiations.

Partnership is the only possible way of realizing the goals of regional policies. However, two conditions have to be fulfilled: decentralisation of the state and a further growth of the private sector. These changes will, no doubt, be introduced, although the decentralisation process may be hampered by the opposition of some political parties more interested in strengthening their own influence in domestic politics than in the strategic interests of the country. Decentralisation will be possible only when large, strong self-governing regions replace the currently existing small voivodships. Integration with the European Union may play the role of a catalyst in this process.

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Polish Agency for Regional Development (PARR) is a State Treasury Foundation established by the Polish Government in 1993 in order to support regional development in Poland, in particular:

- to stimulate and support economic initiatives as well as cultural, social, administrative and organisational objectives in underdeveloped regions, in areas that require structural reconversion and development of infrastructure, and those threatened with high unemployment,
- to promote the spread of information, advisory services and training programmes, as well as market ideas and technical development concerning assumptions, methods and forms of regional development,
- to set up and participate in the establishment of financial institutions for regional development, and
- to provide financial and other supports to organisations facilitating changes in the economic structure of regions.

Polish Agency for Regional Development co-operates with state organisations and other institutions, including regional development agencies, which deal with the problems of regional development and structural unemployment. Polish Agency for Regional Development is responsible for the implementation of aid programmes in the following regions identified by the Polish Government: Łódź, Katowice, Wałbrzych, Rzeszów, Suwałki, Olsztyn, Krosno, Nowy Sącz, Piotrków Trybunalski, Sieradz, Łomża, Zamość, Koszalin and Elbląg.

Polish Agency for Regional Development implements and administers the following programmes:

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- Phare-STRUDER 2;
- PSPR (a Polish-Swiss Regional Programme).

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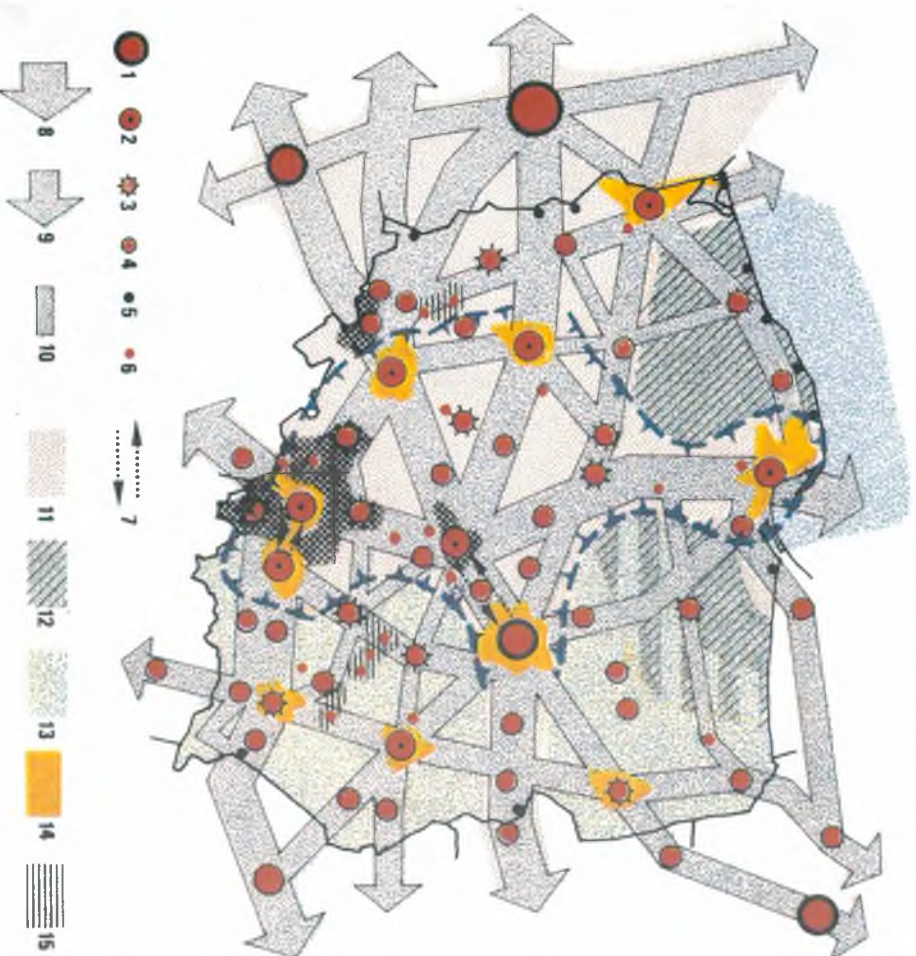
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Figure B. Concept of the spatial policy of the state



- Legend**
- A. Potential poles of polarisation—**centres of efficiency, competition, innovation and initiative: 1—capital metropolis; 2—European centres of Polarisation (Europolis); 3, 4, 5, 6—centres of balancing development; 3—domestic, 4—main regional, 5—transborder of major importance, 6—sub-regional of major importance; 7—two-pole connections of the centres
- B. Potential corridors of accelerated development;** 8, 9—of European significance, 10—of domestic and inter-regional significance
- C. Potential zones of multifunctional, ecologically conditioned development:** 11—accelerated development Polish-EU; 12—overcoming the recession; 13—activation; 14, 15, 16, 17—zones of accelerated structural transformations; 14—balancing the metropolisation, 15—overcoming the crisis of existing economic base, 16—active restructuring, 17—developing the maritime potential; 18—zone of growing competitive potential

Figure A. ECONET—Poland

