Captains or Pirates? State-Business Relations in Post-Socialist Poland

Roger Schoenman*

In the 1990s, post-socialist states faced a critical dilemma: how to privatize and transform thousands of firms in the absence of domestic entrepreneurs with enough capital to assume control of the state's industrial patrimony. In the fifteen years of post-socialism, the elites created by the processes of transformation have been a decisive force in the economic and political development of Eastern Europe. Yet few studies focus on these early winners of reform. This article explores the interactions between the new economic elite, their firms, and the Polish state to construct a multilayered framework of state-society relations in post-communism. It concludes that the structure of state-firm relations and heightened political pluralism was crucial in limiting the predatory behavior of the new economic elite during the period of restructuring and privatization despite. This was critical in avoiding the rampant corruption present in other post-socialist countries and placed Poland on a markedly different path.

Keywords: lobbying; oligarchs; privatization; corruption; political parties

> "And to think"—the mayor said to Dyzma—"that always and everywhere, it's not important *what is done* but *by whom it is done.*"
>
> —Tadeusz Dołęga-Mostowicz, *The Career of Nikodema Dyzma*[1]

The 1990s produced a vast literature on governance, institutional reform, and privatization in post-socialism. Yet the relationship of firms, as an interest group with policy demands, and the state has received surprisingly little attention in scholarship on post-communism. One would have expected the effect of economic interest groups on policy decisions to have been a

1. Tadeusz Dołęga-Mostowicz, *The Career of Nikodema Dyzma*. Wroceław, Poland: Wydawnictwo Dolnośląskie, 94.

* The author would like to thank Ira Katznelson, Jack Snyder, Steve Solnick, Xiaobo Lu, Sheri Berman, Eleonora Pasotti, Graeme Roberston, and anonymous reviewers for their comments on earlier versions of this article. Any remaining errors are my own.

East European Politics and Societies, Vol. 19, No. 1, pages 40–75. ISSN 0888-3254
© 2005 by the American Council of Learned Societies. All rights reserved.
DOI: 10.1177/0888325404271065

prior question to the decade-long and highly prominent debate that largely focused on the appropriate speed of privatization. After all, any conclusions about the appropriate speed and course of reform that emerged from this debate would be less interesting when one considered that the actual heading would be influenced, if not determined, by the political demands of interest groups and elite coalitions.

In fact, we now know that many of the powerful new interest groups in the post-socialist area were already forming in 1989 and quickly developed into formidable political forces throughout the region, capable of altering even the most committed state programs of reform and development.[2] Thus, as the mayor points out to Dyzma in the epigraph from Dołęga-Mostowicz's increasingly pertinent novel about the Polish elite of the 1930s, scholars should rather think about *who* is acting to understand *what* has happened. The spirited debate about privatization in Eastern Europe was largely devoid of such political context.

This article proposes both an empirical and a methodological shift. First, it suggests that to understand the actual course of economic policy making in post-socialism and its effects, scholars need to move from a focus on institutions and rules to the power struggles and endowments of competing groups of elites. We can explore the relevant features of these struggles by answering the following questions: What features determine which firms are successful in lobbying the state? What determines the nature of relations between firms and the state on a macro-scale? What types of advantages were obtained by those successful in lobbying the state, and were there patterns to the flow of these advantages?

Hence, this article explores the intense interactions between the new economic elite, their firms, and the Polish state to construct a richer understanding of the post-socialist state and state-society relations than offered by conceptions of a state largely

2. Joel S. Hellman, "Winners Take All: The Politics of Partial Reform in Post-Communist Transitions," *World Politics* 50:2(1998): 203-34; and Adam Przeworski, *Democracy and the Market Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge: Cambridge University Press, 1991).

detached from the economy. To advance this alternative conception, it explores state-business ties and the role of the state in Poland's post-socialist transformation in hopes of learning *who* was involved and what they were doing during the first decade of reform.

Second, based on insights gained from interviews and confirmed with a large-*n* exploration, the article argues that the major struggle of post-socialism was centered around ownership. By this, I am not referring to the debates over privatization policy, which have already received a great deal of attention. Instead, I am suggesting that attempts to structure property ownership were part of a broader struggle for political power. The defining feature of post-socialism has been the political competition to control economic resources in an effort to minimize political risk and uncertainty during the turbulent period of transformation. Parties needed to secure larger flows of capital for campaign finance to defeat their opponents. Naturally, they turned to profitable firms. In turn, firms tried to offset the high financial risks they faced during transformation by forming strong interfirm networks of capital and ownership. These networks then aligned with political parties in hopes of receiving concessions that would reduce the uncertainties present in a period of radical political and economic reform.

In every post-socialist country, electoral dynamics favored a particular relationship between economic interest groups and political actors. In Poland, the central case in this article, political parties were engaged in a pitched competition and had roughly equal electoral strength. Because aspirations to long-term political success required secure sources of capital, powerful political actors favored midterm productive outcomes over asset stripping or short-term distributive policies. Ultimately, this pattern of interaction, and not the absence of state interference in economic affairs, distinguished Poland from other post-socialist countries.

This article will proceed in four parts. In section 1, I will explore the argument that the so-called "big-bang" versus gradual reform debate misplaces emphasis on the speed of change instead of the politics of change and relies on a caricature of the

state's role in economic development. Section 2 discusses the formation of the new economic elite and the role of the state in that process. Subsequently, a measure is presented to estimate patterns of lobbying in post-socialist countries based on a firm-level measure of the tax concessions that firms are able to obtain. This measure operates as a test to show that ownership links, in particular state-private links, were a widespread and a critical bond for politics and business alike. In section 3, I will highlight the mechanisms of this system through a discussion of the informal institutions through which political actors exercise economic control in Poland. Finally, in section 4, I present case studies of three firms, for a micro-level view of the mechanisms discussed in the previous sections.

Section 1: Revisiting the big bang—The case of Poland

The conditions behind the unmatched economic success of Poland in the decade of transition have not received the attention they deserve in the literature on post-socialist reform and development. Poland was, after all, the first country in Eastern Europe to return to its 1989 level of output (in 1999) and the country with the highest average positive growth rate for the period from 1990 to 2002.[3]

The lack of attention to the workings behind this unrivaled developmental path is likely due to the dominance of institutional explanations in the literature on transition, which has deviated attention from other questions.[4] Where transition has been successful, their line of argument goes, reform was quick,[5] and institutional reform limited the rent-seeking opportunities of the

3. Poland's growth rate is 3.3 percent yearly according to the World Development Indicators (WDI), http://devdata.worldbank.org/dataonline/. GDP growth is just one of many indicators of economic of development but is often used as a first-cut comparative measure. Other countries with positive average growth are Slovenia (2.12), Hungary (0.97), the Czech Republic (0.62), and, surprisingly, Albania (1.53).
4. Searches conducted with OCLC Social Science Abstracts revealed the following number of matches for keyword searches limited to "Eastern Europe" and "Privatization" (143), "Big Bang reform" (22), "institutional reform" (31), but only 7 for "lobbying" (1 relevant) and 5 for "interest groups."
5. Anders Aslund. *How Russia Became a Market Economy* (Washington, DC: Brookings Institution, 1995); and Jeffrey Sachs and Katharina Pistor, *The Rule of Law and Economic Reform in Russia* (Boulder, CO: Westview, 1997).

state.[6] Thus, the literature explains Poland's success largely as a function of successful institutional reform.[7]

This set of ideas, broadly referred to as the "Washington Consensus," figured heavily in the toolbox of transition consultants. Thus, after the wave of revolutions in Eastern Europe, an influential group of academics and policy makers agreed that governments should not have any planned midterm or long-term role in economic development apart from guiding the privatization process and harsh monetary and fiscal reforms, which were themselves intrinsically designed to reduce the state's ability to exercise interventionist policies. The euphoria of the moment was so great that, as early as 1995, Anders Aslund published a book titled, *How Russia Became a Market Economy*. Yet the widespread distortions and the rise of the oligarchs that resulted from voucher privatization in Russia strongly suggest that Aslund's choice of title was rather premature.

Much of this debate over approaches to reform has centered on the speed of privatization, in particular because this was seen as the key to limiting corruption and budgetary outflows in countries with collapsed fiscal capacity *and* entrenched demands for government spending. Simultaneously, speed was considered the key step to creating the "interests" and "incentives" that would kick start the economy and that are considered critical to functioning markets. In theory, by limiting access to state funds, states would be forced to abandon loss-making ventures, such as the production of poor-quality coal that could not be sold on the world market. This would lead economies into a phase of widespread unemployment known as the "valley of transition," accompanied by widespread dissatisfaction with bitter pill policies.[8] In theory, however, following this period, the slack in the labor market would be absorbed by a wave of entrepreneurship and the rise of new private enterprises. Consequently, unem-

6. See Barbara Blaszczyk, *Uwarunkowania Wzrostu Sektora Prywatnego w Polsce- Praca Zbiorowa* (Warszawa, Poland: Centrum Analiz Spoleczno-Ekonomicznych, 1999).
7. Timothy Frye and Andrei Shleifer, "The Invisible Hand and the Grabbing Hand: Private Shops in Moscow and Warsaw," *American Economic Review* 87:2 (June 1997): 354-58.
8. Adam Przeworski, *Democracy and the Market Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge: Cambridge University Press, 1991).

Table 1. *Growth of the Private Sector, 1992-2000*

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000
Private sector as percentage of GDP									
Bulgaria	25	35	40	50	55	60	65	70	70
Czech Republic	30	45	65	70	75	75	75	80	80
Georgia	15	20	20	30	50	55	60	60	60
Kyrgyzstan	20	25	30	40	50	60	60	60	60
Poland	45	50	55	60	60	65	65	65	70
Russia	25	40	50	55	60	70	70	70	70
Hungary	40	50	55	60	70	75	80	80	80
Private sector employment (as percentage of total)									
Bulgaria	18.0	28.0	36.0	41.0	47.0	55.0	61.0	65.0	—
Czech Republic	31	47.1	53	57.2	58.9	59.7	60.6	65.0	65.0
Georgia	—	—	—	—	—	—	—	—	—
Kyrgyzstan	39.8	52.4	41.7	68.5	72.5	74.2	76.3	77.3	—
Poland	54.0	57.0	59.0	61.4	63.0	66.7	69.2	70.9	72.0
Russia	—	—	—	—	—	—	—	—	—
Hungary	—	—	—	71.0	76.8	83.3	81.4	—	—

ployment would settle at acceptable levels and the economy would rebound.

The emphasis of the "big-bang versus gradualism" debate was misplaced for three reasons. Most importantly, the discussion mistakenly focused on the speed of the state's retreat during the transition period rather than the content of state action during the transition. In both views there seemed to be little doubt that a retreat of the state was the ultimate goal on which economic success hangs, because the decline of the state sector will, among other things, reduce inefficiency, kick start the price mechanism, and eliminate opportunities for corruption. By focusing on *when*

the state will lose its ability to influence the economy instead of *what* the state actually does in the economy, scholars overlooked the range of functions that the state was performing in the transformation of post-socialist economies.

That factors other than the level of privatization were critical in determining the level of economic success in the post-socialist area is clear when looking at Table 1, which compares the size of the private economy across countries. Radically different outcomes arose in states with quite similarly sized private sectors, like Poland and Bulgaria after 1995.[9]

Second, the divide between rapid and gradual reform was widely exaggerated. Where big-bang strategies were attempted, widespread unemployment often became a long-term problem, particularly in rural areas that struggled to attract new investors once the local factory closed. Generally, radical restructuring policies in East-Central European countries proved politically untenable and were replaced by a series of drawn-out bargains between some combination of politicians, workers, and emergent economic elites. This was particularly the case in Poland, where a publicly declared commitment to liberalism in a given policy area often resulted in a much more gradual reform process.

Third, the debate has often based its arguments on a moving target: economic performance. During the period of Hungarian "outperformance," gradualism had the upper hand. Afterwards, Hungary's lag seemed to play in favor of the big-bang theorists. When the negative effects of big-bang seem to outweigh its benefits, gradualism again seemed to have the upper hand. In defense of gradualism, it now seems clear that where whole sectors were not supported, such as the devastated mining sector in Romania or Polish sugar, the result has been widespread long-term unemployment, economic contraction, and, often as a result, political instability.

This should be familiar to Americans: when whole towns lose their sole economic activity, such as those along the Erie canal or in the "Rust Belt" that are crumbling around their remaining

9. European Bank for Reconstruction and Development, *Transition Report 2001: Energy in Transition* (London: The Bank, 2001).

elderly residents, revitalizing without state support is a phenomenal challenge. The necessity of state guidance and support in times of crisis is only too clear if we observe that even in the purportedly liberalized U.S. economy, the state has played a large role in bailing out companies and whole sectors: the Chrysler bailout in 1979 and the post-9/11 airline industry bailout are just two examples.

In Eastern Europe, very few investors are willing to enter this sort of environment, so the failure of even loss-making firms has had long-term social and economic consequences that are difficult to estimate and even harder to undo. Once this became apparent in Eastern Europe, most governments strayed from the "consensus" and opted for a more gradual approach to reform, promising rapid and mass privatization in public statements, but keeping a pace that was politically and economically acceptable.

Given these arguments, it is interesting to note that the development of the East European literature on transition has followed in the steps of the neoliberal literature on East Asian development, prior to the state-led literature of the late 1980s.[10] In that literature, as in the East European literature, an initial dominance of explanations based on neoclassical institutional approaches was powerful in turning the gaze of most scholars away from practices and informal dynamics. Similarly, scholars of Eastern Europe have failed to pay enough attention to factors, such as the rise and organization of business interests, that guide the state in governing the economy in post-socialism. Despite the undeniable retreat of the state from 1989 levels of investment and management, I will show below that the state is very active in shaping outcomes in the market.

I remind the reader that the point of this discussion has not been to resolve the long conflict between the proponents of gradualism and radical reforms but to suggest that the emphasis

10. See Alice Amsden, Jacek Kochanowicz, and Lance Taylor, *The Market Meets Its Match: Restructuring the Economies of Eastern Europe* (Cambridge, MA: Harvard University Press, 1994); Robert Wade, *Governing the Market Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, NJ: Princeton University Press, 1990); and Stephen Haggard, Steven Benjamin Webb, and the World Bank, *Voting for Reform Democracy, Political Liberalization, and Economic Adjustment* (New York: Published for the World Bank by Oxford University Press, 1994), among others.

of this debate is misplaced and to propose an alternative. The alternative being suggested here is the study of relationships between firms and the state to understand how they contribute to the policy-making process.

Given the wealth of empirical evidence that has become available since 1989, we are now able to better examine the actual micro-processes of reform and the interactions of parties to the decision-making process. The context of that process, that is, the conflicts and bargaining processes between economic elites and political elites, remains the key to understanding the divergent economic paths of post-socialist states. In fact, even in 2003, we are reminded of the continued centrality of these groups, more than a decade after the fall of the Soviet Union, by events such as the showdown between Russian President Putin and the head of oil giant Yukos, Mikhail Khodorkovsky.

Section 2: States and their role in economic development: Beyond "slow" versus "quick" reform

Karl Polanyi discussed the importance of the state in shaping the institutions of the "self-regulating market" and the new class of entrepreneurs engaged in internal trade. In this article, I argue that state intervention in Eastern Europe has been equally important in kick starting the move to industrial capitalism by managing relationships with new economic elites, picking the winners of the reform process across the region, and helping to ease firms into the private sector. In every post-socialist country, this has occurred through a complex and corrupt set of informal institutions. However, the configuration of actors in these institutions limited the generation of corrupt outcomes in the Polish case.

What has led to this particular configuration of actors in the Polish case? Three broad paths in the creation of new economic elites can be observed: (1) Stark et al. (2000) pointed out that, in the East European race to privatize, the lack of private investors often meant that state-owned enterprises (SOEs) were "privatized" to other SOEs.[11] This formed webs of cross-ownership that

11. David Stark, Szabolcs Kemeny, and Ronald Breiger, "Postsocialist Portfolios: Network Strategies In the Shadow of the State." (Unpublished manuscript, Columbia University, 2000).

presumably generate advantages to firms in applying pressure for certain policies, sharing access to capital and other strategic market moves. (2) Similarly, the lack of domestic private capital meant that many current members of the new economic elite were former managers who became owners of parts of large state firms with the support or complicity of government officials. Faced with the possibility of handing away a company with earning potential to a group of knowledgeable management insiders or a foreign investor, the state often preferred the former. As just one prominent example of many such transformations, a former management team acquired Agros Holding, one of the largest and most successful Polish canned food companies. (3) A third group that benefited in this process was upstart private entrepreneurs whose success depended on securing concessions from the state. This last group has reinforced a notion held by 74 percent of Poles, that capitalism depends on alegal practices, insider ties, and appropriation of capital with political support and has not been beneficial for Poland.[12] In turn, the largest entrepreneurs and corporate executives, when asked if they contribute to corruption in Poland, regularly respond that they play a role much like the Vanderbilts, Carnegies, and Rockefellers. "These people," they explain, "also did not make their first million by playing within the rules."[13] Hence, they continue, much of the public disapproval of their dealings is based on a misunderstanding of their historical role as the first generation of large capitalists whose historical task was to lead the Polish state sector into the future.[14]

The economic elites that emerged from these three groups are united by the fact that they owe some part of their financial success to political support and readily admit that this was critical. To explore the broader pattern of state-business relations generated by these processes of elite formation, I now turn to case studies drawn from the five hundred largest firms in Poland.

12. *Centrum Badania Opinii Spolecznej*, or *CBOD* (The Public Opinion Research Center), *Aktualne problemy i wydarzenia* (136). (Warsaw, Poland: CBOS, 2001).
13. Interviews conducted in Warsaw.
14. Based on interviews in 2001 conducted with the owners and executives of the largest Polish companies.

This group of firms contributed more than 40 percent of GDP in 2000 and was widely judged the most efficient group of firms in the economy.[15] Furthermore, in 2000, these firms were owned roughly one-third by private capital, one-third by the state, and one-third by foreign investors. The state's interaction has created a contingent of strong private firms and assisted the renewed success of many SOEs, prompting Poland's conservative business paper *Rzeczpospolita* to assess the top five hundred firms, with their large contingent of SOEs, as the most dynamic sector.[16]

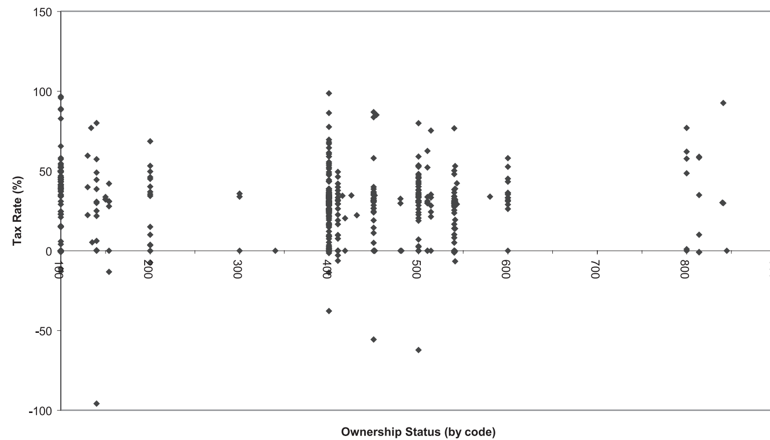
Again, I will remind the reader that it is undoubtedly true that the success of some firms from this group (such as KGHM, Pekao Bank, Polkomtel, Orlen, TC Debica, and PZU) was based on the temporary monopolies, protections, and transfers secured on the strength of personal networks. They have nevertheless become prosperous firms and engines of growth with large numbers of employees and high profits. My primary task in this article is to understand how such firms, as lobbyists, became contributors to Polish economic development instead of resting on their ability to extract rents from the state. It is the pattern of lobbying that emerged from a particular approach to ownership that, I will argue, differentiates Poland from other post-communist countries. Let us now turn to the question of ownership.

Exploring the benefits of mixed ownership

How can we investigate the impact of different ownership forms in post-communism and understand whether benefits from the state truly accrue to those that have such contacts? Recapping, a defining dynamic of post-communism has been the struggle by political actors to control economic resources. The objective of firms, in turn, has been to extract benefits from political actors. However, assessing the dynamics of this relationship and its effect on policy directly is nearly impossible because participants are rarely eager to announce their dealings. There are evident

15. *Rzeczpospolita*, 16 July 2001.
16. See reports by INE-PAN in the largest Polish business newspaper at www.rzeczpospolita.pl/dodatki/lista500_2001_010508/lista500_2001_a_6.html.

Figure 1: *Ownership status and tax rate of top five hundred companies in Poland in 2000*



Ownership Code:

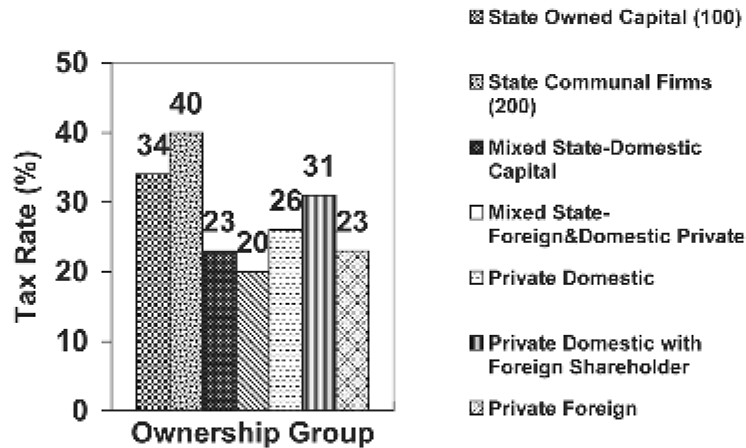
1-State Ownership. **2**-100% State-Owned Sole-Proprietorship. **3**-Communal Ownership
4-Private Domestic Ownership. **5**-Private Foreign Ownership. **6**-Co-operative
8-Privately Managed Portfolio of State Capital

incentives that maintain this code of silence: politicians and prominent firms fear the effect such dealings may have on public opinion. For firms, this is compounded by the likelihood that the obtained benefit will be rescinded when politicians face pressure to make decisions based on personal or political benefit. Moreover, much as a tennis player would attempt to conceal the benefits of a new racket technology from his opponents, there is a distinct advantage to firms in hiding obtained inequalities in market rules from their competitors. Further, lobbying in post-socialist countries is generally unregulated or regulation is not enforced, and such activity generally takes place far from public scrutiny.[17]

Thus, we are in need of a test to see that ownership actually is a factor in obtaining benefits from the state. In this article, I develop a measure based on the ability of firms to negotiate tax

17. To overcome this problem, interview-based analysis will follow the large-*n* exploration developed here.

Figure 2: *Tax rate by ownership group*

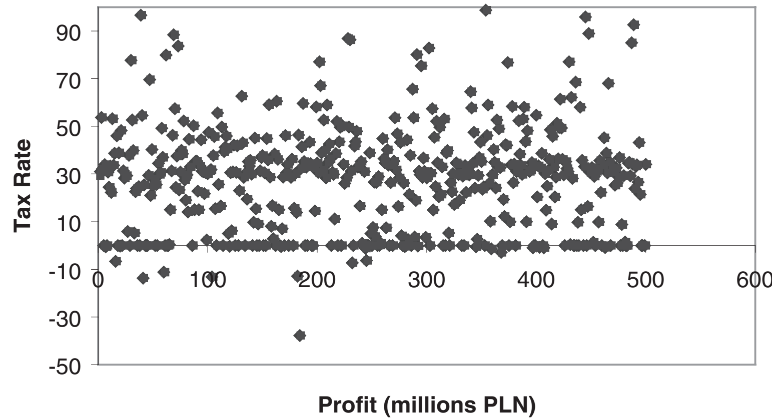


rates with the state. This is an attractive measure for several reasons. After raising profits, lowering taxes is probably the primary concern of firms everywhere. In Poland, however, many firms are able to obtain regulatory exceptions from the standard rates, and tax breaks have been a prominent form of state-bestowed benefit.

The data on actual taxes paid is available from the annual reports of almost all five hundred firms in the sample. It can be verified by subtracting net profit and investment from gross profit by using data from annual tables of financial data on the top five hundred firms published by the leading financial weekly *Gazeta Bankowa*. The tax rate paid by the top five hundred firms ranges from negative values (presumably a result of subsidy) to 98.7 percent (probably resulting from the payment of tax arrears), as shown in Figure 1. This data is sorted by ownership form for each company using a three-digit code where the first digit stands for the largest form of ownership (state, private, etc.) and so on.

We observe in Figure 1, a plot of all firms, that those with pure ownership forms (100 percent SOEs or 100 percent privately owned firms) pay the highest taxes in each ownership category,

Figure 3: *Tax rate versus profit*



whereas mixed ownership yields advantages in paying less tax.[18] Thus, as we move from 100 to 200, we observe a downward trend in the tax rate, meaning that the average rate for ownership code 100 is higher than that for 140. Similarly, code 400 pays a higher rate than 410 and so on. This holds in all categories where mixed ownership is present.

This is summarized in Figure 2. As we move to the right along the *x*-axis, we observe a general trend that firms pay lower average rates as their ownership form becomes a mix of private and state capital and rises again as they become more private. Thus, the highest average rate (34 percent) is assessed to SOEs and state-owned sole proprietorships, (40 percent). The latter are generally well-performing state firms that are under the direct control of the minister of the treasury and in the slow process to privatization. Firms with mixed state-domestic private capital on average are assessed a 23 percent rate. Where foreign and

18. Firm ownership is coded according to the three largest owners. 1 = state-owned, 2 = 100 percent state-owned sole proprietorship in preparation for privatization (state-owned legal person), 3 = communal ownership, 4 = private domestic ownership, 5 = private foreign ownership, 6 = co-operative ownership, 7 = privately managed state investment portfolio. For example, a code of 145 means that the largest owner is the state, the second largest is private domestic owner, and the third is a private foreign owner.

domestic private capital mixes with the state, the average rate drops to 20 percent. The argument holds for wholly private domestic firms as well, which pay an average rate of 26 percent. The rate rises again to 31 percent for code 450, private domestic ownership with the participation of foreign capital. One exception is the class of firms that are purely foreign-owned, which is likely due to the fact that many are large multinationals, which have been able to negotiate tax incentives as part of their investment in Poland.

Surprisingly, a plot of tax rates against profits (see Figure 3) confirms that companies earning similar amounts face sharply different tax rates. There seems to be no observable relationship between profits and tax rate in the plot, which is what one would expect if tax rates were simply a function of company profits in a given year.

Figures 1, 2, and 3 indicate that firms with mixed ownership have a distinct advantage in negotiating lower tax rates than those that are wholly private or state-owned. This suggests that firms with such hybrid ownership are able to extract benefits because of their contacts with the state. The effect that is visible in this data suggests a larger scheme of support to firms that are strategically important in the sense that they matter to the economy and that they control economic resources that are valued by politicians. The structures through which these benefits flow and the mechanisms behind their acquisition will be discussed in the next section on the bureaucratic structures that influence economic policy making and illustrated in the case studies at the end of this article.

Recapitulating, this section has shown that forms of ownership have an impact on the ability of firms to extract benefits from the state. The next section proceeds with a discussion of institutions of economic lobbying and firm case studies.

Section 3: Government and the economy: The overlap of politics and business

Poland has yet to develop a well-functioning network of business organizations, largely because a parallel system of establish-

ing contacts with the state—the system of company supervisory boards—is in place. Although many lobbying organizations exist, by their own admission, they find it very difficult to influence the government's position on issues of regulatory or legislative reform that affect the economy.[19] Moreover, it is hard to speak of consolidation of organizations that represent entrepreneurs. Entrepreneurs are often members of several rival organizations, which perform the same official function. This situation signals the lack of normalized and *formally* institutionalized patterns of interest representation between the state and business elites. In fact, effective interest representation in Poland follows other avenues: rather than institutionalized exchanges, it is based on particularistic contacts.

As discussed above, the most commonly encountered account of the rise of new capitalists after 1989 is that former Communist Party elites, often as transformed post-communist politicians, became wealthy by seizing economic assets.[20] Yet this can only be part of the story in the Polish case, where the source of the greatest number of economic scandals has been the post-Solidarity coalition. In fact, influenced by the sheer number of scandals, public opinion in 2001 believed that post-Solidarity politicians are far more corrupt than the post-communists.[21] During the government of Jerzy Buzek (1997-2001), an unrivaled twenty-two ministers were dismissed, many as a consequence of corruption. A scandal in 2001 involving the minister of telecommunications even prompted the liquidation of the entire ministry.

This pattern, further illustrated by the case studies below, suggests that politics in post-communist Poland has focused on the direct political control of public and private assets. Retaining power requires money. The critical supply of extra money comes from political allies in large business through alegal donations

19. Based on interviews conducted at all nationally visible business organizations: PKPP, PRB, BCC, KIG, Polski Związek Przemysłu.
20. Thane Gustafson, *Capitalism Russian-Style* (Cambridge: Cambridge University Press, 1999); Steven Lee Solnick, *Stealing the State: Control and Collapse in Soviet Institutions*, Russian Research Center Studies 89 (Cambridge, MA: Harvard University Press, 1998); Jadwiga Staniszkis, *Post-Communism: The Emerging Enigma* (Warsaw, Poland: IFiS PAN, 2000); and Gil Eyal, Ivan Szelenyi, and Eleanor R. Townsley, *Making Capitalism without Capitalists: Class Formation and Elite Struggles in Post-Communist Central Europe* (London: Verso, 1998).
21. *Rzeczpospolita*, 16 July 2001.

known as *cegiełki* or "bricks," from businesses controlled by the political party, and from free business services rendered to the parties, for example in the form of advertising. Scholarly studies widely confirm the importance and magnitude of covert contributions by firms.[22]

Few factors seem as important in explaining which firms contribute to which party, except, as will be evident below, personal ties. This can partly be attributed to the fact that the programmatic differences between the Left SLD (Union of the Democratic Left) and the Right AWS (Solidarity Electoral Action) have been narrow.[23] On industrial policy, political views have little meaning, since the room for fiscal expenditures is thin. Conversely, some issues are too prickly for discussion. For example, no political faction would dare to privatize Polish sugar. Even the last AWS strongly proprivatization minister of the treasury, Aldona Kamela-Sowińska (known as the "Iron Dame"), backed down from this proposition in the Council of Ministers.

Such "alternative" strategies of campaign finance have been common since 1989, when parties had access to assets, but there was a shortage of official financing. For example, the Centrum Alliance (PC) was formed in 1990, and its source of financing was to be a newly registered company called Telegraf. The firm's worth grew many-fold, which certainly contributed to the PC's subsequent development into one of the three large Polish parties.[24]

This situation persisted because the Law on Campaign Financing of 1997 provided no means of supervision of party financing other than declarations submitted after elections.[25] These are so

22. See Sylwia Wilkos and Marcin Walecki, multiple chapters in Marcin Walecki, ed., *Finansowanie Polityki: Wybory, Pieniadze, Partie Polityczne* (Warsaw, Poland: Wydawnictwo Sejmowe, 2000).
23. Jack Bielasiak quoted in Joseph Brada, "Privatization is Transition—Or Is It?" *Journal of Economic Perspectives* 10:2(1996): 67-86; and Jack Bielasiak, "Substance and Process in the Development of Party Systems in East Central Europe," *Communist and Post-Communist Studies* 30 (1997): 475-96.
24. "Ruch Dwoch," *Polityka*, 21 July 2001.
25. In 2000 campaign, financing regulations restricted the types of contributions that could be accepted. Restricted sources of funding for Presidential campaigns were defined in the law of 25 May 2000 (Dziennik Ustaw Nr 43, poz. 488). Parliamentary campaigns were reformed on 16 May 2002 (Dziennik Ustaw Nr 46, poz. 499). Political party financing was reformed in the law of 31 July 2001 (Dziennik Ustaw Nr 79, poz. 857).

general that it is very hard to verify the size of donations.[26] Furthermore, no sanction was specified for violating the law. This created a broad system of financing parties through firms, including SOEs.[27]

The lack of official money or, rather, the ease of accessing "alternative" campaign funds, makes the system of supervisory boards particularly rational as a source of economic influence and, hence, of financial resources. By contrast, it rendered irrational the development of business organizations as an institutional and transparent transmission belt of preferences.

Supervisory boards (*rady nadzorcze)* emerged as a critical institution of corporate governance as more firms began to take the form of partnerships or limited partnerships during the period of transition. As part of the three tiered structure of governance (board of directors, shareholders' assembly, and the supervisory board), the supervisory board is responsible for the daily operation of the firm. However, in the post-communist political context, the boards took on an additional political function. Much like interlocking firm directorates in the United States, the supervisory boards function as a means of networking and communication. In Poland, however, in addition to linking firms, they also link firms to the state, developing into bodies that function as a principle transmission belt between the economy and political actors.

The collusive use of supervisory boards emerged partly because the average Polish bureaucrat is highly trained but poorly paid. Hence, long-term career rewards were replaced by opportunities for bureaucrats (and politicians or their political allies) to extract rents. Widespread frustration at the seeming incoherence of policy generated by ministerial decree induced bureaucrats to conform to collect the rents promised for voting according to the minister's wishes.[28] Members of supervisory boards, who are chosen by the owner of the firm (the minister of the treasury in the case of SOEs) and, in turn, select the executive

26. *Gazeta Wyborcza*, 13 July 2001
27. Marcin Walecki, "Dochody Polskich Partii Politycznych," in M. Walecki, ed., *Finansowanie Polityki*, 113.
28. Interviews conducted at the Ministry of the Treasury in 2000.

board, are the main point of contact between the state and large industry. Hence, while the embeddedness of Polish bureaucracy in society remains thin, its embeddedness in the strata of economic elites is much deeper.

Prominent Polish scholars,[29] the media, and public opinion are critical of this function of the supervisory boards. The naming of public officials to these boards is actually illegal, and recognized as an institutional vehicle for corrupt practices, because it allows firms to reward functionaries and politicians with well-paid posts in firms. However, in a country where lobbying in any institutionalized sense is scarce and lobbying in general is seen as a sophisticated form of corruption, this institution, however peculiar, is accepted as yet another peculiarity of capitalism gone wild.

Two types of supervisory boards exist: those in SOEs and those in private firms, each serving a slightly different purpose. The existence of these boards is specified in the commercial code. Ostensibly, the purpose of creating a supervisory board was to create a level of oversight in the operations of firms. Eligibility to serve on a supervisory board is determined by a qualificatory exam. In 2000, it was estimated that thirty thousand people have passed this exam and are candidates for approximately six thousand positions.

When the majority of firms were state-owned, the supervisory board oversaw the decisions of the board of directors, which it nominated and dismissed. While the supervisory board is not entitled, according to the law, to issue directives to the board of directors, it can directly observe the activities of the board of directors. Moreover, since the supervisory board in SOEs is chosen by the shareholders, that is, the minister of the treasury, this translated into a delegation of management responsibilities under the observation of the minister or his functionaries.

Once a list of candidates has been assembled by the relevant department of oversight, the names are sent to the political department, which approves or changes the list and returns it to the department of oversight. According to the directors of these

29. See, for example, Maria Jarosz, *Manowce Polskiej Prywatyzacji* (Warsaw, Poland: PWN, 2001).

departments, nominations suggested by the department will often be replaced when the nomination is sent for approval. Hence, the supervisory boards combine political and administrative functions.

In the Ministry of the Treasury, workers were regularly encouraged to take this exam to increase the pool of available candidates. These encouragements took the form of a high bureaucrat walking into offices and encouraging people to take the exam. The need for obedient personnel to fill such positions was so great that even administrative staff responsible for the upkeep of the ministry building were approached.[30]

The attraction for employees of the ministry is the relatively attractive monthly salary that accompanies a position on a board. For most, this is the justification for retaining bureaucratic positions that pay low salaries. This also guarantees the discipline of delegates versus their political superiors. Although impossible to confirm with data because the process and nominations are opaque,[31] it is reported that a large number of the representatives are replaced with each change of ministers.[32]

The premiums for delegation to mixed-capital firms (more than 30 percent of the five hundred largest firms in 2000) are even higher since representatives of the State Treasury receive the same salaries (much higher than in SOEs) as their private counterparts. Thus, in the case of semiprivate and private firms, this structure is the main meeting point of state and private interests.

This process establishes the incentives for the disciplined control of the large state and semistate sector. Representatives of the minister vote as they are directed at shareholder meetings. If these are firms totally owned by the state, the meeting of "own-

30. Interviews conducted at the Ministry of the Treasury in 2000.
31. Access to information has stirred a serious public debate in Poland. My repeated requests for access to public documents containing this information at the Ministry of the Treasury were denied "in order to prevent unfair competition." The irony of this response was not lost on the secret police (UOP) functionary at the ministry, but my third request was also denied. My appeals to the minister during her well-publicized appearance in an Internet chat room run by *Gazeta Wyborcza* resulted in assurances, but my final request for access was also rejected.
32. *Polityka*, March 1999. Various informants cited this dynamic when describing the system of supervisory boards.

ers" is virtual and takes place in the ministry. An illustration of this process can be found in PZU, the largest state insurance company that established a system of "mutual interests" (known colloquially in Poland as *wspolny interes*) that allowed for both politicians and bureaucrats to benefit from public money. Scandals involving PZU revealed that a group of AWS politicians which had nominated the minister of the treasury, was able to place their own person on the president's seat at PZU. In turn, these politicians received funds and positions in the companies that were influenced by PZU.[33]

Section 4: Two firms and the state

Having developed a framework for understanding the dynamics of state-firm interaction, it would still be useful to look behind the data points presented in section 2 and observe a few actual firms closely. I will focus on two large economic actors and the episodes of their collaboration with the state in the course of economic activity. Each of these could be replaced by numerous other examples. These were chosen because of their prominence and the availability of detailed information. Since the interaction of these actors with the state often resembles the plot of a soap opera, the only way to understand how these interactions work is to become acquainted with that plot. I have attempted to reconstruct the sequences of events in a way that is clear while remaining faithful to the story and cast of characters.

As noted previously, the difficulty of exploring lobbying lies in the fact that there are no specific institutions of economic planning to investigate or government programs of investment to study. This activity depends on the promotion of allied political and economic elites through nominations to positions in firms, as well as through the transfer of funds and noncash equivalents through public contracts and regulations such as tariffs, protections, and concessions.

Below, I present case studies that illustrate the advantages that accrue to firms that cultivate relations with the state. I examine

33. *Rzeczpospolita*, 12 December 2001.

two episodes in detail. These firms are drawn from the most prominent firms. The first is a union of domestic private capital and state capital, and the second is a union of domestic, foreign, and state capital. Each is representative of the top five hundred largest firms in Poland and, hence, is drawn from the sample in Figure 1. In every case, the state is present: in the form of a business partner, monopoly defender, or protector from foreign competition. As we shall see below, there is a particular dynamic that generates state support.

State and private domestic capital: Political networks within Poland's natural gas network

The issue of finding viable sources of gas and constructing a network of new pipelines in Poland has been a critical political issue of the last decade. Diversifying Poland's supply of gas from Russia is seen as a critical strategic move. The Polish Parliament accepted this as an important move as early as 1990. At the same time, Poland's position between Russia and Western Europe offers an opportunity for earnings on cheap Russian gas in transit. Hence, negotiating the construction of pipelines and deciding who will build those pipelines has been desperately contested territory. The "winner" of this contest, which largely hinges on the acquisition of concessions, would have access to vast amounts of capital.

In 1990, Poland faced a mounting debt to its main supplier of natural gas, Russia's Gazprom. As the fear of a freezing winter with no heat began to mount among government officials, Alexander Gudzowaty formed Bartimpex (which stands for "barter import-export"). Formerly an official working for TextilImpEx, and several other foreign trade centers in Poland, Gudzowaty was able to use his relationship with Rem Viakhirew, president of Russia's gas monolith Gazprom, to secure a barter deal: Polish goods in return for Russian gas debt and, later, Russian gas. Gazprom, worried that Poland might never be able to service its debt, was happy to accept this deal. This solved Poland's immediate gas problem. On the strength of personal ties, Bartimpex

maintained its exclusive position as mediator between the Polish government and Gazprom. In fact, Bartimpex was not actually involved in buying and selling gas from Gazprom to the Polish state-owned monopoly mining and gas distribution company, PGNiG. The company simply obtained a 5 percent commission for intermediary services between Gazprom and PGNiG.

The first Solidarity government did what it could to remove this middleman (including use of the secret police). According to Gudzowaty himself, the first Polish Solidarity government agreed to this tough deal, "because it had to."[34] In particular, the issue was that Poland's supply of gas was controlled by just one firm, which was close to Russia, and ways out of this uncomfortable situation were sought. While polemics about strategic resources falling into private hands began to mount, however, Gudzowaty became, and has remained, the richest private entrepreneur in Poland. He was also the first large political contributor to date, giving $1 million to Lech Walesa in 1995.[35] Although political finance and contribution remain a murky area because of legislative loopholes, Gudzowaty has since become very close with the post-communist SLD, headed by Leszek Miller. As I will describe below, this would have a great impact on his company's further success.

With the construction of the Yamalsk pipeline, which brings gas through Poland to Germany, Bartimpex became an even bigger player. Poland signed an agreement with Gazprom to construct the pipeline on 25 August 1993. It included the formation of a new company, EuroPolGaz, to build the actual $2.5 billion structure. This new firm was formed in Poland as a partnership by PGNiG and Gazexport, a company owned by Gazprom. However, according to Poland's commercial code, sharehold companies must have at least three founders, and Gazprom insisted on the Polish company Gas-Trading, which was partially owned by Bartimpex (36 percent). Then the general director of the Ministry of Trade and Industry in the SLD government, Kazimierz

34. Interview with Alexander Gudzowaty, Warsaw, Poland. 16 April 2001.
35. Piotr Gabryel and Marek Zieleniewski, *Piata Wladza: Czyli Kto Naprawde Rzadzi Polska* (Warsaw, Poland: Wydawnictwo Naukowe PWN, 1998).

Adamczyk, was elected president of EuroPolGaz by the group of corporate owners. With only 4 percent of EuroPolGaz, Bartimpex held the deciding vote between the Polish and Russian shareholders, which each held 48 percent. Two years later, Poland concluded a deal on the delivery of 250 billion cubic meters of gas from Russia to Poland until the year 2012.[36] Part of the delivery was free as a compensation for the transit of Russian gas to Europe.

When the agreement was signed, it attracted strong criticism from the right. The Self-Defense Party leader Andrzej Lepper argued that the agreement signed between Poland and Gazprom should be renegotiated. It was also criticized by Solidarity politicians who saw the deal as creating a new dependence on Russian gas. The SLD, instead, indicated strong favor for Gudzowaty's role in the agreement.

In 1997, AWS won the elections and the government of Jerzy Buzek became actively interested in the owners of the pipeline. When a fiber-optic backbone was *discovered* running along the pipe in January 2001, the public debate again became heated about whether it was admissible to allow a private entrepreneur to control Poland's access to such a vital strategic resource. This cable was laid along the pipeline by PolGaz Telekom, a company owned by Bartimpex, EuroPolGaz, and Gaz Telekom, a subsidiary of Gazprom. Again, the president of PolGaz Telekom was Roman Czerwiński, vice minister of industry in the SLD government of Jozef Oleksy (1995-96). This discovery prompted AWS prime minister Jerzy Buzek to commission an investigation headed by the minister of telecommunications, which concluded that the backbone was "built in accordance with the law and all investment agreements . . . but attempted to avoid commitments made in the investment agreement."[37] According to these investment agreements, PGNiG was to be the sole operator of the pipeline. However, the report alleged, PGNiG had lost control of key facilities of the pipeline to Bartimpex and Gazprom.[38] While various political actors tried to remove Bartimpex from the owner-

36. Radio Free Europe/Radio Liberty (daily news briefing), 8 January 1998.
37. M. Wyjcicka, *Zgodnie z prawem, ale . . .*, 18 January 2001, www.radiozet.pl.
38. *Tygodnik Finansowy*, 17 January 2001.

ship of EuroPolGaz, plans were made to develop other sources of gas. Potential candidates were Norway, Denmark, and Germany.

The decision to diversify sources of gas was guided by strategic concerns. Executives at PGNiG repeated that Poland could not be dependent on just one country for its supply of gas and that this created the need for a new pipeline from the West. However, the choice of firms that would build pipelines into Poland was again driven by political choices and networks of interests. For several months, the AWS government tried to sign its own deal with the Danish government to supply gas. This was cast as an integral part of the Polish government's plan for the development of the gas sector until 2020.

When the contract with Denmark was signed on 2 July 2001, it was hailed as a great strategic success to the benefit of Poland's security. Hungary and the Czech Republic also expressed an interest in this new connection, which would also free them from Russia's monopoly on supplying gas. This solution also presented the ever-popular role of Poland as a transit country for gas. However, the opposition SLD immediately stated that it could not guarantee that the contract would be upheld after the elections in September 2001, which the Left was certain to win. The SLD leader, Leszek Miller, signaled a shorter connection from Bernau in Germany to Szczecin as an alternative. As the press quickly noted, this, however, would not resolve Poland's problem of strategic access to gas because Germany does not extract any of its own natural reserves. Instead, Poland would be purchasing gas from Ruhrgas, a company partly owned by Alexander Gudzowaty. The new pipeline built from Germany to Poland would be carrying gas that Ruhrgas, in turn, purchases from Russia.

In the case of EuroPolGaz, the state was not active in the early phase of creating opportunities. As was the case throughout Eastern Europe, Gudzowaty and his entourage rose to economic power as a result of arbitrage opportunities that they were able to seize and out of which they extracted a monopoly position. However, once they became a factor, Gudzowaty employed at least seventeen former ministers and high bureaucrats, as well as

many directors of PGNiG.[39] Without the assistance of the state, Gas-Trading would not have been able to maintain its position in EuroPolGaz. With this overlap of personnel and interests, that assistance was guaranteed. In fact, Gudzowaty purchased a bank in 1993, which was founded, in the name of the State Treasury, by Aleksander Kwaśniewski, the current Polish president and a founding member of the SLD. According to the Polish Audit Office, Kwaśniewski transferred more than $300,000 illegally to Gudzowaty.

Thus, the entrance of Bartimpex into the Yamalsk pipeline agreement occurred because Gazprom indicated Bartimpex as its preferred partner. However, this allowed Bartimpex to enter into a successful union with state capital via PGNiG, Poland's oil and gas distribution monopoly. In such cases, the private partners often see the state as a passive member of the group. The important factor for each venture is the presence of state capital (ownership) and overlap of decision-making personnel that is introduced with the venture. This is particularly important because of the shortage of private capital and large domestic entrepreneurs. As stated above, this lack of a domestic capital class was one of the critical constraints facing governments in post-socialism.

The story of Polish gas is a particularly interesting example of the workings of state-business relations and has led to the creation of the one of the largest and wealthiest private companies in Poland. Alexander Gudzowaty's firm displays the three dynamics of state-business relations discussed in the introduction. He is widely considered an "SLD man." Furthermore, Gudzowaty's power and wealth, no matter how great, is limited by the need to make political contributions or award positions to political actors. His business depends on participation in gas imports and the Yamalsk pipeline (i.e., the support of the state in obtaining concessions while favorable parties are in government). Finally, geopolitical questions about his dealings impinged on the legitimacy of political actors supporting him. Thus, Gudzowaty presented a cheap solution to Poland's gas

39. *Rzeczpospolita*, 6 July 2001.

problems but created the strategic problem of Russia as sole supplier. Nevertheless, the latter was not strong enough to dissuade political interests from engaging in the deal. As the need to find a second supplier arose, this logic was again pursued: each party had its own variant of a program for diversification. In each case, the opportunity to extract rents determined preference for a given alternative.

Foreign, domestic, and state capital

In 1993, Jan Kulczyk, vice president of the Polish Business Roundtable, the most elite business organization, suggested that Polish entrepreneurs should be able to buy SOEs with payment plans extended over many years. Upon receiving an entrepreneur's award in 1992, Jan Kulczyk said, "I believe that Polish firms should remain in our hands. Instead, selling domestic capital to foreign firms should be a way of filling out privatizations."[40]

Again, the comments of the Democratic Union (UD) minister of privatization at the time, Janusz Lewandowski, testify to the concern with domestic development.

> We decided on preferences, for example, payment in parts over time. This was a conscious choice against the best offer. Western groups have a tremendous advantage over us. Privatization created an opportunity for the rise of domestic groups.[41]

Hence, when Lewandowski put 40 percent of Lech Breweries on sale, he announced that only Polish business could take part. Kulczyk won the tender through his firm Euro Agro Centrum and thus established his relations with the center-right coalition then in power. Later that year, the post-communist SLD returned to power and decided, through the Ministry of the Treasury, to raise the capital of the firm. However, later that month, the treasury decided not to buy any new shares. Kulczyk, lacking capital, was forced to find an outside investor (South African Breweries).

40. *Gazeta Wyborcza*, 22 July 2000.
41. Ibid.

Thus, the SLD government succeeded in undermining Kulczyk's control of the company (punishing him for his affiliation with center-right parties).

In July 2000, the privatization of the telecommunications sector was set to begin. At that time, France Telecom and Kulczyk Holding, by then one of the largest companies in Poland, participated in a tender to purchase 35 percent of TPSA, Poland's monopoly provider of telecommunications services. In accordance with the privatization agreement, Kulczyk Holding was permitted to purchase 10 percent and France Telecom 25 percent, with the option to purchase a further 16 percent, making TPSA a majority private company but leaving the foreign capital in a minority position. This has been a critical part of Poland's privatization strategy since strong criticism arose about selling off the national wealth to foreign companies.

In June 2001, it was revealed that the minister of telecommunications in the AWS cabinet had signed a secret annex to the deal with the two companies on the same day as the privatization agreement. The deal assured France Telecom and Kulczyk Holding that the Ministry of Telecommunications would (1) not enforce maximum rate regulations; (2) give TPSA a concession for third-generation cellular phones, the tender of which had not yet been held; and (3) not allow any new operators to enter and compete with TPSA's existing mobile phone business until the end of 2001. Most importantly, it ensured for TPSA a monopoly position until the end of 2002 in international and intercity telecommunications. Kulczyk maintains that they would not have invested under any other conditions.[42] However, the entrance of a competitor in June 2001 (NOM—owned by a large consortium of SOEs led by the PSE and PKN Orlen) led to revelations about barriers to entry and, ultimately, the secret deal. This scandal even caused the liquidation of the Ministry of Telecommunications to limit opportunities for corruption in this sector. The agreement, however, was not rescinded.

Kulczyk Holding has been active in other businesses that require government support. For example, it won a large con-

42. Interview with Jan Kulczyk, Warsaw, Poland, July 2001.

tract for the construction of highways from Germany to Poznan. After the deal was concluded, the company insisted that the state treasury had to contribute to the project, arguing that the highway would not be profitable enough in the first years of operation to make the project worthwhile.

Much as in the case of Gudzowaty, the political polarization of the economy is very clear in this episode. Kulczyk's contacts with politicians from the center-right were decisive in making deals. In fact, when the SLD took power in 1993, he lost the support of state capital in the ownership of Lech Breweries and was forced to look elsewhere. Similarly, he was able to forge very advantageous deals in the telecommunications sector during the AWS coalition of Jerzy Buzek. Moreover, Kulczyk's firm employs former members of the Ministry of Telecommunications and his businesses are dependent on concessions from the state for the conduct of business. Finally, these deals were portrayed positively in the press because they retained Polish control of firms, although they lost some credibility when the protections of the secret telecommunications deal were revealed.

Section 5: Generalizing Polish state-business relations

The preceding part of this article has shown the following: (1) The state plays a much more sophisticated role in East European market development than generally acknowledged. This should be no surprise to students of the state. However, the exact dynamics that drive state action, and their effects, call for a more complex analysis than that which is currently available. (2) Some firms are able to exercise a much greater influence and to secure much greater benefits from the state than others. In Poland, ownership is a critical variable in determining the cooperation of state officials. In particular, when state and private capital unite, this presents special incentives for cooperation because it generates attractive payoffs for both sides. (3) Case studies of firms and institutions suggest that the relationship between business elites and the state in Poland is highly politicized and that the economy is polarized among political parties.

What generalizations can we draw from the previous sections? It is helpful to begin by summarizing the structural constraints faced by political actors in Poland. These can be captured in the following three points, consistently affecting Poland since 1989 across different governments:

1. The absence of domestic private capital.
2. A strong and consistent discourse of retaining Polish control of the economy. This was already an issue in the formation of the first large holding companies in the early 1990s. It also was a constraint on privatization.[43]
3. Lack of political financing.[44]

Given these limitations, policy makers organized their interactions with the economy to increase their own chance of political survival. A critical conclusion of this article is that the Polish state has retained a great deal of influence in the economy, both through ownership ties and, as discussed in section 3, through new bureaucratic structures.[45] As a result, given that the process of ownership and regulatory reform have been quite slow, successive governments have been able to create economic empires (groups of firms) that are politically aligned through alliances with their owners and managers and depend on political support for economic success. This has allowed the state to create an economic class of owners that is embedded in state structures of economic decision making. The final step in this essay will be to consider the nature and dynamics of this embeddedness.

Peter Evans's *Embedded Autonomy* offers a point of departure for this discussion. In his analysis of state-brokered development, Evans indicates the importance of focusing on the *role*, rather than the amount, of state intervention:

43. Jan Winiecki, *Institutional Barriers to Poland's Economic Development: The Incomplete Transition* (London: Routledge, 1997); and *Gazeta Wyborcza*, 24 May 1999.
44. Walecki, *Finansowanie Polityki*.
45. The combined earnings of recognized state-owned firms (SOEs) in 2000 were 213.5 billion złotys, which is 42.5 percent of the earnings of the top five hundred firms (502.1 billion złotys). Foreign firms had 179 billion zCłotys earnings (35.6 percent) and private firms had 107.1 billion złotys (21.3 percent). In 1999, this was 48.8 percent for SOEs, 30.8 percent for foreign firms, and 19.8 percent for private firms. See www.rzeczpospolita.pl/dodatki/lista500_2001_010508.

> Sterile debates about "how much" states intervene have to be replaced with arguments about different kinds of involvement and their effects. Contrasts between "dirigiste" and "liberal" and "interventionist" and "noninterventionist" states focus attention on degrees of departure from ideal-typical competitive markets. They confuse the basic issue. . . . State involvement is a given. The appropriate question is not "how much" but "what kind."[46]

Evans provides a valuable contrast through which to understand the dynamics of state-business relations in the Polish case, which has even been called the East European "tiger." Indeed, the comparison with the East Asian newly industrialized countries (NICs) is generally useful for reflecting on the nature of the state in post-socialist countries. Post-communist Eastern Europe shares many features with the East Asian NICs: the heavy presence and influence of the state in the economy and the seeming success of unconventional strategies for economic development.

Differences are also significant and informative: despite the size of the state, it does not possess the same type of control over societal forces that are commonly associated with the NICs. Furthermore, NICs used state-led development to promote the rapid growth of domestic industries. In post-socialism, the struggle has been not so much to spur strong development but to recover from a drastic and painful decline of output that occurred in 1989. The post-socialist states first set their sights on recovery, with rapid growth as a secondary concern, a sentiment echoed throughout government program documents.[47] The Polish state also has not been involved so widely in the picking of "winners" and "losers" in industry in the sense that we associate with the NICs.

There are also differences in the mechanisms of state intervention. In the East Asian "tigers," preferential access to funds served to increase competitiveness on external markets. Instead, in Poland, the structures of management of the state's shares in large firms, centered at the Ministry of the Treasury, do not have

46. Peter Evans, *Embedded Autonomy States and Industrial Transformation* (Princeton, NJ: Princeton University Press, 1995), 10.
47. Ministry of the Economy, *Industrial Policy Guidelines for the Years 1999-2002* (Warsaw, Poland: Ministry of the Economy, 1999).

any capital to invest. Since the Polish government has faced a mounting budget deficit, funds for projects and direct overt aid to firms are thin. Moreover, private partners view the state as lacking the technical skills needed to manage a firm. Hence, the state is generally a holder of large packets of shares as a passive owner.

As a consequence of this lack of state investment capital, in the first decade of reform, there was no overt program of development aimed at particular sectors, small and medium-sized enterprises or large industry. In fact, the absence of such programs is striking.

Notwithstanding these differences between the "tigers" and Poland, Evans's poignant message is worth noting: we need to investigate the different ways states intervene in economic development. The pattern of intervention depends on the structure of relationships between the state and the economy. How are we to think about this relationship? In Evans's analysis, it is the result of a combination of two states: *autonomy* and *embeddedness*. However, it is at the moment that we try to apply these concepts to the post-socialist states that our understanding of the state in post-socialist is sharpened significantly.

For Evans, embeddedness is institutional, to the extent that it derives from actors revolving around the same institutions (schools, universities, clubs). Thus, only a micro-approach that gives relevance to the biographies of the single actors can provide an accurate account of his concept of embeddedness (and consequently allow the conceptual space for identifying autonomy). However, the Polish case shows how embeddedness can arise from much more idiosyncratic relationships and highlights not its institutional, but rather its particularistic, character. Thus, embeddedness still defines the conduct and nature of the state, but the origins of the linkage are critical.

Even if we adjust the East Asian conception of embeddedness to the post-socialist area, the cases presented above show Evans's distinction between autonomy and embeddedness to be quite problematic. The latter still does not fit well with the empirical details of the links between state and social actors.

This is because in the Polish case it is extremely difficult to tell an empirical story about the relationship between the state and economy abstracting—as Evans does—from the alternation of party power and its rules. On the contrary, how parties stay in power is the centerpiece of an analysis of embeddedness in Poland. Party officials, or government representatives, subject to structural constraints while producing economic policy act in their own self-interest, that is, in the search to maximize revenue streams for political endurance.

Thus, one frequently observes policy making where the state is both autonomous and an arena for the satisfaction of self-interest of the actors involved (politicians, bureaucrats, entrepreneurs). From the beginning of the "transformation," for example, the state did engage in picking winners in a more literal sense: by creating networks of business elites with whom to collaborate (or collude). Guided by a structural combination of self-interest and rational analysis, these moves amounted to a de facto industrial policy, but not to a declared policy.

In effect, bureaucratic and political self-interest drove the creation of the domestic business elite and, in turn, increasingly conditioned the behavior of the political elite. This, however, suggests a very different conception of the state, in which it is much more difficult to draw a clear line between state actors and societal actors.

Thus, we can begin generalizing from the cases and constraints presented above to say that political actors maximize self-interest by pursuing the following goals in their relations with the economy (i.e., the following pattern of embeddedness):

1. Each political party attempts to form a class of *its* own entrepreneurs, which must serve as the engine of cash for political competition. This collusion leads to noncompetitive practices. In other words, politicians are kingmakers. This is autonomy of the state but is understood simply as the upper hand of the political sphere over the economic sphere. The economy adjusts not through competition but rather by "political appointment." In particular, the goods of political nepotism appear in the form of tariffs, financing, tenders, concessions, and tax exemptions.
2. In turn, economic actors must pay tributes to political actors in exchange for the privileged positions they have been granted.

Ultimately, these "nominated" kings are "place-keepers," dependent on the attempts of political actors to build economic empires, that is, to have direct control of economic resources (through the supervisory boards—see section 3).

3. Finally, political actors are limited in the action they take by the risks of losing legitimacy, their need to support economic actors who will be able to offer cash in the long run, and the structural constraints highlighted above.

Tentative comparisons and conclusions

As the preceding discussion points out, decisions taken after 1989 solved one of the most urgent structural problems facing Poland: that the essential feature of markets, and of capitalism—large capitalists—was missing. This article indicates that the role of the state in the development of this class has been far from the passive role that was ideologically popular in the early 1990s. The experience of Poland has shown that even privatization policy, particularly from the point of view of its impact on the formation of elites, is a form of state intervention. This led me to identify a de facto strategy of development, which is shy of being "state-led" but involves regular state intervention. The irony of post-socialism in Poland that this article ultimately has sought to explain is the developmental character that this dynamic has had, despite the predatory side of the individual transactions.

Can we really conclude that the relationships described above had the alleged developmental impact? I argue that the dynamics of state-business relations in Poland have been strikingly different from those in other countries. The discussion above points out that the state developed into an arena for the formation of networks of large capitalists and for the financing of political competition. However, in the Polish case, state-business contacts were highly polarized among political parties, and the major coalitions have enjoyed roughly equal time in power. This has been a defining factor in the development of the most important firms after 1989.

One outcome of this process has been, I argue, that despite deep contacts between politicians and economic elites, regular elections forced the Polish state to engage in the process of "capi-

talist formation" with limits on the corruption and challenges from economic actors that has plagued other post-communist states. This resulted because of the presence of the opposition, which had its own network of allied economic elites. Because actors were connected to particular political parties, and those parties have enjoyed roughly equal time in power, the ability of political elites to abuse their control of the economy was limited.

We can briefly explore this relationship, which seems quite robust across cases, in the remaining paragraphs. In Bulgaria, for example, the privileged access of narrow groups of interests meant that most entrepreneurs were largely disconnected from the state. Whereas in the Polish case, one could often predict the return of the party in opposition, Bulgaria suffered from high political uncertainty and weak coalitions that depended on the cooperation of the Turkish ethnic party, the Movement for Rights and Freedoms (MRF). This led political and economic elites to favor short-term strategies for large scale gains. These included the widespread asset stripping, funneling of assets out of privatized companies, and securing lucrative public contracts at the public's expense that have been described by other authors.[48]

The results were quite different in Romania, where the opposition has obtained a single mandate since 1989 and spent most of it engaged in internecine conflicts. As a result, Romanian business networks have not formed long-term alliances with political actors.[49] In fact, informants repeatedly argued that Romanian businesses do not bother to form long-term relationships with political actors at all. The select firms and elite figures that benefit from particularistic advantages do so on an episode by episode basis, through tit-for-tat exchanges.

This very brief comparison shows that the politicized nature of state-business relations was critical in setting Poland on a quite different path from other countries in the region. Future research will carry out this comparison in more detail.

48. Venelin Ganev, "The Dorian Gray Effect: Winners as State Breakers in Postcommunism," *Communist and Post-Communist Studies* 34:1(2001): 1-25.
49. Interviews with prominent business leaders, anticorruption activists, and business organizations.

Until then, what conclusions can we draw from the Polish case? A critical emerging lesson is that the post-socialist countries did not take different paths because they were more or less corrupt or adopted better institutions more quickly. As the episodes above demonstrate, corrupt relationships between state actors and economic insiders were rampant in Poland, and reform was not as fast as Polish politicians claimed to the outside world. Instead, the configuration of interests set in motion a radically different dynamic of the use of property that was acquired and held through insider ties.