

The 'Soft State': Business-Government Relations in Post-Communist Poland

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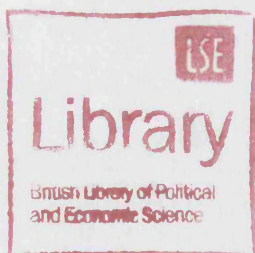
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The 'Soft State': Business-government relations in post-communist Poland

Abstract

I define modes of business-government relations by the actor, which represents business. In the association state, business associations are dominant. In the company state, the firm directly represents itself. In the party state, access to the political system is mediated by parties, with which businesses must identify themselves. In the soft state, the personal connections of businesspeople are the dominant channel of influence. The existing literature on business-government very rarely acknowledges that each mode forms part of the environment of business-government relations for the other modes. Of the four modes, by far the least attention has been given to personalism.

I find the association state to be weak because large numbers of small firms, weak trade unions and the sectoral configuration of Polish business present few incentives for the formation of business associations. The company state is usually associated with foreign and state enterprises. Foreign direct investment has been relatively modest in Poland. When state enterprises directly engage with the state, they tend to do so, not as businesses, but in alliance with trade unions. The party state is undermined by the high governmental turnover in Poland. It makes no sense for business to commit itself to parties, which are only temporary rulers. The soft state is found to be the dominant form of business-government relations. The sources of personalism are partially hidden behind complex personal histories. However,

involvement in youth organisations is a powerful predictor of the level of personal connections to politicians amongst the business elite.

Fundamental, and unlikely, changes to political competition and economic structure are necessary for Poland to become an association or a party state. In contrast, foreign ownership is increasing and state ownership is decreasing and transforming itself. Some of the conditions for personalism are also being undermined. In the future, instead of being a soft state, permeated by personal interests, Polish business-government relations may move towards the company state.

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Contents:

Chapter One	Introduction	
1	Business-Government Relations and Post-Communist Research	7
2	The Nature of Post-Communism	9
3	Methodology	13
4	Conclusion	23
Chapter Two	The Polish Economy and Polity	
1	Introduction	25
2	The Communist Polity	25
3	The Communist Economy	30
4	The Political Transformation	35
5	The Economic Transformation	38
6	Polish Democracy	42
7	Polish Capitalism	57
8	Conclusions	66
Chapter Three	The Four Modes of Business-Government Relations	
1	Business and Post-Communist Business-Government Relations	67
2	The Modes of Business-Government Relations	68
3	The Association State	72
4	The Company State	93
5	The Party State	96
6	The Soft State	101
7	Conclusions	109
Chapter Four	Business Associations	
1	Introduction	112
2	Dependent Variable	113
3	Independent Variable	127
4	Conclusions	162
Chapter Five	Competing Modes of Business-Government Relations	
1	Introduction	164
2	Identifying and Explaining Modes	164
3	Competing Modes	213
4	Conclusions	218
Chapter Six	Labour Law Making in the Third <i>Sejm</i>	
1	Introduction	220
2	The Labour Code as a Case Study	220
3	Context	223
4	The Twists and Turns of the Labour Code Reform	227
5	Conclusions	247
Chapter Seven	Conclusions	
1	Introduction	249
2	Summary	249
3	Potential changes in Poland	251
4	Poland's post-communist neighbours	258
5	Post-communism	267
6	Conclusions	269
Appendix 1	Interview Schedules	271
Appendix 2	Interviewees	273
Appendix 3	List of Leaders from ISP Survey	274
Appendix 4	Dendrogram from Cluster Analysis	275
Appendix 5	World Bank Governance Scores	276
	Bibliography	277

List of Tables

4.1	Data on Employer Organisations	118
4.2	Motivations for Membership of Business Centre Club	134
4.3	Membership Incentives for Regional Chambers of Commerce	137
4.4	Trade Union Membership in Poland	142
4.5	Roundtable Members Under Communism	157
5.1	Lobbying Channels for Laws, Rules, Regulations and Decrees	166
5.2	Summary of Variables	182
5.3	Regression Analysis of “How Well Known” Leaders Are	183
5.4	Regression Analysis of Scaling Solution	186
5.5	Interpretation of Cluster Analysis	190
5.6	Impact of Forms of Corruption	192
5.7	Personalism as an Epiphenomenon: Associations and Companies	202
5.8	Personalism as an Epiphenomenon: Parties	204
5.9	Sources of Personalism: Business and Social Factors	206
5.10	Sources of Personalism: Youth and Communism	209
5.11	Sources of Personalism: Best Variables	210
5.12	Logistic Regression on Lobbying Activity	214
5.13	Logistic Regression on Lobbying Success	215
5.14	Logistic Regression on Lobbying Activity (without size)	216
5.15	Logistic Regression on Lobbying Success (without size)	217
7.1	Lobbying Channels for Laws, Rules, Regulations and Decrees	262

List of Figures

2.1	Ideological Space of the Third <i>Sejm</i>	45
2.2	Unemployment in Poland	65
2.3	Economic Growth in Poland	66
3.1	Economic Explanations for the Strength of Business Associations	85
3.2	Overall Explanations for the Strength of Business Associations	93
3.3	Sources of Social Capital	103
3.4	Explanatory Framework for Business-Government Relations	111
6.1	Support for Political Parties in the Third <i>Sejm</i>	227

Chapter 1: Introduction

1. Business-Government Relations and Post-Communist Research

The first wave of research on former communist states was defined by a hypothesis that has dominated political science over the last century: the hypothesis of the universality of democracy. Some have argued that every corner of the globe can, or must, adopt this system, while others have asserted that it is possible in, and suitable for, only a small set of countries. The first wave was concerned with assessing the chances of the survival of capitalist democracy in former communist countries. This thesis concentrates on the Polish case. Capitalist democracy has been consolidated in Poland in the sense that no significant group, domestically or externally, even considers an alternative system.¹ As in other East-Central European states, there is little doubt that Polish capitalist democracy will continue into the foreseeable future. The focus of the universality hypothesis is now moving south and east of this region.

The second wave of research on former communist states is defined by another hypothesis, which has dominated political science for some time: this is the hypothesis of the diversity of capitalist democracy. It is now widely accepted that what divides capitalist democracies from each other is as important as what they have in common. However, there is great controversy about how to define the

¹ There are still those who would argue that Poland is a façade democracy, in which voters have no real choice and/or politicians have little control over policy. Undoubtedly, there are many limitations to Poland's democracy. However, these limitations are ones suffered by most democracies, including, the USA. Poland is definitely not a façade democracy in the usual sense. Contemporary examples are to be found in Africa rather than East-Central Europe (See, Larry Diamond, *Developing Democracy: Towards Consolidation* (Baltimore: Johns Hopkins University Press, 1999), Ch. 1. The debate about

subtypes of capitalist democracy. The second wave of research on post-communism seeks to investigate what sort of capitalist democracies are being consolidated in Central and Eastern Europe. Often this is done more implicitly than explicitly, but it is nonetheless surely correct that this hypothesis underlies the vast majority of research currently being conducted on this region. Given the sharp divergence between the communist states and the capitalist democracies for over forty years, the former communist states make for an intriguing sample with which to investigate the global diversity of democracy.

This thesis forms part of the second wave. Its subject has been explicitly chosen to contribute to the debate about the extent to which new capitalist democracies of East-Central Europe fit into existing categories. The issue of business-government relations is a particularly apposite one with which to test the diversity hypothesis in a former communist state. This is because it relates so directly to the definition of a communist system and to one of the most fundamental challenges in the transformation of communist systems.

Marx taught that the economic “base” determined the political “superstructure”. Politics was not an autonomous realm but was merely a reflection of power relations in the economic system. Communist regimes tried to reverse this relationship by completely subordinating the economic sphere to political control. An autonomous economic sphere was seen as, at best, a limitation on, and at worst, a threat to, the power of the regime. The fusion of politics and economics was perhaps the defining feature of communist systems. One of the great themes of the transformation of

whether Poland can be regarded as a democracy (in the normal sense of classifying regimes) is one that was relevant in the early years after 1989, but is now largely irrelevant.

communist systems since 1989 has been the separation of politics and economics. Of course, completely separating the two is impossible. It is more important to concentrate on the establishment of an efficient interface between politics and the economy. It is the efficiency of this interface, rather than the completeness of the separation, that is the key to the political economy of capitalist democracies. The area of business-government relations is perhaps the area in which former communist states are most likely to diverge from pre-existing capitalist democracies, since the relationship between politics and the economy defined communism and has dominated the post-communist transformation. Therefore, this thesis aims to classify and explain the system of business-government relations in contemporary Poland. This is not just an interesting and important subject in itself, but one that speaks to wider concerns about the diversity of capitalist democracy. Both conceptually, and empirically, there are enormous ambiguities in the term “post-communism”. The next section argues for a particular understanding of post-communism.

2. The Nature of Post-Communism

Post-communism is meant in two principal ways. The first meaning of post-communism is relatively wide and uncontroversial. It refers to the fact that many of the characteristics of countries, such as Poland, are legacies of the communist-era or are results of attempts to transform that legacy. This might be called causal post-communism. Many authors do not clearly distinguish between this uncontroversial post-communism and a more interesting post-communism, which takes the form of a path-dependence hypothesis.² This hypothesis states that because of their distinctive

² George Schöpflin, “The Post-Communist State”, paper delivered at the London School of Economics, November 1999; David Stark & Laszlo Bruszt, *Postsocialist Pathways: Transforming Politics and Property in East-Central Europe* (Cambridge: Cambridge University Press, 1998), *passim.*, esp. 6-7, 164-165

pasts former socialist countries will evolve into socio-political systems qualitatively different from those in the West or elsewhere. I call this distinctive post-communism.

Post-communism is a process of rapid and fundamental change, which, although precipitated and influenced by the political system, is, to a significant extent, outside of its control. In the political sphere, post-communism is largely defined by democratization and has a lot in common with similar transitions elsewhere in the world. In all such situations, there is initial uncertainty about whether the democratic regime will survive, the configuration of its basic institutions, and great uncertainty and instability in political leadership and the positions of political parties. Of course, communist regimes were very different from other authoritarian regimes and this has had a profound effect on the politics of post-communism. In contrast to other authoritarian regimes, communist regimes did not just dominate the apex of the state, or even just the state itself: they permeated all of society. Therefore, democratization has involved de-politicising many of the lower levels of the state and of freeing many functions and institutions from state control altogether. The nature of communism has perhaps made the building of democratic political parties more difficult than in other democratisation contexts. In post-communism, there is no well-defined class basis to build on; neither is there a web of independent organisations and associations, which can support political parties. Many post-communist parties are based on opposition to communism, past involvement in the communist regime or ethnicity, none of which have any obvious relevance to the tasks facing post-communist policy-makers. Moreover, parties based on anti-communism have a very flimsy social base, in the absence of a communist regime, or even the threat of one.

However, what best distinguishes post-communist politics is the overload of tasks necessitated by the management and completion of the post-communist economic transformation. This is well summed up by the phrase, “rebuilding the ship at sea”.

The economic transformation is much more original than the political transformation and gives the political transformation much of its originality. Post-communist societies are the first industrial societies into which capitalism has been introduced. All other capitalist societies were preceded by traditional agrarian societies of some sort. In all of these societies, capitalism evolved to some extent. Obviously, there are big differences between pioneers like the Netherlands and England and later developers such as Germany and Japan, where public policies were designed to promote capitalism. Capitalism, and especially advanced capitalism, requires an extraordinarily complex structure of law, regulation and tradition, which protects private property, and defines various types of property and their economic deployment. Never before has this complex structure of capitalism been introduced so quickly, never mind virtually simultaneously, as is the case for post-communism. This has meant that for many of the basic economic situations encountered in post-communism there are no guiding laws, regulations or traditions. For many others, the laws, regulations and traditions hamper, rather than facilitate, the operation of the market. Yet others are contradictory and some are so vague they could mean anything. While this situation is partly due to the limitations of politicians and the state administration, it is virtually inevitable in the context of post-communism. Well-functioning advanced capitalism is just too complicated to introduce immediately. Of course, the introduction of capitalism is far from the only important task facing the post-communist political system.

The post-communist state is, paradoxically, both in a very weak and a very strong position in relation to business. Its weakness has been described above. It consists in an overloading of urgent policy priorities and a regulatory system unsuited to the realities of a free market economy. However, in another sense, the post-communist state is very strong. It has the discretion to interfere in individual firms with a regularity and intensity that is very unusual in capitalist systems, whether they be long-established democracies or not. This discretion is both a legacy of the communist system and a fundamentally post-communist phenomenon. Under the communist system, politics and the economy were fused and enterprises were, in theory at least, under direct administrative control. However, the post-communist transformation in many respects requires even greater control over individual firms. It demands a fundamental change in the behaviour and structure of individual firms, which communist-era reforms never achieved. These changes have been difficult to incentivize through the regulatory system. Therefore, many policy-makers saw heavy intervention in management as an imperative of reform.

Capitalist states elsewhere rely much more on laws and regulations that apply to general classes of firms or situations. This approach was difficult to take because of the sheer complexity of the necessary legal structure, which takes time to establish and also because its enforcement requires impartial and expert enforcement, which was also lacking in post-communist countries. Just as the inadequacy of the legal structure gave business great latitude for freedom of manoeuvre, it allowed the state to choose amongst contradictory regulations or to adopt different interpretations of vague regulations. Thus, in post-communism businesses have great opportunities to

evade and influence the chaotic and overloaded state to their own advantage, but they are also at the mercy of an unpredictable state, which retains the ability to intervene decisively in the situation of individual firms.

The features of post-communism identified above will be kept in mind when formulating and testing hypotheses about Polish business-government relations. I will return to the distinction between the two meanings of post-communism when I assess the wider implications of my empirical findings in the conclusion of this thesis. Next, I describe the methods with which I have investigated business-government relations in Poland.

3. Methodology

3.1 Comparisons in Post-Communist Europe

Post-communist Europe has been hotly contested by social scientists from three principal groups. Firstly, there are country experts who have “marinated themselves” in the particular national contexts. This is essential. Those who have not worked hard to understand national particularities are likely to misinterpret them, or even worse, completely ignore them. Secondly, there are the students of comparative communism who have become the students of post-communism. Forty years of a shared, and intense, history, is, of course, still very relevant to the contemporary situation in this part of the world. Thirdly, there are the students of capitalist democracy, who have, literally and intellectually, invaded post-communist Europe. They have sought to apply and modify models of capitalist democracy in an exciting new set of cases. Given that many post-communist countries are now capitalist democracies, it is virtually illogical to assert that general approaches to capitalist

democracy cannot contribute something useful to the study of those societies. All three of these approaches are valid, and all three are much stronger if employed in combination. As will be evident from the thesis, the arguments proposed by the three groups are rarely diametrically opposed to each other. Rather, each group's arguments tend to be variations on, and re-specifications of, hypotheses proposed by the other groups.

Some country experts tend to eschew more general approaches because they assert that their countries are "unique". This view mistakenly underestimates the importance of both general approaches and country experts. Uniqueness is an inherently comparative concept. Someone who knows nothing about anywhere in the world other than Ruritania has exactly nothing to say about Ruritanian uniqueness. In social science, uniqueness is not a categorical variable. No country or group is completely unique. The question is how unique a country is. More interestingly, it is a question of in what respects a country is unique. Country experts are important, not just because they have so much to say about "their" country as a subject in itself, but also because they can falsify, confirm, modify and inspire general theories.

This thesis has not been written by a person who is a member of any of the three above groups. Writing a PhD about Poland in the 1990s, there was no option but to try to become a country expert, a post-communism expert and a comparative politics expert. The approach of this thesis has been to begin at the most general level (capitalist democracy), move to the regional level (post-communism) and to devote the most energy to investigating how the particular Polish context can be interpreted

in terms that relate to the two wider perspectives. This thesis has been able to draw on a rich body of literature on business-government relations in established capitalist democracies and a rich body of literature on many aspects of post-communism and Poland. However, it has not had the benefit of a rich literature on post-communist business-government relations, never mind Polish business-government relations. Although, business-government relations have very lately become a major preoccupation of the World Bank and other institutions, the existing literature on the subject is tiny. An easy way to prove this, is to search any electronic bibliography for “lobbying” or “interest groups” and compare the meagre results with the torrent of research on “privatization”, “parties”, “institutional reform”, etc. Thus, this thesis begins with the great advantage of originality but the great disadvantage of having few shoulders on which to stand.

3.2 Structure of the thesis

This section discusses the way in which I have tried to answer the research question, posed in the first section of this chapter. In Chapter 2, I introduce the Polish case, by summarising the general characteristics of the past and present Polish economy and polity as well as a discussion of the most salient specifically post-communist features of contemporary Poland. In Chapter 3, I present a theoretical framework for the study of business-government relations. This chapter argues that there are four modes of business-government relations in capitalist democracies: association, company, party and soft states. In association, company and party states business-government relations is dominated by associations, companies and parties respectively. The soft state is one in which business-government relations are permeated by personal relationships and networks. These modes constitute the

dependent variables of this thesis. The key feature of the explanatory approach is that the importance of one mode depends on its availability and effectiveness, relative to the other three modes. Independent variables are identified for each mode of business-government relations. I consider both variables, which are applicable to capitalist democracies in general, and variables, which seem to be specifically post-communist.

I use a wide range of sources in to evaluate the values of the dependent and independent variables. The sources may be classified as documentary, qualitative interview, and survey data. In Chapter 4, I assess the relevance of the association state to business-government relations in Poland. There are no original quantitative analyses in this chapter, since the survey data employed in other parts of the thesis, suffered from poor quality data, in all but the most basic questions regarding business associations. Fortunately, there is a relatively large quantity and reasonable quality of documentary and interview data on associations. In Chapter 5, I test the relative strength of the other three modes of business-government relations as well as explanations purporting to explain their relative strength. The main method is quantitative analysis of survey data, backed up by qualitative interviews and documents. Chapters 4 and 5 conclude that the soft state is the most important mode of business-government relations in Poland. Although, the results constitute very strong evidence, the analysis is mostly at a rather general level. Chapter 6 seeks to complement this general analysis with a more detailed case study of labour law making from 1997-2001. This issue area was chosen because of the large amount of lobbying around it and because of several features that made the personalist approach problematic. Thus, its conclusion that personalism was important may well be

generalisable to other issue areas in which conditions are more propitious for personalism. The case study is based on documentary and interview evidence. Chapter 7 sums up and discusses some general issues arising from the thesis. Specifically, it investigates whether the conclusions can be extended beyond Poland, and whether they can be extended beyond the 1990s.

Arguments based on a diversity of sources are much stronger than those based on one source or one type of source. One of the strengths of this thesis is its diversity of sources. When data collected by different researchers working on different projects point in the same direction this is a good sign, as is the agreement of qualitative and quantitative data. There are asymmetries in the quality and nature of the data and methodology used in different parts of the thesis. This, in itself, is not a problem. At each stage, an attempt is made to point out the nature of the sources used and this is kept in mind when assembling the conclusions of different sections into overarching arguments. For example, the labour law case study does not provide a comprehensive insider view of policy-making. Instead, it identifies a widespread perception that personalism was important and links this perception to a number of key events. In itself, the case study offers merely suggestive evidence for the importance of personalism in Polish business-government relations. However, in the context of the much stronger survey and interview data analysed in the previous chapters, it comes to a similar conclusion using a rather different methodology. This makes the thesis as a whole more convincing. In the next sub-section, I describe in more detail my principal sources.

3.3 Sources

Documents

The data used in the thesis are overwhelmingly primary. In terms of written sources, the most important are newspaper reports. Here *Rzeczpospolita* (Poland's only newspaper of record) and *Businessman* (a business magazine which has been published since very soon after the change of regime) were searched systematically. Other written sources were used on a more *ad hoc* basis. These include primary sources in terms of official documents and documents produced by business associations. While these written sources are important the main claims of the thesis rest largely on survey and qualitative interview data.

Qualitative interviews

I conducted thirty elite interviews in 1999, 2000 and 2002. The interviewees were mostly businesspeople involved in lobbying and politicians involved in economic policy-making. Three professional political lobbyists and a senior trade unionist were also interviewed. Eighteen interviewees are senior representatives of what are generally regarded as Poland's five most influential business associations.³ They come from the full range of backgrounds under the communist regime (opposition, old regime, *émigré*, private business, intelligentsia) and represent a wide range of sectors, excluding the special case of agriculture (state, private, privatised, small, large, sundown, sunrise, mining, manufacturing, services). The eight politicians

³ Krzysztof Jasiecki, "Organizacje Pracodawców i Przedsiębiorców w Polsce" in Jacek Wasilewski (ed.), *Zbiórowy Aktorzy Polskiej Polityki* (Warsaw: Institute of Political Studies, Polish Academy of Sciences, 1997), 177; *Businessman*, July 1998, 69; Joanna Dzwonczyk and Arkadiusz Sobczyk, "Employer and Entrepreneur Organisations during the Transformation Period in Poland" in Jerzy Hausner, Ove Pedersen, and Karsten Ronit (eds.) *Evolution of Interest Representation and Development of the Labour Market in Post-Socialist Countries*, (Cracow: Cracow Academy of Economics, 1995), 153-154; Wiesława Kozek, *Spoleczne Organizacje Biznesu w Polsce a Stosunki Pracy* (Warsaw: Centrum Partnerstwa Społecznego, 1999), 86

represented the main political parties in the third *Sejm*. The full list of interviewees is provided in Appendix 2.

The first five interviews were in English and the rest have been conducted in Polish, thereby removing one obvious source of selection bias. Almost all of the interviewees were contacted independently of all the others, thereby removing the threat of a self-selecting group all telling the same story. Qualitative research rarely mentions its response rate, even though there is no good reason for this to be kept a secret. About 30 per cent of the people contacted consented to be interviewed. This represents a fairly good response rate for quite lengthy elite interviews by a bizarre foreign student. There seemed to be only one pattern to refusals to cooperate. It was impossible to get any representatives of employer organisations in coal or steel, in spite of a wide range tactics including intercession by various people. However, there was nothing particularly vital about these sectors in terms of the main questions of this thesis. This problem does not extend to heavy industry in general or state industry in general. For example, the vice-president of the Mining Chamber of Commerce did give a lengthy interview. Thus, the sample is quite representative and should reduce the likelihood of the bias of a particular individual or faction from the business or political elites from distorting the conclusions of the research.

The interviews averaged about forty-five minutes and were semi-structured. Again, the first five interviews had a clearly exploratory nature in contrast to the remainder, which adopted a largely standardised format. Appendix one contains the interview schedules for business leaders and politicians. Although the interview schedules give an accurate account of the information sought, and usually obtained, the conduct

of the interviews was not as straightforward as they might suggest. Elites are accustomed to saying what they want to say, regardless of the questions they are asked. Most of the interviewees had extensive experience with the media and several had experience of academic interviews. The topic of business-government relations is sensitive in most contexts, and in contemporary Poland it is especially sensitive. Moreover, the status of the interviewer as a young foreigner made interviewees even more likely to give bland or very one-sided replies. A number of basic tactics were used to cope with this situation. The most obvious was preparation. Since the interviewees, or at least their organisations, were usually quite well-known, it was possible to gain quite a lot of relevant information prior to the interview. So questions could be begun, "Of course, it is well known that you ...", or replies could be interrupted with, "But I thought you ...". However, most interviewees expected this basic level of preparation. It was usually necessary to demonstrate that I had "inside" information, which was not generally known, or even generally available. Inside knowledge could be quickly demonstrated by alluding to information from unpublished documents or, better, from other interviews. While such a tactic might prevent platitudinous answers it might be seen as aggressive and prevent any answers whatsoever being offered. Thus, the impression of inside knowledge had to be married to an impression of objectivity and trustworthiness. Indeed, I was happy to let many interviews begin with a role reversal in which I would be interviewed as to what and who I knew and what information I wanted and what I intended to do with the information. Here it was important to emphasise that I was not searching for scandal as such, but was interested in the general characteristics of Polish business-government relations. My status as an academic and foreigner made it relatively easy to convince them I had no interest in attacking any individual, group, or point of

view. If an interviewee did not question me, I would deliver a little speech saying I was “directing a research project”, I was interested in X, Y and Z and, crucially, that I had been talking to enemy A, ally B, and neutral-but-knowledgeable C. The last resort was to directly confront an interviewee with an assertion, or even accusation, made by another interviewee. No interviewee ever responded to such a challenge with a “no comment”, or “I will not dignify that rubbish with a reply”. On the contrary, they would say something interesting like “He would say that because ...”.

I have adopted a conservative attitude to generalisation from these qualitative sources. Although the sample is reasonably diverse and representative it is not a random sample. Moreover, the content of the interviews was not rigorously standardised. Thus, it would be misleading to quantify the responses of the interviewees. Even when many of them were asked exactly the same questions on one particular issue, it was in the context of different questions been asked in previous sections of the interview. Most of the conclusions from the interviews are on the basis of an overwhelming consensus amongst interviewees. Where there was no such consensus, differences of opinion are noted. The interview methods, combined with a reasonably diverse sample of interviewees, and a conservative attitude to generalisation, mean that I have a good deal of confidence in the interview-based evidence in this thesis.

Survey data

The second main source for the thesis is a survey carried out by the Institute of Political Studies of the Polish Academy of Sciences in mid-1998 (ISP survey). The survey was concerned with the Polish elite as a whole and sampled political,

business, administrative, cultural and non-governmental elites. The survey was designed to present a general portrait of the Polish political elite. Most of the questions were broadly inspired by the power-elite literature, which concentrates on the connections between members and sections of the elite, and the pluralism literature with focuses on the decision-making process.⁴ Many of the questions asked were directly relevant to the concerns of this thesis. Some relevant data were not used because of quality concerns. Notably, the replies ^{to} some questions relating to business associations were not consistent with either other parts of the survey or my qualitative research. I was provided with the interview schedule and briefed in great detail by the authors of the survey and they have read my quantitative analyses. Therefore, it is unlikely that this thesis suffers from the type of misinterpretations which sometimes the use of survey data by researchers who have not participated in their design.

This thesis uses only the business section of the survey. For this section, three hundred respondents were selected from the lists of the five hundred biggest Polish firms published by *Polityka* (quality weekly newspaper) and *Gazeta Bankowa* (equivalent of the *Financial Times*). One hundred and ninety four interviews were carried out making for a response rate of over sixty four per cent, a very good rate for a study of post-communist business elites. Since two members of some firms were interviewed there is data for one hundred and forty four businesses. In order to eliminate selection bias virtually all of the analysis in this thesis is based on one individual from each firm. This was done by randomly selecting one representative of each firm. Although the researchers were disappointed by this response rate, they

⁴ Jacek Wasilewski, "Kontekst Teoretyczno-metodologiczny i realizacja projektu 'Elita rządząca i władza elity: wzory powiązań między elitami w Polsce'" in Wasilewski (ed.), *Elita Polityczna 1998*

mention no pattern of non-response.⁵ Rather than bias the problem of non-response seems to be insufficient cases to perform some statistical operations. Those who consented to be interviewed answered the vast majority of the questions. There was a widespread refusal to answer a handful of highly sensitive, or even provocative, questions. Response rates are noted in all statistical analyses in this thesis.

I also made much more limited use of the Business Environment and Enterprise Performance Survey (BEEPS), developed jointly by the World Bank and the European Bank for Reconstruction and Development. It is a survey of over 4000 firms in 22 transition countries conducted in 1999-2000 that examines a wide range of interactions between firms and the state. It includes interviews with 246 managers of Polish firms. In contrast to the ISP survey, 115 of the enterprises are small, 108 medium and 23 large. Like the ISP survey, the BEEPS survey managed to get responses to a wide range of very sensitive questions. It has become a standard instrument of post-communist political economy and is well regarded.

4. Conclusion: The variable uncertainty of conclusions

The purpose of the previous section was to allow readers to assess the advantages and disadvantages of the methods used in this thesis, without being forced into giving them the benefit of the doubt or suspecting the worst. An attempt is made to continue the spirit of this section throughout the thesis by flagging any methodological issues and trying to assess their implications for the substantive concerns of the thesis. An important element of this approach is the acknowledgement of uncertainty. A conclusion is not a conclusion is not a

(Warsaw: Instytut Studiów Politycznych, 1999), 14-20

⁵ Wasilewski, "Kontekst Teoretyczno-metodologiczny i realizacja projektu", 19

conclusion. Some of the statements in this thesis are presented with relative confidence and justifications for this confidence are offered. Other statements are at the level of informed speculation or plausible hypotheses. When this is the case it is admitted straightforwardly. While this thesis hopes to have explained some important variables, it does not claim to have explained all important variables. Some variables remain truly “independent” and are “outside the model”. This is as it should be for any sensible empirical work. I also want to emphasise that this thesis is in many respects “exploratory”. Although the World Bank and other institutions have very recently elevated the importance of business-government relations to an axiom, business-government relations has received little attention. The next chapter introduces the political and economic environment of business-government relations in post-communist Poland.

Chapter 2: The Polish Economy and Polity

1. Introduction

The purpose of this chapter is not to provide a narrative of political and economic developments in Poland over any period of time, nor is it to offer a comprehensive snapshot of the Polish political and economic systems at any point in time. This chapter merely aims to include information ~~which is~~ essential for studying business-government relations in post-communist Poland. The test of the quality of this chapter is whether it allows the author to avoid misinterpretations which invalidate later arguments about business-government relations in Poland, and whether it helps the reader to understand the detailed analysis of Polish data in later chapters.

2. The Communist Polity

In communist regimes the party-state held a monopoly of power. There were two principal ways in which regimes deviated from this ideal type. Firstly, they varied in the extent to which the qualification for responsible positions in the party-state was active political loyalty. Secondly, the regimes varied in the extent to which they allowed an opposition to exist. Although Poland was clearly a communist regime, it was distinctive in both of these ways.

The official qualifications for membership of the Polish elite changed over time.¹ From the post-war foundation of the communist regime until the return of

¹ Jacek Wasilewski & Edmund Wnuk-Lipiński, "Poland: Winding road from the Communist to the post-Solidarity elite", *Theory and Society* 24, 1995, 677-679

Władysław Gomułka to party leadership in 1956, the criteria for recruitment were largely political. In the immediate aftermath of the war, the party sought political loyalty as evidenced by membership of communist organisations in Poland and the Soviet Union, or recommendations from the Polish army formed in the Soviet Union. In the Stalinist period after 1948, a stress on proletarian social origins was added.² Under Gomułka, a combination of political and professional criteria was used. The requirement of proletarian origins was dropped and people in responsible positions were expected to hold significant educational qualifications. Nevertheless, the political element was still more important. Gierek's leadership (1970-80) stressed technocracy and there was a stronger emphasis on educational qualifications and professional experience. This was facilitated by the huge increase of qualified personnel since the Second World War. The stress on qualifications frequently constituted credentialism rather than meritocracy: what mattered was the piece of paper, not the abilities of the applicant. These trends had much in common with other communist regimes, which also witnessed a general decline in political criteria and the rise of a technocracy.

The declaration of martial law in 1981³ heralded a sharp divergence between the organisation of the Polish political elite and her sister communist regimes. The very summit of the regime was now dominated by men who were primarily soldiers rather than party functionaries. Moreover, these soldiers were much more committed to geopolitical loyalty to the Soviet Union than they were to any ideological view of how domestic politics should be conducted. The military regime proclaimed a

² George Kolankiewicz & Paul G Lewis, *Poland: Politics, Economics and Society* (London: Pinter, 1988), 51

further shift towards expertise and away from politics.³ Officially, only a minimal requirement of non-opposition to the regime was required. Beyond this the best person for the job was to be selected. By this stage, the meaning of political loyalty had changed from a positive ideological commitment to a mere willingness to work within the system, without questioning its basic characteristics. Even party members were relatively passive.⁴ In addition to a commitment to high levels of education, General Jaruzelski introduced some new institutions, which served as alternatives to the party as guarantors of political loyalty.⁵ Although the decline of the party is an important feature of Poland in the eighties, party members were still 35 times more likely to occupy managerial posts than others. They accounted for three-quarters of the total number of managers.⁶

While the party-state was centralised and huge power lay with the politburo and the leader, the regime was always far from monolithic.⁷ The leadership was factionalised and limited elections had given freer expression to disagreements within the regime.⁸ In the late eighties there were three principal factions: those who sought to introduce substantial market elements and a *rapprochement* with the opposition; those who sought to promote self-management of enterprises and a re-emphasis on a strong party and those who wished to maintain the existing system with politics and the economy dominated by a bureaucracy.⁹ The latter faction represented many of the mid-level members of the regime in enterprise management

³ Kolankiewicz & Lewis, *Poland*, 80

⁴ Kolankiewicz & Lewis, *Poland*, 70-71; Frances Millard, *The Anatomy of a New Poland: Post-Communist Politics in its First Phase* (Aldershot: Edward Elgar, 1994), 38

⁵ Kolankiewicz & Lewis, *Poland*, 91-93

⁶ Jadwiga Staniszkis, *The Dynamics of the Breakthrough in Eastern Europe: The Polish Experience* (Berkeley: University of California Press, 1991), 199, 288

⁷ Millard, *The Anatomy of a New Poland*, 37

⁸ Kolankiewicz & Lewis, *Poland*, 73

⁹ Staniszkis, *The Dynamics of the Breakthrough*, 120-122; Kolankiewicz & Lewis, *Poland*, 65

or local administration. The regime was highly sclerotic and the leadership repeatedly failed to implement reforms involving the wider communist apparatus.¹⁰

The low morale, weak organisation, low membership and ideological heterogeneity of the party were all unusual characteristics of the Polish regime. However, the relationship between the party-state and society was the most distinctive characteristic of Polish communism. While uncovering differences between the organization of the Polish party-state and other regimes entailed delving into the murky politics of the party-state, the deviation from the normal communist treatment of national society was glaring. Although both were harassed and circumscribed, Poland's large independent peasantry and her strong Catholic Church were largely independent of the regime, and in many respects went about their business as they had in pre-communist days.¹¹ These were two massive exceptions to the rule that communist regimes dominate society and do not allow sources of social power independent of the party-state.¹² For some authors this difference was easily enough to classify Poland along with the "authoritarian" regimes of Southern Europe and Latin America as opposed to the totalitarian and post-totalitarian regimes of other communist countries.¹³

Furthermore, the Polish regime was always relatively tolerant of more explicitly political movements. The post-war Polish regime was ruthless but flexible. Even the

¹⁰ Staniszkis, *The Dynamics of the Breakthrough*, 126; Kolankiewicz & Lewis, *Poland*, 171-172

¹¹ Neal Ascherson, *The Polish August: The Self-Limiting Revolution* (New York: Viking, 1982), 60-64; Zbigniew Brzezinski, *The Soviet Bloc: Unity and Conflict*, revised ed. (Cambridge, MA: Harvard University Press, 1967), 12-13

¹² Hannah Arendt, *The Origins of Totalitarianism*, new ed., (New York: Harcourt, Brace and World, 1966), 318; Janos Kornai, *The Socialist System: The Political Economy of Communism* (Oxford: Clarendon, 1992), 360; Leonard Schapiro, *Totalitarianism* (London: Macmillan, 1972), 63-64

¹³ Juan J Linz & Alfred C Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South America and Post-Communist Europe* (London: Johns Hopkins University Press, 1996), 256

five years of Stalinism in Poland were marked by comparatively few executions and arrests and a continuing failure to implement the collectivization of agricultural land. The events surrounding Gomułka's return to power facilitated a period of free speech when the intelligentsia and students played an important political role.¹⁴ The anti-intellectual and anti-Semitic purges of 1968 alienated the intelligentsia from a constructive role inside the party-state.¹⁵ However, Gierek's strategy of "repressive tolerance" provided the opportunity for an innovative strategy of resistance to communism. In 1976, there had been an outbreak of strikes across Poland, and the leaders were quickly arrested. A group of intellectuals decided to defend the workers by simply trying to get the regime to obey its own laws.¹⁶ This group also co-operated with the church, and it is this unique alliance, which is conventionally credited with the triumph of August 1980,¹⁷ when a communist regime signed an agreement with striking workers in Gdańsk. The Gdańsk agreement quickly led to a situation in which ten million Poles, including almost one third of the party, had joined the independent Solidarity union. With the imposition of martial law by the new leader Jaruzelski in 1981, Solidarity itself went underground. However, by the late 1980s Poland was by no means a country in which the party-state monopolised politics, society and the economy. There was a flourishing sphere of independent legal and alegal movements, societies and parties. There was a massive underground publishing industry.¹⁸ In addition, the party-state had begun to tolerate, and even

¹⁴ Nicholas Bethell, *Gomułka: his Poland and his Communism* (London: Viking, 1973), 195-196

¹⁵ Michael Checinski, *Poland: Communism, Nationalism, Anti-Semitism* (New York: Karz-Cohl, 1983), esp. 218

¹⁶ Jan Jozef Lipski, *KOR: A History of the Workers' Defense Committee in Poland, 1976-1981* (Berkeley: University of California Press, 1985)

¹⁷ For example, Timothy Garton Ash, *The Polish Revolution*, 2nd ed., (London: Granta, 1991), *passim.*, esp. 305. In contrast, see Roman Laba, *The Roots of Solidarity* (Princeton: Princeton University Press, 1991), esp. 180-181

¹⁸ Robert Zuzowski, *Political Dissent and Opposition in Poland: The Workers' Defense Committee 'KOR'* (Westport, CT: Praeger, 1992), 257

promote, private ownership outside the agricultural sphere. The next section introduces Poland's communist economy.

3. The Communist Economy

In orthodox communist regimes the private sector was either virtually non-existent, as in the USSR, or of marginal importance, as in East Germany. None of the orthodox countries had seriously disrupted the system of central planning with substantial market elements. The degree of concentration of the economy varied as did the tightness of central control. Czechoslovakia's economy was much more concentrated than that of East Germany but the huge sectoral economic units had more independence from the centre than enterprises in the East German economy. Some of the orthodox countries were much richer and more efficient than others. There were big differences in the degree of corruption and the importance of the black market. Despite all these differences, all the orthodox countries had strictly communist economies.

Hungary and Poland were very different, both in terms of the size of the private sector, and, in terms of the nature of the state sector. Both had substantial private sectors, which were vital parts of their economies and were encouraged by the authorities. In the post-war years, the new communist regime in Poland began to systematically persecute and eradicate the private sector, but seemed prepared to tolerate individuals engaged in service provision and artisanal production. This toleration was partly due to an official view that the state sector was not in a position to fill many of these economic gaps. Until the death of Stalin in 1953 the survival of the private sector was always in doubt. Thereafter, the sector was dependent on

shifting attitudes towards private enterprise in the party-state. In 1956, the sector benefited from a general wave of liberalization following leadership changes in the Soviet Union and in Poland.¹⁹ In 1970, there was a shift which allowed more entrepreneurs go into business, and allowed them accumulate more substantial incomes. Many of them did very well, even in comparison with senior officials.

In the mid-1980s there was a fundamental change in policy as the state decided that a large private sector could play an important role in rescuing the Polish economy. The private sector was to service the state sector with low-cost supplies. It could also provide employment for those released from over-manned state enterprises.²⁰ The eighties saw the rapid growth of new forms of private property, which were able to enter the manufacturing and foreign trade sectors on a relatively large scale. The first of these were the so-called *Polonia* firms. *Polonia* firms allowed expatriate Poles to set up businesses in Poland. Later the *Polonia* firms were largely superseded by new legal forms that were the equivalent to private and public limited companies (*spółka z ograniczoną odpowiedzialnością* and *spółka akcyjna*) and by regulations, which allowed joint ventures with foreign capitalists regardless of their origin. Encouraged by the new attitude of the authorities the state sector started to do business with the private sector. In the case of many alegal and illegal ventures the actual distinction between state and private ownership began to break down.²¹ One purpose of the plethora of private sector ownership forms and constantly changing

¹⁹ Anders Aslund, *Private Enterprise in Eastern Europe: The Non-Agricultural Private Sector in Poland and the GDR, 1945-1983* (London: Macmillan, 1985), 47-53

²⁰ Kazmierz Poznański, *Poland's Protracted Transition: Institutional Change and economic growth, 1970-1994* (Cambridge: Cambridge University Press, 1996), 102

²¹ Jadwiga Staniszkis, *Dynamics of the Breakthrough*, 35; Jacek Tittenbrun, *The Collapse of 'Real Socialism' in Poland* (London: Janus, 1993), 165, 182

regulations²² affecting them was to undermine the cohesion of the private sector. The private sector was subject to the whim of the party-state.²³ Opportunities for entrepreneurs to grow their businesses expanded greatly. In order to do so, it was usually necessary to cultivate political connections. Private sector firms often evaded rules and obtained exemptions.

In late communist Poland there was a significant private sector. The non-agricultural private sector officially accounted for 8 per cent of national income in 1986. The real figure was undoubtedly significantly higher²⁴ and the private sector continued to grow strongly in the late eighties.²⁵ The private sector was characterised by dwarfism as the state sector was characterised by gigantism. The average employment in private firms was only slightly above 2 persons including the employer and his family.²⁶ The traditional private sector was concentrated in the service sector and artisanal production, while newer enterprises were beginning to get involved in manufacturing and foreign trade.

In the 1970s the Gierek regime tried to inject new life into the stagnant Polish economy, by using Western loans to stimulate demand and invest in high technology. The aim of this strategy was to upgrade the economy into more sophisticated production and enable exports to the West, with which to pay off loans. There seem to be a number of reasons why this strategy failed and Poland found itself in an unprecedented economic crisis in 1979, a crisis that effectively continued until the

²² Poznański, *Poland's Protracted Transition*, 214

²³ Jacek Rostowski, "The decay of socialism and the growth of private enterprise in Poland" in Stanisław Gomulka & Antony Polonsky (eds.), *Polish Paradoxes* (London: Routledge, 1990), 204

²⁴ Rostowski, "The decay of socialism", 199

²⁵ Kornai, *The Socialist System*, 72

²⁶ Rostowski, "The decay of socialism", 205

mid-1990s. Contrary to a popular perception, there was some success in increasing the volume and quality of exports.²⁷ The regime was not quite as monolithic as it had been and much of the new capital was eaten up by wage increases in politically privileged sectors. This meant that Poland's debt began to mount to unmanageable proportions by the late 1970s. When the government tried to adjust patterns of consumption in 1976 and 1980, it set off political crises. The Solidarity episode of 1980-81 meant that the government effectively lost control of the economy.

In the 1980s, the party-state sought a solution to its economic problems in a version of the quasi-market reforms undertaken in Hungary. Although there had been previous outbreaks of economic reform rhetoric in Poland, no serious attempt to modify the fundamental characteristics of the communist economy was made in the 1960s and 1970s.²⁸ In the 1980s a new and shriller outbreak of reform rhetoric took place in the context of unprecedented economic and political crisis. The "propaganda of success", typical of communist regimes, and especially characteristic of Poland in the 1970s, was replaced with a "propaganda of crisis". This new desperation was a reason to believe that this time the authorities might push through substantial reform of the state sector. The basic thrust of the reforms was to replace the system of detailed central planning with market or pseudo-market mechanisms. The share of material inputs subject to central allocation had decreased from 45 per cent in 1986 to 22 per cent in 1988,²⁹ and a number of prices were subject to only limited controls. Enterprises were supposed to be "autonomous self-financing units". The system of virtually automatic redistribution from efficient to inefficient

²⁷ Poznański, *Poland's Protracted Transition*, Ch.5

²⁸ Kolankiewicz & Lewis, *Poland*, 103-104

²⁹ *OECD Economic Surveys: Poland 1992* (Paris: Organisation for Economic Development and Co-operation, 1992), 12

enterprises was to be severely curtailed. Huge economic units were broken up in order to increase responsibility and competition.

On the whole, these reforms were a failure and in no way compared to the modest success of Hungary's reforms. The key features of the old system reappeared in new forms. Directive central planning was replaced by government contracts. Economic ministries retained their old role of preparing detailed lists of contracts and overseeing their detailed implementation.³⁰ So many exceptions to the new formulae and regulations regarding subsidies and profits were granted that the level of subsidies changed very little. The main difference between the old and "reformed" systems was that subsidies were now granted on an even more ad hoc, uncoordinated and explicitly political basis.³¹ Many enterprises did not obey the spirit and even the letter of the new regulations and were very successful in resisting the intended economic discipline. Many regulations were badly designed and created perverse incentives that were exactly the opposite of those intended by the reform package as a whole. Although powerful cartels and associations of enterprises had been broken up, they continued to adapt and reform.

The failure of the reforms did not mean that Poland's state sector retained the characteristics of an orthodox communist economy. Instead, the Polish economy became a chaotic mutation of the central planning and Hungarian reform models. In 1988 and 1989 the Polish economy descended into chaos. Strikes, wage hikes and pre-election spending by the communist regime were some of the factors that set off

³⁰ Leszek Balcerowicz, *Socialism, Capitalism, Transformation* (Budapest: Central European University Press, 1995), 279-280

³¹ Kolankiewicz & Lewis, *Poland*, 109; Tittenbrun, *The Collapse of 'Real Socialism'*, 78-80, 83-86

hyperinflation, and much of the population's abandonment of the Polish currency for the dollar.³²

4. The Political Transformation

Here, three types of exit from communism will be defined simply by the relative control of the old regime and the opposition over the transformation. In the case of *collapse* the old regime has virtually no control over the transformation towards democratic capitalism; in a *negotiated* exit the old regime and the opposition share control over the initial transformation and in a *regime-led* exit the opposition plays a relatively marginal role. Orthodox regimes either collapsed or underwent a regime-led transformation. Obviously, negotiation was out of the question in a situation in which there was only one substantial, organised political force. In unorthodox regimes, the passage to the new regime was negotiated by the communist authorities and the opposition.³³

East Germany and Czechoslovakia are cases of collapse. When mid-level authorities or street-level law enforcers disobeyed the leadership's orders for the usual brutal crackdown on mass protests the hugely illegitimate regimes ceded power to new democratic leaderships in a matter of days.³⁴ In the German case, the transition to the new regime was completed by the communist state's incorporation into the

³² Ben Slay, *The Polish Economy* (Princeton: Princeton University Press, 1994), 86

³³ Cf., Terry Lynn Karl & Philippe C Schmitter, "Modes of Transition in Latin America, Southern Europe and Eastern Europe", *International Social Science Journal*, 43 (1991), 269-284; G L Munck, "Democratic Transitions in Comparative Perspective", *Comparative Politics*, 26 (1994), 361; Samuel Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Boulder: University of Oklahoma Press, 1991), 113; Herbert Kitschelt, Zdenka Mansfeldova, Radosław Markowski, Gabor Toka, *Post-Communist Party Systems* (Cambridge: Cambridge University Press, 1999), 29-31; Linz and Stepan, *Problems of Democratic Transition*, 57-60

³⁴ David Pryce-Jones, *The War That Never Was: The Fall of the Soviet Empire 1985-1991* (London: Weidenfeld & Nicolson, 1995), 245, 249, 333, 331; Linz & Stepan, *Problems of Democratic Transition*, 324; Gale Stokes, *The Walls Came Tumbling Down: The Collapse of Communism* (Oxford: Oxford University Press, 1993), 157

Federal Republic of Germany. In other orthodox regimes, the transformation was regime-led. In Bulgaria, senior members of the old regime committed themselves to transforming the communist system into capitalist democracy. The decisions to abandon the nomenklatura system and state ownership of the economy were taken before non-communists attained powerful executive positions. In Romania, a popular uprising and a good deal of violence gave the appearance of a “revolution”. Much of the violence seems to have been staged. When the smoke had cleared the new leaders were all men who had occupied relatively senior positions under communism.³⁵ Such a palace coup is consistent with a regime-led exit from communism.

The exit from communism was negotiated in unorthodox regimes. Their very unorthodoxy meant that the authorities had some experience of reform and, more importantly, there was a significant opposition with which negotiations could be conducted. In Hungary, there were important elements of a regime-led transformation.³⁶ Radical communist elites, led by Imre Pozsgay, tried to outflank their opponents within the regime by sponsoring opposition groups and by mobilising the masses.

In Poland the growth of the Solidarity movement had never been intentionally aided by the communist regime. Indeed, there had been an impressively efficient crackdown under Martial law. However, since 1980 the regime had said it wanted to work with “moderates” and not with irresponsible radicals – the Solidarity leadership

³⁵ Steven Roper, “The Romanian Revolution from a Theoretical Perspective”, *Communist and Post-Communist Studies*, 27 (1991), 405

³⁶ Timothy Garton Ash, *We the People: The revolution of '89, witnessed in Warsaw, Budapest, Berlin and Prague* (Cambridge: Granta, 1990), 14; Stokes, *The Walls Came Tumbling Down*, 99-100

being irresponsibly radical. In 1988, widespread strikes bred economic chaos. These strikes were generally not Solidarity strikes but were organised by younger and more radical workers. The government's desideratum of the co-option of non-communist representatives to the cause of economic reform had finally come to pass – not because the government had managed to create a moderate constituency closer to the regime than Solidarity but because Solidarity had been outflanked by the spontaneous strikes of workers who were less inclined to compromise than Solidarity itself.

The downfall of Polish communism was precipitated by a reform plan that went wrong. The regime's decision to negotiate was symbolised by the Round Table negotiations held outside Warsaw. The outcome of the talks was decided in advance. Solidarity would be legalised but would have to profess its support of "socialism". There would be elections but these would be organised so that all the real power stayed with the communist regime. A new Senate with little power would be one hundred per cent freely elected. Most power was to remain with the lower house of parliament, the *Sejm*, 35 per cent of the seats of which were to be freely elected. A new presidency with control over defence and foreign affairs was designed for Jaruzelski and was supposed to reassure the Soviet Union. To the surprise of both sides, Solidarity representatives were elected to virtually all the contested seats. A shaken Jaruzelski offered Solidarity a junior coalition role. The Solidarity leadership refused. Even more surprising than the election result was the defection of the satellite parties, the United Peasant Party and the Democratic Party. These parties had previously been so docile that they merited little more than a footnote in the most detailed treatises on Polish politics. However, some of their representatives were

Solidarity sympathisers and members, as were some of the communist deputies.³⁷

They refused to support Jaruzelski and so the Sejm's composition allowed Solidarity to offer the communists a role in a Solidarity-led government.

The institution of the Round Table also played a role in the exit from communism in other countries. However, this is no reason to claim that the exit from communism was negotiated in these other cases. In Czechoslovakia, the communist authorities were in no position to negotiate: the Round Table made their capitulation a little more dignified and aided the smooth hand-over of power. In Bulgaria, the regime had great difficulty finding opposition interlocutors for its Round Table "negotiations". Many of Bulgaria's most famous dissidents rejoined the communist party when they were released from jail. In Poland itself, actual negotiations were conducted behind the scenes and the Round Table existed primarily to legitimate rather than to negotiate.³⁸ This symbolic function was imported by other countries.

5. The Economic Transformation

The new Solidarity-led government found itself in an alarming situation. For a decade Poland had been struggling to return to the living standards of the late 70s. The state had lost control of the economy. Hyperinflation was developing. Poles increasingly held their savings in dollars. The black and grey economies rivalled the formal sector. Poland had no prospect of meeting payments on her massive foreign debt. Wages spiralled and "spontaneous privatization" reached epidemic proportions. These conditions set Poland apart from Hungary and Czechoslovakia.

³⁷ Millard, *Anatomy of a New Poland*, 67

³⁸ Staniszkis, *The Dynamics of the Breakthrough*, 196-198

In those countries, there was no urgent macroeconomic crisis and, therefore, politicians could consider a more gradual transformation of the communist economy.

The economic plan of the new regime was designed by professional economists from Poland and the US, with little direct input from the political leadership. However, Solidarity's political leadership fully backed the economic reforms, partly because their drastic neo-liberal content also performed an important political function. Taking the state out of the economy meant taking the party-state out of the economy. This was an important objective for the Solidarity elite who felt they had little control over a huge obstructionist bureaucracy.³⁹ The reforms were spearheaded by a young professor of economics, Leszek Balcerowicz, who had spent many years studying Poland's attempted reforms and analogous situations in other countries. The main lesson he drew from Poland's reforms was that tinkering with the system would not work. Crucially, a decentralization of economic decisions would not work without genuine competition in the economy. Therefore, the plan had to limit the opportunities for monopolistic and oligopolistic domestic enterprises to simply raise prices and wages. The plan implemented not just a freeing of prices and barriers to new firms but also a radical opening to international trade.⁴⁰ However, on top of these measures, the state imposed a controversial special tax on wage increases, known as the "*popiwek*". From other countries, Balcerowicz had learnt that only the most radical fiscal and monetary reforms were capable of defeating hyperinflation.⁴¹ Therefore, subsidies to consumers and enterprises were slashed and money creation by the National Bank of Poland was halted. A comprehensive plan drawn up by academics was rigorously implemented. However, since much of the plan, was not

³⁹ Sachs, *Poland's Jump to the Market Economy*, 43

⁴⁰ Slay, *The Polish Economy*, 92

⁴¹ Sachs, *Poland's Jump to the Market Economy*, 45

so much theoretical, but based on an interpretation of past Polish and Latin American experience, the common term “designer capitalism” is somewhat misleading.

The result was wrenching economic change. Balcerowicz and his team fully expected a recession but it was much deeper and more prolonged than they had expected. One reason for this was surely that all of Poland's post-communist trading partners were experiencing similar recessions. In 1991, the Soviet market collapsed. However, the plan achieved virtually all of its short-term aims. Inflation was reduced very quickly; the currency and budgetary situation stabilised; international trade took off; there was an immediate shift from industry to services; and hundreds of thousands of new businesses were created. Crucially, long-term structural change in the economy was started. However, the plan did not address the most fundamental issue of structural change. Its temporary solution to the issues posed by state ownership, the “*popiwek*” was regarded as inadequate by all, including those who dreamt it up in the first place. Privatization was a complex microeconomic process, which could not be implemented by administrative fiat like macroeconomic stabilisation. A discussion of privatization belongs in the following treatment of Poland's post-communist economy.

The enduring controversy and passion surrounding the Balcerowicz plan should not be interpreted as an indication that Poland's political elite was divided over the basic aims of the post-communist transformation. There was a wide and firm consensus that difficult economic change was necessary and that its only aim could be a market economy, integrated with global capitalism. Indeed, this had been the basis of the deal between the communist regime and Solidarity. It was most explicitly reflected

in the technocratic wing of the communist party and the intellectual wing of Solidarity. Undoubtedly, most of the participants in the negotiations foresaw reform, that would be uncomfortable, but would be much less radical and much more gradual than the Balcerowicz plan. They were of course working under an assumption that the economy would not be as chronically imbalanced as it was when the Mazowiecki government took power. In addition, the pact was based on a gradualist vision of political change. It was not expected that the government would be controlled by Solidarity. Once the Balcerowicz plan was implemented it was virtually impossible to undo. The reform consensus can be summed up by the phrase "Return to Europe". In general terms this meant the adoption of a capitalist democratic regime as in Western Europe. More specifically, this meant membership of the European Community. The *acquis communautaire* spelled out in great detail exactly what a Return to Europe would mean and there was very little room for negotiation on the Polish side. Of course, there was considerable diversity of socio-economic models in the European Community, and a debate raged about how exactly to reach the desired socio-economic model. These options were reflected in the party system, albeit usually with little clarity. Nonetheless, the basic consensus on market reform was much more important.

Biography: Leszek Balcerowicz

Born in 1948. A professor of economics he left the United Workers' Party in 1981 and became an economic adviser to Solidarity. From 1989 to 1991 he was finance minister under two premiers. In this time he designed and implemented the "Balcerowicz plan" of shock therapy for the Polish economy. This made him the most hated man in Polish politics but also won him many admirers. After returning to academia and advising on reform in other post-communist countries he re-entered politics as the leader of the Freedom Union in 1995. He became finance minister again in 1997 and governor of the Central Bank in 2001.

6. Polish Democracy

Poland's new democracy has been less stable than the polities of many of its post-communist neighbours. One of the reasons for this was the nature of the Polish exit from communism. Since it was a negotiated transformation, an unelected communist presence was maintained at the highest levels, even though the leadership of the country came from the opposition. Therefore, many key actors refused to recognize the legitimacy of certain institutions, and indeed the system as a whole. Moreover, the system had not been designed for democracy, nor had it been designed for a situation in which competing groups would simultaneously control different key institutions.

6.1 *The party system*

The forces which contested the election of 1989 underwent a rapid process of transformation and fragmentation. In early 1990 the United Workers' Party voted itself out of existence. Its property was transferred to a new party, Social Democracy of the Third Republic. Most, but by no means all, of the communist deputies also transferred their allegiance. The party's new beginning was exemplified by its leader: a slick young moderate called Aleksander Kwaśniewski. After a complicated set of splits and relaunches the United Peasant Party merged with other new or revived peasant parties. The Democratic Party virtually disappeared. Solidarity was an extremely heterogeneous organisation and its fragmentation was virtually inevitable:

It was a trade union, a diffuse political movement organized in the citizens' committees, a parliamentary body and the leading force in the government of Tadeusz Mazowiecki. Linked

tenuously to the industrial trade union was Rural Solidarity, organizing individual peasant farmers.⁴²

Nevertheless, these organizations managed to stay more or less united until 1990. The break-up of Solidarity was precipitated by increasing hostility between Lech Wałęsa, the head of the trade union, and Tadeusz Mazowiecki, the prime minister. They ran against each other in the 1990 presidential election, which Wałęsa won easily. In the aftermath of his election, Solidarity's deputies split into a number of parties that supported the government and its drastic economic reforms and another group of parties that advocated greater economic intervention.⁴³

Poland's first fully free parliamentary election was held in 1991 and produced a record-breaking 10.8 parliamentary parties. Even these parties were often heavily factionalised and some split up before the next election. One reason for this extreme fragmentation was the very proportional party-list system, which had no thresholds. In 1993 the electoral system was changed with the intention of reducing the number of parties elected to parliament. The 1993, 1997 and 2001 elections have produced moderately multi-party results. The 1993 election was highly disproportional and ironically resulted in the elimination of the authors of the new electoral system from parliament. By 1997, parties seemed to have adapted to the electoral system by forming alliances of parties large enough to pass the relevant thresholds.

In terms of its ideological space, Poland has a "two-and-a-half dimensional" party system. The first two of these dimensions are represented in Figure 2.1. It plots the

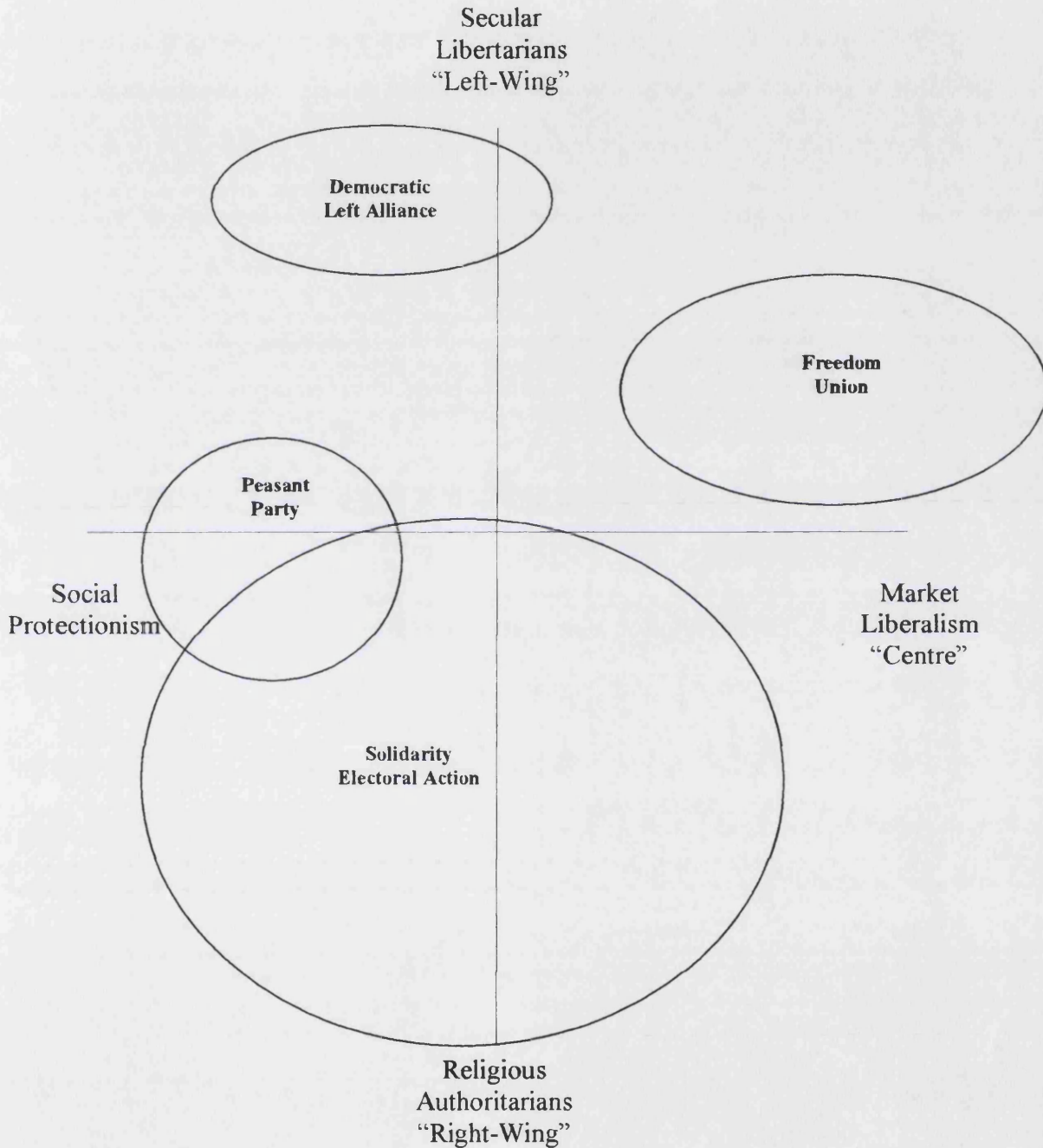
⁴² Millard, *Anatomy of a New Poland*, 119

⁴³ Millard, *Anatomy of a New Poland*, 133

positions of the main parties in the third *Sejm* (1997-2001), since this period is the main focus of this thesis.

The third dimension is a genealogical dimension that divides parties, which have succeeded the official parties of the previous regime from those parties which have their roots in the opposition to communism. This genealogical dimension tends to be correlated with the social issues dimension. The secular liberals tend to have considerable continuity with the previous regime, or have a pragmatic attitude towards those who have such continuity, while the traditionalists tend to be bitterly anti-communist and anti-post-communist.

Figure 2.1: Ideological Space of the Third Sejm



Note: This figure is based on a diagram representing an elite survey of parties in 1993 in Kitschelt, Mansfeldova, Markowski, and Tóka *Post-Communist Party Systems: Competition, Representation, and Inter-Party Cooperation* (Cambridge: Cambridge University Press, 1999), 233. The 1997 parties are direct descendants of the 1993 parties. They are located in the spaces occupied by their organisational predecessors in 1993.

The Polish meaning of the left-right continuum can seem eccentric to those socialised in Western European political vocabulary. Positions on secularism and liberalism versus religion and traditionalism are more strongly associated with the classification of parties as left, right and centre than economic policy. In Figure 2.1, the economic dimension, which most often forms the basis of a left-right divide in other countries is ranged along the X-axis from left to right. However, left, right and centre are largely not defined by economics in Poland. In order for the Polish meaning of left and right to be represented on Figure 2.1, it would have to be rotated ninety degrees anti-clockwise. In other words: the left-wing Democratic Left Alliance (SLD) claims a social-democratic identity but is more clearly defined by its secular, liberal attitude and its genesis in the United Workers' (communist) party. The right-wing Solidarity Electoral Action (AWS) was a loose alliance of groups that had little in common other than a vague traditionalism and a hatred of communism. Most notably, it had virtually no coherence on economic issues, traversing almost the entire economic ideological spectrum. Both AWS and SLD were strongly connected to rival union confederations. Solidarity was linked to AWS and the All-Polish Trade Union Federation (OPZZ) was linked to the SLD. The centrist Freedom Union is a liberal party in the sense that it is pro-market and secular. It has its roots in the opposition to communism. The last vital political player at this time was the Peasant Party. It is firmly linked to its farmer constituency, espouses moderately nationalist economics and has a background in both the communist regime and the anti-communist movement. It is perceived as moderately left of centre. Polish politicians, especially those concerned with economic policy, are acutely aware that the main political divide does not relate to economics. Obviously, the lack of party political definition on economic issues is an important part of the context of

business-government relations in Poland. Whenever the terms left, right and centre are used in this thesis, they are meant in the Polish sense.⁴⁴

The other notable element of Polish party politics is the extraordinary instability of the right, the great instability of the centre and the, until very recently, substantial stability of the left. The Polish right lost virtually all of its parliamentary representation in 1993. In 1997, it returned to power in the guise of Solidarity Electoral Action. In 2001, the party which formed a single party minority government failed to return a single deputy to parliament. Two new parties represented some of the right-wing electorate. Related to these ups and downs, the right wing has always been bitterly fractious. The centre has had a substantial presence in all Polish parliaments but has had limited continuity in the form of political parties. In 1997 the centre was represented by the Freedom Union. In 2001 this party also failed to get back into parliament. Its personnel were substantially represented in a new party, Civic Platform, which also included some of the more centrist elements of Solidarity Electoral Action. In contrast, in spite of some minor name and organisational changes, the left has constituted a continuous, united, and relatively disciplined party. However, in 2004 the Social Democratic Union split and it is very possible that neither the mother party, nor the newly separate party will

⁴⁴ Tadeusz Szawiel, "Zróznicowanie w lewicowo-prawicowe i jego korelaty" in Radosław Markowski, (ed.), *Wybory Parlamentarne 1997: System Partyjny, postawy polityczne, zachowanie wyborcze* (Warsaw: Institute of Political Studies, 1999); Aleks Szczerbiak, "Interests and Values: Polish Parties and their Electorates", *Europe-Asia Studies*, 51 (1999), esp. 1420-21. Some authors tend to stress the similarities of Polish parties to their Western counterparts and, the importance of the socio-economic left-right dimension. However, even these scholars admit that its importance is lesser than that of the socio-cultural dimension and attitudes to the previous regime. See Kitschelt, *Post-Communist Party Systems*, esp. 387 and Paul G Lewis, *Political Parties in Post-Communist Eastern Europe* (London: Routledge, 2001), esp. 50-59, 80-81

return to parliament after elections. In contrast to all other parties, except the Peasants, the left has also has a solid organisational base.⁴⁵

6.2 *The government*

The principal locus of political power in Poland is the cabinet, which is responsible to the *Sejm*, the lower house of parliament. The *Sejm* is far more powerful than the Senate. If the Senate rejects or amends a bill passed by the *Sejm*, the *Sejm* can override its decision by means of an absolute majority vote, as opposed to the simple majority required for the *Sejm* to pass a bill in the first place.⁴⁶ The constitutional power of the premier was increased by the 1997 constitution, which removed the president's right to a role in the appointment of foreign, interior and defence ministers. The "Little Constitution" of 1992 introduced a German-style constructive vote of no-confidence. Like most of their continental European counterparts, Polish ministers have a cabinet of political appointees to assist them, who perform many of the functions traditionally carried out by career civil servants in Westminster systems. The Prime Minister's office has been relatively weak in terms of institutional resources, and it has not been able to dominate or frequently even co-ordinate the work of the line ministries.⁴⁷

The positions of the cabinet and premier have been substantially determined by the position of the presidency and the party system. For all of Wałęsa's tenure and, for four years of Kwaśniewski's, the president has had to deal with a cabinet from a different party. Although cross-nationally cohabitation or its absence is the main

⁴⁵ Szczerbiak, Aleks, "Testing Party Models in East-Central Europe: Local Party Organization in Post-communist Poland", *Party Politics*, 5 (4), 1999

⁴⁶ *Konstytucja R.P.*, Art. 121.3

⁴⁷ Radek Zubek, "A Core in Check: the transformation of the Polish core executives", *Journal of European Public Policy*, 8 (6), 2001

factor influencing presidential-cabinet relations, this has, so far, not been the case in Poland. The pragmatic Kwaśniewski has managed much smoother relations with all cabinets, than did Wałęsa.

The cabinet's nature has largely been a function of the party system, and here Poland is no different to elsewhere. All Polish cabinets, until 2000, have been coalition governments. Some coalition governments have lacked majorities in parliament, as did two one-party governments. The Polish premier has not, until recently, been the leader of the largest party in parliament. The difficulties of forming coalitions, satisfying the existing president and the presidential ambitions of party leaders have all been reasons why lesser political figures have held the premiership. Furthermore, cabinets and premiers have had to deal with putative coalition parties, which displayed a conditional loyalty to the government, and weak party loyalty amongst the deputies belonging to coalition members.

Poland's first non-communist prime minister and cabinet for over forty years had a relatively free hand when they came to power. They had huge popular support, were protected by the "reform umbrella" of Solidarity, and generally received polite co-operation from the remaining communist appointees. However, the fragmentation exemplified and exacerbated by the presidential election, made the situation much more difficult for Mazowiecki's successors. They had to spend a huge amount of time in political management of their cabinet and political parties in the *Sejm*. In any case, most of them spent relatively short periods in office. From 1993 to 1997 there was a relatively stable coalition of the left and the Peasant party. However, prime ministers were the creatures of their parties, and the pre-eminent leftist,

Kwaśniewski was, of course, running for, or occupying, the presidency. From 1997 to 2000, the liberal and Solidarity coalition exhibited some stability in senior personnel, but was chronically weak due to its incoherent party base. The return of the leftists and peasant coalition, has not brought a return to stability: the junior partner has left and the left-wing minority government is managing to surpass even the unpopularity of its right-wing predecessor. It has now become so unpopular that after Poland's accession to the European Union in May 2004, the prime minister will resign and will probably be replaced by a technocratic caretaker government and premature parliamentary elections.

6.3 *The presidency*

The relationship between parliament and the president has been the major constitutional instability in Poland. In 1989 and well into 1990, these problems were not acute, as Jaruzelski ~~and the~~ left the Solidarity leadership to take the real decisions.⁴⁸ The real chaos began with the election of the leader of Solidarity's trade union wing to the presidency. Lech Wałęsa increasingly saw the presidency as the only legitimate political institution and, instead of working with, or in parallel to, parliament, he sought to undermine it. A fully democratic election to the *Sejm* in 1991 did not help matters since the highly proportional electoral system elected what some calculated was the most fragmented parliament in the history of any country. During this period there was intense struggle over both legislative and executive authority between Wałęsa and a succession of weak post-Solidarity and liberal governments. This was aptly known as "the war at the top". In 1992, the *Sejm* managed to muster the two-thirds majority to pass a "little constitution" which

⁴⁸ Millard, *Anatomy of a New Poland*, 150

clarified the relationship between the presidency, government and *Sejm*, largely by codifying the early post-communist relationship. Central to this was a recognition of the president's level of control over the defence, interior ministry and foreign affairs ministries. The Little Constitution also attempted to bolster government stability by introducing a German-style "constructive vote of no-confidence" and a detailed procedure, which encouraged the president and *Sejm* to agree on a prime minister.⁴⁹

In 1995 Aleksander Kwaśniewski narrowly defeated Wałęsa in the presidential election.⁵⁰ His relationship with his post-communist colleagues in government since 1993 was relatively harmonious in spite of occasional tensions.⁵¹ In 1997 a new constitution was finally passed. Until 1997, the president had the right to nominate the prime minister, a legislative veto which could only be overridden by a two-third's majority in the lower house of parliament, the right to submit bills to the constitutional tribunal and a right to appoint the ministers of foreign affairs, defence, and internal affairs. The new constitution removed the president's right to appoint ministers and made it possible for a slightly lower majority in the lower house of parliament to override the veto.⁵² Of course, even at this level, the government alone would not have enough votes to bypass the president.

In spite of these new limitations, the president remained a powerful political actor. During the third *Sejm* (1997-2001), the period on which this thesis concentrates) he had to "co-habit" with his political opponents rooted in the opposition to

⁴⁹ Millard, *Anatomy of a New Poland*, 161

⁵⁰ Frances Millard, "The 1995 Presidential Election in Poland", *Journal of Communist Studies and Transition Politics*, 12 (1996)

⁵¹ Ania Krok-Paskowska, "Divided Government in Poland" in Robert Elgie (ed.), *Divided Government in Comparative Perspective* (Oxford: Oxford University Press, 2001)

⁵² *Konstytucja R.P.*, Art. 122.5; Frances Millard, *Poland: Polish Politics and Society* (London: Routledge, 2000), 31

communism. His personal popularity and visibility as head of state gave him ample opportunity to criticise the government. He managed to successfully veto several important bills such as those changing sex education in schools, lowering personal income tax, and prohibiting any but the smallest businesses from opening on a Sunday. The Polish political system fits quite clearly into the category of semi-presidential regimes in that it has a popularly elected president and a prime minister and cabinet who are responsible to parliament. Polish semi-presidentialism tilts towards parliament, and the presidency is significantly weaker than in the archetypical semi-presidential regime, France.

6.4 Other institutions

There are significant political institutions in Poland beyond the national legislature and executive. There are three levels of elected sub-national government culminating in the sixteen provinces (there were forty-nine until 1999). These institutions are not very powerful and do not substantially qualify Poland's status as a unitary state. Another set of devolved institutions were the health funds which were guaranteed a proportion of income tax revenues with which to buy healthcare from public and private institutions for all Poles.⁵³ The current government has re-centralized health funding in one quasi-autonomous agency. Poland's constitutional tribunal is powerful and has struck down several important bills, including some of those aimed at penalizing those who held high positions under the previous regime⁵⁴ and the most recent reform of the health system. Poland's central bank has been a source of political controversy since the mid-1990s. Its power to set interest rates

⁵³ Iain McMenamin and Virpi Timonen, "Poland's Health Reform: Politics, Markets and Informal Payments", *Journal of Social Policy*, 31 (2002)

⁵⁴ Herman Schwartz, "Eastern Europe's Constitutional Courts", *Journal of Democracy*, 9 (1998), 100-114

and its insulation from political pressure make it one of the most powerful central banks in the world.⁵⁵

6.5 Policy-making and implementation

The policy-making environment for Polish business is one in which it is difficult to avoid direct individualised involvement with the state, regardless of state or private ownership. This can be described as a situation in which private goods, decisions or policies applying to a particular firm or list of firms, are very important in comparison to public goods, decisions or policies applying indiscriminately to an abstract class of firms. For example, the importance of licences has not been a quickly diminishing legacy of the communist period. According to Kloc, between 1989 and 1996 the number of areas of business for which special licences was required increased from 11 to 21.⁵⁶ In 2001, over 50 per cent of the Ministry of Economy's decrees related to individual firms.⁵⁷ That is to say over half of them related to the distribution of import quotas, subsidies, places in special-export zones, restricted licences for the production or trade of certain goods etc. The remainder consisted of regulations, which applied automatically to objectively defined groups, like health and safety regulations for particular industries.

All of this state activity, is reflected by the importance of the state to the fate of individual firms. In the ISP survey, one quarter of the firms had received a subvention, an allowance, a derogation or some other financial assistance in the last

⁵⁵ Robert Haterski, *Niezależność Banku Centralnego* (Toruń, Poland: Dom Organizatora, 2000)

⁵⁶ Kamila Kloc, *Szara Strefa w Polsce w okresie transformacji* (Warsaw: Centre for Social and Economic Research, 1998), 35

⁵⁷ Author's calculation from "Wykaz Rozporządzeń Ministerstwa Gospodarki", 8 December 2001, www.mg.gov.pl/prawo/Prawo.htm,

year.⁵⁸ Almost one quarter held a special licence in that period.⁵⁹ Over half had sold goods or services to the state. Over 11 per cent received the majority of their income from sales to the state.⁶⁰ 62 per cent of the firms benefited from at least one of the above private goods (sales to the state, financial assistance, licences).⁶¹ These categories of goods are likely to apply disproportionately to the biggest firms. However, others, such as the controversial allocation of shares of the import quotas for many goods and public procurement at the local level, can be vital for much smaller firms.

The implementation of the law can produce private goods from laws or regulations that are formally public goods. The head of Poland's Supreme Audit Chamber (NIK) writes:

'I can but I don't have to' – unfortunately, this principle operates in many fields of public administration. Investigation after investigation by the Audit Chamber points to the lack of clear and transparent rules for taking decisions on matters such as the distribution of import quotas, licensing, tax breaks, and even qualification for flood aid. Unequivocal conditions for entitlement to a quota or a benefit have not been specified. Bureaucrats distribute subsidies to hospitals or coalmines, arbitrarily deciding which mine, or which hospital, should benefit, according to their own personal taste.⁶²

Business representatives are acutely aware of the importance of private goods, and explain this situation by reference to both the distinctive post-communist legal chaos and the limitations of the bureaucracy: "[The importance of private goods is explained by the] low standard of the civil service, their poor pay, low qualifications,

⁵⁸ Excluding missing cases of 4.2% of sample.

⁵⁹ Excluding missing cases of 4.2% of sample.

⁶⁰ Excluding missing cases of 12% of sample.

⁶¹ Excluding missing cases of 17% of sample.

⁶² *Rzeczpospolita*, *Opinie*, 9-10 December 2000

low morality and the fact that laws have been changing so frequently”.⁶³ One issue, which exemplifies this phenomenon, is the constant stream of complaints from businesses about the caprice and inconsistency of the taxation authorities.⁶⁴

No direct measure of the relationship between implementation and public and private goods exists. However, the tendency of a bureaucracy to transmute public goods into private goods probably increases as the bureaucracy becomes less efficient and less professional. The World Bank's Aggregate Governance Indicators dataset combines three hundred measures of the quality of bureaucracies worldwide, including both expert assessments and elite and popular surveys relating to 1998.⁶⁵ The indicators are based on an unobserved components model, which reduces the huge range of measures to six basic indicators for samples of between 155 and 173 countries. In particular, three of these indicators are likely to be highly correlated with the balance of public and private goods produced by the system. The indicators are Government Effectiveness, the Rule of Law and Perceptions of Corruption. Government Effectiveness combines the “quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures and the credibility of the government's commitment to policies”. The Rule of Law combines “the incidence of crime, the effectiveness and predictability of the judiciary and the enforceability of contracts”. The Corruption indicator includes a range of measures from “additional payments to get things done to the effect of corruption on the business environment”.⁶⁶ Most of the elements of

⁶³ Interview: Mordasewicz, 9 August 2000

⁶⁴ “Czarna lista urzędów skarbowych”, Rankingi, www.businessman.onet.pl

⁶⁵ www.worldbank.org/wbi/governance

⁶⁶ Daniel Kaufmann, Aart Kraay, and Pablo Zoido-Lobaton, “Governance Matters”, Policy Research Working Paper 2196 (Washington, DC: The World Bank, 1999), 8

the three indicators seem close to the idea that good governance consists of public goods rather than private goods.

The data suggests that Poland has relatively good governance. Its governmental effectiveness is better than 80 per cent of cases, its rule of law is better than 70 per cent and its prevention of corruption better than 72 per cent. The scores have a large margin of error but they probably provide the most objective overall assessment of Polish governance in comparative context. The scores can also be calculated for a narrower, and more meaningful, sample, which excludes all states classed as unfree by Freedom House in 1998.⁶⁷ Narrowing the sample moves virtually all scores downwards. At 73 for governmental effectiveness, 63 for rule of law and 63 for corruption Poland is not too far away from a typical quality of governance. That Poland's quality of governance is approximately in the best third of "free" countries would suggest that its bureaucracy is a long way from perfect and that, therefore, many private goods are created in the course of the implementation of formally public goods. However, it also suggests that Poland is not a country where there are no public goods worth pursuing. Staniszkis and the World Bank team present the useful concept of the privatization of public goods.⁶⁸ This is when something, which is nominally a public good, is transmuted into a private good, which benefits an individual enterprise or network of enterprises. Again, Poland's intermediate status suggests that is not a place where all public goods can be "privatised" by the powerful. Political insiders in Poland seem to be aware of this intermediate status,

⁶⁷ <http://www.freedomhouse.org>

⁶⁸ Jadwiga Staniszkis, *Post-Communism: the emerging enigma* (Warsaw: Institute of Political Studies, Polish Academy of Sciences, 1998); Hellman, Joel S, Geraint Jones, Daniel Kaufmann, *Seize the State, Seize the Day: State Capture, Influence and Corruption in Transition*, World Bank Policy Research Working Paper 2444, September 2000

where many goods are public, many private, some privatisable and others not. One lobbyist says:

In Poland it's not so straightforward ... You can't arrange everything on a personal level. In a democratic state you cannot do what you want, in contrast to Russia or the Ukraine where everything can be arranged. It's different here in Poland.⁶⁹

For business lobbying this means that public goods cannot be ignored. It is not possible for one of Poland's most powerful firms to solve every issue on a one-to-one basis. In many instances, if an enterprise wants a policy changed, then it has little option but to lobby for what is a public good.

7. Polish Capitalism

7.1 Ownership structure

Privatization in Poland has taken place in several different ways. The first privatisations were alegal or illegal "nomenklatura privatizations", in which members of the nomenklatura used their position to transfer state assets to themselves, by a variety of, more or less subtle, methods. These instruments were usually alegal, as opposed to illegal.⁷⁰ Some of the state enterprise's functions could be spun-off to a company owned by managers or employees. More blatant were expensive purchases from private companies owned by managers. Sometimes no goods or services were actually provided.⁷¹ The converse was also common: private companies would buy assets from state enterprises for a very low price.⁷² Within a few months of its formation the Mazowiecki government had moved to prevent

⁶⁹ Interview: Dziedzic, 1 July 2002

⁷⁰ Staniszkis, *The Dynamics of the Breakthrough*, 8

⁷¹ Staniszkis, *The Dynamics of the Breakthrough*, 44

⁷² Tittenbrun, *The Collapse of 'Real Socialism'*, esp. 177-182; Poznański, *Poland's Protracted Transition*, 212

further blatant nomenklatura privatisations.⁷³ However, managers, politicians and bureaucrats still managed to do well out of later privatizations by allying themselves with workers or by obtaining more or less corrupt side-payments from investors.

The method of privatisation for a given enterprise under the new regime was heavily influenced by the size of the enterprise. For small and medium-sized enterprises, privatisation carried out by co-operatives and municipalities privatization via lease and liquidation were the most common methods. Another vital factor was worker self-management. Although introduced in 1956, this had only begun to become a reality in the 1980s. Obviously, the Solidarity episode put great pressure on management to respond to workers' demands. The atrophy of the party-state meant that it was less able to dominate workers' councils. By the time communism collapsed, workers' councils were beginning to assert their full legal powers. Elements of both the communist and new regimes, saw privatization as a vital means of reducing or eliminating the workers' control over enterprises.⁷⁴

Under the previous regime, there was little practical difference between state and co-operative ownership.⁷⁵ However, the new regime decentralised and democratized the "co-operative movement" in a way, which transferred much of this property into genuine co-operatives. Many of these co-operatives have since been transformed into joint-stock companies. Municipal authorities were responsible for transferring

⁷³ Stanisław Gomułka & Piotr Jasiński, "Privatization in Poland 1989-1993: policies, methods and results" in Saul Estrin (ed.), *Privatization in Central and Eastern Europe* (London: Longman, 1994), 221

⁷⁴ Poznański, *Poland's Protracted Transition*, 221-222

⁷⁵ Gomułka & Jasiński, "Privatization in Poland 1989-1993", 227; Kórnai, *The Socialist System*, 77-80; Raphael Shen, *Economic Reform in Poland and Czechoslovakia: Lessons in Systemic Reform* (London: Praeger, 1993), 182

large numbers of retail outlets to the private sector. Often this was done by means of a lease, rather than outright sale.⁷⁶

Medium-sized firms have largely been privatised by the process of “liquidation”.⁷⁷ This refers to legal rather than literal liquidation. A state-owned enterprise was shut down and then most or all of its assets were leased or sold to new owners. This type of privatization was straightforward and therefore could be, and was, implemented quite quickly. It was dominated by the interests of workers and management, who usually managed to take over the enterprise in which they worked for relatively small sums of money. Although many of these can still be described as worker-owned firms, they are increasingly owned by their management and by external investors. One of the principal reasons privatization of co-operatives, by municipalities and by liquidation were often able to proceed reasonably quickly was because they were lightly regulated. In fact many of the techniques of nomenklatura privatisation were adapted to these situations.⁷⁸ However, they were less flagrant and under a more definite legal cover than those carried out in the dying days of the communist regime.

The privatization of large firms has been bitterly contested, has taken a long time, and is far from complete. Workers and management have not generally been able to emerge as the owners of the large number of large firms, which typified the communist economy. Instead, they have been able to prevent privatization in the first place or receive a generous allocation of free shares and guarantees of employment. Large firms have been “commercialised” in preparation for

⁷⁶ Gomulka & Jasiński, “Privatization in Poland”, 226

⁷⁷ Piotr Kozarzewski, *Elity Kierownicze Spółek Pracowniczych* (Warsaw: Instytut Studiów Politycznych, 1999), esp. 24

⁷⁸ Jacek Słonina, “Irregularities in the Privatization process” in Maria Jarosz (ed.), *Direct Privatization: Investors, Managers, Employees* (Warsaw: Institute of Political Studies, 1999), 151-168

privatization. Commercialisation means that the enterprise is no longer a state enterprise but is basically a joint-stock company owned by the state treasury and subject to the same commercial code as private sector companies. This, of course, eliminates worker self-management. However, workers were usually given a substantial minority of seats on the supervisory board of the company.⁷⁹ Commercialised enterprises have been privatised in two principal ways: on an individual basis and as part of the mass privatization programme.⁸⁰

The individual route was sometimes described as the “British method”, since it had much in common with the thoroughly prepared privatisations carried out in Britain in the 1980s and 1990s. The great disadvantage of this was that Poland wanted to privatise thousands of enterprises, rather than a handful.⁸¹ An individual approach would be just too slow. However, there were important political and strategic reasons why the state should try to get the highest price and the most appropriate investor for key enterprises. There were three ways of actually selling the enterprises: a public offer on the stock exchange, a public auction, and negotiations with invited bidders. From 1997 to 2001, there were 12 public offers, 59 public auctions and 57 invited negotiations regarding commercialised state enterprises.⁸²

The other route to the privatisation of large firms was mass privatization. All Poles over eighteen were entitled to one share in a National Investment Fund (NIF) on

⁷⁹ Poland operates a two-board system on the German model. There is a supervisory board and an executive board, which actually runs the company on a day-to-day basis.

⁸⁰ Other methods, which have not been used so often, are described by Gomułka & Jasiński, “Privatization in Poland”, 232-235

⁸¹ Sachs, *Poland's Jump to the Market Economy*, 84; Gomułka & Jasiński, “Privatization in Poland”, 221-224

⁸² Ministerstwo Skarbu Państwa, *Sprawozdanie o Stanie Mienia Skarbu Państwa: Majątek Skarbu Państwa i Państwowych Osób Prawnych* (Warsaw: Ministerstwo Skarbu Państwa, 2002), 82

payment of a small fee. 25.7m of the 27m who were eligible did so. Polish-Western consortiums submitted bids to win the right to manage the 15 NIFs which each hold shares in groups of 33 or 34 enterprises. The ownership structure of a firm participating in the NIF scheme is such that:

- 33% of its shares belong to a single NIF;
- 27% belong to other NIFs;
- 25% are held by the state; and
- 15% are given to the employees of the enterprise.⁸³

The shares of the NIFs are traded on the Warsaw Stock Exchange and shares in the firms themselves were eventually to become tradable.

While privatization may accurately describe the above processes, it is far too specific a word to describe the outcome of these processes: many of firms that have undergone, or are undergoing, privatization are a complex mix of public and private ownership. The NIFs are an example of mixed ownership, which is not clearly either public or private. Other examples of mixed ownership are privatizations in which the state treasury divests itself but other state agencies, state-owned enterprises or mixed-ownership enterprises buy some or all of the shares. It is also important to remember that many firms with a majority state ownership have significant private-sector shares, while others with majority private ownership have significant state minority holdings. In 2001 there were almost three times as many firms in which the state had partial ownership as there were wholly state-owned commercialised firms.⁸⁴

⁸³ Jacek Klich, lecture, Jagiellonian University, Cracow, August 1998

⁸⁴ Ministerstwo Skarbu Państwa, *Sprawozdanie o Stanie Mienia*, 78. This excludes inactive firms or those in the process of bankruptcy or liquidation.

Almost 93 per cent of the state holdings were minority shares.⁸⁵ These minorities are always enough to ensure board representation and frequently enough to constitute a veto. Diffuse and mixed forms of ownership do seem to be important in the Polish economy⁸⁶ but are probably not as important as they are in other post-communist economies.⁸⁷

It is important to note that the political importance of privatization may be greater than its economic importance. Most of the structural change in the Polish economy was the result of the formation of new private businesses,⁸⁸ the expansion of pre-existing private businesses, and foreign direct investment rather than the process of ownership transformation. Policy-makers were consumed with battles over privatization, but played little or no attention to small businesses until the second half of the nineties.

7.2 Sectoral structure

The early nineties brought massive structural change in the Polish economy. Between 1990 and 1995 the share of services in output soared from 35 to 53 per cent, while industry declined from 44 to 33 per cent and agriculture from 13 to 8 per cent. From 1995, this trend continued. In 1999 services accounted for 59.6 per cent of GDP, industry for 36.6 per cent and agriculture for only 3.8 per cent. While Poland has a lot of farmers their productivity is very low partly because many have other

⁸⁵ Ministerstwo Skarbu Państwa, *Sprawozdanie o Stanie Mienia*, 83. This excludes inactive firms or those in the process of bankruptcy or liquidation.

⁸⁶ Zbigniew Drag, "Elita biznesu: Autonomiczny segment elity politycznej?" in Jacek Wasilewski (ed.), *Elita Polityczna 1998* (Warsaw: Institute of Political Studies, Polish Academy of Sciences, 1999), 58-61

⁸⁷ Bernard Chavance & Eric Magnin, "Emergence of path-dependent mixed economies in Central Europe" in Ash Amin & Jerzy Hausner (eds.), *Beyond Market and Hierarchy: Interactive Governance and Social Complexity* (Cheltenham, UK: Edward Elgar, 1997), 213-215

⁸⁸ Herman Hoen, *The Transformation of Economic Systems in Central Europe*, (Cheltenham: Edward Elgar, 1998), 123

jobs and many others are subsistence farmers. Within industry the share of various sectors changed enormously. For example the share of mining and quarrying declined from 13 to 5 per cent and output of furniture rose by 48 per cent between 1990 and 1995. This reflected a re-balancing towards light industry away from the behemoths, which had been privileged during the communist era. The share of the private sector jumped from 28 per cent in 1989 to 55 per cent in 1995 and reached 75 per cent by 2001.⁸⁹ In spite of these changes, Poland, along with other “advanced” post-communist economies is still characterised by an economy, which has a large industrial and agricultural sectors and small services sector.⁹⁰

Consumption

The changes in supply have reflected the changes in demand. A much higher proportion of Polish GDP is now constituted by consumption. Also, consumption patterns have changed a lot. For example, the assortment of foods purchased has shifted enormously. More fundamentally, the share of housing, commuting and healthcare have increased reflecting the, official and unofficial, commercialisation of services that were previously heavily subsidised or purely public.

Trade

Foreign trade also increased significantly. Exports of goods and services have risen from 19 to 25 per cent of GDP between 1989 and 1995 while imports have risen from 15 to 23 per cent. The lifting of restrictions by the Council for Mutual Economic Assistance (the Soviet bloc's supposed equivalent of the European

⁸⁹ *OECD Economic Surveys 1997*; US Central Intelligence Agency, <http://www.cia.gov>

⁹⁰ Iain McMenamin, “Is there an East-Central European Variety of Democratic Capitalism: A twenty-two country cluster analysis”, paper presented at the Annual Meeting of the American Political Science Association, Philadelphia PA, August 28-September 1, 2003

Community) and the recessions in post-communist countries prompted a massive and permanent switch in trade from East to West. The share of trade with OECD countries rose from a half to three quarters while the share of Central and Eastern Europe, which was about a third in 1989, had halved by 1995. The share of natural resource intensive exports declined to 45 per cent in 1995, as did exports with a high proportion of skilled labour, capital and technology, to 30 per cent. The export share of low-skill labour rose by ten percentage points. Roughly speaking, this reveals that, in spite of the changes in the structure of its trade, Poland still has a comparative advantage in low-skilled labour and natural resources.⁹¹

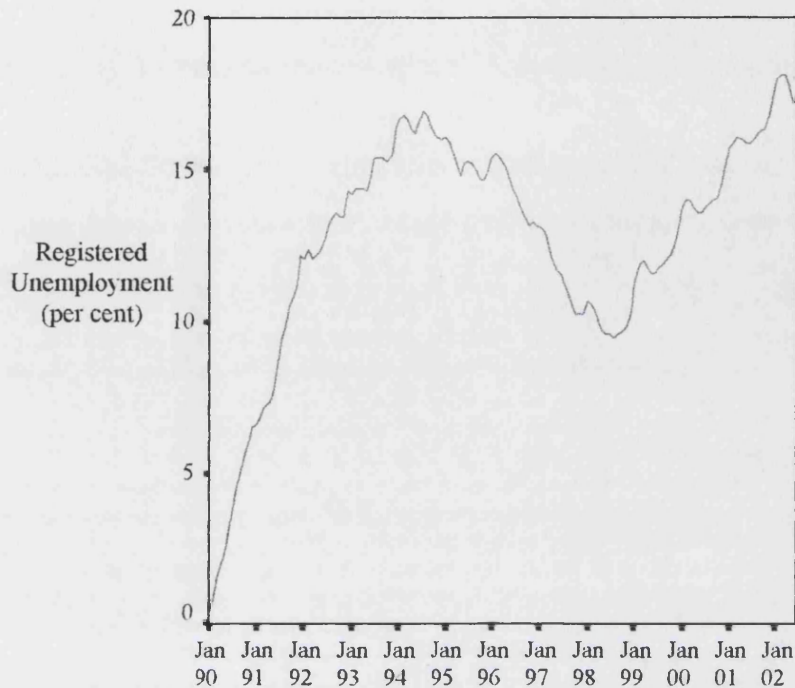
7.3 Growth and unemployment

The share of employment in different sectors did not change nearly so much as the share of output. Between 1989 and 1995 the proportion of total employment in services increased from 37 to 43 per cent, while industry and construction declined from thirty five to thirty per cent, with agriculture remaining at about twenty seven per cent. One of the few ways in which state socialism fulfilled its promises was in the elimination of unemployment. However, in 1989 one quarter of Polish employment was estimated to be non-productive.⁹² Unemployment rocketed during the transition to capitalism, reaching 17 per cent by 1994. It then declined, dipping below ten per cent in 1998. Unemployment has been increasing ever since, partly because of a slowdown in growth but also because of a demographic bulge. By early 2002 it stood at nearly 18 per cent.

⁹¹ *OECD Economic Surveys 1998*

⁹² Tomasz Mickiewicz, "Polish Labour Markets", paper delivered at the School of Slavonic and East European Studies, London, 1998

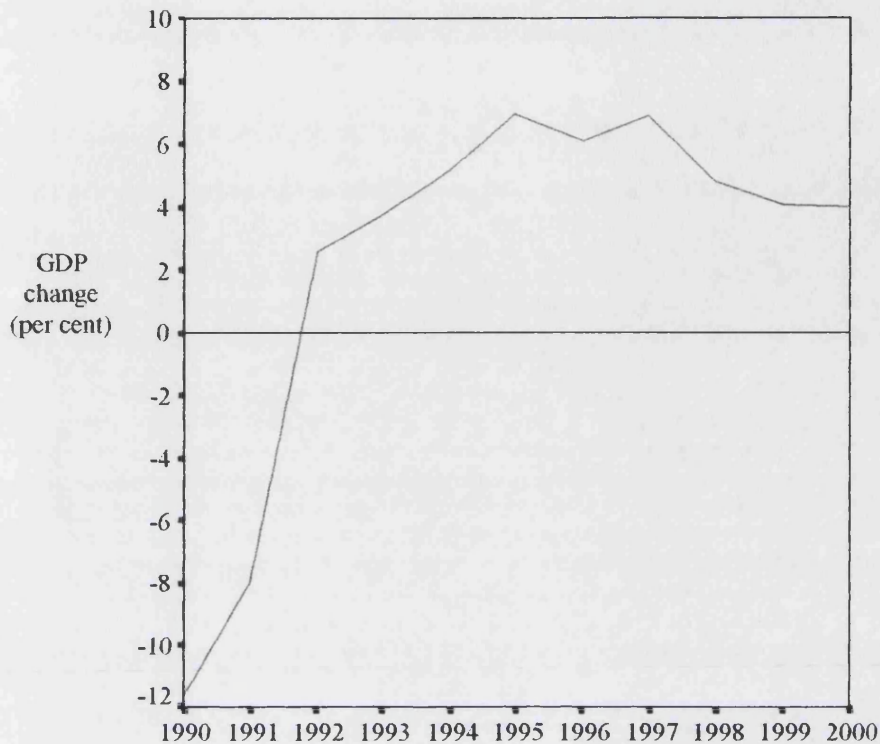
Figure 2.2: Unemployment in Poland



Source: Central Statistical Office, <http://www.stat.gov.pl>

Poland was the first country to emerge from the post-communist recession, growing by 2.6 per cent in 1992. It was also the first country to exceed its pre-transitional GDP. Between 1994 and 2000 Poland, with Korea, had the second highest, after Ireland, overall growth rate in the OECD. This was the first period of sustained growth in Poland since the early seventies. However, by the late nineties growth was clearly slowing down and unemployment rising. By 2002, Poland was experiencing an economic crisis, with unemployment approaching twenty per cent and the economy barely growing. In 2000 its GDP per capita was approximately one third of the European average, and considerably lower than that of Hungary, the Czech Republic and Slovenia.

Figure 2.3: Economic Growth in Poland



Source: The Economist

8. Conclusions

This chapter has provided a background to the Polish political and economic system, which is necessary for understanding the detailed analysis of business-government relations offered later in the thesis. As the introduction indicated, this chapter has considered features that Poland has in common with other capitalist democracies and other post-communist countries, as well as features that are uniquely Polish. In the next chapter I introduce the theoretical framework, which I will use to analyse the Polish case.

Chapter Three:

The Four Modes of Business-Government Relations

1. Business in Post-Communist Business-Government Relations

A business can usually be defined as a profit-seeking organisation, which produces goods or services. One of the problems that face the researcher of post-communist business-government relations is that, under communism, there were relatively few such businesses. There were state-owned enterprises, which produced goods or services, but did not seek profit. Instead of providing a profit for shareholders, they performed a variety of other social, political and economic functions. It is important to remember that the multi-functionality of state-owned enterprises has decreased but has not been eliminated. Nevertheless, all commercialised firms are now officially profit-seeking. It is also worth noting that, while this multi-functionality is vastly more important in post-communist economies, it is also to be found in established capitalist democracies.

The emphasis given to profit making in post-communist state-owned enterprises varies, but it is virtually never considered irrelevant as it was under the previous regime. There are many state-owned providers and sellers of goods and services, which have not been commercialised, and cannot reasonably be construed as profit seeking. These organisations include, for example, educational and healthcare institutions. Collectively, many of them are part of what is known as the “budget sector”. This thesis, and the discussion in this chapter, should be construed as generally applying to private and state-owned enterprises in the commercial (or commercialising sector) rather than the budget sector.

Of course, this poses a particular problem in trying to assess the importance of the communist legacy. Here, I try not to be overly restrained by definitional problems. There were clear antecedents of businesses in the state-owned communist economy, usually direct organizational antecedents. There were also antecedents of business-government relations, in that state-owned enterprises were influenced by, and tried to influence, the central authorities. However, I always keep in mind that these antecedents were, at most, antecedents and did not constitute business-government relations, in a strict sense.

This chapter presents four modes of business-government relations in capitalist democracies. It also provides explanations for the strength of the four modes. This chapter is distinctive amongst studies of business-government relations in a number of ways. Firstly, the number of modes of business-government relations is four. Most work concentrates on only one mode. Secondly, the relative strength of the different modes is seen as the key to understanding any one of the modes. Other authors usually study one mode in isolation. Thirdly, the chapter analyses the likely effect of post-communism on the relative importance of the modes.

2. The Modes of Business-Government Relations

Business-government relations consist of two major elements: the indirect (or structural) and the direct (or political).¹ The indirect element focuses on the mutual dependence of business and government. Business cannot be conducted without the basic defence of private property provided by the state, as well as a plethora of more

¹ Claus Offe, "Two Logics of Collective Action" in his *Disorganized Capitalism* (Cambridge: Polity, 1985), 170-220

advanced services and institutions, which underpin contemporary capitalism. For example, the joint-stock company and the telecommunications system are vital to enterprises. Neither can exist except in a framework of government regulation.² Even more familiar is the government's dependence on business. The government's resources are provided by the taxation of businesses, their employees and their customers. Most of a government's time and most of a government's popularity relate to economic management. Yet, the government does not directly control the economy. It has to coax or incentivise the private sector, which controls the economic resources upon which government depends.

This very special indirect relationship is the focus of most writing which highlights the difference between business and other interests in capitalist democracies. The state is not as dependent on other interests, such as unions, consumers, public interest groups and professionals, as it is on business.³ The structural element to their relationship is missing, so these groups must concentrate on the direct political element. They must lobby and pressure government in order to influence it, whereas business can influence government without ever going near it. In fact, it can influence government by fleeing from it and moving to another jurisdiction along with vital jobs and taxes. The indirect power of business is so great that it gives business greater direct access. Politicians are keen to engage with business directly for fear of what might happen if they relied on their structural interdependence with business. However, the increased access that structural dependence gives business is not the only difference between its direct relationship with government and that of

² Mancur Olson, *Power and Prosperity: Outgrowing Communist and Capitalist Dictatorships* (New York: Basic Books, 2000); Karl Marx & Friedrich Engels, *The Communist Manifesto* (London: Monthly Review Press, 1968), 5-13

³ Charles E Lindblom, *Politics and Markets: The World's Political-Economic Systems* (New York: Basic Books, 1977), esp. 175

other interests. It is much more seldom emphasised that business has a variety of channels of direct access to government, which are not available to other interests.

Government is very rarely interested in the representations of one single worker, consumer, environmentalist, or professional. Therefore, those who wish to have these interests represented must gather together in interest associations. Government is much more likely to take account of an association which represents a large number of individuals who share an interest. The same option is available to businesses. Indeed, business associations exist in all capitalist democracies and are often a very important feature of business-government relations. However, it is also possible for a firm to directly represent its interests to the government. Individual firms often have sufficient resources to be able to put their own view directly to policy-makers. Business also has a special relationship with political parties. Parties desperately need money for electoral campaigns and business has huge amounts of money. Finally, individual businesspeople are also able to gain access to policy-makers, because the economic and political elite often come from similar backgrounds and occupy a single social space, or overlapping social spaces. In other words, a personalist option is regularly available to business and is much more rarely available to other interests. These four channels of access to government distinguish the direct element of business-government relations from other interest group politics. The representation of business interests involves a decision about which mode of access to use, or, more frequently, how to combine different modes of access. Businesses will need to weigh up the availability and effectiveness of these different ways of relating to government, before embarking on a political campaign. In contrast, for other groups in society, lobbying is overwhelmingly dominated by

the activities of interest associations. Thus, the dependent variable of this study is the mode of access to government taken by Polish business.

The variety of channels of business access to government is not acknowledged by much of the literature on business-government relations. Most writers focus on just one of the channels, usually interest associations. While a focus on one of the channels is, of course, a valid and interesting exercise, some consideration of the other channels cannot be excluded. This is because the use of one channel involves a judgement that the other channels are unavailable or ineffective. A decision to use a business association to further a firm's interests is also a decision not to use the other channels. There is a fair amount of writing, which investigates decisions to take one channel rather than another. Most of this work is limited to the two options of the association or company routes. Others seem to include the other channels, but do not clearly distinguish them from each other.⁴ The closest approach, to the one taken in this thesis, is that of Grant. He explicitly identifies the "association", "company" and "party states" of business-government relations. He implicitly contrasts the company state in contemporary Britain with an earlier period in which the personalist channel was available and frequently used. In this thesis, I call business-government relations conducted on this basis, a "soft state", since the state is permeated by personal connections and networks.

The following four sections look at each of the channels of influence (associations, companies, parties, personal connections) in more detail. The first aim of each section is to clarify each mode of representation so that it can be employed

⁴ Joel S Hellman, Geraint Jones, Daniel Kaufmann, *Seize the State, Seize the Day: State Capture, Influence and Corruption in Transition* (Washington DC: World Bank, 2000) 2

consistently in the empirical analyses that follow. The second aim is to identify independent variables, which explain the strength of each mode of access. It should be remembered that, according to the approach taken in this thesis, these specialised independent variables are always combined with the general independent variable of the relative availability of the different channels of representation.

3. The Association State

3.1 The dependent variable

In an association state, business associations dominate the interface of government and business. A business association is an organization, which represents the interests and opinions of non-agricultural businesses to the state. This thesis assesses the importance of associations in Polish business-government relations, relative to other channels of business influence on government. The literature on interest associations is enormous, usually ignores the possibility of alternative modes of business-government relations, and is dominated by some of the most chameleon-like concepts in social science. The most prominent of these are civil society, pluralism, and corporatism. This section argues that civil society is a very similar concept to pluralism. It then adopts single definitions for pluralism and corporatism, respectively, and suggests that corporatist interest association politics exclude other channels of business representation in a way that pluralist interest association politics do not. Therefore, in this thesis, pluralism signifies relatively weak business associations and corporatism relatively strong business associations.

Most authors seem to assume that there is little controversy or ambiguity about the term civil society. However, there is, in fact, an enormous number of definitions,

which vary according to intellectual status (a normative ideal⁵, a strategy of resistance to authoritarian rule⁶, a description of Western society⁷, an ideal-type⁸), scope (the state⁹, political parties, interest groups¹⁰, non-profit non-political organisations¹¹, the economy¹², culture¹³, family relationships¹⁴) and the importance of voluntariness.¹⁵

For a social science thesis the status of ideal-type is the most appropriate one for the concept of civil society. This provides a clear logical framework through which empirical data can be selected and assessed. Since this thesis is concerned with the *interface* of business and government the scope of civil society is best restricted to interest associations. Here, it is vital to understand interest associations as separate

⁵ Jean L Cohen & Andrew Arato, *Civil Society and Political Theory* (Cambridge, MA: MIT Press, 1992), xii

⁶ Adam Michnik, "A New Evolutionism", *Letters From Prison and Other Essays*, trans. Maya Latynski (London: University of California Press, 1987), 135-149. Also presented as a distinction between "politics" and "anti-politics". John Keane, *Civil Society and the State: New European Perspectives* (London: Verso, 1988), 396-397

⁷ John A Hall, *Civil Society: History, Theory, Comparison* (Cambridge: Polity Press, 1995), 2; Hall, *Civil Society*, 81

⁸ Wolfgang J Mommsen, *The Age of Bureaucracy: Perspectives on the Political Sociology of Max Weber* (Oxford: Blackwell, 1974), 74

⁹ John Gray, "From Post-Communism to Civil Society: The Re-Emergence of History and the Decline of the Western Model", *Social Philosophy and Policy*, 10 (1993), 29-30; Ernest Gellner, *The Conditions of Liberty: Civil Society and its Enemies* (Oxford: Blackwell, 1994), 193

¹⁰ Philippe Schmitter, "What's all this nonsense about Civil Society?", paper delivered at Nuffield College, Oxford, 1996

¹¹ Hall, *Civil Society*, 250-268

¹² G W F Hegel, *Elements of the Philosophy of Right*, trans. H B Nisbet (Cambridge: Cambridge University Press, 1993), § 188

¹³ Krishan Kumar, "Civil Society: an inquiry into the usefulness of a historical term", *British Journal of Sociology*, 44 (1993), 382-3

¹⁴ Jean Cohen and Andrew Arato, *Civil Society and Political Theory* (Cambridge, MA: MIT Press, 1992), ix

¹⁵ Keith Tester, *Civil Society* (London: Routledge, 1996); Pérez-Díaz, "The Possibility of Civil Society", 84-85; Gellner, *Conditions of Liberty*, 103. Michael W Foley & Bob Edwards, "The Paradox of Civil Society", *Journal of Democracy*, 7 (1996), 38-52. This stress on voluntariness is largely under the influence of de Tocqueville who writes about "civil associations" but never uses the term civil society: Alexis de Tocqueville, *Democracy in America*, trans. George Lawrence (London: Fontana, 1994), 697, 513-517, 520-524. Civil society's modern career was begun by Adam Ferguson for whom it means quite the opposite of associability: Adam Ferguson, *An Essay on the History of Civil Society* (Cambridge: Cambridge University Press, 1995), 24, 196. For many others civil society is not necessarily voluntary. See, Hegel, *Philosophy of Right*, § 255; Schmitter, "What's all this nonsense about Civil Society?"; Richard Rose, William Mishler & Christian Haerpfer, *Getting Real: Social Capital in Post-Communist Societies* (Strathclyde: Centre for the Study of Public Policy, University of Strathclyde, 1997), 4

from individual private interests in the economy and the interests of the state. So, civil society refers to a vibrant, pluralistic and influential population of interest associations. Since many business associations (notably chambers of commerce) in democratic societies are compulsory, civil society will not be restricted to purely voluntary groups. The restriction of the scope to interest associations means that compulsion does not mean that the state can be treated as part of civil society in this definition. Finally, the exclusion of the state means the separation of the state from interest associations. Associations may be deeply involved with the state but to be part of civil society it must be possible to extricate the state from interest associations and interest associations from the state. Thus, civil society is defined as:

An ideal-typical relationship between private interests, interest associations, and the state in which a wide range of interest associations are able to obtain substantial goods for their members without "capturing" the state or any of its individual institutions or being "captured" by any of them.

This definition is not open to the charge that it is not *the* definition of civil society. It is open to the charge that it is not *a* definition of civil society at all, or that it is not the best definition of civil society for assessing the importance of business associations relative to other modes of business-government relations in Poland.

Like civil society, pluralism has a wide variety of meanings in social science. These conceptualisations vary according to status (a normative ideal, a description of Western societies, an ideal-type¹⁶), scope (all social interests¹⁷ versus interest

¹⁶ Wolfgang Streeck, "Between Pluralism and Corporatism: German Business Associations and the State", *Journal of Public Policy*, 3 (1983), 265-84

¹⁷ Robert A Dahl, *Who Governs? Democracy and Power in an American City* (New Haven: Yale University Press, 1961), 86

associations¹⁸) and level of analysis (macro-political regime type¹⁹ versus system of interest group politics in capitalist democracies²⁰).

This thesis adopts a definition of pluralism as an ideal-typical classification of the role of interest associations in capitalist democracies. Pluralism consists of the following elements:

- (1) Membership of associations is voluntary.
- (2) Associations compete for members.
- (3) Associations are typically organisationally weak.
- (4) Associations pressure the political system from the outside, rather than participate from the inside.
- (5) The pluralist system leaves space for business to frequently and successfully access government by channels other than interest associations.²¹

Corporatism is simply the opposite of pluralism for each of the five elements. Capitalist democracies can be identified somewhere along a continuum from the pluralist to the corporatist ideal-type. For example, Austria is highly corporatist, Canada highly pluralist and Ireland lies in the middle between the two ideal types. The fifth element of this definition is implicit in the literature, and has been explicitly included here to remedy the literature's failure to consider business associations as competitors to other channels of business representation. Theoretically, there are two principal reasons why corporatist associations tend to crowd out other channels of influence in a way that pluralist associations do not. Firstly, corporatist associations

¹⁸ Philippe Schmitter, "Still the Century of Corporatism?", *Review of Politics*, 36 (1), 1974, 93-96; Alan Cawson, *Corporatism and Political Theory* (Oxford: Blackwell, 1988), 11-12

¹⁹ Grant Jordan, "The Pluralism of Pluralism: An Anti-Theory?" in Jeremy Richardson (ed.), *Pressure Groups* (Oxford: Oxford University Press, 1993), 60-61

²⁰ John Goldthorpe (ed.), *Order and Conflict in Contemporary Capitalism* (Oxford: Clarendon, 1984); Bernd Marin, "Organizing Interests by Interest Organizations: Associational Prerequisites of Cooperation in Austria", *International Political Science Review*, 4 (1983), 197-216

²¹ C.f. Arend Lijphart, *Patterns of Democracy: Government Forms and Performance in Thirty-Six Democracies* (New Haven: Yale University Press, 1999), 172; Schmitter, "Still the Century of Corporatism?"

mobilise much greater resources than do pluralist associations, and therefore make other channels relatively unattractive.²² Secondly, their monopolistic relationship with the state directly blocks and invalidates other modes of business-government relations. Empirically, the other channels of influence are usually associated with pluralist systems of business association. For example, the company state has been most frequently discussed in the context of the highly pluralist systems of Britain, the US and the European Union. Ágh sees corporatism as a system that can crowd out the dominance of political parties over business-government relations.²³

Similarly to the definition of civil society, this definition is not open to the charge that it is not the definition of pluralism. It is open to the charges that it is not a definition of pluralism at all or that it is not the best definition of pluralism for assessing the importance of business associations relative to other modes of business-government relations in Poland. Since the definition of pluralism and the definition of civil society are so similar,²⁴ the term civil society will be dispensed with and interest associations in Poland will be evaluated according to whether they are pluralist or corporatist.²⁵ From now on, pluralist and corporatist should be

²² Philippe Schmitter & Wolfgang Streeck, *The Organization of Business Interests: A Research Design to Study the Associative Action of Business in the Advanced Industrial Societies of Western Europe* (Berlin: International Institute of Management, 1981), 124-132

²³ Attila Ágh, *Politics in Central Europe* (London: Sage, 1998), 112

²⁴ Stephen Padgett, *Organizing Democracy in Eastern Germany: Interest groups in post-communist society* (Cambridge: Cambridge University Press, 2000), 6, 50

²⁵ Some other popular concepts deal with essentially the same dependent variables as civil society and pluralism. The concept of policy networks is often presented as an alternative to pluralism and corporatism See, David Knoke, Franz Urban Pappi, Jeffrey Broadbent, Yutaka, Tsujinaka, *Comparing Policy Networks* (Cambridge: Cambridge University Press, 1996); David Marsh (ed.), *Comparing Policy Networks* (Buckingham: Open University Press, 1998). The policy networks literature deals with basically the same variables as corporatism and pluralism: the structure of interest representation, the issue of the inclusion or exclusion of given interests, and the type of policy-making. Like the pluralism and corporatism literature the literature on policy networks posits a syndrome in which the value of one of these variables is very closely associated with the values of the other two. Instead of the opposite ideal-types of corporatism and pluralism there is a spectrum of relationships from policy communities to issue networks. See, Wyn Grant, *Pressure Groups and British Politics* (London: Macmillan, 2000), 48-50 The policy networks approach is more clearly distinguished from pluralism

understood only according to the definitions offered above, and not according to any of the plethora of other definitions of these terms.

3.2 Independent variables

A massive number of variables have been proposed to explain patterns of interest association politics. The following divides these explanations into economic, political and social variables. It argues that the economic variables can be gathered together by a synthesis based on Olson's logic of collective action. This explanation focuses on the number of enterprises in the constituency of an interest association. Political and social variables interact with economic structure. Economic structure places such limitations on the effect of political and social variables that economic structure can be seen as the key explanation for the strength of interest associations. The following outlines the synthesis of economic theories. It then goes on to discuss political and social theories and how they interact with economic theories.

Olson's Logic of Collective Action

The basis of Olson's argument is the distinction between public and private goods. The key feature of a public good is that if one member of a group "consumes it, it cannot feasibly be withheld from others in that group".²⁶ A private good is simply the converse: if one person consumes it there is nothing to stop it being withheld from other members of a group. Someone can enjoy a public good whether they

and corporatism by its level of analysis (issue domains rather than states) than by its dependent variables. Similarly, Olson's work distinguishes between interest associations on the basis of how "encompassing" they are. Again, the emphasis is on the size of individual associations, their number, and how this relates to their nature, which in turn relates to consequences for policy-making. See, Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven: Yale University Press, 1982), 48

²⁶ Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge MA: Harvard University Press, 1971), 14

have contributed to its supply or not. It is not rational for an individual to contribute to the provision of a public good unless she thinks that her portion of the increase in the supply of the good due to her efforts will be greater than the cost of her contribution to its supply. The likelihood that an individual will calculate that their contribution will make a sufficiently large difference to the supply of a public good is basically a function of group size. This is the first key independent variable identified by the logic of collective action.

Olson distinguished three types of groups. A latent group is a group for which “if one member does or does not [participate in collective action] no other one member will be significantly affected and therefore none has any reason to react”. As such, latent groups are very unlikely to form the basis of collective action and the formation of a business association. Intermediate groups do not “have so many members that no one member will notice whether any other member is or is not helping to provide the collective good”. This makes it much more likely that collective action will happen. Finally, there are “privileged groups” in which a single member has sufficient incentive to set up a business association.²⁷

Since the vast majority of politically relevant groups are latent groups this theory predicts there will be very few interest associations. However, Olson is well aware that a large number of latent groups have in fact managed to mobilise interest associations. He explains this by reference to private goods, which enable those “who [do not] contribute to the attainment of the group’s interest [to] be treated

²⁷ Olson, *Logic of Collective Action*, 50

differently from those who do”.²⁸ Olson sees private goods as exclusively economic rather than political and as such they are the basis of the “by-product” theory. Members do not join a group because they support its political aims. According to Olson’s account they might even violently disagree with them! Members join because of the private economic goods. Thus, the political activities of interest groups are a by-product of their delivery of private economic goods. The balance of public and private goods provided by an association is the second key independent variable proposed by the logic of collective action.

The third key independent variable is the size of the enterprises. The basic cost-benefit calculation is quite different for small enterprises.²⁹ Firstly, small enterprises have limited resources and almost always have to contribute a greater proportion of their resources in money, secondments, volunteer work, etc., than do large enterprises. However, although their contribution is proportionally larger the chances that their contribution will make a difference to the provision of public goods is much smaller.

Private goods often present a greater incentive for association membership for small enterprises than they do for large enterprises. The services provided by associations are frequently functions that large enterprises can afford to provide in-house or purchase in the market. In contrast, small enterprises are not able to provide themselves with various ancillary functions and perceive a great benefit from having

²⁸ Olson, *Logic of Collective Action*, 57

²⁹ Terry Moe, *The Organization of Interests: Incentives and the Internal Dynamics of Political Interest Groups* (Chicago: University of Chicago Press, 1980), 255; Franz van Waarden, “Two Logics of Collective Action? Business Associations as Distinct from Trade Unions: The Problems of Associations of Organisations” in Dieter Sadowski & Otto Jacoby (eds.), *Employers’ Associations in Europe: Policy and Organisation* (Baden-Baden: Verlagsgesellschaft, 1991), 70; Wyn Grant & Davod Marsh, *The Confederation of British Industry* (London: Hodder and Stoughton, 1977), 36

them provided by an association. This does not mean that small enterprises flood into interest associations. Firstly, service-providers that are not subsidising political activities can undercut interest associations and it is from consultancies and such like that small enterprises often purchase specialised services.³⁰ Secondly, the competitive provision of services necessitates considerable resources, which are not likely to be provided if an association is dependent on the very small contributions that small enterprises are prepared to make. This is a vicious circle in which many associations are trapped: to recruit members they need to provide private goods, to provide private goods they need an organisational infrastructure but they cannot build an infrastructure until they have recruited members to provide resources.

Size also influences whether a cost-benefit calculation is made in the first place. For large enterprises, the decision to join, and more frequently the decision to remain a member, may not cross the threshold of rationality.³¹ The low level of the contribution to the association may not be enough to justify the trouble of making cost-benefit calculation on whether it should be made or not. However, since contributions to associations will be proportionally larger for small enterprises they will apply a much more strict cost-benefit analysis to association membership.

Lastly, small enterprises are strongly associated with large groups. Where there are few enterprises in an industry those enterprises are also likely to be large. Where there are lots of enterprises in an industry the vast majority of those enterprises are

³⁰ Iain McLean, "The Divided Legacy of Mancur Olson", *British Journal of Political Science*, 30 (4), 2000, 651-668; Padgett, *Organizing Democracy*, 120

³¹ Mancur Olson, *The Rise and Decline of Nations*, 28; Grant & Marsh, *The CBI*, 49-50; Justin Greenwood, "Incentives and Disincentives for Collective Behaviour by Business in the EU: Business Collective Action and the Responses of Associations", paper delivered to the Conference on the Effectiveness of EU Business Associations, Brussels, September 2000

likely to be small. Therefore, small enterprises are more likely to be members of latent groups and large enterprises are more likely to be members of intermediate and privileged groups.

The three independent variables of the number and size of enterprises and the mix of public and private goods are vital factors in explaining the degree to which interest associations actually get organised. The size of the enterprises in the economy is a straightforward variable to assess. The other two variables are not so straightforward. The size of the group is ultimately subjective, and it will vary depending on which issues are perceived to be salient. Similarly, the balance of public and private goods provided by associations will partly depend on the quality of the association's entrepreneurship in meeting and creating a demand for services. However, both of these factors are also subject to the influence of objective features of the economic environment. Three such features, which can be applied to the post-communist context, are trade unions, varieties of capitalism and interest diversity. The next sections aim to show how these characteristics of the economy are specifications of the variables of group size and the balance of public and private goods that are part of the general logic of collective action.

Trade Unions

Business associations are often seen as a reaction to the strength of trade unions. It is important to distinguish between the political and economic power of trade unions. If unions have labour market power they will be relevant to business at the level of sectors and regions and will stimulate the formation of business associations at those levels. If unions have political power they will be relevant to business at the level of

a political territory. In most countries the political territory contains many times more businesses than are to be found in a particular sector or region. If unions have political power alone, the opposing business constituency is likely to be a latent group and, therefore, likely to produce weak business associations. Indeed, the business constituency will usually comprise the whole business class. If unions have labour market power the opposing business constituencies are likely to be defined by sector and region. These will constitute intermediate, or even privileged, groups and are much more likely to result in strong business associations. Moreover, if business faces the labour market power of trade unions, associations will be able to provide important industrial relations services such as legal and mediation consultancy. In contrast, if it is only the political power of trade unions that is relevant there will be very few opportunities to provide trade-union related services. Labour market power means that business associations can offer important private goods while political power alone does not increase the potential for private goods. Unions tend to be much stronger in large enterprises than in small enterprises. In fact, they are usually completely absent from small enterprises. Therefore, the labour market power of unions faces a promising constituency for collective action amongst large enterprises. Even though small enterprises may not be faced with unions in the workplace the political power of unions may be an issue for them in terms of legislation that impacts on workplaces whether unions are present are not. Of course, this constituency of small enterprises is not a promising one for collective action.

Varieties of capitalism

In recent years, the literature has shifted away from the tendency to view business associations as merely a reaction to trade union power. Soskice argues that the type

of economic activity in which a business is engaged is likely to affect the potential for business association. He sums up the most profound differences between types of businesses in the notion of a “production regime”. According to this account, business associations do not reflect the structure of labour unions, but rather labour unions are part of an overall institutional structure, the nature of which is largely determined by the production regime. In other words, business decides on union structure, not the other way round.³²

Soskice distinguishes between co-ordinated and liberal market economies. In co-ordinated economies, there is a rich structure of institutional co-operation between enterprises, amongst which relatively corporatist business associations play a vital part. In this sort of system, business associations have a key role in the economic activity of the firm, in regulation, technology transfer, training, etc. By contrast, in liberal market economies there is much less inter-firm co-operation. Business associations are much less relevant to the firms' economic activity and tend to be restricted to a narrower lobbying function. This narrower lobbying role means that there is less incentive for business associations to encompass and monopolise the representation of their business constituencies.

In terms of the logic of collective action, in co-ordinated economies the most relevant group for business is likely to be a sector or sub-sector. Sectors, in turn, are likely to be intermediate groups with good collective action potential. Because of their integration in the production processes of the firms business associations in

³² Soskice, David, “Divergent Production Regimes: Coordinated and Uncoordinated Market Economies in the 1980s and 90s” in Herbert Kitschelt, Peter Lange, Gary Marks, John D Stephens, (eds.), *Continuity and Change in Contemporary Capitalism*, 101-134; Peter A Hall & David Soskice (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2000)

coordinated economies are likely to provide private goods, which are absolutely central to their member firms' activities. In liberal economies, these small groups are less likely to be important and business is more likely to identify with a latent group like the business class as a whole. In this case, there is likely to be less potential for private goods, which are so vital to the firm's profits. Furthermore, co-ordinated economies tend to have relatively large numbers of medium-sized enterprises. These enterprises are large enough to be motivated by public goods but also small enough to be motivated by private goods. In liberal economies there is more of a contrast between large enterprises, which are interested primarily in public goods and small enterprises which are really only interested in private goods.

Interest diversity

Padgett makes an interesting argument about interest diversity amongst post-communist businesses. He argues that there are so many sources of division in post-communist business that this hinders collective action, resulting in small weak associations:

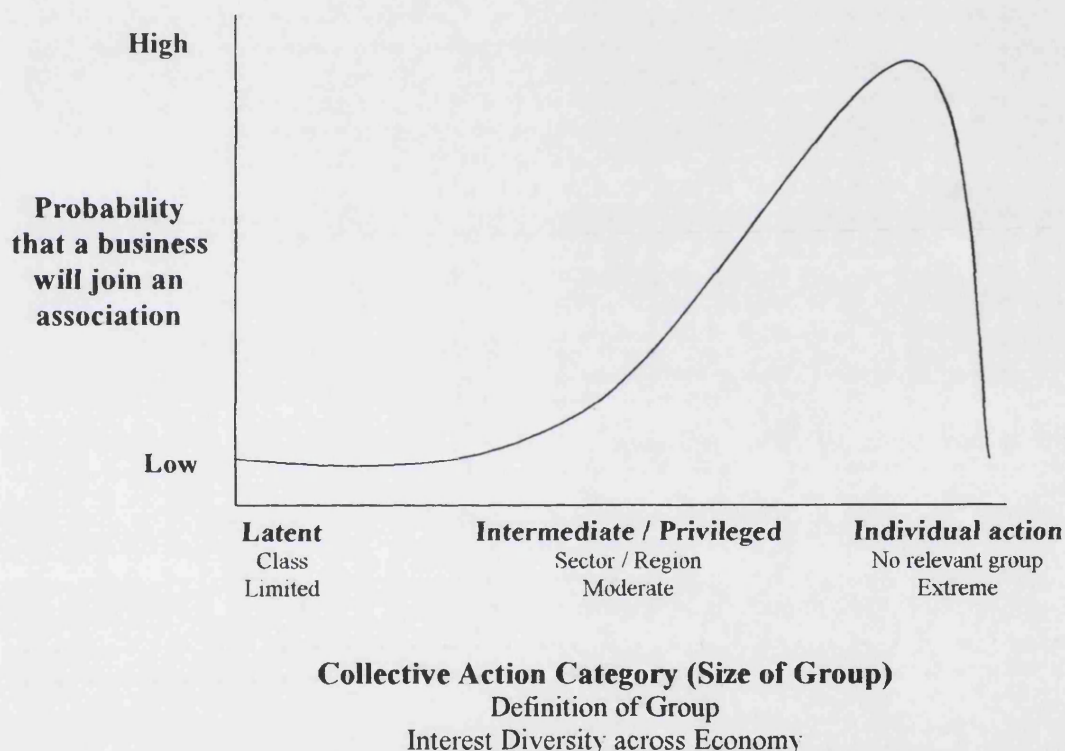
[C]leavages between state and private sectors, large and small firms, indigenous and foreign capital, and the liberal and 'nomenklatura bourgeoisie' are replicated in organisational activity.³³

This suggests that there are no coherent constituencies for business associations. Groups of businesses with enough in common to justify the foundation of a business association are so small that there is no need for such formal co-ordination: a handful of enterprises can easily co-operate on an informal basis. At its most extreme, if an enterprise is separated from other enterprises by a variety of cleavages only individual action makes sense. Ultimately, the salience of these multiple cleavages

³³ Padgett, *Organizing Democracy*, 10

means that there is also no overall business class interest or identity.³⁴ This argument about interest diversity can also be interpreted in terms of the Olsonian focus on the size of the group. Basically, it argues that groups will tend to have one member, or that there are no groups and therefore collective action makes no sense.

Figure 3.1: Economic Explanations for the strength of business associations



Theoretical synthesis

Figure 3.1 summarises the above arguments about economic influences on business association. When there are very large numbers of enterprises that share the same interest this constitutes a latent group, which makes collective action problematic.

³⁴ Padgett, *Organizing Democracy*, 1, 53

The ultimate latent group for businesspeople is their overall class position. This class position is best defined in opposition to labour movements with influence at the level of national politics. In liberal market economies business tends to view itself as a class seeking maximum freedom from restraint by labour law and labour unions and eschewing state support for sectoral systems of business co-ordination. The business class is the level, which emphasises maximum interest homogeneity across the national economy as a whole. There are very restricted possibilities for the offer of private goods at such a general level. At the class level the vast majority of businesses are small.

Intermediate groups are those where the non-cooperation of a single enterprise may be noticed and sanctioned by others, thereby making collective action much more likely. Sectoral or regional business associations are likely to constitute intermediate groups. If unions have strong labour market power they are likely to stimulate business association at the sectoral or regional levels. Similarly, co-ordinated market economies tend to emphasise the sectoral level at which associations can co-ordinate both the political and economic activities of their members. This type of economy represents a moderate focus on interest diversity. Sectoral interest is more important than class interest. At the level of sectoral interest there is considerable potential for offering attractive private goods to members. Medium-sized enterprises are well-represented in economies with strong sectoral interests and identities.

Finally, there is the situation in which only individual action is rational: there is no relevant group with which an enterprise can contemplate collective action. This is a situation of maximum interest diversity and is the logical extreme of Padgett's

argument. This section has shown that arguments about unions, production regimes and interest diversity can be adequately incorporated into Olson's trio of group size, private goods, and enterprise size.

Political Variables

It is often argued that divided political institutions tend to encourage a pluralist system.³⁵ Although this theory is consistent with some cases, in general it is weak. The Pearson correlation coefficient between Lijphart's index of pluralism and corporatism and the divided government dimension for his 36 democracies is slightly negative (-0.045), which is in the correct direction but is statistically insignificant.³⁶ However, arguments about divided government and pluralism tend to focus on two elements of divided government: federalism/decentralisation and bicameralism. In the case of federalism the correlation coefficient is moderately negative (-0.278) and is borderline statistically significant (0.05 exactly, on a one-tailed test). This is the opposite direction to that predicted by the hypothesis. The bicameralism hypothesis is not much more successful: the correlation coefficient is slightly positive (0.049) but is statistically insignificant. Overall, the comparative data provides little evidence for divided government being a good explanation for interest group pluralism.

Lijphart himself does not make any claims about the association between the divided-power dimension and interest groups. However, the interest group index is part of the joint-power dimension. Therefore, it is hardly surprising to find a strong

³⁵ Graham Wilson, *Business and Politics: A Comparative Introduction* (London: Macmillan, 1985), 27, 99; Stephen Bell, "Between the Market and the State: The Role of Australian Business Associations in Public Policy", *Comparative Politics*, 28 (1995), 25-54

³⁶ Arend Lijphart, *Patterns of Democracy: Government forms and performance in thirty-six countries* (New Haven: Yale University Press, 1999)

correlation between the average of Lijphart's 36 cases on the first four measures of the executives-parties dimension and their interest group index scores. The Pearson coefficient is 0.694 and the one-tailed test is significant at the one per cent level for Lijphart's 36 cases. According to Lijphart and Crepaz, inclusive coalition governments are conducive to the long-term policy relationships between interest associations and the state, which are important for corporatist policy-making.³⁷ However, this is clearly an argument about an elective affinity, which only has a significant impact over a long period of time such as that studied by Lijphart. Clearly, this logic is unlikely to have made itself felt in the relatively short period since the collapse of communism.

More relevant are direct interventions by the political system in the structure of business associations. However, it is extremely difficult for a government to recast a system of business associations. It is especially difficult for a government to create corporatism from pluralism. While the government can grant legal monopolies, hold regular consultations and sign agreements it is very difficult for it to restructure an economy so completely that the corporatist methods of policy-making are backed up by corporatist structures in the economy. Simply put, a democratic government has very limited power to create small constituencies of large enterprises, which view monopolistic business associations as an integral part of their firms' business strategy. A frequently cited illustration of this point is the failed tripartite project in 1970s Britain.³⁸ However problematic it may be to break out of a historical pattern of pluralism, this has, of course, happened. Decisive shifts towards corporatism are

³⁷ Markus M L Crepaz & Arend Lijphart, "Linking and Integrating Corporatism and Consensus Democracy: Theory, Concepts and Evidence", *British Journal of Political Science*, 25 (1995), 282-288

³⁸ Michael Gallagher, Michael Laver, Peter Mair, *Representative Government in Modern Europe*, 2nd ed. (New York: McGraw-Hill, 1995), 369-372

associated with periods of economic and political crisis.³⁹ There are two reasons for this. Firstly, a period of crisis may be one in which the government has greater power than usual to impose substantial and enduring changes on economic structure. However, crisis merely weakens the barrier posed by economic structure; it does not eliminate it. Secondly, a crisis often produces a political imperative for unity and consensus, characteristics that are features of corporatism rather than pluralism. The drastic recession that accompanied the collapse of communism definitely constituted a crisis that was serious enough to allow governments much more scope than usual to institute corporatism.⁴⁰

Social variables

It is widely accepted that there are features of society, separate from economic structure and political interventions, which encourage or discourage people from participating in groups. Frequently, this tendency has been described as cultural. Some nations, regions, functional categories, or other groups are perceived to have a predilection to join organisations while others are not. For example, a key element of the so-called “civic culture” has been a predilection to join organisations.⁴¹ Arguments similar to those about the civic culture are frequently framed in terms of “social capital”. The term social capital has two advantages over the traditional emphasis on “civic culture”. Firstly, it is more concrete and less general. Secondly, it is easier to synthesise with other sorts of arguments, including, crucially, those

³⁹ Niamh Hardiman, “Social partnership, wage bargaining and growth” in Brian Nolan, Philip J O’Connell and Christopher T Whelan (eds.), *Bust to Boom? The Irish Experience of Growth and Inequality* (Dublin: Institute of Public Administration, 2000)

⁴⁰ Bela Greskovits, *The political economy of protest and patience: economic and political reforms in Eastern Europe and Latin America* (Budapest: Central European Press, 1998); Adam Przeworski (ed.), *Sustainable democracy*, (Cambridge: Cambridge University Press, 1995)

⁴¹ Gabriel Almond and Sidney Verba, *The Civic Culture* (Princeton: Princeton University Press, 1963); Samuel Huntington, *The Third Wave: Democratization in the Late Twentieth Century* (Boulder: University of Oklahoma Press, 1991)

about economic structure.⁴² Social capital is used in two different forms.⁴³ The first, narrower, meaning refers to personal connections,⁴⁴ while the second, wider, meaning also includes norms and trust.⁴⁵ This thesis will employ social capital in its narrower form. Again, the emphasis is on a concrete definition, which can be used consistently in qualitative and quantitative analyses. Moreover, “personal connections” retain much of the explanatory power of the wider definition without the associated vagueness and measurement problems. Finally, adopting the narrower definition of social capital does not undermine the synthesis with economic variables.

The synthesis is simply stated. The logic of collective action demonstrates that the larger the group, the more difficult it is to achieve collective action. Groups of enterprises defined by economic characteristics tend to be large latent groups. However, groups defined by personal connections may be smaller intermediate groups. If social capital is high amongst businesspeople, they will be able to commit their enterprise to an association in the confidence that their friends will not free ride on their contribution. Conversely, if a businessperson, who is personally connected to the members of the association, does not join, they are likely to be noticed and sanctioned. This is in contrast to the free rider in a large group who can benefit from

⁴² Robert D Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993), 165-180; Elinor Ostrom, “A Behavioral Approach to the Rational Choice Theory of Collective Action”, *American Political Science Review*, 92 (1998); James S Coleman, *Foundations of Social Theory* (Cambridge, MA: Belknap, 1990); Padgett, *Organizing Democracy*, esp. 14-16; George Kolankiewicz, “Social capital and social change”, *British Journal of Sociology*, 47 (1996); Ákos Rona-Tas, “Path-Dependence and Capital Theory: Sociology of post-communist economic transformation”, *East European Politics and Societies*, 12 (1), 1998, 107-131

⁴³ Kolankiewicz, “Social Capital and Social Class”, 435-437

⁴⁴ Pierre Bourdieu, *Practical Reason: On the Theory of Action* (Cambridge: Polity, 1998); Gil Eyal, Iván Széleányi, Eleanor Townsley, *Making Capitalism without Capitalists: Class Formation and Elite Struggles in Post-Communist Central Europe* (London: Verso, 1998), 6, 8, 21, 29

⁴⁵ Piotr Sztompka, “Civilizational Incompetence: The Trap of Post-Communist Societies”, *Zeitschrift für Soziologie*, 22 (1993), 85-95; Piotr Sztompka, “Trust and Emerging Democracy: Lessons from Poland”, *International Sociology*, 11 (1), 1996, 37-62

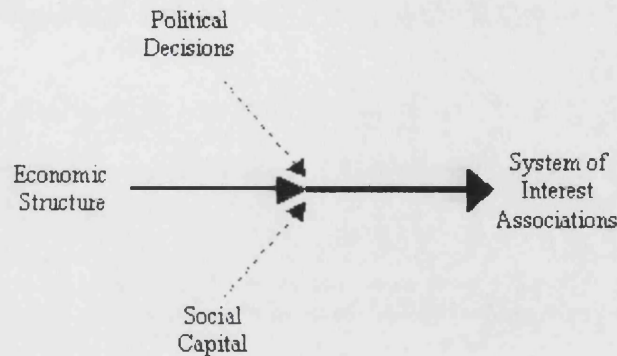
public goods provided by others, with little fear of detection or sanction. This does not mean that the availability of social capital transforms latent groups into intermediate groups and, therefore, dissolves the collective action problem. The potential members of the association still need to be motivated public or private goods. The public goods will still apply to large latent groups, and the provision of the private goods will, in great measure, be dependent on a relatively developed organisation, which already has a substantial membership. Moreover, the network of personal connections is highly unlikely to be structured so that it can encompass all of those enterprises with the relevant economic characteristics.

Paradoxically, the absence of social capital can also help business associations. The absence of social capital presents associations with an opportunity to provide an attractive private good and thereby recruit members. This opportunity seems to be particularly relevant to post-communism. Post-communist societies lack the dense regulatory and customary structure of long-established capitalisms. This means that transaction costs are much higher for post-communist businesses. They cannot rely on a clear legal context and a reliable system of contract enforcement~~/~~to facilitate transactions. In this situation, social capital becomes an attractive alternative. If business is transacted between individuals who already know each other, there is less need to rely on the law to provide predictability in the execution of agreements. However, social capital is also lacking in post-communist societies, because there are relatively few individuals who have been in business for long periods, never mind families who have been in business for generations. There are, of course, those who were involved in the production and service-provision under the previous regime. These people are frequently able to adopt communist-era personal connections to the

new regime. On the other hand, the radically new economic context means that old connections are inapplicable or less effective. In the absence of both state regulation and relevant personal connections business associations can fill the gap by creating social capital amongst business. Enterprises can be matched with each other, and their common membership of a business association means that dishonest behaviour will have an immediate and substantial effect on the reputation of a business. As well as being another private good, which can be added to a portfolio of services, the creation of social capital is useful in that, unlike the offer of many other services, it makes very light demands on the organization. At the minimum, all that is needed is an opportunity for businesspeople to get to know each other and discuss mutually profitable opportunities. Contrast this with the expense of providing legal advice or export promotion. However, this private good is subject to the same logical problem as other private goods: it does not necessarily need to be provided by a business association. It is, indeed, a role, which is often played by social, cultural or sports clubs in countries both within and outside the post-communist region. Social capital can ease the collective action problem: it cannot resolve it. In this respect, its relationship to economic structure is similar to that of political intervention.

This thesis concentrates on economic variables to explain the strength of interest associations. Political and social variables make a smaller contribution that can be coherently synthesised with the economic explanation. This approach is summed up by Figure 3.2 below.

Figure 3.2: Overall Explanations for the strength of interest associations



4. The Company State

In a company state, individual companies dominate the interface of government and business. Grant uses the idea of the company state to sum up business-government relations in contemporary Britain. For Grant, the company state is concerned with the highly professionalised world of the government and public relations divisions of large corporations.⁴⁶ There is a similar emphasis in the many studies of big business in the US⁴⁷ and the EU.⁴⁸ The most fundamental reason that multinationals are able to manage their relations with government on a company basis is sheer size.⁴⁹ There are also other reasons why the company channel is particularly fruitful and attractive for multinationals. Multinationals are mobile. It is much easier for them to shift jurisdiction if public policy, or the general economic climate, affect their profits. This special structural power potentially gives them a particular influence over governments. This specificity also makes it less likely that a business association will adequately represent their interests. Since much of politics is about context, the expatriate management of a multinational prefer to have government relations

⁴⁶ Wyn Grant, *Business and Politics in Britain*, 2nd ed. (London: Macmillan, 1993), 18

⁴⁷ Cathie-Jo Martin, *Stuck in Neutral: Business and the Politics of Human Capital Investment Policy* (Princeton: Princeton University Press, 2000)

⁴⁸ Bennett, Robert J, "Business Routes of Influence in Brussels: Exploring the Choice of Direct Representation", *Political Studies*, 47 (1999), 240-257

⁴⁹ Grant, *Business and Politics*, 89

managed by experts with local knowledge. Moreover, expatriates will also lack the accumulated personal connections that make the personalist route so attractive for indigenous business leaders.

In addition to multinationals, large state-owned enterprises are also likely to directly manage their relations with government. With multinationals they share sheer size and a specificity, which is sometimes hard for general business associations to encompass. However, their special relevance for government tends to relate to political rather than economic structure. As the owner of a firm, the government is seen as especially responsible for employment, wages, prices, profits, etc. All of the key economic indices of the firm become indices of the political performance of the government. State-owned enterprises, because of size, sector, and state-ownership itself, tend to be highly unionised. This hugely increases their level of politicisation, particularly in an era when unions are rapidly losing members in the private sector. Unusually intense politics are associated with the process of privatization, which has swept across the world in the last couple of decades.

State-owned enterprises are particularly important in the post-communist context. This importance is largely explained by the factors mentioned above. Some post-communist enterprises are enormous, even by the standards of state-owned enterprises elsewhere. Really large enterprises are often usually even more important than their huge size suggests. When a region or locality becomes dependent on a large employer, the issue is not merely a rise in unemployment and the loss of the votes of the newly unemployed, it is the social and economic devastation of a region, and the political consequences that follow. This is a classic

scenario of post-industrialism and is perhaps most evident in industries like coal and steel in many countries. Like their counterparts in the West, post-communist unions are concentrated in the state sector. However, in post-communist countries, their decline has been particularly precipitous and their defence of the state sector has in some cases been remarkably fierce. The issue of privatization has been even bigger in the post-communist context than elsewhere, given the size of the state sector and the pressure to move quickly to a privately owned market economy. Some of the features of post-communist ownership structures, notably worker ownership, have made privatization more hotly contested than elsewhere. There is one feature of post-communist state-owned enterprises, which further increases their political salience and has no real analogue in the West. Large communist enterprises were not solely economic organisations. They also served as agents of political control, provided health and social services as well as social insurance, and even were major providers of leisure, travel and cultural opportunities. In other words, much of what is the state's responsibility in capitalist democracies was provided through enterprises. State-owned enterprises have had to be commercialised in a very fundamental sense. They have had to be transformed from multi-functional, to purely economic, institutions. For all of these reasons, it is plausible that state ownership is a major explanation for the importance of the company mode of business-government relations in post-communist countries. It is important to realise that state-owned enterprises present great difficulties in extricating the company state from the party and personalist states. Obviously, state enterprises are particularly susceptible to party political involvement and the development of

personal connections between managers and politicians.⁵⁰ These empirical problems are not so prominent in the case of multinationals.

5. The Party State

In the party state, business needs the intermediary services of a political party. Businesses must ally themselves with a political party in order to gain access to the political system. Wilson writes, "In most political systems there is one party which is closely associated with business".⁵¹ This is true of many political systems, perhaps especially two-party Anglo-Saxon systems. However, it is not generally true of post-communist countries, although there are obvious variations across the region. Ex-communist parties are closely associated with business because the business elite is dominated by ex-communists. Non-communist parties also tend to be broadly pro-business since they opposed the anti-capitalist communist system. High levels of politicisation of the economy are associated with the party state by many authors,⁵² and this seems like a more promising explanation for the party state in the post-communist context. Here, *politicisation* is defined as the ability of the state to directly influence the behaviour of individual enterprises. This refers to much more than state ownership. Politicisation also includes export quotas, subsidies, licences, public procurement, individual enquiries or inspections of tax or

⁵⁰ John Scott, *Corporate Business and Capitalist Classes* (Oxford: Oxford University Press, 1997), 268

⁵¹ Wilson, *Business and Politics*, 14

⁵² Wyn Grant, Alberto Martinelli, William Patterson, "Large Firms as Political Actors: A Comparative Analysis of the Chemical Industry in Britain, Italy and West Germany", *West European Politics*, 12 (2), 1989, 74; Roger Schoenman, "Captains or Pirates? The New Economic Elite and their Role in Poland's Economic Development", paper delivered at the Council for European Studies, Chicago, 2002; Schoenman, "Webs of Transition: State-Economy Relations in Romania, Bulgaria and Poland", paper delivered at the American Political Science Association, September 2002; Attila Ágh, *Politics in Central Europe* (London: Sage, 1998), 112. Also, Attila Ágh, "From Nomenclatura to Clientura" in Geoffrey Pridham and Paul G Lewis (eds.), *Stabilising Fragile Democracies* (London: Routledge, 1996), 44-69; Jadwiga Staniszkis, *Post-Communism: The Emerging Enigma* (Warsaw: Institute of Political Studies, Polish Academy of Sciences, 1998); John Scott, *Corporate Business and Capitalist Classes* (Oxford: Oxford University Press, 1997), 271

environmental compliance and a host of other instruments. These instruments and others constitute a well-known feature of post-communist economies and affect both public and private sectors. This politicisation is a different, and more intense, type of state intervention than that which affects only general classes of enterprises, such as heavy taxation or high levels of regulation. There is little doubt that post-communist economies are much more politicised than their counterparts elsewhere. Many accounts of business-government relations, in post-communist countries and elsewhere, assume that high politicisation is a sufficient explanation for the party state. Their logic is as follows: given that parties control the executive and the executive controls a politicised economy, business-political networks should be structured by political parties. That is to say, businesspeople and politicians are loyal to, or dependent on, political parties and the networks of businesspeople do not cut across networks structured by political parties.

These accounts of the party state tend to assume that politicians and businesspeople have congruent interests. A high level of politicisation means that there are very strong incentives for firms to develop political connections and there are great opportunities for well-placed politicians to develop connections to the business class. Furthermore, the expense of electoral competition and the financial resources of business mean that there are very strong incentives for political parties to develop connections to the business class. However, the existence of strong incentives for politicians and businesspeople to get to know each other and exchange resources does not necessarily mean that businesses will ally themselves with particular political parties.

Businesses and parties have conflicting interests. Unless one party seems likely to stay in power for the foreseeable future, loyalty to one particular party is not a sensible long- or medium-term option for any business. Of course, political parties have an interest in ensuring that businesses support only their party and do not, instead, or in addition, support their competitors. When parties are out of government, they have little to offer business and are unlikely to be able to stop business seeking favours from their political opponents. Even in government, it is questionable whether any party in a competitive environment would be in a position to turn down the support of a business, which had previously supported one of their political opponents. Given high levels of politicisation, the extent to which there is a turnover of parties in government is the best explanation for the relative strength of the party state.

However, the force of this argument does vary according to different instruments of politicisation. State ownership presents the opportunity for parties to encapsulate firms. Boards which have been loyal to other parties can immediately be exchanged for the placemen of the new governing parties. It should be noted that it is not always clear to what extent parties as opposed to politicians control board appointments. Appointees may be the clients of party factions or the Minister of the State Treasury, rather than an actual political party.

Other instruments of politicisation are subject to the fundamental point that a party has little to offer business once it is out of government. Only the parties in power have control over these instruments. The privatization process gives firms and businesspeople a great incentive to be loyal to the parties in government. Strategic,

discounted or well-timed purchases of state assets can make or break businesses. In many cases, they have created businesses out of nothing. Once the purchase has been made it is virtually impossible for a party returning to power to punish a firm for its subsequent disloyalty by renationalising its assets. Of course, the influence of parties depends on the structures of corporate governance. Frequently, the state sells only minority shares to investors who are then at the mercy of governments. Sometimes the state maintains a blocking minority of shares. Often the state rigs the voting rules of the firm so that it can continue to exercise a veto with only a relatively small number of shares. Many of the deals in which minority shares are sold to investors involve contracts by which a majority will be sold under specified conditions at a specified date. These features of corporate governance may or may not give a government the power to punish a firm, which it thinks has been disloyal. Nonetheless, there is still no incentive for the firm to be loyal unless it expects the same government to return to power.

The irreversibility of major decisions applies even more strongly to other policies where there is no equivalent of the minority “golden shares” of corporate governance. For example, there is widespread, and often very substantial bribery, for legislation in post-communist countries. For example, the most prominent scandal under the Miller government in Poland involves the alleged sale of a legislative clause, which would have allowed the owners of print media to buy into broadcast media, something that was banned under previous legislation on media “concentration”. This type of law would have been very difficult to undo, if the beneficiary firm had subsequently been disloyal to Miller’s party. Indeed, if there was a strong likelihood that the law could later be revoked it would not have made

sense to demand such a large bribe. Again, even if Miller and his party could later change the law, it would make no sense for the firm to stay loyal to them, unless it foresaw that they would stay in power for a long period. A similar logic would seem to apply to the award of the plethora of licences required in post-communist economies. Public procurement is another area in which there seems to have been a lot of corruption and a huge potential for the party funding. Again, contractual and practical considerations make it difficult for a government to change firm mid-project in order to enforce loyalty. Even the promise of further work in the future is not particularly attractive, unless the party is likely to continue in government in the future.

There are some benefits, which can perhaps be calibrated to increase party political control over firms. Subsidies can change, be eliminated, or be transferred from year to year. However, subsidies are usually given to state-owned enterprises, so they do not add much to an explanation centred on ownership. Moreover, they tend to be given to communist-era giants in which very strong trade unions place a significant constraint on government policy. Lucrative import quotas (*kontyngenty*)⁵³ also seem to offer a potential for party political manipulation. The amounts in question, the conditions under which they are received and the recipients can be changed from year to year. All this means is that loyalty can be maintained for the tenure of the political parties in government. Once they leave government, as is virtually inevitable at every election in post-communist countries, businesses have an overwhelming incentive to transfer their loyalties to the new governing parties.

⁵³ George Kolankiewicz, "Social capital and social change", 437

There is nothing the previous government can do in the future that the present government cannot do in the present!

6. The Soft State

In a soft state, business gains access to the government by means of the personal connections of its representatives. It is widely agreed that business representatives need to make direct personal contact with the government and maintain good relationships with decision-makers.⁵⁴ However, this is a rather banal observation, which is taken for granted by most authors. The vast majority of the literature on business-government relations sees personal connections as epiphenomenal.⁵⁵ It is the characteristics of a business association, company or political party affiliation which allow a business representative to gain access to government and which enable her to develop personal relationships with politicians. Ultimately, these connections are a resource of the association, company or political party, not of individuals. These connections are not truly personal. This view of personal connections as epiphenomena of institutional affiliations is shared with the literature on political and business elites. Merely epiphenomenal personal connections are regarded as a fundamental characteristic of “advanced” or “complex” societies.⁵⁶ It is acknowledged that, in the past, purely personal connections have been more important. Grant and Scott recognise an earlier era of British business-government

⁵⁴ Clive Thomas (ed.), *First World Interest Groups: A Comparative Perspective* (London: Greenwood, 1993), 220

⁵⁵ John P Heinz, Edward O Laumann, Robert L Nelson, Robert H Salisbury, *The Hollow Core: Private Interests in National Policy Making* (Cambridge, MA: Harvard University Press, 1993), 11-12

⁵⁶ Robert D Putnam, *The Comparative Study of Political Elites* (Englewood-Cliffs, NJ: Prentice-Hall, 1976), 18; Michael G Burton & John Higley, “Invitation to Elite Theory: The Basic Contentions Reconsidered” in G William Domhoff & Thomas R Dye (eds.), *Power Elites and Organizations* (London: Sage, 1987), 224; John Higley, Jan Pakulski, Włodzimierz Wesołowski, “Introduction: Elite Change and Democratic Regimes in Eastern Europe” in Higley, Pakulski, Wesołowski (eds.), *Postcommunist Elites and Democracy in Eastern Europe* (London: Macmillan, 1998), 2; C Wright Mills, *The Power Elite* (New York: Oxford University Press, 1959), *passim.*, esp. 3, 9

relations when personal connections were influential,⁵⁷ and Mizruchi makes a similar observation with regard to the USA.⁵⁸ Moreover, there seems to be a consensus that personal connections are a vital element of contemporary Russian business-government relations.⁵⁹ Mills mentions some examples of businesses hiring personnel because of their personal connections with politicians.⁶⁰ In this case, the business's contacts are a result of the characteristics of the individuals who work for it, not the other way round, as is generally assumed.

The disagreement about whether or not personal connections are epiphenomenal is effectively one about the sources of social capital (see figure 3.3 below). In the epiphenomenal view, social capital is the result of affiliation with institutions, associations, companies and political parties. In the non-epiphenomenal view, or the view that sees such connections as purely personal, the source of social capital is an individual's biography. Therefore, in the context of business-government relations, we can identify three main sources of social capital: organizational (association or company), political (affiliation to a party)⁶¹ and personal. The soft state is not an epiphenomenon. It is based on purely personal connections, independent from contacts deriving from organizational or political affiliation. The epiphenomenal

⁵⁷ Scott, *Corporate Business and Capitalist Classes*, 268; Grant, *Business and Politics in Britain*, 92, 130

⁵⁸ Mark S Mizruchi, "Why do Corporations Stick Together? An Interorganizational Theory of Class Cohesion" in G William Domhoff & Thomas R Dye (eds.), *Power Elites and Organizations* (London: Sage, 1987), 206-207

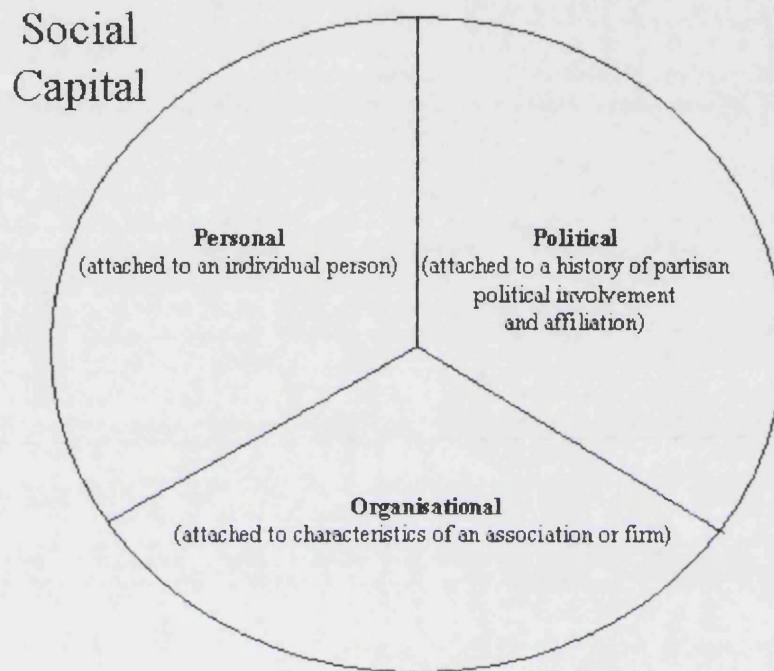
⁵⁹ Peter Rutland, *Business and the State in Contemporary Russia* (Boulder, Colorado: Westview, 2001), 17-18. Also, David Lane, "What kind of capitalism for Russia? A comparative analysis", *Communist and Post-Communist Studies*, 33 (2000), 499; Alena Ledevna, *Russia's Economy of Favours: Blat, Networking and Informal Exchange* (Cambridge: Cambridge University Press, 1998), *passim*. esp. 199-200; Peter Rutland, Review of Sergei Peregudov et al, *Grupy Interesov i Rossiiskoe gosudarstvo*, *Europe-Asia Studies*, 52 (2000), 1549-1550

⁶⁰ Mills, *The Power Elite*, 136

⁶¹ This might be called political capital. However, there are many different usages of political capital, none of which should be read into the present analysis. For example, see John A Booth & Patricia Bayer Richard, "Civil Society, Political Capital and Democratization in Central America", *Journal of Politics*, 60 (3), 1998, 780-800

view is that personal connections are indicators, not of the soft state, but of the association, company or party state.

Figure 3.3: Sources of Social Capital



So, the level of personal connections needs to be tested against business association membership, the characteristics of the firm and political affiliation. The association variable is perhaps the easiest. We can simply look for membership of a business association. Next easiest is political affiliation. Political party membership is the place to begin, but in many, perhaps most, cases this will be an inadequate indicator. Many businesspeople are clearly associated with a party without being a member. We also need to look at past membership, membership of non-party partisan organisations and maybe also look for evidence that individuals have benefited from partisan affiliation. Since all businesspeople are employees or owners of firms we need to look at the characteristics of the firms. Here we can follow the earlier

analysis of the company state and look at size, state ownership, politicisation and foreign ownership. Larger enterprises and higher levels of state ownership and politicisation are likely to produce employees with more personal connections to the political elite. Foreign ownership could go both ways. The government may be particularly keen to develop relationships of foreign firms because of their structural power. On the other hand, nationalist sensitivities may make politicians reluctant to spend too much time with the leaders of foreign-owned business. We can also add directorships, as some businesspeople represent more than one firm and for that reason are likely to have better access to politicians. Indeed, multiple directorships, and their patterns, have long been regarded as a useful indicator of elite status.⁶² The existence of purely personal connections can be demonstrated by showing that the association, company and party relationships do not explain the relative prevalence of connections between the economic and political elites. However, this still leaves us with the vital question of what features of the biographies of senior businesspeople are important for the development of personal connections with business.

Past institutional affiliations have been transformed into personal connections if they still mean that individuals have personal access to politicians, irrespective of the institution they currently represent. So we can begin by looking at past institutional affiliations to see whether they, rather than present institutional affiliation, explain the levels of personal connections to the political elite amongst businesspeople. The past plays a very different role in the analysis of political and organisational sources of social capital. A political past is harder to shake off than a commercial past. A

⁶² Mills, *The Power Elite*, 122-123

former Coke employee is unlikely to be greeted with suspicion in Pepsi Cola in the way that a political turncoat is suspected by his former political enemies. Past political involvement is a good indicator of present political affiliation and past commercial involvement is not a good indicator of present commercial loyalty. Thus, it is problematic to use past political involvement as an explanation for purely personal connections independent of the party state. In contrast, no such problems are presented by looking at the employment history of individuals. Similarly, there should be no particular problems in using past involvement in business associations to explain current levels of personal connections.

While past associational, company and party affiliations may be interpreted as personal, if contrasted with current affiliations, evidence for the personal nature of connections is much stronger if the connections were developed outside of the process of business and political elite interaction. An obvious indicator, and one that has been popular in many elite studies, is membership of voluntary organisations and clubs. The role of the London gentlemen's clubs is a staple of the analysis of Britain's traditional elite. Golf clubs are frequently seen as places where business and political elites develop connections independent of, but functional for, their professional positions. Religious, cultural and charity groups can perform a similar role.

The farther back in time the personal connections were developed, the more purely personal they currently are. There are two reasons for this. Firstly, although acquaintances may have originally been formed because of an institutional context, the longer they have been maintained outside that context, the more personal their

basis is. Secondly, earlier institutional experiences are likely to be at a lower level. Thus, with these earlier experiences the individuals are much less likely to have been seen as representatives of powerful institutions. Furthermore, connections developed earlier in life can be particularly powerful. This is because the development of one personal connection is not just the development of one important personal relationship: it is an entry point to a network. Personal connections create personal connections.⁶³ Developing good personal connections earlier in life means that, year after year, more and more personal connections can be accumulated. In this regard, education is vital. In most societies, it is difficult to attain elite status without a relatively high level of education, and most of the future elite will begin their career in elite schools, universities or other educational institutions. This point is reflected in discussions of Oxbridge, the Ivy League and the *École Nationale d'Administration* and "*Sciences-Po*".⁶⁴

Personal connections are less likely to be epiphenomenal in a situation of rapid systemic change like that experienced by post-communist countries. Rapid changes in the characteristics of associations, companies and parties along with the sudden birth and death of other associations, companies and parties means that personal connections become a relatively more reliable guarantee of elite status than institutional affiliation. Moreover, personal connections that bridged the economic and political spheres were likely to be especially important in the unique post-communist context in which a new political system sought to rapidly destroy a communist economy and introduce capitalism. This meant that the rules of the economic game were in flux and were open to negotiation and manipulation to an

⁶³ Mills, *The Power Elite*, 138-9, 283

⁶⁴ Ezra N Suleiman, *Les Élités en France: Grands Corps et Grandes Écoles* (Paris: Éditions du Seuil, 1979), 13

extent much greater than they have ever been in countries where capitalism has long been established and evolved relatively slowly. The fact that government underpins and sets the context for business has perhaps never, and nowhere, been so obvious for capitalists (and aspiring capitalists) than in post-communist countries. Therefore, the phenomenon of *politicisation* described in the section on the party state, also makes personalism an attractive option for both businesses and politicians.

As in many systems where there has been rapid change, in spite of the preferences and efforts of many post-communist leaders and their supporters, it was always likely that many of those who had been powerful under the previous regime would preserve their elite status. In spite of rapid change, much of the previous system remained, and had to remain. The only people who knew how to operate it, were, of course, those who had previously operated it. There is a strong tendency for these same people, operating some of the same structures, to behave in a way similar to the way in which they conducted business under the previous regime.⁶⁵

Some of the essential features of the communist regime increased the importance of personal connections. Firstly, throughout much of the system, personal loyalty mattered more than professional performance. The communist parties and the nomenklatura were organised as hierarchical networks of personal loyalty.⁶⁶ It was not just party membership and ideological conformity but this direct personal loyalty, which served to exercise political control across the polity and society and within the economy itself. The relative importance of loyalty versus performance changed over time. In the early Stalinist phase performance and qualifications were of minor

⁶⁵ Gil Eyal, Iván Szelényi, Eleanor Townsley, *Making Capitalism Without Capitalists: Class Formation and Elite Struggles in Post-Communist Central Europe* (London: Verso, 1988), 38-39

⁶⁶ Eyal, Szelényi, Townsley, *Making Capitalism Without Capitalists*, 7

importance. By the last years of the regime, some measure of both competence and loyalty were generally required of those in responsible positions. The combination of competence and loyalty also varied significantly from country to country and within countries. From at least the 1960s there was a significant cleavage of “Reds” versus “Experts” within the regimes.⁶⁷ Much of the factional conflict, which preceded and accompanied the fall of communism, related to this cleavage. Nonetheless, in all communist regimes, it was taken for granted that personal connections to the political elite were much more important for those in senior economic positions, than in the vast majority of established capitalist democracies. Although the more technocratic faction was more successful in the post-communist era,⁶⁸ it is still likely that they retained and exploited significant networks of personal connections.

Under communism, politics dominated the economy. The political system tried to eliminate an independent economic sphere with an independent economic logic, and was largely successful in doing so. Instead, the logic of production units, or firms, was largely political. It followed that there was no sharp distinction between businessmen, or economic managers, and politicians.⁶⁹ Even to the extent that there was, the two groups had to work together to a degree that was unimaginable for capitalist managers. The necessity of working together applied to both the official and unofficial economic systems. Such were the inefficiencies and irrationalities of

⁶⁷ Judy Batt, *Economic Reform and Political Change in Eastern Europe: A Comparison of the Czechoslovak and Hungarian Experiences* (London: Macmillan 1988), *passim*, esp. 88, 105, 111, 115, 120; J F Brown, *Eastern Europe and Communist Rule* (London: Duke University Press, 1988), 25; Ivan Berend, *The Hungarian Economic Reforms, 1953-88* (Cambridge: Cambridge University Press, 1990), 202; Neal Ascherson, *The Polish August: the self-limiting revolution* (Harmondsworth: Penguin, 1982), 77; George Sanford, *Democratization in Poland 1988-90: Polish Voices* (London: Macmillan, 1992), 11; Putnam, *The Comparative Study of Political Elites*, 60

⁶⁸ Eyal, Szelenyi, Townsley, *Making Capitalism Without Capitalists*, *passim*, esp. 6, 13-14

⁶⁹ Janos Kornai, *The Socialist System: The Political Economy of Communism* (Oxford: Clarendon, 1992), *passim*, esp. 74, 75, 97, 124-126

the official system, that, to get anything done, managers often had to use personal connections to break the rules. Overall, not only were personal connections important in the communist system, but intense personal connections, between those who would later divide into businessmen and politicians, were unavoidable.

A soft state, permeated by personal connections, which are independent of institutions, constitutes a mode of business-government relations, which is fundamentally different from the other channels of business influence reviewed above. The personalist channel is the one least studied in the literature, and it is virtually ignored in comparison with the voluminous literature on interest associations. Personal connections are explained by an individual's biography. They can be developed during, before and outside an individual's professional career. There is good reason to believe that personal connections might be especially important in post-communist regimes.

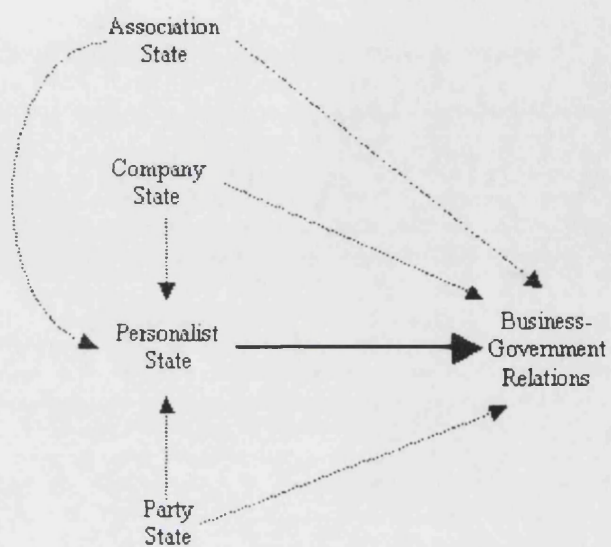
7. Conclusions

This chapter has argued that there are four principal modes of business-government relations: the association, company, party and soft states. Of the four modes the association state is by far the most commonly studied, with the soft state very rarely being addressed. Any treatment of business-government relations, which ignores the existence of multiple modes of business-government relations, is likely to be inadequate. The relative prevalence of one channel is largely a function of the unavailability or ineffectiveness of other channels. Moreover, any serious lobbying strategy will try to combine elements of as many of the modes as possible. The different channels will have different comparative advantages in different political

situations within the one national system of business-government relations. Of course, there are important explanations for the strength of the different modes, which are independent of the strength of the alternative routes to government. In the preceding discussion, I have considered independent variables, which affect capitalist democracies in general, and the specific conditions of post-communist capitalist democracies. I argued that the number of enterprises in the constituency of a business association is the most powerful explanation for the strength of the association state. The company state seems to best understood as a result of the importance of multinational and state enterprises. The rate of turnover of parties in government fundamentally affects the rationality of the party state. Finally, the personalist state is explained by the common biographies, especially early biographies, of the political and economic elites. In the empirical chapters, I find evidence for the existence of all four modes of business-government relations in Poland, but the soft state is by far the most important. It is unsurprising that elements of all four are present.⁷⁰ However, given the scarcity of work on the soft state, and the categorical dismissal of its importance by many authors, the finding on personalism in Poland is very significant. The terms introduced in this chapter can be presented diagrammatically to sum up the argument of the thesis. See Figure 3.4

⁷⁰ Grant, Martinelli, Patterson, "Large Firms as Political Actors: A Comparative Analysis of the Chemical Industry in Britain, Italy and West Germany", 75; Grant, *Business and Politics*, 17

Figure 3.4: Explanatory Framework for Business-Government Relations



Chapter Four: Business Associations in Poland

1. Introduction

This chapter follows the dominant literature on business-government relations by focusing on Polish business associations. It shows that Polish business associations are clearly very pluralist and very weak. The most successful explanation for this situation is the logic of collective action. The evidence in this chapter combines a general perspective with detailed case studies. This combination is not applied uniformly across the different elements of the dependent and independent variables. This is due both to the availability of suitable data and to the nature of the variables: some of them are only meaningfully evaluated according to general or case study data. When general and specific information concur this increases confidence in the conclusions. Nonetheless, the wide range of the data, in terms of both its nature and quality, is taken into account when drawing conclusions. The case study data is largely drawn from what academics, journalists, businesspeople and politicians agree to be Poland's five most influential business associations.¹ All of these associations are very encompassing and claim to represent Polish business as a whole. This sample has different implications for the generalisability of conclusions according to the particular variable under examination. Such implications are discussed wherever they are important.

¹ Krzysztof Jasiecki, "Organizacje Przedsiębiorców i Pracodawców w Polsce" in Jacek Wasilewski (ed.), *Zbiorowi Aktorzy Polskiej Polityki* (Warsaw: Institute of Political Studies, Polish Academy of Sciences), 177; Businessman, June 1998, 69; Wiesława Kozek (ed.), *Spoleczne Organizacje Biznesu w Polsce a Stosunki Pracy* (Warsaw: Centrum Partnerstwa Społecznego DIALOG, 1999), 86

2. Dependent Variable

This section assesses the pluralism and strength of Polish business associations. It proceeds according to the different elements of the pluralism-corporatism continuum introduced in Chapter Three. Firstly, however, I introduce the legal context and the types of business associations that exist in Poland. The vast majority of Polish business associations are registered under four statutes. The laws on employers' organisations,² chambers of commerce³ and artisans' organisations or guilds⁴ all grant business associations the right to offer their opinions on laws relevant to their sphere of activity in return for a minimum number of members and democratic procedures. In spite of this minor privilege and quasi-official status, many Polish business associations are registered according to the law on associations, which confers no legal political privileges, but sets no minimum membership and has less to say about internal procedures.⁵ This specific legal category of "association" will hereafter be placed in inverted commas to distinguish it from the more general use of the word.

There is, to some extent, a theoretical division of labour between the different types of organisations. Chambers of commerce are supposed to lobby for a very wide range of public goods and also offer many specific private goods to their members. Artisans' organisations are designed to represent the interests of small-scale craft businesses. Employer organisations are intended to be especially interested in industrial relations issues. "Associations" are sometimes perceived to be more

² "O organizacjach pracodawców", *Dziennik Ustaw*, 23 May 1991

³ "O izbach gospodarczych", *Dziennik Ustaw*, 5 May 1991

⁴ "O rzemiośle", *Dziennik Ustaw*, 22 March 1989. To qualify as artisanal a business must be based on some craft qualification and employ a maximum of fifteen people.

concerned with providing social goods to their members and private or very narrow political goods.

2.1 *Voluntariness*

There are estimated to be about three and a half thousand business associations in Poland.⁶ Membership is purely voluntary. There have been various attempts to make membership of chambers of commerce compulsory.⁷ These attempts have been sponsored by chamber officials who were also *Sejm* deputies. The only real support for the proposals came from the elites of the organizations who would benefit. Large majorities of Polish enterprises and even chamber of commerce members opposed compulsory membership.⁸ The proposal was vehemently resisted by other types of business associations.

2.2 *Structure and Competition*

The legal structure suggests a number of functionally differentiated types of associations. In practice, the different types of organizations compete with each other. For example, in the mining industry, chambers and employer organizations battle over the right to represent their industry in areas other than industrial relations. Artisans are also strongly represented in chambers and have their own “associations” and employer organisations. In the building industry a powerful “association” and an employers’ organisation are bitter rivals. This phenomenon of competition between

⁵ “Prawo o stowarzyszeniach”, *Dziennik Ustaw*, 7 April 1989

⁶ Interviews: Szejnfeld, 6 December 2000; Bąk, 24 July 2000 [All interviews Warsaw unless otherwise indicated.]

⁷ *Businessman*, August 1996, 28; *Rzeczpospolita*, Kraj, 22 May 1996, Prawo, 29 November 1995, 28 December 1994

⁸ Mieczysław Bąk, Przemysław Kulawczuk, Anna Szczesniak, *Wzmocnienie potencjału organizacji przedsiębiorców w Polsce* (Warsaw, Instytut Badań nad Demokracją i Przedsiębiorstwem Prywatnym, 2000), 57

different types of business association is widely acknowledged to be a general characteristic of the structure of Polish business association.

The pattern of competition between and within the types of organization is reflected at the peak level. There are two actively hostile employers' confederations, a chamber of commerce, a peak artisans' guild, an artisans' association and a number of "associations" which aspire to represent Polish business as a whole. However, the associations are not all bitter rivals and sometimes cooperate and coordinate on specific issues, such as the coalitions on tax and the labour code formed during the third *Sejm*. There is also a fair degree of overlap in membership of the associations. One particular individual, Witold Zaraska, was for a long time a key figure in the Chamber of Commerce, the two most influential "associations" and, for a period, also the chairman of an employers' confederation. However, there is no immediate prospect of unity or a coherent division of labour, and there never has been.

2.3 Membership

Business associations have a weak presence amongst businesspeople. One survey found that over 35 per cent of heads of firms claimed never to have heard of *any* organisation representing employers.⁹ Both membership figures and estimates of the number of enterprises in Poland tend to be very unreliable. However, it seems highly unlikely that more than ten per cent of Polish enterprises are members of a business

⁹ Institute of Public Affairs, *Raport z badania opinii na temat potrzeb istnienia i roli organizacji zrzeszających pracodawców*, unpublished (Warsaw: Institute of Public Affairs, 2000), 7. Telephone interviews with owners/president/vice-presidents of firms. 60% were private enterprises; 33% from Warsaw; 33% from towns of over 100,000 inhabitants; 33% from towns of between 20,000 – 100,000 inhabitants. The sample represents the 8 main categories of the European Classification of Economic Activity. No response rate given.

association.¹⁰ The Big Five, that is the most influential associations, including those which aspire to be peak associations, encompass only a small proportion of this limited overall constituency. In 1999, the Confederation of Polish Employers (hereafter Confederation) claimed seventy thousand members.¹¹ If true this would represent only a couple of per cent of Poland's enterprises but a substantial proportion of its large enterprises. Its members supposedly employ eight hundred thousand people. Five of Poland's eleven registered employer federations and confederations were members of the Confederation in 1999.¹² 14 out of 95 employer associations registered at the Warsaw provincial (*wojewódzki*) court were members of the Confederation.¹³ The proportion of active, as opposed to merely registered, associations the Confederation organises is likely to be higher but it is impossible to estimate how much higher.¹⁴ The Polish Chamber of Commerce (Chamber) had 150 member organisations in 1990. Even its most realistic claim for member businesses, 350,000, seems too optimistic.¹⁵ Its members include territorial, bilateral and sectoral chambers and a plethora of other organisations. 30 per cent plus of chambers

¹⁰ The Institute of Public Affairs survey described above found that 8% of enterprises with 20 employees or less were members of business associations. Since approximately 95% of Polish enterprises are about this size or smaller ten per cent seems to be a safe upper limit.

¹¹ Konfederacja Pracodawców Polskich, Folder of miscellaneous documents (Warsaw: Konfederacja Pracodawców Polskich, August 1999)

¹² Konfederacja Pracodawców Polskich, *Wykaz Członków KPP* (Warsaw: Konfederacja Pracodawców Polskich, 1999) *Rejestr Związków Pracodawców "B"*, Unpublished (Warsaw: Sąd Wojewódzki w Warszawie, VII Wydział Cywilny i Rejestrowy, 10 August 1999)

¹³ *Rejestr Związków Pracodawców "A"*, Unpublished (Warsaw: Sąd Wojewódzki w Warszawie, VII Wydział Cywilny i Rejestrowy, 10 August 1999). This refers to the smaller old provinces dating from Gierek's reforms of the 1970s, not to the larger new provinces, which were introduced by the Buzek Government in the late 1990s.

¹⁴ This is because inactive organizations almost always remain on the register. Many associations, like most enterprises, and other types of organizations, fail after a short period. This is evident from research on Polish associations in general and employers organizations in particular. See, Ewa Leś, Sławomir Nałęcz, Jakub Wygnański, "Defining the Non-Profit Sector: Poland", *Working Papers of the Johns Hopkins Comparative Nonprofit Sector Project*, no. 36 (Baltimore: The Johns Hopkins Centre for Civil Society Studies, 2000)

¹⁵ Krajowa Izba Gospodarcza, *Krajowa Izba Gospodarcza*, (Warsaw: Krajowa Izba Gospodarcza, 1999); Interview: Bąk, 24 July 2000. The leadership of the Chamber sometimes claims 400,000 or even 0.5m members. If the Institute of Public Affairs survey quoted above is in any way accurate, even the figure of 350,000 is an implausibly high proportion of Poland's approximately 1.6m registered enterprises.

in the city of Warsaw were members of the Polish Chamber of Commerce in 1999.¹⁶ It is likely that the proportion of active, as opposed to merely registered, chambers, which are members is much higher but again it is impossible to tell how much higher. This is almost twice the membership density of the Confederation of Polish Employers in the Warsaw province. In 2000, The Business Centre Club (Club) had 1900 individual members from over 1000 companies, employing a 0.8m people.¹⁷ In 2000, the Polish Business Roundtable (Roundtable) consisted of sixty-eight individual members who can only join by invitation.¹⁸ The membership of the Polish Confederation of Private Employers (Private Confederation) was a politically sensitive issue as it has been vital to the organisation's contest with the official Confederation. As of December 1999 the Private Confederation had seventeen member organisations, employing over three hundred thousand.

2.4 Organisational Development

Polish business associations are generally organizationally weak. The only general data relates to employer organisations and is presented in Table 4.1. The data suggest that Polish employer organisations have, on average, just one employee and are heavily dependent on membership fees, and the contributions of volunteers, to survive. However, the sale of services does make a significant contribution to their income.

¹⁶ Krajowa Izba Gospodarcza, *Wykaz Członków KIG* (Warsaw: Krajowa Izba Gospodarcza, 1999); *Rejestr Izb Gospodarczych*, Unpublished (Warsaw: Sąd Gospodarczy Sądu Rejonowego dla miasta stołecznego Warszawy, 7 September 1999)

¹⁷ Club, <http://www.bccnet.com.pl>, 23 November 2000

Table 4.1: Data on Employer Organisations

Active Polish employer organisations		89
Engaged in profit-making activity		19
Directly employed (equivalent of full-time employees)		110
Outsourcing (equivalent of full-time employees)		37
Volunteers		432
Revenue		9.5m PLN (€2m)
Sources of revenue:	Commercial activity	15.9%
	Bank interest	2.4%
	Membership dues	58.6%
	Public grants	4.2%
	Donations	1.3%
	Other*	17.7%

* Probably fees for services provided on a non-commercial basis.

Source: Analysis by Sławomir Nałęcz of the Institute of Political Studies, Polish Academy of Sciences on the SOF census of the Polish Central Statistical Office in 1998. The questionnaire was sent to all 109 employers organisations with bank accounts. 67 replied, 22 refused, 6 were inactive and nothing is known about 14. It was assumed that the 22 refusals were similar to the 67 respondents on the basis of similar research on Polish non-profit organisations.

This pattern of organizational weakness is also evident amongst the Big Five associations. The Confederation of Polish Employers has a very low level of organizational development with most of its work being done by volunteers from the membership. Many of the Confederation's member associations do not pay fees but are kept on the books in order to maintain some vestige of prestige and credibility for the organization. In 1997 it charged eight grosze per employee for each member association and claimed to have a total income of 1.125m PLN.¹⁹ The Business Centre Club has a core of well-paid professional staff with expertise in marketing, economics and lobbying.²⁰ It charges quite high fees. In 1997, they were 8500 PLN per enterprise and the total income was 7.5m PLN. The Polish Chamber of Commerce charged 1000 PLN per association in 1997 and received a total income of

¹⁸ *Businessman*, July 2000, 20

¹⁹ *Businessman*, June 1998, 69

²⁰ *BCC Yearbook 1998* (Warsaw: Business Centre Club, 1998)

almost 25m PLN. It has a substantial organization. However, much of this is dedicated to commercial rather than political activity. Its lobbying organization is regularly overwhelmed by the number and complexity of policy issues. The high income of the group is largely derived from commercial activity rather than membership fees. The Polish Business

Roundtable has a handful of professional staff. The Roundtable charged 18,000 PLN per member making for a total of 0.76m PLN. The Polish Confederation of Private Employers was initially bankrolled by the

Biography: Andrzej Arendarski

Born 1949. He studied at the University of Warsaw and was a doctoral student at the Polish Academy of Sciences. He served as a Deputy of the Liberal Democratic Congress from 1989-93 and as Minister of Foreign Trade from 1992 to 1993. He was elected president of the Chamber in 1999 and has more recently been associated with the political left. A board member of several large privatised conglomerates.²¹

Roundtable and by its founding members and this may still be the case. In terms of staff resources it is comparable to the Club. For example, it has full-time industrial relations, legal and international officers.

One indication of the low level of organisational development of these business associations is their close identification with their leaders. The Business Centre Club is commonly known as "Goliszewski's club". It has had only one President since its

Biography: Marek Goliszewski

Joined the United Workers' Party in 1983 when most people were leaving it. He dabbled in journalism before setting up the Business Centre Club in 1991, which has made him a rich man. He has held board positions on the boards of some large member firms. Involved in setting up the Civic Platform in 2001, via the supposedly non-political Dialogue Forum, which is linked to the Club.²²

foundation and much of its effectiveness in the political system is due to his personal connections. Similarly, the Polish Confederation of Private Employers is known as "Mrs. Bochniarz's confederation" and is reliant on her personal connections for most of its influence. It has also only had one President, although it was founded

²¹ *Businessman*, July 2000, 21; Krajowa Izba Gospodarcza, *The Polish Chamber of Commerce* (Warsaw: Krajowa Izba Gospodarcza, undated)

relatively recently, in 1999. Even the Polish Chamber of Commerce, with its inheritance from the previous regime and its three hundred and fifty thousand members, is nonetheless sometimes identified as "Arendarski's group". Andrzej Arendarski also has been its only President since its foundation in 1989, and his formidable political connections are usually regarded as more effective than the Chamber's involvement in a wide range of institutional fora. The Polish Business Roundtable is clearly not dependent on one individual and never has been. However, it prides itself on the personal connections of its membership as a whole being its main political resource. The Confederation of Polish Employers has not been associated with one person and has not based its political strategy upon the personal connections of its members. However, the vicissitudes of its history are largely the vicissitudes of its leadership. It had had little in terms of organizational resources to sustain it.

The case studies confirm the data on employer organisations and fragmentary evidence from elsewhere which also suggests a situation of extreme pluralism and organizational weakness.

Concentrating on the Big Five business associations probably gives a fairly accurate

view of the overall state of Polish business associations. If five associations, which are reputedly so influential, are organizationally weak then the conclusion of weakness can confidently be extended to the vast number of associations, which do

Biography: Henryka Bochniarz

President of the Private Confederation, President of the Polish Business Roundtable (1996-99), member of the Business Centre Club, member of the Bureaucracy Task Force of Finance Minister Leszek Balcerowicz, Minister of Industry in Jan Krzysztof Bielicki's government of 1991-92. President of NICOM consulting, a small firm which was involved in preparing the mass privatization programme and is part of the management consortium of a National Investment Fund. PhD from and later researcher in the Academy of Planning & Statistics (now Warsaw School of Economics). Former lecturer, University of Minnesota.²³

²² *Businessman*, July 2000, 21

²³ *Informacja Prasowa* (Warsaw: Polish Business Roundtable, 1999)

not have their reputation for influence. If anything, a focus on the most influential associations would be expected to exaggerate the strength of business associations in general. However, the case studies do underestimate the variation amongst business associations. Three members of the Polish Confederation of Employers illustrate this range well.

The Federation of Polish Energy Employers represents a sector that is still largely state-owned and has only recently begun the process of privatization and deregulation. However, the fact that Poland already has an energy market puts it ahead of many West European countries. This Federation consists of four functionally differentiated employer organizations with virtually 100 per cent membership density. Unsurprisingly, the Federation is a highly developed organization with professional staff.²⁴ The Association of Warsaw Industrial Employers is an association of large private enterprises and it contains a large minority of Warsaw's largest industrial employers. It has a moderate level of organizational development with a small professional staff.²⁵ The Mazowsze and Warsaw Employers' Association is one of Poland's largest and most dynamic associations of small enterprises. It has only a rudimentary secretariat. Virtually all of its business is carried out by a highly committed core of activist-members.²⁶ Thus, overall, even though the Confederation itself is extremely weak, some of its member associations have more powerful organizations.

²⁴ Interview: Łuczkiwicz, 17 November 2000

²⁵ Interview: Jesionek, 25 July 2000

²⁶ Interview: Stepniewski 27 July 2000; *Związek Pracodawców Warszawy I Mazowsza: Historia i Podstawowe Dokumenty Związku* (Warsaw: Związek Pracodawców Warszawy I Mazowsza, 2000)

2.4 Policy-Making

Just as the associations have a weak presence amongst businesspeople they are rarely central actors in politics.²⁷ Only 3.1 per cent of deputies in the Second *Sejm* (1993-97) felt that employer organizations had a great influence on their work.²⁸ The principal peak associations, and many sectoral associations, are frequently consulted by the government on new bills, but they have no right to be consulted and often do not hear about a bill until it is published. Also, complex bills are often submitted to the associations too late for them to make any contribution, never mind a considered and effective one. This is especially a problem for the Confederation and the Chamber, both of which are highly constrained by the very limited organizational resources they can commit to public policy issues. The Chamber has perhaps had more elected politicians in its upper ranks than any other business association and this facilitates personal access to policy-makers. Indeed, personal networking seems to be a vital part of the Chamber's political activity.²⁹

Although the Club finds it difficult to influence the state, it is generally regarded as the most powerful business association in Poland and is far and away the best known. It has no legal right to consultation but is nonetheless regularly consulted by policy-makers on a non-statutory basis.³⁰ In contrast to the Confederation and the Chamber, it also has excellent media connections and is frequently covered in

²⁷ Preston Keat, "Penalizing the reformers: Polish steel and European integration", *Communist and Post-Communist Studies*, 33 (2000), 212 fn. 7

²⁸ Włodzimierz Wesołowski and Barbara Post (eds.), *Polityka i Sejm: formowanie się elity politycznej* (Warsaw: Wydawnictwo Sejmowe, 1998), 188

²⁹ Interview: Kłoczko, Chamber, 6 June 2000

³⁰ Interview: Uchman, Warsaw, 24 August 2000

Poland's quality and business press.³¹ Rather than being bypassed by the personalism of Polish politics, the Club tends to work with it. It co-ordinates the personalist lobbying of its members and activists, when its employees cannot directly access policy-makers.

The Roundtable is taken seriously at all levels of politics. Again this seems to be due to the personal reputations of its members rather than its organizational identity. Many interviewees agreed that most of its members could ask for and would receive an audience with the President.³² Indeed, most of its lobbying is done by members rather than employees. It relies on government contacts to catch bad policies before they happen. Roundtable representatives then talk to policy-makers "behind closed doors". The Private Confederation follows the Club's example in a successful use of the print media. It has also undoubtedly inherited a formidable bank of personal connections from the Roundtable. However, it has also succeeded in a tough campaign for the admission to the Tripartite Commission, previously monopolised by the Polish Confederation of Employers.

In spite of the inadequacy of the general system of legislative consultation, there are two potentially corporatist institutions of relevance to business interests: the Tripartite Commission and the Small and Medium Enterprises (SME) Committee of the *Sejm*. Until its abolition during the fourth *Sejm* (2001-present), the SME Committee had a very close relationship with associations. Its vice-chair said:

We co-operate intensively with business associations ... Our committee is the most open to cooperation with Non-Governmental Organisations ... We invite representatives of the most

³¹ Interviews: Bąk, 24 July 2000; Uchman, 24 August 2000

important business associations to all our sittings and if a sitting relates to a particular sector we invite the relevant organization.³³

Moreover, the committee members freely acknowledged that much of their activity could be described as pro-business rather than rigorously restricted to small enterprises.³⁴ Associations also appear fairly often at the Economy, Social Policy and other legislative committees. However, the SME committee was the only committee with which they had a regular and privileged relationship. Unfortunately for the associations, this committee has now been abolished. At any rate, it never contained any real political heavyweights and was generally very weak compared to other legislative committees, never mind the parties and the government.

Poland is officially a corporatist state. Its 1997 Constitution declares the country a “social market economy” dedicated to “solidarity, dialogue and the co-operation of the social partners”.³⁵ The right of association is explicitly guaranteed to labour unions and employer organizations, as is the right to conduct collective bargaining.³⁶ The one institution that aspires to fulfil this corporatist aspiration is the Tripartite Commission. From its inception in 1993 until recently, the composition of the Commission was the Confederation of Polish Employers, the Solidarity Trade Union Confederation, the All-Polish Trade Union Federation (OPZZ), and the government, usually represented by the Ministry of Labour and Social Policy.³⁷ The Commission’s statute has now been amended to include formal measures of

³² Interviews: Wejchert, 10 September 1999; Konwicki, 13 December 2000; Matraszek, 13 July 2000; Dankowski, 6 December 2000

³³ Interview: Szejnfeld, 6 December 2000

³⁴ Interview: Jagieliński, 7 December 2000

³⁵ *Konstytucja Rzeczypospolitej Polskiej*, Art. 20

³⁶ *Konstytucja Rzeczypospolitej Polskiej*, Art. 59

³⁷ Jerzy Hausner, “The State Enterprise Pact and the Potential for Tripartism in Poland” in Robert Kyloh (ed.), *Tripartism on Trial* (Geneva: International Labour Organisation, 1995), esp. 114-5; Jerzy Wratny, *Pakt o Przedsiębiorstwie Państwowym w Trakcie Przekształcania* (Bydgoszcz: Oficyna Wydawnicza Ośrodka Postępu Organizacyjnego, 1993)

representativeness, which have allowed other business associations to become members. The Commission has a wide range of informal powers, within its general remit of the maintenance of “social peace”. For example, it has a committee, which looks out for threats to national social peace and may refer them to the Tripartite Commission proper. However, it does not seem that this power has been used very often, nor does it seem that it has been effective. It also has the statutory right to give its opinion on virtually all of government policy. Here it is treated similarly to the business associations themselves. Whether the Commission’s opinion is taken at all seriously, and whether it is informed of policies early enough to have an influence on them, usually depends on the whim of the government.

The single significant power of the Commission is the annual setting of wages in the “budget sector”. Basically, this includes all of the non-profit-seeking state sector. It therefore excludes most traditional state enterprises as well as legally private companies, which are owned by the state. There is a disagreement as to the nature of the Confederation of Polish Employers’ role in these negotiations. It is alleged that there are no “employers” in the budget sector, except for the state itself, and that, therefore, the negotiations are in fact bipartite negotiations between the state and unions. There are two variations to this. In the first, the Confederation’s opinion is simply irrelevant. In the second, the Confederation is a junior partner of the unions in squeezing higher pay and subsidies from the state. One of the enemies of the Confederation from the Private Confederation says:

Employers and trade unions pressurise the government together in the Tripartite Commission.

They do not represent private business. They’re supposed to be on opposing sides.³⁸

Another from the Roundtable says:

We look down on the Confederation of Polish Employers ... They go hand in hand with the trade unions. They can take on obligations because they do not have to fulfil them. For example, coalmines do not have to pay tax, social security. They're exempted from everything every year because of the unions ... The employers actually paid for the buses that brought the striking coalminers to Warsaw to protest against the government.³⁹

There is undoubtedly a commonality of interest between employers and workers in some state enterprises that does not exist in the private sector, and some collusion does exist. However, it is not accurate to portray the Confederation of Polish Employers as simply a subsidy-guzzling state sector lobby. The real issue is the second issue of whether the employers are sufficiently autonomous to make a real contribution to budget sector negotiations. A member of the Confederation's presidium protests:

She [the President of the Private Confederation] says that there is no such thing as an employer in a State Treasury company but we say that in Germany, the UK, the USA in a big company with hundreds of branches ... [The managers] don't have to be owners of shares. He is an employer because he signs the contract of employment and he who signs the contract of employment is the employer, not the owner, and that's the difference. Bakers and hairdressers are employers but he who has five thousand workers is not an employer, according to Mrs Bochniarz, because he's not the owner. She is wrong.⁴⁰

However, the consensus seems to be that these pay negotiations are effectively between the state and unions. A senior trade unionist and Solidarity politician says:

In the public communal sector, which my section represents, employer organisations do not exist. This is a bad phenomenon because then trade unions do not have a direct partner, their own employers. We have to deal with the government.⁴¹

The *chef de cabinet* of the leftist Minister of Labour and Social Policy says:

³⁸ Interview: Janicki, 19 August 1999

³⁹ Interview: Bańkiewicz, 9 August 1999

⁴⁰ Interview: Łuczkiewicz, 17 November 2000

⁴¹ Interview: Gielgus, 13 December 2000

In the budget sector, there is only administration, or quasi-administration, quangos. There are no employers because the state is the employer. These negotiations are in fact directly between the government and the trade unions. Employer organizations are indirectly involved, if pay goes up in the budget sphere that affects their situation in the labour market ... There are also more general arguments about the budget, tax, etc., redistribution. This affects all in the entrepreneurial or productive sphere whether state or privately owned.⁴²

So, the one real power of the Tripartite Commission is one in which business associations have only a marginal, indirect say.

Overall, the associational structure of Polish business is clearly pluralist. Membership is voluntary; associations compete with each other; they have weak organizations and they are largely ineffective outsiders in the policy-making process. The next section goes on to evaluate theories, which may explain this state of affairs.

3. Independent Variables

This section is divided in three. The main explanation is the logic of collective action, which emphasises economic structure. However, political and social variables are also considered.

3.1 Economic structure

Chapter Two argued that the logic of collective action was the compelling theory for explaining the structure and strength of business associations. Three key independent variables were derived from this approach: the number of enterprises in a group, the size of enterprises, and the balance of public and private goods provided by associations. One of the advantages of this approach is that it is able

⁴² Interview: Długosz, 2 July 2002

to subsume other economic approaches, as well as political and social approaches. Three economic approaches will be interpreted in terms of the logic of collective action. The first emphasises the influence of trade unions on business associations. The second is the varieties-of-capitalism approach, which stresses how the mode of production fits into a wider institutional structure including labour unions and business associations. The third focuses on interest diversity amongst the business class, and is exemplified by Padgett's work on post-communist interest groups. This section proceeds by first providing a general perspective and then moving on to case studies of Poland's five most influential associations. For some of the variables, both general and case study data are available. For others only one type of evidence is available.

At the level of a class, 1.6m Polish businesses constitute a latent group. Of course, business associations also try to organise on the basis of specific constituencies rather than the economy as a whole. Most sectors are also latent groups. There are large contrasts in the number of enterprises between the basic sectors of the economy. The fragmentation of a basic sector into many smaller sub-sectors can be an aid to collective action. For example, a direct-member manufacturing business association is unlikely but more narrowly focused business associations representing specialised sectors of the manufacturing industry are much more likely to form. Once they have formed they constitute a small group, which can relatively easily federate to form a representative for the whole of the manufacturing sector. The Polish pattern seems fairly typical of an industrial economy.⁴³ For example, the mining sector contains few enterprises while construction contains many;

⁴³ Główny Urząd Statystyczny, *Podmioty Gospodarcze Według Rodzajów i Miejsc Prowadzenia Działalności w 1998 r.* (Warsaw: Główny Urząd Statystyczny, 1999), 32-35

manufacturing is divided into many sub-sectors while commerce cannot be easily divided.

One source does cross-tabulate sector and association membership, but the sample size is far too small for meaningful comparison between sectors.⁴⁴ However, there is strong unsystematic evidence. For example, virtually all enterprises in the highly concentrated energy-production and mining sectors are members of the relevant business associations.⁴⁵

More striking than the numbers of Polish enterprises is that all but a tiny minority of these are small enterprises. Poland has an unusually high proportion of small enterprises.⁴⁶ Within the category of small enterprises, ninety-five per cent are sole traders.⁴⁷ One survey, although small, clearly shows that Poland conforms to the logic of collective action in that the smaller the firm the less likely it is to be a member of an association.⁴⁸

There is no general information on the incentives provided by Polish business associations. However, case studies of the Big Five and their member associations give a good idea of the range of strategies which Polish business associations employ to recruit and maintain members. The case studies of the Big Five themselves are unrepresentative of Polish business associations for a number of reasons. The

⁴⁴ Institute of Public Affairs, *Raport z badania opinii na temat potrzeb istnienia i roli organizacji zrzeszających pracodawców*, Tabela (v20_22)

⁴⁵ Interviews: Łuczkiwicz, 17 November 2000, Krysak, Katowice, 22 August 2000

⁴⁶ Mieczysław Bąk (ed.), *Raport o stanie sektor małych i średnich przedsiębiorstw w Polsce w latach 1997-98* (Warsaw: Polska fundacja promocji i rozwoju małych i średnich przedsiębiorstw, 1999). Based on national register of enterprises (REGON) adjusted to take account of registered but non-existent enterprises.

⁴⁷ *Rzeczpospolita*, *Ekonomia*, 12 July 2002

⁴⁸ Institute of Public Affairs, *Raport z badania opinii na temat potrzeb istnienia i roli organizacji zrzeszających pracodawców*, unpublished (Warsaw: Institute of Public Affairs, 2000), 1-2, 23

Confederation, Chamber and Private Confederation have no enterprises or individuals as members. All their members are other associations. This structure means that the peak associations concentrate on public goods, leaving private goods to be provided to enterprises by their member associations. As Poland's most *influential* associations all of the Big Five are obviously specialists in public goods in a way that the vast majority of Polish business associations are not. It is vital to keep in mind that peak associations provide incentives to three separate types of actors: member associations, enterprises and individual businesspeople. Primary associations provide incentives to individual businesspeople as well as enterprises. However, in the relevant cases, the following studies also look at the incentives offered by the member associations of the Big Five.

The Confederation of Polish Employers is emasculated by collective action problems. Its member associations are new and underdeveloped and they themselves largely depend on huge constituencies of very small cash-strapped firms. The weakness of Poland's labour unions undermines a central incentive to join employer associations. Many of the Confederation's member associations do not pay fees but are kept on the books in order to maintain some vestige of prestige and credibility for the organization. Therefore, even for the smallest associations decisions about membership of the Confederation do not cross the threshold of rationality. The Confederation has a very low level of organizational development with most of its work being done by volunteers from the membership. Much of this volunteer work is not motivated by public goods but instead by the individual political careers of businesspeople and the opportunity for individual firms to obtain private goods from

the political system.⁴⁹ This pattern is also to be found in many of the first and second-order member associations. However, some of the member associations are dynamic and have found imaginative solutions to collective problems.

Obviously, there are huge differences between the member-associations. The three very different members of the Confederation, which were introduced earlier in the chapter, will be examined again here. The Federation of Polish Energy Employers operates in a sector that is still dominated by a small number of large enterprises. It is definitely an intermediate group, that is, one in which the non-participation of an enterprise will be noticed. It may even be a privileged group, that is, one in which the incentives to form an association are so strong that an individual enterprise might shoulder the whole burden itself, if others did not want to contribute. Energy is one of the handful of sectors in which wages and conditions are negotiated at the sectoral level. This gives a vital role to the Federation in providing a public good, which is a private good for most enterprises and one that they can provide themselves. The importance of unions also means that industrial relations issues also constitute a range of private goods, which can be provided by the Federation. Not just state ownership, but also ownership and regulatory transformation mean there are vital public goods to be provided by the Federation beyond the narrow industrial relations sphere. The Federation has no real collective action problems and this explains why it has a highly developed organization and plays an influential role in public policy.

The Association of Warsaw Industrial Employers is an association of large private enterprises and it contains a large minority of Warsaw's largest industrial employers.

⁴⁹ *Rzeczpospolita*, 3 September 1999, Magazine, 30 and 31 July, 1 August 2000, Kraj

It is probably an intermediate group. Its main activity is industrial relations. It provides a public good in the negotiation and maintenance of agreements with Solidarity and another local union. It provides little in the way of services for its members and also participates in lobbying at the national level, notably on the issue of the labour code. It has a moderate level of organizational development with a small professional staff.⁵⁰

The Mazowsze and Warsaw Employers' Association organises small enterprises which form a clearly latent group. It is heavily involved in lobbying at the municipal, regional, and national levels. Notably, it campaigns on right-wing issues, which are ignored by the more hard headed business associations and representatives of big business: for example, the restriction of the expansion of hypermarkets in Poland and a pro-family economic policy. It also provides private political goods in the form of interventions to try and reverse bad decisions at the municipal level in individual cases. The association has also co-ordinated economic co-operation amongst its members in the form of the foundation of a new shopping and business centre bringing together small indigenous enterprises and the organisation of trade shows in Germany. In this way the association has become directly involved in the economic strategies of its members and this obviously constitutes a substantial private economic good. The association stresses the importance of the creation and development of social capital amongst small employers as a vital element of political and entrepreneurial success. It has only a rudimentary secretariat. Virtually all of its business is carried out by a highly committed core of activist-members. In other words, it is the pursuit of public goods that really keeps the association going.⁵¹

⁵⁰ Interview: Jesionek, 25 July 2000

⁵¹ Interview: Stepniewski 27 July 2000

The Confederation is a weak organisation largely comprised of weak associations trapped in a collective-action vicious circle. The members' constituencies largely consist of latent groups of small enterprises: this suggests that private goods are needed to recruit enterprises. However, a substantial organisation is needed to provide substantial private political goods and a sizeable membership paying significant fees is necessary to build up the requisite organization. The Confederation itself seems to be trapped in the same vicious circle. It has so far not had the luck or good leadership to break out of this collective action trap and neither have most of its members.

The Business Centre Club is a direct member organisation open to all Polish business and therefore is operating in the context of the most latent group possible. However, the relatively high membership fees exclude the very small businesses, which are members of the Confederation. In contrast to the Confederation, and most of the Confederation's members, the Club provides a wide range of private goods via a relatively well-developed organization. These include business matching, seminars, and product promotion. A perhaps distinctively post-communist good is the guarantee of trustworthy business partners in a situation where the networks of many businesspeople were initially undeveloped and in which the state's legal system is too weak to provide effective enforcement of contracts.⁵² This could be interpreted as either a substitute for social capital or a way of creating social capital. Social goods are also important to some members. While the Club is a hard-nosed special

⁵² Iwona Krzesak, "Etnografia Business Centre Club" in Jacek Kurczewski & Iwona Jakubowska-Branicka *Biznes i klasy średnie: Studia nad etosem* (Warsaw: Zakład Socjologii Obcychajów i Prawa Stosowanych Nauk Społecznych, Uniwersytet Warszawski, 1994), 52; *Dlatego Mówią Właśnie Sympatycy i Członkowie BCC* (Warsaw: Business Centre Club, 1999), 18-34

interest group it often presents itself as a rather glitzy and publicity-seeking version of an English gentlemen's club. For this reason many members see it as prestigious. An important service is provided by the Club's "Intervention Office", which helps members in individual disputes with the state. An important example of the type of private political good provided by the Club is intervention to adjust the tax assessment of members.

Table 4.2 provides some data on motivations for membership of the Club.

Table 4.2: Motivations for Membership of Business Centre Club	
Public Policy	52
Promoting a positive image of business	9
Prestige	7
Private political goods	3
Private economic goods (excluding trust)	35
Trust	10
N	72
Source: <i>Dlatego Mówią Właśnie Członkowie i Sympatycy Business Centre Club</i> (Warsaw: Business Centre Club, 1999), 18-36. The data consists of statements of about 100 words on motivations for Club membership collected by the Club itself in 1995, 1998 & 1999. The categories of the analysis are not mutually exclusive.	

The sample is biased because it contains a disproportionate number of Club office-holders. It is also reasonable to assume that the non-officeholders in the sample are more active and enthusiastic than the average member. This should mean that the data overestimates the importance of those goods, which are stressed by the leadership of the Club. This, in turn, should mean an exaggeration of the importance of public goods and prestige. Nonetheless, it provides fairly strong evidence that both public and private goods are important to Club members. This figure may underestimate the importance of private political goods to Club members. A further ten members stress the opportunities afforded by Club membership to meet top

politicians and bureaucrats. These meetings may result in connections, which members hope will deliver private political goods without the formal involvement of the Club office.

The Club has had considerable success in mobilising a latent group. The reasons for its success are those stressed by classic collective action theory: a concentration on large members and the provision of a wide range of private goods. However, it is also interesting to note that the Club has advanced by innovative leadership which has tailored its strategy to the conditions of post-communist Poland, rather than trying to copy Western European business associations as is the case with the Confederation and most Polish business associations.

Like the Confederation, the Polish Chamber of Commerce itself provides little in the way of private goods to members and charges very low fees. Unlike the Confederation, it is not dependent on membership fees, having inherited valuable assets from its communist predecessor and engaging as it does in a wide range of successful commercial endeavours. The low membership fees mean that membership does not pass the threshold of rationality for many chambers. When asked why his organization was a member of the Polish Chamber of Commerce, the deputy director of the Katowice Chamber of Importers and Exporters said:

Now that you ask me that question, I must say that there is little benefit to our membership of that organisation. We have never really considered the question and have little contact with their offices in Warsaw. I am not sure if they really represent our interests.⁵³

⁵³ Interview: Moczyński, Katowice, 22 August 2000

In contrast to the Confederation, members are expelled for non-payment of fees and there is a regular turnover of four or five members a year with overall membership holding steady since the mid-1990s.⁵⁴

Sectoral chambers are more likely to involve smaller numbers of enterprises which will be known to each other and therefore constitute an intermediate group. Sectoral chambers are unusual to Poland and their competition with employer associations undermines the inherent advantages of intermediate groups. As is the case with employer organisations, in some cases, the sectoral chambers have great collective action advantages and are reputedly quite powerful. Overall, however, it is the regional chambers which account for the vast majority of the enterprises affiliated to the Chamber. Table 4.3 shows some data on membership incentives for the regional chambers of commerce, which are likely to be dealing with latent groups.

⁵⁴ Interview: Kłoczko, 30 June 2000

Table 4.3: Membership Incentives for Regional Chambers of Commerce

	<i>Members</i>	<i>Former members</i>
Desire to make contacts which can aid the realisation of the firm's interests	65 per cent	60
Desire to belong to an organisation defending the common interests of the business community	54	40
Desire to have up-to-date information on legislative changes and other important issues	23	18
Access to aid programmes and services offered by the Chamber	22	28
Use of the Chamber to defend the interests of the firm against state and substate authorities	21	28
Exchange of views with other members	20	22
Other reasons	8	6
Hard to say	5	6
Competitors joined so we had to	4	8
Notes: Respondents could choose a maximum of 3 reasons. Stratified Random Samples. No response rates given. Members: N=100. 8% state enterprises; 49% less than 5 employees; 28% 50 to 250 employees; 23% 250 employees and over. Non-members: N=50. Source: Mieczysław Bąk, Przemysław Kulawczuk, Anna Szczęśniak, <i>Wzmocnienie potencjału organizacji przedsiębiorców w Polsce</i> (Warsaw: Instytut Badań nad Demokracją i Przedsiębiorstwem Prywatnym, 2000), 2-4		

In interpreting the table it is important to remember that respondents were asked to name up to three reasons for joining the chambers and were not asked to rank these reasons. The most striking feature of the table is the relative importance of political goods, both public and private. However, the membership motivation chosen most often was that of making contacts, which would be good for the firm. This is far more important than private economic goods provided as services by the Chamber. This seems to be another example of a business association creating social capital for its members. Often, small enterprise associations are judged to be heavily dependent

on private economic goods.⁵⁵ The small size and tight budgets of the members means they are unlikely to make a vital contribution to the provision of a public good. Their small size also means that membership fees are a relatively greater burden. In small enterprises, especially those that are owner-managed, it is relatively easy to evaluate and cease contributions. However, a relatively high level of organizational development is needed to deliver economic private goods that compete with the commercial sector in combination with a quite separate lobbying function. Polish chambers are probably, in many cases, too underdeveloped to do this and instead have a much purer concentration on politics, which, *pace* Olson, also has great potential for the delivery of private goods. The chambers movement does seem to be more firmly embedded in local politics than employer associations, and local chambers have a reputation for having formidable personal links with politicians.⁵⁶

The Chamber and its members present a different aspect of the logic of collective action to the Confederation and the Club. The Confederation has largely failed to solve the collective action problem and the Club has done so by combining large members and private economic goods, as Olson would predict. The Chamber of Commerce movement has had some success by pursuing a different strategy, which focuses on private political goods and on encouraging the development of social capital amongst its members. This means that Chambers can provide important private goods with which to recruit members without having to build up a considerable organisational capacity separate from its pursuit of public goods in the political system.

⁵⁵ Padgett, *Organizing Democracy*, 108-109

⁵⁶ Interview: Matraszek, 13 July 2000

Members of the Polish Business Roundtable are prominent on the list of richest Poles. Although the Roundtable has an encompassing interest in the Polish economy, it is in fact a fairly well integrated network of businesspeople rather than a classic latent group. Not only are the members well known to each other but they are all highly politically motivated and do not usually subject their participation in the Roundtable to an analysis of its costs and benefits for their firm. The other way in which the Roundtable has overcome the collective action problem is that it comprises a small number of very large businesses. All can make a substantial difference to the organisation. The Roundtable provides very little in the way of private goods, apart from some social opportunities and occasional private lobbying for members. However, the members tend to be so powerful that they do not need any organization's aid in the pursuit of private political goods. The Roundtable has collective-action advantages that allow it to concentrate on public goods. Firstly, there is the size of the members but more important seems to be the fact that they are strongly motivated by political goods and have a very high opinion of their own political efficacy. The Roundtable's members are openly elitist. They see themselves as the most successful and most brilliant entrepreneurs in Poland who can and should pressurise government into improving the environment, not just for their own businesses, but for Polish business in general.

The majority of the founding members of the Polish Confederation of Private Employers seem to have been new associations created more or less directly by the Roundtable, while a smaller number were previously unaffiliated associations and

defectors from the official Confederation.⁵⁷ Most of these associations were trying to mobilise latent groups, as they related to territorial units or sectors with large numbers of private enterprises. A striking exception was the Polish Copper Employers' Association. This is a classic privileged group of enterprises dependent on the Polish Copper conglomerate, which also has interests in mobile telephony and other sectors. The Private Confederation has sought to attract members partly through an emphasis on its private-sector credentials, partly through its superior political ability but also through the offer of the real and professionally delivered private goods that are completely lacking from the official Confederation.⁵⁸

In terms of collective action, the same analysis as was applied to the Roundtable is pertinent to the Private Confederation's leadership: an emphasis on political goods and a high perception of personal political efficacy. However, the leadership knows that this is not enough to recruit a mass membership and is therefore trying to provide substantial private goods which potential member associations are too weak to provide for themselves.

The case studies show that the small size and large numbers of Polish enterprises are formidable obstacles for Polish business associations. This is clearest in the cases of the Confederation and the Chamber. One way around the collective action problems posed by these structural characteristics is to minimise the level of organizational development of associations as has been done with some success by regional

⁵⁷ Andrzej Rudka, Personal Communications, 26 January and 29 August 2000; Press Release (Warsaw: Polska Konfederacja Pracodawców Prywatnych, 9 July 1999); Sąd Wojewódzki w Warszawie, VII Wydział Cywilny i Rejestrowy, Rejestr Związków Pracodawców "B", 10 August 1999; Interviews: Malinowski, 8 September 1999; Bańkiewicz, 9 August 1999

⁵⁸ Untitled Pamphlet in English (Warsaw: Polska Konfederacja Pracodawców Prywatnych, 2000); Untitled Pamphlet in Polish (Warsaw: Polska Konfederacja Pracodawców Prywatnych, 2000)

chambers of commerce and the Roundtable. Also, a leadership motivated by political goods and with a high opinion of its own political efficacy can start and maintain some level of collective action. This is shown by the Roundtable, Private Confederation and some members of the Confederation. These advantages might be described as cultural resources or social capital. The fact that they are the exception rather than the rule shows how debilitating their absence has been for Polish business association in general. Another route is the well-designed business model of the Club, which manages to be Poland's most successful business association without relying too heavily on non-economic motivations. The importance of these two routes to business association helps to explain not just the weakness but also the fragmentation of Polish business in politics. It is not in the interest of Club President Goliszewski to share his profits with anyone else via merger. Similarly, those who are motivated by political goods, bolstered by a high opinion of their personal contribution, are likely to be reluctant to cede the pleasure of leadership to others whose skills and influence may not match up to their own. Finally, the collective action analysis helps explain the personalism of Polish business associations. Obviously, a major reason for this is organizational weakness, which is in turn explained by the logic of collective action. However, if the political commitment or entrepreneurial flair of a small elite is the main type of collective action then the personal connections of this elite are the main resources of the so-called "organizations". In conclusion, it seems very clear that the case studies back up the general statistics of a weak and divided structure of business association in Poland. This section continues by showing how the logic of collective action can subsume other economic approaches to business associations.

Next, the specific effect of trade unions on the logic of collective action for Polish business will be examined. The representation of Polish trade unions is weak in the labour market. Union membership has been in free fall since the collapse of communism, as Table 4.4 shows.

Table 4.4: Trade Union Membership in Poland			
<i>Federation</i>	<i>1990-91</i>	<i>1993</i>	<i>1995</i>
Solidarity	2.2m	1.5m	1.3m
OPZZ	6m	4.8m	2.5m
Source: Paul Kubicek, "Organized Labor in Postcommunist States: Will the Western Sun Set on It, Too?", <i>Comparative Politics</i> , vol. 32, no. 1, 1999, 86. Self-reported data, collected by author, ILO or state committees.			

In 1995 the overall union density was estimated to be about 35 per cent. Membership has continued to fall fast. By 1997 it was estimated to be 23per cent⁵⁹ and by 2000 20 per cent.⁶⁰ The fall in the membership of OPZZ has been particularly precipitous in recent years.⁶¹ None of these figures is likely to be exact but the overall picture is clear. The research of Gardawski has shown that membership of Polish unions is high and stable in the state sector, is being eroded in privatised firms, and is virtually non-existent in new private and small firms.⁶² The central federations, OPZZ and Solidarity, are fiercely antagonistic at the level of national politics. Relationships at the local level tend to be more pragmatic, but co-operation is limited. Both federations have very loose structures. Unions in the workplace have very little contact with, and regard for, the national leadership and

⁵⁹ Padgett, Stephen, *Organizing Democracy in Eastern Germany: Interest groups in post-communist society* (Cambridge: Cambridge University Press, 2000), 78

⁶⁰ *Rzeczpospolita*, PlusMinus, 19 August 2000

⁶¹ *Rzeczpospolita*, Kraj, 27 May 2002

⁶² Juliusz Gardawski, Barbara Gąciarz, Andrzej Mokrzyzewski, Włodzimierz Panków, *Rozpad Bastionu? Związki Zawodowe w gospodarce prywatyzowanej* (Warsaw: Instytut Spraw Publicznych, 1999), 14-15. The information is based on a sample of 202 workplaces from 1998, drawn from the food, wood and paper, chemical, car, building, education, healthcare and social assistance sectors. 202 directors or another members of the management was interviewed, as were 148 union activists, and 1225 other workers, whether union members or not. The number of workers surveyed was proportionate to the size of the enterprise. Almost half of the places of work had less than 50 employees. 41.5% had between 50 and 250 employees and 8.5% had over 250 employees. Almost

the regional and sectoral divisions of the federations.⁶³ There are also many independent unions. The most significant of these are radical offshoots of Solidarity – Solidarity '80 and Solidarity August '80. The majority of unionised enterprises have only one union.⁶⁴ Where this is not the case, the law tends to calcify the fragmentation of unions by insisting that unions work together. In practice, they frequently do not manage to do so and unions are marginalized. The leader of Solidarity's public services branch says:

At the plant level many trade unions are registered. When there's a real gamut of trade unions it is hard for them to come to agreement among themselves. There is just too much pluralism and this does not help the representation of workers.⁶⁵

Overall, Polish unions are relatively passive. Workers and unionists have great respect for managers and rarely seem to think they can or should take part in the running of the firm.⁶⁶ Unions play little or no role in decision-making in firms. Their role is greatest in safety and hygiene, layoffs and bonuses. Collective bargaining agreements were in place in one third of the workplaces in Gardawski's sample.⁶⁷ Collective bargaining beyond the level of the individual workplace is extremely rare in Poland and formal agreements are confined to a handful of state sectors. Relationships between unions and employers are rarely conflictual in Poland. In one-third of the workplaces in Gardawski's sample strike notice had been served in the last decade and in one-fifth strikes had actually taken place. The number of working days lost to strikes in 1990 was 141,304. This fell to 25,894 in

half of the workplaces were private or privatized. No response rate given. (Gardawski, *Rozpad Bastionu*, 13)

⁶³ Gardawski, *Rozpad Bastionu*, 17,20, 168

⁶⁴ Gardawski, *Rozpad Bastionu*, 234

⁶⁵ Interview: Wielgus, 13 December 2000

⁶⁶ Gardawski, *Rozpad Bastionu*, 172; David Ost and Marc Weinstein, "Unionists Against Unions: Toward Hierarchical Management in Post-Communist Poland", *East European Politics and Societies*, 13 (1999)

1997 but rose again to 36,824 in 1998.⁶⁸ The vast majority of conflict takes place in a limited number of state sectors.

Workers do not consider their unions very useful. When they have a problem, workers tend to go straight to the management rather than through their union.⁶⁹

Workers perceive membership of unions as correlated with worse-paid jobs in worse-performing firms, even though it seems union membership has no particular relationship with members' pay and their firm's performance.⁷⁰ When given a list of statements describing the role of unions workers most frequently chose, "They try but they do not achieve much".⁷¹

However, unions do have considerable influence at the level of national politics. In the third *Sejm* 106 out of the 460 members of the *Sejm* were directly connected to unions.⁷² Many Poles, and especially business leaders, think that Poland is a country run by unions. They have even coined the term "*Związkocracia*" (Rule of the Unions). The following discussion argues that this view is an exaggeration.

Solidarity cannot be straightforwardly treated as a union. It has always had a much wider political agenda.⁷³ At both the grassroots and elite levels the political and trade union Solidarities were difficult to extricate. Local party organisations were

⁶⁷ Gardawski, *Rozpad Bastionu*, 21

⁶⁸ *Rocznik Statystyczny Rzeczypospolitej Polskiej 1999* (Warsaw: Główny Urząd Statystyczny, 2000), 141

⁶⁹ Gardawski, *Rozpad Bastionu*, 244

⁷⁰ Gardawski, *Rozpad Bastionu*, 19, 184, 186

⁷¹ Gardawski, *Rozpad Bastionu*, 20

⁷² George Kolankiewicz, "Social Package to Social Consequences: Restructuring of Coal Mining in Poland", paper delivered at the London School of Economics, 1998

⁷³ Irena Jackiewicz, "Solidarity in a Double Role: Political Representative and Pressure Group" in Ágh, Attila & Ilonszki, Gabriella (eds.), *Parliaments and Organised Interests: The Second Steps* (Budapest: Hungarian Centre for Democracy Studies, 1996), 122-140

largely based on existing union facilities. The top officials of Solidarity sat in the *Sejm*, some entered government, and the Solidarity Electoral Action bloc was dominated by Solidarity president Marian Krzaklewski. Perhaps the most obvious example of union influence in the third *Sejm* was legislation on shortening the working week. Previous governments had passed various laws, which gave some privileges to unions, such as enhanced job security for union officials.⁷⁴ However, the overall thrust of Solidarity government policy had nothing to do with the rights of unionists and workers. The bloc also contained other parties, like the People's Conservative Party, who wanted to restrict

Biography: Marian Krzaklewski

Born 1950. Doctorate on the computerisation of industrial processes from the Silesian Institute of Technology. Initiated Solidarity organisation in the Polish Academy of Sciences. Arrested under martial law. Took over from Lech Wałęsa as Solidarity's head in 1991. Founder of Solidarity Electoral Action (AWS) in 1996. His unsuccessful presidential campaign 2000 led to a struggle over his role in the party and the implosion of AWS.

union influence on policy. Many of the Solidarity representatives had a much stronger commitment to the acceleration of socio-economic reform than they had to the promotion of workers or union interests. One common explanation for the decline of Polish unions is the "umbrella" provided by Solidarity to radical reforms after the transition of 1989 and again during the third *Sejm*. The chaotic record of the government, Krzaklewski's pathetic campaign for the Polish presidency and the electoral wipeout suffered by Solidarity Electoral Action in 2001 may mean the end of direct involvement in politics for the Solidarity union.

The relationship between the OPZZ and the Democratic Left (SLD) is more straightforward. Again, senior officials sit in the *Sejm* and enter government. They tend towards a more direct representation of union interests than Solidarity.

⁷⁴ Teresa Majtas, *Prawo Pracy: Zarys Wykładu* (Poznań: Wyższa Szkoła Zarządzania i Bankowości w Poznaniu, 1999), 27-28

Although the Democratic Left calls itself social-democratic and advocates many social-democratic policies it is also a party of business, especially big business. Many of the senior members of the party come from the pro-business wing of the party. Perhaps the most salient characteristic of the party and its leadership is its pragmatism. It is as much a party of power as a left-wing union-based party. In both the SLD and AWS large swathes of the parties were unhappy with their close relationship with the unions and were working to undermine it or reconstruct it on a more distant basis.⁷⁵

The constituencies of businesses with an interest in the presence of trade unions in the labour market may be quite small, territorially and/or sectorally, and thus provide good incentives for collective action. The constituency for trade union political power is the most latent of latent groups since it relates to virtually every business under the jurisdiction of the Polish State. Thus, Polish trade unions are weak where they are most likely to encourage strong business association and strong where they are least likely to encourage business association. Polish business leaders are tortured by “frustrated functionalism”. They see trade union power as deeply damaging to the business class and think that the common interest of business this represents would lead to strong business associations if only Polish businesspeople understood their interest properly.⁷⁶ However, looked at from the rational choice perspective, the weakness of the business associations makes perfect sense and seems unlikely to be overcome because of trade union power in national politics.

⁷⁵ Irena Panków, “Trade Unions and Politics” in Janina Frentzel-Zagórska and Jacek Wasilewski (eds.), *The Second Generation of Democratic Elites in Central and Eastern Europe* (Warsaw: Institute of Political Studies, Polish Academy of Sciences, 2000); Irena Panków, “Związki zawodowe a polityka” in Jacek Wasilewski (ed.), *Elita polityczna 1998* (Warsaw: Institute of Political Studies, Polish Academy of Sciences, 1999)

⁷⁶ Interview: Mordasewicz, 9 August 2000

The weakness of trade unions in the labour market also means that few business associations can recruit members by offering industrial relations services. Finally, unions are to be found in the most concentrated sectors with the largest enterprises, that is, in the state sector. In fact, much of their presence is in the budget sector where there is only one giant employer, the central state itself. In the case of groups, which are already intermediate or privileged, the presence of trade unions may not be an especially large extra incentive to collective action.

The above argument is that trade unions are not a major stimulus to business association in Poland. The foundation of the Private Confederation is a good example of the exception that proves the rule. Its origins relate quite directly to the distinction between the labour market and political power of trade unions. In most countries, unions provoked business association because business wanted to take on locally or sectorally based unions at the same level, that is to say that the labour market power of unions stimulated the formation of business associations. These locally based unions then federated, eventually forming national peak associations, which dealt with wider political issues. In the case of the Private Confederation, it was the other way round. The power of the trade unions is in the political system so a confederation, which could be influential at that level was needed. However, a confederation cannot legally be set up unless it has the required number of associations as members. Since these were lacking, the Confederation's founders set up several associations in order to overcome this hurdle. Since it was the political and not the labour market power of unions, which was the target, the peak association came first and was then followed by the primary associations. This is in contrast to most West European countries in which local and sectoral associations

were set up to counter the labour market power of unions, only considerably later forming into national confederations.⁷⁷ While the Private Confederation has been fairly successful in partially supplanting the official Confederation, it has not managed to mobilise the latent group of the Polish national business class against trade union political power.

Another popular economic approach to business associations plays down the role of trade unions and argues that the mode of production is the key independent variable. The vital distinction here is between coordinated and liberal economies. Coordinated economies are exemplified by highly skilled and specialised sectors, which encourage business association. Liberal economies stress the flexibility necessary for industries where radical innovation and/or low wages are necessary and business associations are relatively superfluous. It is easy to demonstrate that Poland is a liberal economy rather than a coordinated economy. Poland's comparative advantage is to be found in low-skill, low value-added sectors, which are the very antithesis of the "coordinated" production regime. In these sectors, there is little need for technical and training cooperation and therefore a low potential for business associations to offer private goods, which are so essential that they form part of the production process itself. It has been noted by the Polish Foundation for the Development of Small and Medium Enterprises that Polish business associations are virtually never involved in "carrying out work connected with the certification of products or the conduct of research and innovation activity".⁷⁸

⁷⁷ John P Windmuller and Alan Gladstone, *Employer Associations and Industrial Relations* (Oxford: Clarendon, 1984), 3

⁷⁸ *Businessman*, November 2000, 16

The final economic approach focuses on interest diversity, a variable for which there is no worthwhile general data. If there is a very high level of interest diversity amongst post-communist business classes, as Padgett supposes, then divisions between and within business associations should be based on objective factors, like the sectors of the businesses, their ownership structure, and the background of their management. Little of the competition between the Big Five seems to be based on fundamental differences in their membership. The big exception here is the competition between the Confederation of Polish Employers and the Private Confederation. The Private Confederation claims that this is a straightforward opposition between the state and private sectors. As has already been pointed out this is a great exaggeration but there is also a substantial amount of truth in this view. Furthermore, the clash between private and state sectors is an important source of division within the Confederation of Polish Employers. It is, however, important to remember that by far the biggest employer in the Private Confederation, the Polish Copper Association, is largely state-owned. Also, the vast majority of members of the official Confederation are from the private sector and are by no means excluded from its decision-making. One obvious indicator is that all its presidents have been private-sector representatives. As regards the other associations, while they have fairly different membership profiles, most of their competition relates to personality and valence issues. Their attacks on each other consist of accusations of incompetence, careerism and corruption. Very rarely do they describe their competitors as representatives of big business, the state sector, foreign firms, or the former nomenklatura. Similarly, there is little sign of competition within associations based on objective factors. In the Chamber, which has the largest and most diverse membership, internal politics does often relate to differences between

large and small business and occasionally foreign and domestic business. However, these conflicts do not seem especially intense and are only to be expected from any interest association. Internal politics in the Chamber seems to be much more focused on the competition of various personal cliques for power and position. The Club, Roundtable and Private Confederation appear to enjoy very minimal internal conflict. In the case of the Club, this is partly because it is effectively a firm controlled by one man. The Roundtable and the Confederation are based on a tightly knit core of business leaders with similar views and interests. This relative lack of conflict on the basis of objective factors suggests that Polish business associations consider themselves as fundamentally one large latent group. Their problems do not seem to be conflicts between mobilised groups with fundamentally different interests. Their fundamental problem is the mobilisation of latent groups with common interests.

?

3.2 Political variables

Under the communist regime, there were clear antecedents of business-government relations in both the state and private sectors. There is no doubt that many sectors of state enterprise constituted formidable economic lobbies in the Poland of the 1980s. The economic reforms of the early eighties tried to introduce more competition, and reduce the power of economic lobbies, by breaking up huge sectoral “agglomerations” into several units. However, the old economic agglomerations were resurrected as slightly more informal “associations”. In some respects, these organisations acted very like business associations.⁷⁹ They lobbied for exceptions to the rules and bargained over their government contracts. The interests of the enterprise associations usually coincided with those of ministry bureaucrats. The

⁷⁹ George Kolankiewicz and Paul G Lewis, *Poland: Politics, Economics and Society* (London: Pinter, 1988), 104, 109, 111, 112, 114

huge smoke-stack industries were among the most inefficient and inflexible in Poland and would have been seriously threatened had the reforms been implemented consistently.⁸⁰ It was not in the interest of bureaucrats to implement reforms that would reduce their power by taking economic decisions out of their hands and giving them to the market. Uncertainty about the determination and ability of the top political leadership to drive through complex reforms encouraged both bureaucrats and enterprise directors to undermine the reforms rather than prepare for a period of fundamental and long-term economic change.

The political representation of the private sector was institutionalised under the communist regime in Poland. Artisans were organised into functional chambers, united by a Union of the Chambers of Handicraft. The Chambers seem to have been genuine representatives of the private sector. Their elections were reasonably democratic and they repeatedly and sharply criticised official policy.⁸¹ Unfortunately, they were almost always ignored. The Chambers were, in turn, dominated by the Democratic Party, a satellite party, which was loyal to the communist regime. Members of the party frequently held positions with impressive titles, which suggested that they were responsible for the private sector. However, they tended to be involved in administrative rather than policy-making functions. Sometimes they were symbolically included in announcements of policy changes.⁸²

In the space, carved out by the political opposition between 1975 and 1989, there appeared a number of groups, which claimed to represent the interests of private

⁸⁰ Jerzy Hausner, *Branżowe Grupy Interesu w Gospodarce Socjalistycznej* (Kraków: Akademia Ekonomiczna w Krakowie, 1987), 222-223

⁸¹ Anders Aslund, *Private Enterprise in Eastern Europe: The Non-Agricultural Private Sector in Poland and the GDR, 1945-83* (London: Macmillan, 1985), 41

entrepreneurs. These groups seem to have been dominated by opposition-oriented intellectuals rather than actual entrepreneurs⁸³ and thus are perhaps better classified as public interest associations rather than business associations. However, they did provide some form of interest representation for the Polish private sector and a precedent for business association under the new regime. These groups were consistently refused legal registration until 1989. The new mixed ownership sector set up something akin to its own business association in 1989.⁸⁴

It is clear that the state sector possessed great potential for corporatist business-government relations. It consisted of relatively small numbers of large enterprises, which had traditionally enjoyed an insider role in policy-making and implementation. They did not, however, have a tradition of a national peak association or negotiations with the government itself, or the trade union confederations at the national level.

A vital part of Balcerowicz's analysis of failed economic reforms was the influence of state-sector lobbies. The Balcerowicz plan emphasised resistance to these lobbies and the destruction of their economic basis. In contrast to most of its post-communist neighbours, the Polish government did not initiate any tripartite negotiations in the first years of the new regime. Indeed, it conducted virtually no formal negotiations or consultations with business associations. Legislation defining the structures and rights of certain sorts of business associations was passed. However, these laws probably reflect inaction rather than a pro-active intervention in

⁸² Aslund, *Private Enterprise in Eastern Europe*, 93

⁸³ Timothy Garton Ash, "Reform or Revolution?" in his *The Uses of Adversity: Essays on the Fate of Central Europe* (London: Penguin, 1989), 249-251

business-government relations. They generally recognised the types of organisations, which had been set up in 1989 and soon after. They conferred virtually no obligations on the government or the state. In the longer term, as described earlier, the effect of this legislation was to fragment business representation between employer associations, chambers of commerce, artisan organisations and “associations”. In the denial of a special, or even an institutionalised, relationship with the state and the erection of a confusing and fragmented legal structure, official policy tended to encourage pluralism. Moreover, the economic effects of the Balcerowicz plan made pluralism more likely by creating huge latent groups of small enterprises.

However, there is still some controversy as to the extent to which the communist era lobbies recast themselves as post-communist business associations.⁸⁵ Since there is no reliable relevant data, the only way of deciding this issue seems to be by means of detailed case studies. A focus on the most influential associations allows the change and continuity hypotheses to compete with each other, both in terms of the associations, which are regarded as the most influential, and in terms of the battle for influence within those associations.

The Confederation sees itself as a successor to pre-communist Polish peak associations. It was founded in 1989 by four associations, which represented the opposition movement, the private sector, state enterprises in the process of

⁸⁴ Jadwiga Staniszkis, *The Dynamics of the Breakthrough in Eastern Europe: The Polish Experience* (Berkeley: University of California Press, 1991), 65

⁸⁵ Mancur Olson, *Power and Prosperity: Outgrowing Capitalist and Communist Dictatorships* (New York: Basic Books, 2000), 169-70; Padgett, *Organizing Democracy*, 17, 24, 53; *Businessman*, November 2000, 16

“nomenklatura” privatisation and traditional state enterprises.⁸⁶ The Confederation’s first president was elected on an opposition ticket to the Senate in 1989. After his resignation, because of rumours of illegal arms deals, he was replaced by his right-hand man and the organization’s secretary-general. The next two presidents have had strong links to communist and ex-communist politics but have made their living in relatively modest private sector operations rather than being captains of communist-era monoliths. The Confederation of Polish Employers is a very encompassing organization: its members include representatives of virtually all interests in the Polish economy.⁸⁷ In the Confederation the old-fashioned state and privatised enterprises have great collective action advantages and dominate the Confederation out of proportion with their share of its membership,⁸⁸ employment, or any other measure. This has even been institutionalised in a Constitution, which favours the best organised.⁸⁹ However, it is wrong to see the Confederation as an organization, which has been completely hi-jacked by the state sector. Even though the state sector is dominant, the vast majority of members are private and their concerns are taken into account in the Confederation’s political campaigns. The origins and internal politics of the Confederation are equivocal but perhaps tend towards the continuity hypothesis.

The Business Centre Club does not claim to be the heir to any tradition in Polish business association, but is dedicated to the invention of its own tradition. Officially, it was founded in 1991 by a group representing a wide range of political

⁸⁶ Roman Łuczkiwicz, *A,B,C ... Konfederacji Pracodawcom Polskich* (Warsaw: Federation of Energy Employers, 2000); *Gazeta Wyborcza*, 10 October 2000, Kraj; Interviews: Stępniewski, 27 July 2000; Interview: Malinowski, 8 September 1999

⁸⁷ Folder of miscellaneous documents (Warsaw: Konfederacja Pracodawców Polskich, August 1999)

⁸⁸ *Rzeczpospolita*, 11 November 2000, *Ekonomia*

and economic backgrounds; former ministers, senators, private entrepreneurs, state-enterprise directors, journalists and academics. However, the origins of the Club seem to lie in the vision of its charismatic President, Marek Goliszewski. The Club is effectively a private company controlled by one man, the Club's founder and president ever since.⁹⁰ Here, there is clearly no sign of the dominance of lobbies dating from the previous regime. As with the Confederation, the origins of the Club do not clearly favour either of the hypotheses. However, the evidence may tend towards the change hypothesis since no communist-era lobbies could join en bloc as they did with the Confederation. The internal politics of the Club favour the change hypothesis as there is no question of the Club becoming a representative for the economic legatees of the old regime as long as Goliszewski is its owner.

The Polish Chamber of Commerce identifies itself, as does the Confederation, with pre-communist organisations. Several representatives the opposition-linked chambers of commerce movement were elected to parliament in 1989. They managed to get a law passed which legalised the chambers, gave them the right to give their opinion on laws and bequeathed the assets of the old Chamber of Foreign Trade to the new Polish Chamber of Commerce.⁹¹ This constituted a straightforward takeover of the communist institution by the new organisation rather than a merger.⁹² Although state enterprises later joined the founding elite has maintained its leading position. In spite of the fact that the Chamber has strong member-chambers from state-dominated or privatised sectors, these chambers do not dominate. The Constitution is designed so that the different types of member organisations share

⁸⁹ *Statut Konfederacji Pracodawców Polskich* (Warsaw: Konfederacja Pracodawców Polskich, registered 1994), § 17.3.2, § 17.4

⁹⁰ *Businessman*, June 1998, 68

⁹¹ "O izbach gospodarczych", *Dziennik Ustaw*, 5 May 1991, Art. 12

power.⁹³ In 2000, no representative of state industry sat on the Chamber's presidium.⁹⁴ Yet again, the Chamber's origins tell no unambiguous story but probably tend towards the change hypothesis.

The Polish Business Roundtable was founded in 1991 and is explicitly modelled on the US Business Roundtable, which was founded in 1972. The founders of the Roundtable come from a diverse range of backgrounds: the nomenklatura, the intelligentsia, private business under communism, and foreign businesspeople. Unlike the other organizations, the Roundtable from its very beginning contained a significant proportion of returned *émigrés*.⁹⁵ Its first president, Jan Wejchert, was one of the few who had managed to make very large amounts of money as a private entrepreneur under the communist regime. There is some interesting information on the origins of the Roundtable's members, and it is shown in Table 4.5. Although the proportions in the table are unreliable, it clearly shows that the Roundtable's membership come from a wide array of backgrounds under the previous regime. The Roundtable enjoys a relatively low level of internal conflict and is generally very hostile to the state sector. The case of the Roundtable favours the change hypothesis.

⁹² Interviews: Kłoczko, 30 June 2000; Bąk, 24 July 2000

⁹³ Krajowa Izba Gospodarcza, *Statut Krajowej Izby Gospodarczej* (Warsaw: Krajowa Izba Gospodarcza, 1997)

⁹⁴ Interview: Kłoczko, 30 June 2000

⁹⁵ *Businessman*, January 1993, 10; *Informacja Prasowa: Polska Rada Biznesu* (Warsaw: Polska Rada Biznesu, undated)

Table 4.5: Roundtable Members under Communism	
<i>Primary Activity</i>	<i>N</i>
University/research institution	6
Economic elite	7
Indigenous business (pre-89)	6
Representatives of foreign business in Poland	2
Business outside Poland	3
Political elite	1
Non-elite state employment	1
Foreigner	1
Total	23
Source: <i>Informacja Prasowa: Polska Rada Biznesu</i> . Categories are exhaustive but not mutually exclusive. Four members fall into two categories.	

The Private Confederation was set up by the leadership of the Roundtable in 1999 as a rival to the official Confederation of Polish Employers. This event was a reaction to a failed putsch in the official Confederation, the leadership of which was perceived to be incompetent, clientelistic and dependent upon the state sector. The plan was to replace the then president, Wojciech Kornowski, with the Roundtable's better-regarded then president Henryka Bochniarz.⁹⁶ Obviously, the existence of the Private Confederation itself favours the change hypothesis, since it is new organisation with very few links to the previous regime. The origins and politics of the Private Confederation clearly favour the change hypothesis.

Overall, the origins and internal politics of the Big Five clearly favour the hypothesis that states that Poland's associational structure is not a superficial adaptation of communist-era structures. However, within the Confederation of Employers there is

⁹⁶ Interview: Bańkiewicz, 9 August 1999

a very strong faction, which is based on communist-era heavy industries and has not greatly changed its style of lobbying.

A key explanation why the Polish government did not intervene to set up a tripartite structure, and therefore allowed pluralism to develop, was that economic reformers had the “umbrella” of Solidarity. Virtually since its inception, the Solidarity leadership had been aware of the need for drastic economic reform and had been prepared to provide it political shelter even if it meant considerable short-term pain for the population in general and its core working class constituency in particular. The design and implementation of the Balcerowicz plan, together with the ongoing determination not to reverse it, were all undertaken without consultation with Solidarity. Its support was taken for granted. While the trade union distanced itself from the reforming governments dominated by the liberal intellectual elements of the Solidarity opposition movement, it was not until mid-1991 that it called strikes to pressure for a change in economic policy.⁹⁷ It was in reaction to the new, more conflictual, relationship with Solidarity, that the government began negotiating a tripartite pact, which was not signed until 1993.

The “Pact on State Enterprises” which set up the Tripartite Commission was not signed until 1993. The main intention of the pact was not to reconstruct the interface of politics and economics in a corporatist mould, but to ensure that the Solidarity union did not become an all-out opponent of reform.⁹⁸ The agreement was explicitly called the “Pact on State Enterprises”. The vast majority of its clauses, and virtually all of those that would have substantial consequences, were limited to state

⁹⁷ Frances Millard, *The Anatomy of the New Poland: Post-Communist Politics in its First Phase* (Aldershot: Edward Elgar, 1994), 76, 89

enterprises.⁹⁹ Although the majority of Poles and the Minister of Labour, Jacek Kuroń,¹⁰⁰ were probably committed to a corporatist vision, the government saw the pact as a pragmatic and temporary solution to an industrial relations crisis. Nonetheless, there was definitely a sense in which the pact was an attempt to reach a relatively corporatist agreement in the context of a pluralist interest association structure, which had had four years to develop.

The representation of employers was fragmented and unclear. The Confederation of Polish Employers was the one consistent representative of business. The Polish Chamber of Commerce and the Co-operative Supervisory Board were both invited but withdrew during the negotiations. The Business Centre Club was not initially invited but later managed to obtain "observer status" as did the National Local Government Diet.¹⁰¹ Some of these ambiguities seem to relate to confusion about whether the pact related to the budget sector, the state sector or the whole economy. However, much of the pluralism in the negotiations is simply a reflection of the pluralism of Polish business associations at the time. This was mirrored by pluralism on the trade union side: fifteen unions were invited to the talks.¹⁰²

Corporatist policy-making is unlikely to become a reality if it has to rely on a pluralist interest association structure. The weakness and fractiousness of the Tripartite Commission's members have consistently prevented it from becoming an

⁹⁸ Millard, *Anatomy of a New Poland*, 109-110

⁹⁹ Jerzy Hausner, "The State Enterprise Pact and the Potential for Tripartism in Poland", in Kylvoh, George (ed.), *Tripartism on Trial* (Geneva: International Labour Organisation, 1995), 113

¹⁰⁰ Jerzy Wrątny, *Pakt o Przedsiębiorstwie Państwowym w Trakcie Przekształcenia* (Bydgoszcz: Oficyna Wydawnicza Ośrodka Postępu Organizacyjnego, 1993); Jerzy Hausner, "The State Enterprise Pact and the Potential for Tripartism in Poland", in Kylvoh, George (ed.), *Tripartism on Trial* (Geneva: International Labour Organisation, 1995), 111

¹⁰¹ Wrątny, *Pakt o Przedsiębiorstwie Państwowym*, 4-5

¹⁰² Hausner, "The State Enterprise Pact", 112

influential institution. For example, during the third *Sejm*, the Commission was stymied by a boycott by the OPZZ union federation in protest at the policies of the Solidarity-led government linked to its bitter rival. In the same period, there was a battle between the Confederation of Polish Employers and its upstart opponent the Private Confederation.

Overall, the political variable adds little to an explanation based on collective action theory. The Polish government *may* have been able to set up a relatively corporatist system, had it moved decisively and early. However, the Tripartite Commission in no way demonstrated a serious commitment to corporatism, and was founded four years into a rapid and profound transformation which had already given rise to a pluralist system of business associations.

3.3 Social variables

Social capital has helped ease the collective action problem for the Roundtable and the Private Confederation. Although the Roundtable has an encompassing interest in the Polish economy, it is in fact a fairly well integrated network of businesspeople rather than a classic latent group. However, the group has avoided rather than solved the collective action problem. It is a slightly institutionalised social network rather than an organization, which uses social networks to recruit members. This is evident in that not only do personal connections serve to recruit members, they also explicitly serve to exclude potential members. The group has no ambitions for mass, or even substantial membership, and its members stock of social capital does not have the potential to gather together really large numbers of businesses. The Private Confederation is an attempt to just that. It began with a membership largely drawn

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from the Roundtable and aims to use this as a core from which to build a genuine mass employer organisation in contrast to the failed Confederation of Private Employers. Although the group has had a lot of success in supplanting the old Confederation in policy-making circles, its recruitment successes have been more moderate and it has not at all modified the view of a Polish business class, which has been fairly comprehensively stymied by the collective action problem. Much of its membership consists of defections from the Confederation, some employer organisations set up as arms of pre-existing associations, and a smaller number of existing employer organisations that had not previously been members of a federation. It has not managed to attract large numbers of previously unorganised enterprises. The Roundtable and Confederation illustrate that high levels of social capital can merely make collective action marginally more likely when the economic structure is not propitious to the formation of business associations.

The absence of social capital has also presented an opportunity for some Polish business associations to bolster their membership. As table 4.2 shows this seems to be an important motivation for membership of the Business Centre Club. Moreover, it is one that has been actively promoted by the Club's leadership.¹⁰³ In fact, the creation of social capital provides an excellent bridge between the club, service provision and lobbying aspects of the organisation. Table 4.3 suggests that access to social capital is probably an even stronger motivation for membership of regional chambers. These are much weaker organisations than the Business Centre Club, with much smaller proportions of large members. Thus, the creation of social capital

¹⁰³ Iwona Krzesak, "Etnografia Business Centre Club" in Jacek Kurczewski & Iwona Jakubowska-Branicka *Biznes i klasy średnie: Studia nad etosem* (Warsaw: Zakład Socjologii Obyczajów i Prawa Stosowanych Nauk Społecznych, Uniwersytet Warszawski, 1994), 52; *Dlatego Mówią Właśnie Sympatycy i Członkowie BCC* (Warsaw: Business Centre Club, 1999), 18-34

is a particularly convenient type of private good, because it makes minimal demands on weak organisations. The Association of Mazowsze and Warsaw Employers is similar to the regional chambers in that it has a weak organisation and largely caters for small businesses on a territorial basis. The same advantages apply to the creation of social capital. Although there is no data on the importance of social capital to members, it does seem that it is very important. This inference is drawn from the fact that the association seems to have taken the creation of social capital to a qualitatively new level by sponsoring an economic project involving many of the members. It has founded a new shopping and business centre with its members as tenants. In this way, the association is no longer an optional extra, the usefulness of which has to be weighed up carefully by members. Instead it is deeply and directly part of their business strategies. Again, this use of social capital does not evade the collective action problem. If it had done so, all of these groups would have much larger memberships.

4. Conclusions

This chapter has argued that Poland has a pluralist system of business associations. Membership of these associations is voluntary. There is competition and overlap between different associations. The organizations are weak. They lack members and money and are often heavily dependent on a very small number of volunteers. Polish business associations play a relatively marginal role in Polish politics. They are generally regarded as outsiders instead of vital partners in policy-making. Economic variables provide the best explanation for this state of affairs. Of these economic variables the large numbers of small enterprises in the Polish economy seems to be a key characteristic, which makes the formation of strong business associations very

unlikely. Political and social variables also play a role, but a more limited one, in understanding the pluralism of Polish business associations. One characteristic of pluralist business associations, that has not been systematically examined in this chapter, is their tendency to have to share the interface of business and government with other channels of influence, namely companies, parties and personalism. The next chapter examines the relative power of the four modes of business-government relations.

Chapter Five: Competing Modes of Business-Government Relations in Poland

1. Introduction

This is the most important chapter in the thesis. It tests the power of the different modes of business-government relations against each other, using data that should be generalisable to the overall situation in Poland. Firstly, the existence of the modes is established and explained. In the case of associations, this has been done in the previous chapter. In the case of companies, their existence does not need to be established, but an explanation for their variable involvement in business-government relations needs to be offered. Moreover, in state-owned firms, the relationship between the company and party states needs to be clarified. Party-political and personal connections also need to be disentangled from each other. Once they have been separated, explanations for the prevalence of party-political and purely personal networks are required. Secondly, I seek to establish which of the four modes is the most important. There are, in turn, two elements to this analysis. Firstly, I investigate the relative frequency with which the four different modes are employed in Poland. Secondly, and most crucially, the chapter seeks to discover which of the four modes tends to be the most successful.

2. Identifying and Explaining Modes of Business-Government Relations

2.1 The Company State

Large enterprises are able to gain political influence by astute and professional management of their relations with the government. Company representatives lobby government not as well-connected individuals, but as representatives of important

firms. It is the importance of the firm, rather than the characteristics of the individual representative, that is vital.

In the US, the UK, in Brussels, and for multinationals everywhere the company state is manifest in specialised government relations or public relations divisions. If this expertise is not developed in-house, it is contracted out to professional lobbying firms. In Poland, this type of professional government relations is virtually always restricted to large foreign firms. Lobbying firms get little or no business from Polish firms. Polish businesspeople tend to rate their own lobbying competence and political connections higher than those of specialised firms, or indeed of in-house specialists. One, rather bitter, lobbyist says:

Almost all our clients are foreign. They have no idea about Poland and are very worried about the shortage of information about policy discussions, which can only be obtained if you know the relevant people. On the other hand, moderately successful Polish businesspeople think they know everything. These guys have very big egos. They think their own personal contacts are all the political expertise their firm needs.¹

Another lobbyist says that Polish businesspeople approach them not in the spirit of professional “government relations” but rather looking for advice on how to engage in corrupt activity without being caught:

Polish firms believe in personal individual “arrangements” (*zalatwić*). Of course, Western firms are different ... Lobbying is associated with bribery or under-the-table activity. Western firms talk about government relations or strategic consultancy ... Polish firms [come to us looking for] advice on how to carry on this sort of [corrupt] activity without there being a scandal.²

¹ Interviews: Matraszek, 13 July 2000; Dubiński, 17 August 2000

² Interview: Dziedzic, 1 July 2002

While most of the literature focuses on private firms, it is clear that state-owned enterprises are also likely to directly lobby the government. Again it is the importance of the company, rather than the characteristics of the director or manager, that is crucial. In Table 5.1, I present data from the BEEPS survey, which contrasts the lobbying behaviour of foreign- and state-owned enterprises with other sorts of businesses.

Table 5.1: Lobbying channels for laws, rules, regulations and decrees					
	Business association	Firm's ties to public officials	Other channels	Not a member of a business association	N
Some Foreign Ownership	17.5	7.5	2.5	72.5	40
No Foreign Ownership	18.5	4.4	1.5	75.6	205
Government largest type of owner	14.8	14.8	0	70.4	27
Other type of largest owner	19.7	3.3	1.9	75.1	213
Source: BEEPS survey 2002					

The response of "Firm's ties to public officials" is closest to the company state, but, for some respondents, may also have included the personalist and party states. "Other channels" probably relates to the personalist and party states but may also refer to professional intermediaries like public relations firms, which would be included in the company state. The question refers to lobbying only for public goods, the type of lobbying for which business associations are best suited. In terms of private goods, there is likely to be a much lower use of business associations and higher use of other channels. Since the question about different channels was only asked of business-association members, it is likely that "direct ties" and "other channels" are used even more frequently by non-members.

The odds of a firm with foreign ownership using a channel other than a business association to lobby for public goods are almost twice (1.82) those of firms with no foreign ownership. The odds of a firm in which state ownership is the largest ownership type using a channel other than a business association are almost four times (3.79) those of firms dominated by other types of ownership. Although the question does not directly address the company state, this evidence clearly supports the idea that foreign and state ownership are associated with the company state.

Direct relations are undoubtedly an important, and highly institutionalised, mode of conducting relations between many state-owned enterprises and government. One of the reasons for the importance of these relations may well be that they do not really constitute *business-government* relations. Many state enterprises are still difficult to describe as profit-seeking. Instead, their management often seems more concerned with preserving good relations with unions and maximising employment in the enterprise. So, instead of representing a distinctive business interest, managers are intermediaries between unions and the government, or present a united front with unions. This unity of representation can be traced back to the communist era. For much of the communist era, unions and management were both part of a relatively coherent nomenklatura, and would jointly lobby for a plan that would benefit their enterprise or sector. In the 1980s, the Solidarity union was an authentic representative of workers' interests and even the official unions had become somewhat more independent. The collapse in coherence of the party-state meant that managers often received little support if they adopted a confrontational stance with workers. Crucially, the workers' self-management system, introduced after 1956, became a reality. In the late 1980s, managers grew accustomed to genuinely

responding to the concerns of the workers' councils. One of the aims of commercialisation was to eliminate workers' self-management, but share entitlements often meant that there were worker-directors. In many cases, where unions were powerful, privatization was slow, and competitiveness was lacking, management has continued with the tradition of identifying the interests of the enterprise with those of its workers.

Perhaps the most extreme example of the unity the unity of the representation of workers and employers is in coal mining. The Chamber of Industry and Commerce for the Mining Industry was actually founded by an initiative of those involved in workers' self-management and its vice-president in 2000, was a former workers' council representative.³ At that time, there was also a bitter controversy as to whether the management of the mines had encouraged and funded a protest in Warsaw by their miners. Another example was Jan Janik, head of Polish railways, who, after being fired by the Buzek government, was immediately employed by the machinists union, in order to attempt to frustrate the restructuring efforts of his successor.⁴

Sometimes, union-management alliances have tried to prevent or delay reforms of enterprises or sectors, which had been planned by government. Equally, the state has been reluctant to push through reforms, because so many politicians share the view that many state-owned enterprises are not essentially business concerns. Levels of employment and the maintenance of a strategic Polish presence in many sectors have

³ Interview: Kryszak, Katowice, 22 August 2000

⁴ *Wprost*, No. 1009, 31 March 2002

frequently been prioritised over market reforms by politicians. The importance of politicians and state ownership is considered in the next section.

The Company State and the Party State

State ownership raises the issue of the relationship between the company state and the party state. If parties control government and government controls firms, then parties may be able to control firms. This suggests that state ownership is an indicator of the party state, rather than the company state. In order to understand the relationship between state ownership and party politics, we need to understand something about corporate governance in Poland, since it is through the system of corporate governance that the state controls firms.

Poland's corporate governance, as in most of continental Europe, is based on two boards, an executive board and a supervisory board. The supervisory board, which represents the shareholders, appoints the executive board, which is responsible for the actual running of the firm. While the supervisory board cannot issue direct instructions to the executive board, it does have comprehensive rights to information. The combination of the right of appointment and full information mean that supervisory boards are in a position to effectively control a firm.

Members of supervisory boards are required to have passed an examination. In 2000, approximately 30,000 people had passed this examination and there were approximately 6000 positions to be filled.⁵ Therefore, the state has a substantial degree of choice when making appointments to the boards of commercialised firms,

⁵ Roger Schoenman, "Captains or Pirates? The New Economic Elite and their Role in Poland's Economic Development", paper delivered at the Council for European Studies, Chicago, 2002, 16

which are partially or wholly state-owned. Schoenman claims that a list of appointments is usually drawn up by bureaucrats and, as a matter of course, substantially changed by politicians.⁶ Certainly, the incoming leftist-Peasant government changed the heads of most of Poland's very largest ~~the~~ firms 2001 and 2002.⁷ This turnover is remarkable but it is not universal. At this juncture, no changes were made in the management of the coal industry. The appointments do not constitute a simple case of "jobs for the boys". The importance of competence seems to go beyond mere possession of the directors' qualification. Most of the senior appointees tend to be experienced and competent businesspeople, albeit appointed by politicians on, at least, partly political criteria. It is not clear to what extent these appointments are party-political or personalist. In a newspaper report on appointments made by the leftist-Peasant government in 2001 and 2002, approximately half of the appointees mentioned are associated with particular politicians (three each with the prime minister and the minister of the state treasury, one with the junior minister at the state treasury). The other half is simply identified as associates of the left or the Peasant party. Strong factional conflict within parties over appointments is alluded to. Given the large number of appointees, it seems likely that many are effectively made by ministers in their own interest rather than in the interest of the party as a whole. For example, *Wprost* reports that neither the government, nor AWS, effectively controlled the Ministry of the State Treasury during the third *Sejm*. Instead, a small faction of AWS from Nowy Sącz dominated appointments to state companies.⁸ Unfortunately, it is impossible to present systematic evidence, due to the refusal of the state to openly provide data on board appointments.

⁶ Schoenman, "Captains or Pirates?", 17

⁷ *Rzeczpospolita*, *Ekonomia*, 30 September 2002

⁸ *Wprost*, No. 941, 10 December 2000

The system of supervisory boards means that, at any given time, a large number of directly state-owned firms are heavily party-politicised. It does not mean that particular firms are associated with political parties over time. When the composition of government changes, so does the allegiance of the firms. Therefore, it is individual businesspeople, rather than firms, who are associated with parties. Presumably, this group of party-politicised businesspeople, oscillate from private to public sector depending on the composition of government, and never work for any firm for more than four years.⁹ Those who want to make a career in any one firm, in either the state, private, or mixed sectors, are ill advised to loyally associate themselves with a political party. Indeed, they should try to co-operate with the governing parties, irrespective of which parties they are. Essentially, then this is an argument that the party state in Poland is manifest in the long-term networks of senior businesspeople, rather than in the affiliation of the businesses they manage. The nature of the networks of businesspeople is vital to the difference between the party and personalist states. The next section tries to unravel the party and personalist states in the Polish business elite.

⁹ The *Sejm* has a register of members' interests, which, in theory, should provide some useful information on the combination of business and political careers. Unfortunately, it is effectively ignored by a huge proportion of deputies. From a random sample of 50, taken in January 2004, 27 had made no declaration. One of the 50, Wiesław Kaczmarek, a former SLD minister, made no declaration and is famous for his connections to, and involvement in, business. Some others may have not replied because they honestly had nothing to report and others involved in criminal activities decided the less they revealed the better (On criminal activities, see, for example, *Wprost*, No. 894, 16 January 2000). However, most were probably in a grey area like Kaczmarek, in which they were involved with legal businesses but thought wanted to keep these matters private, perhaps because of conflicts of interest. Most of the information in the register relates to agricultural, academic, journalistic and non-profit activities, as well as listing small prizes and gifts. Only four of the 23 respondents were directors of commercial firms, and only two of these actually received pay.

2.2 *The Party State*

The Party State and the Soft State

There does seem to be a fairly general agreement, amongst Polish academics and interviewees, that “personal connections” are more important than the associative or company states in the Polish case. For example, in his synthesis of ten years of research on business elites, Jasiecki writes,

The weakness of the Polish system of interest representation and decision-making [engenders] an excessive personalisation, on the basis of private acquaintance and individual access to decision-makers.¹⁰

A similar view is deeply embedded in the views of political insiders from all sorts of backgrounds. References to “personal contacts”, “personal connections”, “acquaintances”, “common background” pour out of any interviewee asked about Polish business-government relations, usually without any particular prompting on the issue of personalism. A trade unionist says simply that business lobbying predominantly operates on the basis of “personal connections and financing”.¹¹ A business association executive laments that

Poles are individualistic. They like to do things through friends and acquaintances, informally.

This is the opposite in Germany, where rules and official institutions and organisations are more important.¹²

Similar language is used by politicians:

Definitely, this personal approach, on the basis of social acquaintance, background etc. is the most important way of describing a large part of the lobbying here in Poland.¹³

¹⁰ Krzysztof Jasiecki, *Elita Biznesu w Polsce: Drugie Narodziny Kapitalizmu* (Warsaw: Instytut Filozofii i Socjologii Polskiej Akademii Nauk, 2002), 279

¹¹ Interview: Gielgus, 13 December 2000

¹² Interview: Mordasewicz, 9 August 2000

¹³ Interview: Jagieliński, 7 December 2000

Unfortunately, it is not always clear whether this consensus relates to the party state or a soft state, permeated by personal networks, as defined in Chapter Three. In the academic literature, there does seem to be a divide between those who perceive contacts based on political parties and those who understand Polish business-government relations as based on more strictly personal and particularistic contacts. This section aims to disentangle the soft state and the party state in Poland. Firstly, it is necessary to be absolutely clear about what is meant by these terms in the following empirical work. If Poland is a *party state*, both political and business leaders should have connections to a particular group of businesspeople loyal to, or dependent on, a particular political party. Before clarifying the idea of personalism a vital control variable must be introduced. Politicians' connections with business may not be structured according to party, but may simply represent a division between those who are more and less politically successful. Those with long experience at the pinnacle of Polish politics may have better, and perhaps different, business connections than those who have not held such central political positions. This variable will be called *political experience*. Finally, *personalism* is when connections are largely unrelated to the formal responsibilities of the politicians or their membership of a political party. In an important sense, this is a null hypothesis. It predicts a lack of structure where the other hypotheses posit some particular structure or pattern. There is some relevant empirical literature, which addresses these hypotheses in the Polish case.

Frentzel-Zagórska stresses the “political camps” of left, right and centre in Poland. Effectively, she argues that Poland is a party state. She uses the same ISP data as this thesis does. Her argument is based on the widespread perception of the

existence of political camps amongst the Polish elite.¹⁴ However, only 35 per cent of the respondents to the elite survey as a whole claimed they themselves were connected to a political camp. In the case of the business elite only five per cent said they were associated with a political camp. Since, outside of the political system, political camps are perceived to be rather murky groups associated with corruption and clientelism, respondents may have been reluctant to admit their affiliation. However, the political camps should have turned up in their pattern of personal connections and this is investigated below. Roger Schoenman also argues that the party state is the key characteristic of state-government relations in Poland. He does so on theoretical grounds and on the basis of three intensive case studies. As with other studies of this sort it remains to be confirmed if inferences can be made from a coherent theoretical story and a few case studies to Polish business-government relations in general. As he points out, this party politicisation thesis is widely accepted in Poland and is a political issue in itself.¹⁵ This chapter tests the party state hypothesis with data, which is much better suited to wide inference.

Staniszki's earlier work exemplified a variant of the party-state, which emphasises the superior connections of those associated with the political left. She described how those well placed under the previous regime were able to take ownership of state assets and establish themselves as powerful businesspeople.¹⁶ Their political connections enabled them to maintain and improve their positions under the new regime. Her qualitative and speculative work has been buttressed by quantitative research, which shows the preponderance of business careers amongst former

¹⁴ Janina Frentzel-Zagórska, "Structure of the Polish Political Scene as Seen by the Elite" in Frentzel-Zagórska and Wasilewski, *The Second Generation of Democratic Elites*, 225

¹⁵ Schoenman, "Captains or Pirates?"

¹⁶ Jadwiga Staniszkis, *The Breakthrough in Eastern Europe: The Polish Experience* (Berkeley: University of California Press, 1991)

functionaries of the communist regime and the preponderance of those functionaries amongst the business elite.¹⁷ However, this does not necessarily mean that businesspeople with a communist background have remained firmly linked to post-communist political parties or that post-communist parties have refused to associate themselves with businesspeople from non-communist backgrounds.

Drag's work on the ISP survey suggests the importance of political experience. He argues that state ownership, income from the state, and various tax breaks and licences mean that Poland's biggest businesses are dependent on the state.¹⁸ This suggests that those with senior political experience should have both better connections to the business class and a distinctive business clientele. Schoenman uses comparative data on state ownership to show how the Polish State is still relatively engaged in the economy.¹⁹ This also suggests that business connections should be structured according to positions of state power held by politicians.

Staniszki's later work is perhaps closer to the soft state hypothesis.²⁰ She analyses an opaque pattern of competing political and economic networks penetrating and exploiting the state. Comments by authorities such as Jasiecki and Wasilewski also

¹⁷ Jacek Wasilewski, "La nomenklatura: vers quel destin social?" *Revue d'études comparatives Est-Ouest*, 25 (4.), 1994; Iván Szelényi & Szonja Szelényi, "Circulation or reproduction of elites during the postcommunist transformations of Eastern Europe: Introduction", *Theory and Society*, 24 (1995), 628; Zbigniew Drag, "Elita biznesu: Autonomiczny segment elity politycznej?" in Wasilewski, Jacek (ed.), *Elita Polityczna 1998* (Warsaw: Instytut Studiów Politycznych Polskiej Akademii Nauk, 1999), 72

¹⁸ Drag, "Elita biznesu", 62-69

¹⁹ Roger Schoenman, "Webs of Transition: State-Economy Relations in Romania, Bulgaria and Poland", paper delivered at the American Political Science Association Annual Meeting, September 2002

²⁰ Jadwiga Staniszkis, *Post-Communism: The Emerging Enigma* (Warsaw: Institute of Political Studies, Polish Academy of Sciences, 1998)

suggest personalism, but in no case are these informed impressions backed up by substantial evidence.²¹

Overall, the existing work seems to tend towards the party state hypothesis. However, there does seem to be some evidence for all three hypotheses. The hypotheses have hitherto not been clearly stated and tested against each other. Of course, this has often been due to the fact that the existing literature has usually had different purposes from the present work. The following sections employ a statistical analysis of the ISP data and qualitative interviews to try and tease out whether connections between businesspeople and politicians in Poland are best described by the party state or by the soft state.

Interview evidence on the party state

All of the business representatives claimed to be “apolitical” but by this they meant they were not linked to any particular party, not that they had no connections with the political system. In addition to refusing to identify themselves as linked to a party, business representatives struggled to identify their political and economic rivals as closely associated with one particular party. Respondents mentioned a variety of ways in which this non-partisan politicisation of the business elite was manifest. Business leaders knew, and knew well, politicians from different political parties.²² Several of them contributed funds, usually illicitly, to virtually the full range of parties: “Many of our members are associated with and pay money to both

²¹ Jasiecki, *Elita Biznesu w Polsce*, 158; Jacek Wasilewski, “Polish Post-Transitional Elite” in Frentzel-Zagórska & Wasilewski (eds.), *The Second Generation of Democratic Elites* (Warsaw: Institute of Political Studies, Polish Academy of Sciences, 2000), 216

²² This interview evidence is consistent with a lot of anecdotal evidence from elsewhere. For example, a detailed article argues that Zygmunt Solorz has a wide array of contacts in competing political parties. (“Rozbiór wizji”, *Polityka*, 28/1998 – 2149)

sides of the political divide”.²³ Others had contacts with particular intra-party cliques, rather than the party as a whole: “He and his circle are strongly connected to President Kwaśniewski’s faction of the SLD, but are not popular with other politicians, even on the left.”²⁴ Many of them had successfully lobbied opposing political parties for fairly specific benefits: “This is the same in any civilised country. Polish businessmen fund politicians to get specific benefits”.²⁵ Success in big business, and success as a political leader of the business class, was associated with maintaining good relationships with a wide range of senior politicians:

Unfortunately, it is not possible to conduct big business here without relationships with the political authorities. This is because of the state of the law and the level of economic development. Businesspeople have to contact politicians because laws are not applied consistently and too many laws interfere directly in economic activity. These issues are recurring so we need to know as many politicians as possible.²⁶

The three political lobbyists backed up the views of the business representatives:

I do not think [that business people are associated with political parties]. Not unambiguously in the sense of someone who is in business and is known to be associated with a political party. What is much more common is someone who searches for contacts with politics.²⁷

Politicians also claimed that they and their parties had no particular clients in the business community:

Relatively rarely does a political party represent a particular interest in the parliament ... Certain deputies represented the interests of particular lobbies. For example, some deputies lobby on behalf of various pension funds at the expense of smaller institutions.²⁸

However, some of them were eager to say that their political opponents had such clients, always citing recent corruption scandals:

²³ Interview: Bańkiewicz, 8 August 1999

²⁴ Interview: Stępniewski, 27 July 2000

²⁵ Interview: Wejchert, 10 September 1999

²⁶ Interview: Uchman, 24 August 2000

²⁷ Interview: Dziedzic, 1 July 2002

²⁸ Interview: Lityński, 5 July 2002

Some businesses have strong links to our political opponents. This is part of a business strategy to engage in corrupt activity. Although there have also been problems amongst the left, I think there has been more scandal during [the third *Sejm*].²⁹

Moreover, the interviewees concurred with the analysis presented above, which associated the party state with the system of appointment to the supervisory boards of many state-owned firms.

The comments of a small number of interviewees did not clearly distinguish the party and soft states. The vast majority, of those who did so, favoured the soft state. This consensus was somewhat stronger amongst the businesspeople than among the smaller number of politicians. Party politics is tainted in Poland, and connections between business and party politics are very strongly identified with corruption. This may have led to some under reporting of the level of party politicisation. However, I do not believe this to be a significant problem in the interview evidence, because so many of the interviewees frankly admitted to heavy involvement with the political system and with political parties. The fact that so many of them pointed to involvement with several parties was no more likely to be viewed positively by those outside Polish business-government relations than a loyal association with one party. After presenting some qualitative evidence in this section, in the next section, I use quantitative methods to try and disentangle the party and soft states.

Quantitative Evidence on the Party State

This section is organized as follows. Firstly, a detailed account is given of the data used in the analysis. Secondly, regression analyses of this data are used to assess explanations for the variability in how well known the Polish political and business

²⁹ Interview: Jagieliński, 7 December 2000

leaders are. Thirdly, multi-dimensional scaling is used to assess the location of the leaders in the overall pattern of connections between business and politics. Fourthly, cluster analyses are presented. These serve the purpose of corroborating or questioning the statistical results from earlier sections.

The quantitative evidence in this chapter is from the ISP survey introduced in Chapter One. The survey contained questions about how well respondents knew 35 political and economic leaders. The list of 35 was not drawn up systematically but seems representative of Poland's most powerful people. 22 are politicians and eleven are business figures. The politicians are obviously the holders of key state and party political positions at the time. The list of business figures overlaps with similar lists produced elsewhere.³⁰ One member of the list was a newspaper editor and another was the governor of the central bank. The 35 leaders are listed in Appendix Three. Respondents were asked to rate how well they knew each of the 35 leaders. Missing data on these items reduces the data set of respondents to 135. The survey contained five levels: knows very well, knows fairly well, has had contact with, knows the name, has never heard of. For the present analysis the last two categories are conflated. The last category is not very meaningful since the leaders are amongst the best-known people in the country. In addition to being substantively problematic this category was not chosen very often by respondents. On average only 5.3 per cent of respondents claimed not to have heard of the leader in question. If one businessman (Sobolewski) who was not recognised by 64 per cent is removed the average falls to 3.4 per cent. The analysis below is based on the assumption that interval-level data is being used. Normally, five categories are assumed to be

³⁰ Jasiecki, *Elita Biznesu*, 169-70

necessary for interval-level measurement. However, in the case of national elites the tiny difference between not having heard of someone and merely knowing their name, as opposed to levels of actual contact, seems a greater violation of the assumption of interval-level measurement. This data is called “raw familiarity” in the analysis below.

Raw familiarity is combined into an aggregate score, which aims to measure how well the respondents know the individual leaders. This is called “average familiarity” and it is simply the mean raw familiarity score for any individual leader across the whole sample of 135 respondents. This score measures how many respondents know the leader as well as how well they know him. Independent variables derived from the party-state and political-experience hypotheses outlined above were also measured. The first of these assigns a left-right score to each leader on a scale of zero to ten. The politicians have been given the mean score for the supporters of their party from the Polish General Election Survey of 1997.³¹ The business leaders have been randomly assigned a value from a normal distribution based on the mean and standard deviation scores from the sample of business elite respondents.³² The various rumours surrounding the partisan identification or association of the business leaders were judged to be too unreliable or ambiguous.

³¹ Only one party tends to rate itself differently than do its supporters. This is the Labour Union which is represented here by Marek Pol. The Labour Union claims to be left of the Democratic Left while its supporters clearly rate it as well right of the Democratic Left. Basically, the Labour Union holds to the classic Western European conception of the left-right continuum as defined by economic policy while its supporters conceive of the left-right continuum in a similar way to other Poles. In terms of social distance, which is the dependent variable under examination, the Polish interpretation makes more sense. Tadeusz Szawiel, “Zróżnicowanie w lewicowo-prawicowe i jego korelaty” in Radosław Markowski (ed.), *Wybory Parlamentarne 1997: System Partyjny, postawy polityczne, zachowanie wyborcze* (Warsaw: Institute of Political Studies, 1999)

³² Two individuals do not fit comfortably into either the business or the political categories. These are Hanna Gronkiewicz-Waltz, the Governor of the Polish Central Bank and Tomasz Wolek, the editor of *Życie Warszawy* newspaper. They have been given the mean score for managers from the Polish Election survey.

For example, Andrzej Arendarski of the Polish Chamber of Commerce was a member of a right-wing and centrist government in the early 1990s but is now often associated with the SLD. Decisions on the measurement of the left-right placement of the business leaders do not make a big enough difference to change the interpretation of statistical results. Extreme left and extreme right positions were assigned to *all* business leaders without substantially changing the results of the regression analyses presented below. The second variable aims at capturing the idea of political experience. It is measured by the number of months for which the leaders have held cabinet posts, the presidency or the governorship of the central bank, since the formation of the first non-communist-led government in 1989.³³ This measure is somewhat crude since junior ministers and heads of agencies would also have met many members of the business elite in the performance of their duties. Nonetheless, the measure clearly excludes those with merely party political and legislative experience who would have had little chance to directly influence enterprises. The third independent variable simply distinguishes those who are primarily businesspeople from those who are not.

The definitions of the variables, together with summary statistics, are presented in Table 5.2.

³³ *European Journal of Political Research*, Political Data Yearbook, 1990-99; *Rzeczpospolita* archive, www.rzeczpospolita.pl

Table 5.2: Summary of Variables

<i>Name</i>	<i>Definition</i>	<i>Minimum, Maximum</i>	<i>Mean</i>	<i>Standard Deviation</i>
Raw familiarity	1 for knows very well, 4 for has never met	1, 4	-	-
Average familiarity	Raw familiarity score of average respondent for each leader	3.19, 3.96	3.64	0.2
Business	1 if the leader is currently primarily a businessperson, 0 if not	Dummy Variable		
Left-Right	0 for a leader identified with the far left, 10 for far right	2.2, 8.9	5.9	1.9
Experience	Number of months spent by leaders in a very senior state post since 1989	0, 75	15.7	19.4

Familiarity

The hypotheses about connections between politics and business contain two basic elements: firstly, *how* well-known a leader is and, secondly, the *location* of a leader's connections within the overall pattern of connections between politics and business. This section deals with the first of these elements. It does so by simply assessing to what extent key variables can explain how well-known a given leader is. This was done by means of a regression analysis, the results of which are presented in Table 5.3.

Table 5.3: Regression Analysis of “How Well Known” Leaders Are

<i>Independent Variable</i>	<i>Dependent Variable</i>
Coefficient (standard error)	Average Familiarity
Intercept	3.599* (0.109)
Business	-0.133*** (0.068)
Left-Right	0.02846*** (0.015)
Experience	-0.00552* (0.002)
R ²	0.353
F	5.639*

Notes: N=35. * significant at the 1% level, ** significant at 5%, *** significant at 10%

The equation has a R² figure of over 0.35. This means that the model can account for over 35 per cent of the variance in the dependent variables. It, of course, also means that almost two-thirds of the variance is left unexplained. The main conclusion of the analysis is that the political experience variable is by far the best predictor of how well known the leaders are. Also, the equation indicates a much weaker relationship between left-right placement and how well known the leaders are. This relationship is driven by the right-wing politicians who are much less well known than other politicians. If they are excluded, left-right placement is no longer statistically significant. The isolation of the right wing is probably substantially a result of the timing of the survey. In mid-1998 the right wing had just returned to power in the September 1997 election after four years without any parliamentary representation. Therefore, it is no surprise that their connections with the business elite are shown to be weaker than those left-wing politicians who had been in power for the previous four years. This seriously weakens the support the data gives to the party-state hypothesis.

The second element of the hypotheses is the location of a leader's connections in the overall pattern of connections between business and politics. Most simply put, this is about *who* knows the leaders. A useful method for investigating this issue is multi-dimensional scaling.

Multi-Dimensional Scaling

The ISP data can be used to calculate the social distance between the 35 leaders as measured by their connections with the wider business elite. This was done in a number of stages. First, a leader-by-businessperson matrix was constructed (35 leaders by 135 businesspeople), whose cell entries contained the four levels of familiarity reported by each business representative for each leader. Secondly, correlation coefficients (Pearson's r) were calculated for all pairs of leaders, with the 135 businesspeople as the number of cases. The higher the correlation the greater the similarity between those two columns in the matrix. This produced a 35 by 35 matrix. Finally, the matrix was submitted to the ALSCAL (Alternating Least-Squares) nonmetric Euclidean multidimensional scaling routine in the Statistical Package for the Social Sciences. The purpose of this procedure is to try to represent the data in the correlation matrix by a simple geometrical model or picture. Data points close to each other represent individuals who are known and not known by the same businesspeople from the sample of 135. This is an exploratory technique and produces no model, or single equation, which sums up the data.

The selection of the number of dimensions in the final scaling solution is based on identifying an "elbow" in a plot of the number of dimensions in a solution and the

stress, or goodness-of-fit, statistic. After the elbow the rate of decrease in stress achieved by the addition of further dimensions itself decreases. The selected solution has four dimensions and a stress value of 0.13. This would normally be regarded as a “fair” fit. As an aid to interpretation, regression analyses were carried out using the scores on the scaling dimensions as dependent variables. The results of regression analyses of all the independent variables upon each of the four dimensions from the scaling solution are presented in Table 5.4. No interaction terms are presented as the purpose is to aid a tentative interpretation of the scaling dimensions rather than to arrive at a full model of the dimensions. A full and rigorous model is not appropriate to the exploratory, as opposed to confirmatory, nature of multidimensional scaling. It is important to note that these regressions are being carried out on the results of a scaling solution, not on raw data. This means that statistically significant results are not as substantively significant as they would be with raw data.

The first dimension can be interpreted relatively confidently. The R^2 is 0.735 which means that the independent variables can account for 74 per cent of the variance amongst the scores of the 35 leaders on the first dimension. Average familiarity is statistically insignificant and contributes little to the prediction of scores on this dimension. This suggests that the dimension is a relatively pure measure of who knows the leaders, as opposed to how well known the leaders are. The most powerful variable is the dummy variable for leaders who are primarily businesspeople. The model predicts business leaders will score over two points more on the first dimension than non-business leaders. This is within a range of only 4.37. The other significant variable is the left-right placement of the leaders. The model predicts that, for every point farther to the left a leader is placed, his score will

increase by almost a quarter of a point on dimension one. Again, if the right-wingers are excluded, the left-right variable is no longer statistically significant.

Table 5.4: Regression Analysis of Scaling Solution

<i>Independent Variables</i>	<i>Dependent Variables</i>			
Coefficient (standard error)	Dimension 1	Dimension 2	Dimension 3	Dimension 4
Intercept	-0.763 (2.615)	-6.947** (3.262)	3.801 (3.878)	7.818* (2.621)
Average Familiarity	0.366 (0.716)	1.672*** (0.894)	-1.098 (1.062)	-2.653* (0.718)
Business	2.122* (0.289)	0.165 (0.361)	-0.174 (0.429)	0.493*** (0.29)
Left-Right	-0.226* (0.065)	0.154*** (0.081)	0.08162 (0.096)	0.255* (0.065)
Experience	0.006197 (0.008)	-0.006561 (0.01)	-0.01493 (0.012)	0.0109 (0.08)
R ²	0.735	0.358	0.078	0.542
F	20.81*	4.184*	0.636	8.872*

Notes: Dimensions from 4-dimensional scaling solution above. N=35.
 * significant at the 1% level, ** significant at 5%, *** significant at 10%

The second dimension should be interpreted more tentatively. Its R² is 0.358. This time the two most significant predictors are average familiarity and left-right placement. The model predicts that for each 0.01 increase in the average familiarity score for each leader their score increases by almost 0.17 on dimension two. This is within a range of 4.6. The model predicts that for every point farther to the right on which a leader is placed his score will increase by almost 0.16 on dimension two. The regression analysis uncovers no significant relationships between the variables and dimension three.

The R² for dimension four is 0.542, which allows some confidence in the interpretation since the model accounts for over half of the variance in the scores on

this dimension. Again, average familiarity and left-right placement are the significant variables. However, an increase in the average familiarity score for leaders reduces the score on this dimension, while a move of one point rightward on the left-right scale increases the score by over a quarter of a point. This is within a range of 3.86. In contrast to dimension two, where a move *rightward* is associated with better-known leaders, on dimension four a move *leftward* is associated with better-known leaders.

The most obvious characteristic of the multi-dimensional scaling solution is its lack of structure. Even with four dimensions the stress (goodness-of-fit) value is still only a “fair” 0.13. Dimension three completely defies interpretation. Dimensions two and four are both substantially unexplained by the variables. The highest scores on dimension two belong to better-known right-wingers and the highest scores on dimension four belong to better-known left-wingers. This favours the party state hypothesis. However, again, this is largely driven by the isolation of the right-wing. The first dimension is the only one amenable to straightforward interpretation. Since average familiarity is unimportant it is a relatively pure measure of the location of individuals in the elite network. It predicts a clearly separate location for business leaders. This dwarfs the impact of the left-right effect on this dimension. Once again, the left-right effect disappears when the right-wingers are left out.

The lack of structure of the solution means that it favours the personalism hypothesis. The importance of the contrast between business and political leaders undermines the party state hypothesis. If this hypothesis were true, businesspeople would be associated with political groups rather than forming a group of their own.

However, three of the dimensions have significant left-right effects. This is driven by the right-wingers' position. The solution cannot distinguish between the business clienteles of leftist, centrist and peasant politicians. Moreover, it should not be forgotten that the isolation of the right wing is probably somewhat exaggerated by the timing of the survey. Next, a cluster analysis is employed with the aim of corroborating or questioning the results obtained so far.

Cluster Analysis

The cluster analyses are also based on the correlation matrix on which the multi-dimensional scaling was performed. Cluster analysis simply attempts to classify the leaders with the most similar profiles of connections with the business elite into groups. Single linkage and complete linkage are the only methods suitable for a correlation matrix. The 'chaining' effect of single linkage can underestimate the number of clusters in a dataset. Therefore, complete linkage is the method of cluster analysis used here. The dendrogram, which identifies the exact membership of each cluster and allows the reader to assess the selection of the number of clusters, is presented in Appendix four. In Table 5.5, an attempt is made to interpret the clusters by relating them to the independent variables used in the previous sections.

The first cluster consists of five right-wing politicians, all with below average connections to the business class, three of whom have senior state experience and two of whom do not. This confirms the isolation of the right wing. The second cluster consists of 23 individuals, almost two-thirds of the leaders. In terms of connections with the businesspeople, 14 are above average and nine below average. 17 have senior state experience and six do not. Four are businesspeople, six are left-

wingers, five are centrists, three are peasants, two are right-wingers, and one is the leader of the Union of Labour party. The Governor of the Central Bank and a newspaper editor are also included. This large, politically diverse cluster confirms the lack of structure in the overall elite network and the weakness of the party state hypothesis, beyond the isolation of the right-wingers. The connections of the peasant, centrist and leftist politicians with the business class cannot be distinguished from each other. This cluster is a confirmation of the personalism hypothesis. The final two small clusters consist of seven business leaders in total. Five have below average connections with the overall business elite while two are above average. None of the seven has state experience. This confirms the finding that some of the business leaders have clienteles that are separate from those of the politicians. This is inconsistent with the party state hypothesis. The fact that five business leaders have below average connections to other businesspeople echoes the earlier finding that senior state experience is a powerful predictor of who among the leaders is best known. Obviously, this bolsters the political experience hypothesis.

Table 5.5: Interpretation of Cluster Analysis

<i>Variables</i>	Cluster 1	Cluster 2	Clusters 3 & 4
Above Average Familiarity	All 5 below	14 above, 9 below	2 above, 5 below
Political Experience	3 Yes, 2 No	17 Yes, 6 No	7 No
Political affiliation & business activity	All 5 Right-wingers	6 Left-wingers, 4 Businesspeople, 5 Centrists, 8 others	7 Businesspeople
Note: Author's analysis of ISP data. N=35. Clustering method is Complete Linkage. Clusters 3 and 4 are placed together since they are relatively small and join together at the next stage of the hierarchical agglomeration process (see Appendix 4).			

The cluster analysis is fully consistent with the results of the other types of statistical analysis. Overall, the quantitative evidence tells a coherent and plausible story. There is a marked lack of structure in the connections of the leaders to the business class, which means that the data most strongly supports the soft state. The party state is only of importance because of the isolation of the majority of the right-wing politicians. Some business leaders have clienteles amongst the wider business elite, which are clearly separate from those of politicians. These separate business leaders are partly distinguished by their relatively weak connections to other businesspeople in comparison to non-right-wing politicians: this is evidence of the importance of political experience.

Explaining the Party State

Interviewees agreed that the fundamental reason for the relative absence of the party state was the turnover of parties in government. No government has yet been re-elected in post-communist Poland. Indeed, the post-Solidarity parties have twice been eliminated from the *Sejm* itself after having been part of the government at

some point in the term. This turnover is a very obvious disincentive to business to pledge and maintain loyalty to a particular political party. Any business with a medium or long-term strategy will avoid becoming too closely associated with one political party. This logic seems to be obvious to political insiders. As a lobbyist says,

Since the government has changed every four years it makes no sense to declare unambiguously for one party. Of course, they are going to try and arrange good relations with *different politicians*.³⁴

The head of the social policy committee of the *Sejm* was similarly explicit about the logic of business relations with different parties:

[T]he most common strategy is to associate themselves with whoever is in government at a given time ... Big businessmen are associated with all political options ... Relatively rarely does a political party represent a particular interest in the parliament.³⁵

The BEEPS survey results suggest that, in comparison to other forms of corrupt business-government relations, the funding of political parties is not an important issue for the vast majority of firms. The argument, that political parties cannot punish disloyal businesses, does seem to hold empirically.

³⁴ Interview: Dziedzic, 1 July 2002

³⁵ Interview: Lityński, 5 July 2002

Table 5.6: Impact of Forms of Corruption

	None	Minor	Significant	Very Significant	N
Patronage	50.3	22.2	16.4	11.1	189
Contributions to parties by private interests	73.8	16.3	6.4	3.5	172
Bribes to avoid regulations	46.8	29.6	12.4	11.3	186
Sale of decisions in commercial courts	58.2	23.7	11.9	6.2	177
Sale of decisions in criminal courts	75.7	12.4	7.1	4.7	169
Sale of presidential decrees	77.2	12.6	6	4.2	167
Sale of parliamentary votes	65.5	21.1	8.2	5.3	171
Mishandling of central bank funds	79.4	14.9	3.4	2.3	175
Source: BEEPS survey 2002					

Contributions to parties are the least important type of corruption, apart from mishandling of central bank funds. Patronage, the form of corruption listed above, which seems closest to the personalism of the soft state, is one of the most significant forms of corruption. It should also be noted that some of the forms of corruption, like the sale of parliamentary votes, presidential decrees, or judicial decisions, seem much more high-risk than merely contributing to a political party. Nonetheless, they are viewed as having a much larger and more consistent effect on the business environment.

This emphasis on turnover in government is also consistent with the situation in the one area of Polish business-government relations where the party state does seem to be important. The personnel of some firms with state shareholdings change according to the composition of government and are thus firmly associated with one party (or political bloc) during their tenure in government. Of course, when the

government changes the firm is not punished for its loyalty to the previous government. All that needs to be done is for changes to be made to its senior management.

2.3 *The Soft State*

Modalities of personalist representation

The previous sections argued that instead of being locked into party-political networks, senior businesspeople have their own bank of personal connections. In this section, I present some examples of how these personal connections are used, and are useful, in the Polish political system.

There are two main ways in which personal connections are employed in business-government relations. The first is the media. Virtually everybody mentions this as one of the strengths of the Business Centre Club. Its president, Marek Goliszewski was once a member of the United Workers' Party. In the late eighties he ran his own current affairs magazine *Konfrontacje*, which, while very critical of the regime, did not seem to identify with the Solidarity-led opposition, and featured interviews with some senior communists. Both these experiences and constant networking in the post-communist era, have provided the vital connections, which got the Business Centre Club off to a good start and have maintained its presence in the eyes of businesspeople and politicians ever since. A representative of the Polish Chamber of Commerce says jealously:

Personal contacts with the media are as important as personal contacts with policymakers. The Government does not dismiss people because of a lack of members. The Chamber could not promote the view of the Business Centre Club as a mere profit-making lobby with a few members. Politicians always ask, "Who will come from the media?" And Goliszewski's

personal connections guarantee a media presence we can't get even though we're much bigger and are an official organization.³⁶

The presentation of the Club's arguments in *Gazeta Wyborcza* and *Rzeczpospolita* is invariably positive. Often Goliszewski's press releases are paraphrased by the papers in such a way as to suggest the Club is much more representative than it in fact is.

The Private Confederation of Mrs. Bochniarz has similarly easy access to the media. The leadership of the Business Roundtable and the Private Confederation have frequently appeared as opinion writers for *Rzeczpospolita*. This coverage dwarfs the coverage given to the original

Confederation of Polish Employers and the powerful media connections of Bochniarz are acknowledged by her rivals.³⁸ At a crucial stage in the early battle between the two Confederations, *Gazeta Wyborcza* published a lengthy

Biography: Wojciech Kornowski

A member of the Poznań central committee of the PUWP and an activist of the hardline Grunwald faction. He has owned and managed a small network of private hospitals since the early eighties. In the early and late nineties he set up political parties to represent business interests, but with dismal election results. Dogged by accusations of corruption and incompetence in his tenure as president of the Confederation.³⁷

denunciation of Wojciech Kornowski's leadership and the official Confederation itself.³⁹ The coverage given to business leaders is much more positive than that received by trade unionists. It is likely that personal connections play a substantial role. For example, until recently, Mrs Bochniarz sat on the board of Agora which is the owner of *Gazeta Wyborcza*. Agora was also (officially) the main donor to the Freedom Union in 1997 and its chief executive is also a member of the Roundtable. The General Secretary of the Business Roundtable and, briefly, also of the Private

³⁶ Interview: Bąk, 24 July 2000

³⁷ *Businessman*, July 2000, 21; *Rzeczpospolita*, Kraj, 30 and 31 July 2000, 1 August 2000; *Gazeta Wyborcza*, Kraj, 10 October 2000; Interview: Stępniewski, 27 July 2000

³⁸ Interviews: Malinowski, 8 September 1999; Jesioneck, 25 July 2000

³⁹ *Gazeta Wyborcza*, Kraj, 10 October 2000

Confederation, Ryszard Bańkowicz, was the founding editor of *Businessman* magazine and is a well-established *Rzeczpospolita* columnist. His successor as Secretary-General, Lech Pilawski, was also a *Businessman* journalist. This is no conspiracy theory. While these connections are not exactly boasted about in public, they are acknowledged and are regarded as simply good politics.

It can be objected that the Polish media, and its quality press in particular, is simply ideologically pro-business, which it generally is. However, this inclination does not tell us much about which business sources it will favour, and exactly what pro-business content it will present. Personal connections between individual business leaders and the press enable us to explain the emphases given to different issues in the media. Media coverage is not just about being mentioned: it is about column inches, photographs, front page, home news or economics, colour graphs or black and white tables, etc.

The media is, of course, a vital concern of all politicians in all contemporary democracies. However, some features of the Polish party system may make the media unusually important in Poland. Generally speaking, the parties have comparatively weak social bases, which means they cannot even communicate with their supporters, never mind floating voters, other than through the media. The high volatility in Polish elections means that parties and politicians are very likely to pay a heavy price for adverse publicity. Both the heterogeneity and pragmatism typical of Polish parties and coalitions when it comes to economic issues means they are more likely to be swayed by media coverage.

A substantial limitation on the political effectiveness of links between businesspeople and the media is that television, and especially public television, is the greatest concern of politicians.⁴⁰ The time constraints of TV news make it difficult to give space to business leaders or to address the detailed issues which concern them. This is reflected in the use of private TV stations by their owners. Jan Wejchert who, together with his long-time business partner, Mariusz Walter, owns the independent TV station TVN makes little use of it for political purposes, even though he is otherwise highly committed to the political causes of Polish business. Neither does Zygmunt Solorz who owns PolSat. In both cases, highlighting the political concerns of the business class does not fit into the profile of the stations, which are focused on light entertainment

The second, and more obvious, way in which personal connections count is direct access to policymakers. This can be particularly effective at an early stage of the political process when an idea is being developed in a ministry or elsewhere. It is widely agreed that personal contacts are what count here, firstly in terms of finding out what initiatives are being taken. A former President of the Roundtable explains the approach of his group

We concentrate on the big issues, like taxes. The long-term strategy has to be protected from irresponsible politicians. We have to explain that they're crazy and catch ideas before they are born. We use our connections to hear what they're up to.⁴¹

A mid-ranking official from the Chamber adopts similar tactics:

We have various informal contacts, even at the stage at which a bill is being drafted in a department or a ministry and there we try to find out what aspects of a bill may have

⁴⁰ Bogusława Dobek-Ostrowska, "Elites and Mass Media in East-Central Europe" in Janina Frentzel-Zagórska and Jacek Wasilewski, *The Second Generation of Democratic Elites in Central and Eastern Europe* (Warsaw: Institute of Political Studies, Polish Academy of Sciences, 2000), 60

⁴¹ Interview: Wejchert, 10 September 1999

important consequences for business. This does not result from any legal right but rather from our personal contacts and experience, which allows us to reach bills at the lower end of the legislative process.⁴²

Trying to identify an issue before opinions have hardened into positions, and while decision-makers are more amenable to the force of argument, is a general rule of good lobbying. The point is that, in Poland, the only way to get in early is via personal connections. Both business and political interviewees agree on this. A left-wing member of the SME Committee told me:

Representatives of these organisations should take part in the preparation of bills, not only being consulted on pre-prepared bills – too late! Very often bills go through the special urgent procedure or are just forced through in a rush.⁴³

The Business Centre Club's director of lobbying complained that:

We receive bills and are asked for an opinion, although this happens only irregularly. This is the fault of the Polish government and the bureaucracy's low standards. More often, we have to use our personal connections to find out what is going on, and see if we can make an effective intervention.⁴⁴

It is little use merely to identify an issue if the outcome cannot be influenced. Here personal contacts are again important. The Secretary General of the Chamber said:

Personal contacts are important because they give you a chance to convince them. Over lunch you can explain it in detail. It's very important because you can get the time. It's not corruption: it relates to wide, not individual issues.⁴⁵

The idea of the substitutability of personalist and organizational representation is a theme that emerges strongly from both business and political interviewees. Personalist representation is often seen as a compensation for the weakness of

⁴² Interview: Konwicki, 13 December 2000

⁴³ Interview: Nowicki, 14 December 2000

⁴⁴ Interview: Uchman, 4 August 2000

⁴⁵ Interview: Kłoczko, 30 June 2000

business associations. Business representatives might prefer to use the associational route to pursue political objectives, but, knowing it is unlikely to be successful, instead employ personalist representation. The *chef de cabinet* of the leftist Minister of Labour and Social Policy argued that,

Employers perceive that trade unions have greater influence in these formal bodies and assemblies are more significant with regard to the government. They have more means of organizational pressure: protests, strikes, withdrawal of political support ... In connection with this employers define the situation as domination ... In this situation, the option of taking advantage of individual lobbying resources is definitely significant.⁴⁶

Sometimes, personalist representation is only used after other methods have failed to have any impact. There are a number of obvious reasons why the first instinct might be to use another channel. The personalist strategy takes up a significant amount of time for people who are usually primarily engaged in running fairly large and successful businesses. In many cases personal connections are a finite resource.⁴⁷ Businesspeople cannot demand meetings every week to discuss pro-business policies. For most politicians, there are limited returns from getting engaged in the details of economic policy-making. In many cases, they may be taking a risk in their careers by committing to the pro-business view.

The vice-president of the mining chamber makes the obvious point that the substitutability of organizational and personalist resources depends on the context:

⁴⁶ Interview: Długosz, 2 July 2002

⁴⁷ Contrast this with the popular idea of "social capital" which increases rather than diminishes the more often it is used. Robert D Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993), 169

It's true that personal connections are very important but some don't have any personal contacts and must go through an organization like ours and in many situations a representative organization is taken much more seriously.⁴⁸

At least as important as the idea of the substitutability of personalist and organizational representation is the fact that, in many situations, they can be fruitfully combined. The director of lobbying at the Business Centre Club said:

We do take advantage of the personal contacts of our members ... Our regional lodges know and meet the local deputies. The regional lodges are given materials by our central lobbying office. Local deputies are very keen to listen to the lodges because they must take their electorate into account.⁴⁹

The involvement of the organization can reduce the costs of personal lobbying for businesspeople by identifying important and winnable battles and researching the content matter. Most importantly, it can try to ensure that as many people as possible take part, thereby increasing the chances of success and reducing the feeling that others are free-riding on the efforts of one person, or a handful of individuals.

It is important to emphasise that these are *combinations* of personalist and other channels. For example, while an association may brief the participants and co-ordinate a campaign of lobbying, it is personal connections that are being used to gain access to decision-makers, personal connections that ensure that businesspeople are really listened to, and largely personalism which ultimately exerts political influence.

⁴⁸ Interview: Krysak, Katowice, 22 August 2000

⁴⁹ Interview: Uchman, 24 August 2000

Personalism can provide an important link to the power of the media. Direct access to politicians can enable business lobbyists to get into the decision-making process early, when it is much easier to have an effect. The soft state, defined by personalist representation, is one of four modes of business representation, which may be available to business lobbyists. As such, it is substitutable for, and combinable with, those other modes. Senior Polish businesspeople do have personal connection to Polish politicians, and it is clear that these connections may be useful in business lobbying. The next section, investigates the source of these personal connections.

Explaining the soft state

In much of the literature, personal connections are regarded as epiphenomenal. They are seen as features of organizations or political parties. Individuals only have personal access to decision-makers because they are members of business associations, employees of companies or are affiliated with political parties. Interviewees tended to refute the idea that personal connections were mere epiphenomena. The head of the Katowice Exporters' Chamber said,

You can say that personal contacts are more important than representativeness of the business community. If a director or a president of a firm, or someone in the chamber, knows someone high up the hierarchy then it is easier to have an influence.⁵⁰

A centrist deputy and chair of the social policy committee concurred:

In general, at the background of success is not the involvement of associations in the legislative process but acquaintances with particular people from the power elite ... for decisions, mainly decisions of the government.⁵¹

⁵⁰ Interview: Moczyński, 22 August 2000

⁵¹ Interview: Lityński, 5 July 2002

However, this issue is a classic one, in which controls are needed to sort out the relationship between variables, and this is very difficult to achieve in qualitative interviews. Therefore, in tables 5.7 and 5.8, I present regression analyses, which investigate whether the personal connections of the Polish business elite can be explained adequately by organisational or political factors. In all cases, the dependent variable is personalism, as measured by the number of persons on the list of 35 very important Poles that the business respondents claimed to know well or very well.

In table 5.7, I assess whether personalism is an epiphenomenon of the association and company states. The association state is measured by membership of a “business organisation”. For the company state, I substitute size (income) and foreign and state ownership. Both of the equations are very weak. The association variable is statistically significant at ten per cent, but the equation only accounts for a pathetic four per cent of the variance in personalism. The company state variables fare even worse: the R^2 figure for their equation is actually negative.

Table 5.7: Personalism as an Epiphenomenon Association and Company States		
<i>Coefficient (standard error)</i>	<i>Association State</i>	<i>Company State</i>
Intercept	0.829*** (0.314)	1.753*** (0.572)
Association	1.204** (0.47)	
Size		-1.03 (0.000)
Foreign		-0.814 (0.765)
State		-0.34 (0.68)
Adjusted R ²	0.039	-0.016
F	6.55**	0.396
N	137	116
Notes: * significant at the 1% level, ** significant at 5%, *** significant at 10%		

In table 5.8, I present regressions, which assess whether personalism is an epiphenomenon of the party state. For the party state variable, I constructed an index of partisanship, based on the questions about how well respondents knew members of a list of 35 very important people. The measure of partisanship was calculated in the following stages:

1. The number of politicians in the left (7), right (7) centre (5) and peasant (3) groups known by each respondent was calculated. Knows very well, knows well and has had contact with were treated equally.
2. These scores were translated to percentages. So a businessperson would know 0-100% of the politicians in a certain group.
3. These percentage scores were standardised, so that businesspeople who knew the same proportion of a certain group as the mean for the whole group scored zero. Scores above and below the mean are denominated in standard deviations.

4. Each businessperson's bias towards one group over another was calculated by subtracting their standardised score for each group from their score for the other groups. This produced six comparative scores.
5. Finally, the six comparative scores were simply added up. The larger the score, the more partisan, or party political, are the connections of a businessperson.

The second variable records whether the businesspeople have received political nominations to economic posts. The third variable is membership of "mass" organisations. This category includes a large number of pro-communist organisations, which were separate from the party itself. The final two variables relate to communist party membership. The first of these distinguishes those who were never members from those who had been members at any point in their life. Since many opposition leaders were previously members of the communist party, and since many party members joined the Solidarity union, a second, subtler, measure of communist party membership, is also included. This is membership after 1981. At this time, many people left the party because of the imposition of martial law and because they felt a stronger identification with the opposition than with the regime. Remaining in the party after 1981 is a much better indication of loyalty to the communist regime/than membership prior to that period.

The resulting model is very weak. The R^2 figure suggests that it explains just over 5 per cent of the variation in personalism. This can hardly be taken as evidence that personalism is epiphenomenal. However, the partisanship variable is clearly statistically significant. This relationship seems to be a function of the quantitative

measures, rather than an indicator that those with the best personal connections are exclusively aligned with one party. The relationship is driven by the “non-party-political” connections of those with few or no personal connections to the elite. If they score zero for two parties, this counts as having equally good connections with both parties. The equation was estimated again, this time only including those with personalism scores of one or above, that is, those who knew well at least one of the politicians on the list of 35. For this sample, the partisanship variable is no longer statistically significant.

**Table 5.8: Personalism as an Epiphenomenon
The Party State**

<i>Coefficient (standard error)</i>	<i>All levels of Personalism</i>	<i>Personalism > 0</i>
Intercept	0.134 (0.54)	5.19* (1.658)
Partisanship	0.339* (0.107)	-0.18 (0.282)
Political appointments	0.792 (0.86)	-0.692 (1.433)
“Mass” organisations	-0.524 (0.705)	0.198 (1.983)
PZPR member	0.18 (1.014)	1.353 (2.698)
PZPR member after 1981	-0.608 (1.038)	-2.26 (2.741)
Adjusted R ²	0.053	-0.07
F	2.536**	0.374
N	137	49
Notes: * significant at the 1% level, ** significant at 5%, *** significant at 10%		

All of the equations completely fail to explain the variance in personal connections amongst the business elite. The ISP data strongly suggests that the soft state is not an epiphenomenon of the other modes of business-government relations.

In Chapter 3, I argued that the farther back in the past, and the less related to elite positions, were the sources of personal connections, the purer the form of personalism they indicate. A businessman may possess useful personal connections because of his past, or present, involvement with other firms. The ISP survey includes measures of the number of firms for which respondents had worked and the number of directorships they hold. Neither of these experiences constituted significant explanations of their connections to the political elite. It is also possible to develop personal connections with members of the elite from involvement in social organisations, which are neither economic nor political. These sorts of voluntary organisations are perceived as hugely important in much of the social capital, civil society and civic culture literature. The ISP survey asked whether respondents were members in cultural, professional, social (*towarzyski*), or other organisations. I also included a variable, which measured the number of types of organisations, of which businesspeople were members. None of these memberships has an appreciable effect on the level of personal connections (see Table 5.9).

**Table 5.9: Sources of Personalism
Business experience and social memberships**

<i>Coefficient (standard error)</i>	<i>Business experience</i>	<i>Social memberships</i>
Intercept	0.952* (0.346)	0.998* (0.377)
Past firms	1.014 (0.639)	
Directorships	-0.567 (0.493)	
Cultural organisations		-1.386 (1.307)
Professional organisations		-0.441 (0.67)
Social organisations		0.218 (0.873)
Other organisations		-1.749 (2.005)
Total number of types of organisations		0.428 (0.438)
Adjusted R ²	0.01	0
F	1.689	0.998
N	137	137
Notes: * significant at the 1% level, ** significant at 5%, *** significant at 10%		

If the source of personal connections are the earlier part of a person's life, those connections can be interpreted as more purely personal. This is because they have been separated by many years from their original institutional context. Moreover, it is very rare to be able to count students or youths amongst the political or economic elite of a society, even if they are likely to ascend into the elite in the future. Several of the questions in the ISP survey are relevant to this source of personal connections. Here, I have selected three educational variables. These are third-level education in Warsaw, attendance at Warsaw University, and attendance at the Warsaw School of Economics. Warsaw was, and is, the political and economic capital of Poland, and, as such, has always offered better opportunities for getting to know future leaders. Warsaw University is the largest and most prestigious Polish university. The

Warsaw School of Economics has long been a centre for the education of business and political elites. It played a particularly strong role under the centralised communist regime. It was then known as the Central School of Planning and Statistics (SGPiS). In the post-communist era, its graduates are widely regarded as a particularly powerful business-political network, and are often referred to as the “SGPiS clan”. I also include membership of youth organisations. Membership of youth organisations was seen as a “fast-track” route into elite positions in the communist era.⁵² The survey also asks how many official positions respondents held in youth organisations. As mentioned in Chapter 3, a personal connection is not merely a one-to-one relationship: it is an entry point to a network. I have included an age variable to control for the tendency of personal connections to accumulate over time. An equation using these “youth” variables to predict the level of personalism is presented in Table 5.10.

Table 5.10 also presents an equation designed to represent involvement in the communist regime. As mentioned in Chapter 2, there are many good reasons why personal connections formed from within the communist system would be well adapted to use in the post-communist context. Most of the variables have already been included in previous equations. These are the two PZPR membership variables and mass organisations. I also include a variable, which records elite membership in 1988. As discussed earlier, it was possible, if somewhat unusual, to attain responsible positions, without an overt political commitment to the regime.

⁵² For example, the late communist premier Zbigniew Messner was formerly an official in a youth organization. See, George Kolankiewicz & Paul G Lewis, *Poland: Politics, Economics, & Society* (London: Pinter, 1988), 79

The youth equation is significant at one per cent and explains a modest, but useful, 14 per cent of the variance in personalism. Positions in Youth Organisations is significant at 1 one per cent, attendance at Warsaw University at 5 per cent and studying in Warsaw and age are both at 10 per cent. Neither attendance at the Warsaw School of Economics, nor mere membership of a youth organisation are significant. If a businessperson was not an official in a youth organisation, and scores the average for every other variable, the equation predicts they will know well, or very well, one of the politicians on the list of 35 (1.035). If they are average on everything, but have a have been an official of a youth organisation, the number of predicted close personal connections triples (3.026). If all other scores are average, but the businessperson has attended Warsaw University, the predicted personalism score rises by a factor of 2.5 (from 1.035 to 2.532). In contrast to the youth equation, the communism model completely fails to explain the variance in the personal connections of members of the elite.

**Table 5.10: Sources of Personalism
Youth and Communism**

<i>Coefficient (standard error)</i>	<i>Youth</i>	<i>Communism</i>
Intercept	-1.687 (1.371)	1.137** (0.456)
Warsaw Education	-1.45*** (0.75)	
Warsaw University	1.497 (0.598)**	
Warsaw School of Economics	0.919 (0.78)	
Member of Youth Organisation	0.174 (0.474)	
Positions in Youth Organisations	2.165* (0.611)	
Age	0.0522*** (0.027)	
PZPR member		-0.287 (1.046)
PZPR member (after 1982)		-0.349 (1.067)
“Mass” organisations		-0.575 (0.726)
Elite 1988		0.795 (0.56)
Adjusted R ²	0.143	0.023
F	4.788*	0.776
N	137	137
Notes: * significant at the 1% level, ** significant at 5%, *** significant at 10%		

Having tested some general types of sources of personalism, I now try to build an overall explanation by combining the most successful variables from the previous statistical analyses. The results of this model are shown in Table 5.11.

The model has an R² of 17 per cent and is significant at one per cent. Positions in youth organisations is significant at one per cent and partisanship at five per cent and age at ten per cent. The other variables are insignificant. If all the scores are average the equation predicts that a businessperson will know 0.8 of the leading politicians

well. If they had been an official in a youth organisation, this increases to 2.8. If a businessperson scores one standard deviation above the mean for partisanship, and scores the average for every other variable, the equation predicts an increase from 0.8 to 1.3. Unfortunately, this party state effect is subject to the same problem as previous analyses: those who know nobody have low partisanship scores. If the equation is run again, including only those who know at least one leader well or very well, partisanship now has a negative effect. In this case, positions in youth organisations, continues to be the most powerful variable, as it does if partisanship is excluded.

Table 5.11: Sources of Personalism
Best Variables

<i>Coefficient (standard error)</i>	<i>All variables and cases</i>	<i>Personalism > 0</i>	<i>Less Partisanship</i>
Intercept	-2.47*** (1.378)	0.673 (4.303)	-1.757 (1.351)
Association	0.373 (0.482)	0.372 (1.045)	0.72 (0.458)
Partisanship	0.224** (0.108)	-0.192 (0.273)	
Positions in Youth Organisation	1.991* (0.6)	1.621*** (0.891)	2.099* (0.606)
Warsaw University	0.745 (0.466)	1.212 (1.022)	0.839*** (0.47)
Age	0.048*** (0.027)	0.062 (0.071)	0.048*** (0.027)
Adjusted R ²	0.167	0.055	0.146
F	6.462*	1.563	6.831*
N	137	49	137
Notes: * significant at the 1% level, ** significant at 5%, *** significant at 10%			

Personalism is not a side effect of the association, company or party states. It cannot be explained by recent business experience, nor can it be explained by membership of social organisations, nor even by involvement in the communist regime. The only

variable, which has a consistent and substantial effect on personal connections is having held an official position in a youth organisation.

There is no shortage of anecdotal evidence to back up the conclusion of the importance of heavy involvement in youth organisations. For example, the state-owned *Totalizator Sportowy* (National Lottery) transferred its announcements from state-owned Polish Television to PolSat, a private station, owned by Zygmunt Solorz. The two companies also collaborated on a pension-fund, which competed for the lucrative business of the new compulsory private pension. Piotr Nurowski, Solorz's right-hand man, had been a youth organization activist with Sławomir Sykucki, the head of *Totalizator Sportowy*.⁵³ There were both communist youth organisations and an independent youth organisation founded in 1981.⁵⁴ Leaders of both sets of organisations are to be frequently to be found amongst the contemporary political and economic elite. For example, in early 2004, the president and prime minister were both former activists, as was a vice premier.⁵⁵

The difficulty in finding an explanation for the personal connections is probably due to a combination of technical and substantive factors. Poland does not seem to have a simple elite channel like that of France. In France, virtually all of the administrative elite, most of the political elite, and much of the business elite, have all attended the same tiny educational institution, the *École Nationale d'Administration*. Entry to this institution is in turn strongly linked to prior attendance at the Institute of Political Sciences. Many of the students of the Institute have traditionally come from a relatively small pool of schools around Paris. In

⁵³ *Wprost*, No. 902, 12 March 2000

⁵⁴ *Wprost*, No. 927, 12 November 2000

⁵⁵ *Wprost*, No. 820, 16 August 1998

contrast, Poland's elite seems to consist of a large number of relatively small networks that cannot be picked up by a survey with only 150 respondents. Domański's rigorous work on social stratification concludes that, "Many channels led people into the category of owners between 1988 and 1993".⁵⁶ One unique feature of the Polish business class makes long-established and well-integrated national networks particularly unlikely. This is the remarkable tendency of post-communist private business to be based on family traditions – traditions that were frequently interrupted for over a generation.⁵⁷ Domański mentions the well-known, but perhaps extreme, example of physicist Blikle who bought back his family's café, which had been nationalized under communism. Presumably, such a man would not have a huge amount in common with the political and economic elite and had to start from scratch in the post-communist era.

It may well be that particular social organisations, like the Gdańsk branch of the Economic Association, or the Warsaw branch of the Club of the Catholic Intelligentsia, are the sources of personal connections for some businesspeople. Similar arguments might apply to powerful enterprises, like Nowa Huta steel plant in Cracow, or academic economists in the SGPiS in the late 1980s. The nature of post-communism suggests that relatively small and idiosyncratic personal networks may have been highly functional. However, these groups would be fairly small and a really large-scale survey of a thousand or more might be needed to capture them statistically. Obviously, intensive historical case studies would be helpful, but if the

⁵⁶ Henryk Domański, *On the Verge of Convergence: Social Stratification in Eastern Europe* (Budapest: Central European University Press, 2000), 100. See also, Włodzimeirz Wesolowski, "The New Beginnings of the Entrepreneurial Classes", *Polish Sociological Review*, 1 (113) 1996, 81-94 and Krzysztof Jasiecki, *Elita Biznesu w Polsce: Drugie Narodziny Kapitalizmu* (Warsaw: Institute of Philosophy and Sociology of the Polish Academy of Sciences, 2002, Ch. 3

⁵⁷ Domański, *On the Verge of Convergence*, 104

networks really are small and idiosyncratic they would form a very flimsy base for generalisation. Notwithstanding various political initiatives by the regime and the intelligentsia in the 1970s and 1980s, the probable networks mentioned above inhabited different worlds, which had relatively limited contact with each other, until they were thrown together by post-communism.

3. Competing Modes of Business-Government Relations

In this section, I use the ISP survey to see which of the modes of business-government relations is most important in Poland. Firstly, I try to investigate which mode is employed most often and, secondly, I investigate which mode is most successful.

In the ISP survey, business respondents were asked whether they “tried to influence the government in the previous several months”. All but two businesspeople replied and 60 per cent reported having lobbied the government. This is the dependent variable in the analysis of the frequency of use of different modes. I used a logistic regression to discover whether indicators of the different modes of business-government relations were associated with lobbying. The independent variables have all been introduced in previous sections.

Table 5.12 presents the results of a logistic regression on reported lobbying activity.

Table 5.12: Logistic Regression on Lobbying Activity				
	<i>B</i>	<i>S.E.</i>	<i>Sig.</i>	<i>Exp (B)</i>
Association	-1.755	0.62	0.005*	0.173
Foreign	1.164	0.789	0.14	3.204
State	-1.546	0.705	0.28	0.213
Size	0.000	0.000	0.558	1
Partisanship	0.388	0.163	0.017**	1.474
Personalism	0.474	0.237	0.046**	1.607
Constant	-0.453	1.122	0.686	0.636
Cox & Snell R ²		0.411		
Nagelkerke R ²		0.561		
Hosmer & Lemeshow Sig.		0.939		
Notes: N=115 (27 missing cases, mostly missing size data)				
* significant at the 1% level, ** significant at 5%, *** significant at 10%				

The model is quite powerful. It easily passes the Hosmer and Lemeshow test and the pseudo R² figures suggest that it accounts for between 40 and 56 per cent of the variance in lobbying activity. At the five per cent level, the association, party and soft states are significant. Size and the two indicators of the company state (foreign and state ownership) are insignificant. However, the association and state variables are associated negatively with lobbying activity, while the foreign ownership, party and personalism variables increase the likelihood of lobbying activity. I will illustrate the effects of the two significant variables, which increase the likelihood of lobbying. Firstly, I calculated the probability of having lobbied for the average businessperson in the sample. The average businessperson is not a member of a business association; and works in the domestically owned state sector. The probability of this person having lobbied is 0.56. If they are average on everything,

but have a partisanship score one standard deviation above the mean, the probability of having lobbied increases impressively to 0.75. If all scores are average, but personalism is one standard deviation above the average, the probability increases even more impressively to 0.83. More crucial than merely having lobbied is, of course, which mode of business-government relations is most successful. The respondents were asked whether they were successful in the matter on which they lobbied. Five of the respondents, who had reported lobbying activity, refused to answer. 67 per cent reported success. The results of a logistic regression on reported lobbying success are presented in Table 5.13.

Table 5.13: Logistic Regression on Lobbying Success				
	<i>B</i>	<i>S.E.</i>	<i>Sig.</i>	<i>Exp (B)</i>
Association	-0.387	0.734	0.598	0.679
Foreign	-0.376	0.959	0.695	0.687
State	-1.17	0.91	0.199	0.31
Size	.001	.001	0.052***	1.001
Partisanship	0.193	0.19	0.308	1.213
Personalism	0.859	0.422	0.042**	2.361
Constant	-0.346	1.423	0.808	0.708
Cox & Snell R ²		0.312		
Nagelkerke R ²		0.433		
Hosmer & Lemeshow Sig.		0.605		
Notes: N=65 (19 missing cases, mostly missing size data)				
* significant at the 1% level, ** significant at 5%, *** significant at 10%				

Again the model is a powerful one, passing the Hosmer and Lemeshow test, and accounting for between 31 and 43 per cent of the variance. This time, personalism is the only significant mode of business-government relations. If a businessperson scores the average for every variable, the probability of their having lobbied successfully is 0.75. If the businessperson has a personalism score of one standard

deviation above the mean, the probability of reported success approaches certainty ($p=0.99$).

The number of missing cases is substantial and the vast majority of these cases are missing because of a refusal to supply financial data. This affects the size variable, which is not a direct indicator of one of the four modes of business-government relations. Therefore, I run the regressions again without the size variable. The number of missing cases is now more acceptable and the results are essentially the same.

Table 5.14: Logistic Regression on Lobbying (without size)

	<i>B</i>	<i>S.E.</i>	<i>Sig.</i>	<i>Exp (B)</i>
Association	-1.022	0.474	0.031**	0.36
Foreign	1.292	0.651	0.047**	3.642
State	-0.609	0.562	0.278	0.544
Partisanship	0.327	0.125	0.009*	1.387
Personalism	0.231	2.66	0.103	1.26
Constant	-1.095	1.549	0.213	0.334
Cox & Snell R ²		0.293		
Nagelkerke R ²		0.398		
Hosmer & Lemeshow Sig.		0		
Notes: N=130 (12 missing cases, mostly missing size data)				
* significant at the 1% level, ** significant at 5%, *** significant at 10%				

While the pseudo-R² figures are again respectable, the more reliable Hosmer and Lemeshow test suggests that the equation as a whole is insignificant. This means that the equation should only be treated as very weak evidence. Nonetheless, it should be noted that personalism is not a significant variable, but the association, foreign ownership and party variables are. As in the previous model, the association

variable is associated negatively with lobbying, while the party and foreign ownership variables increase the likelihood of lobbying.

Table 5.15: Logistic Regression on Lobbying Success (without size)

	<i>B</i>	<i>S.E.</i>	<i>Sig.</i>	<i>Exp (B)</i>
Association	-0.612	0.616	0.32	0.542
Foreign	0.197	0.801	0.806	1.217
State	-0.693	0.755	0.359	0.5
Partisanship	0.123	0.151	0.414	1.131
Personalism	0.537	0.3	0.073***	1.712
Constant	0.327	1.062	0.758	1.386
Cox & Snell R ²		0.213		
Nagelkerke R ²		0.295		
Hosmer & Lemeshow Sig.		0.75		
Notes: N=74 (10 missing cases, mostly missing size data)				
* significant at the 1% level, ** significant at 5%, *** significant at 10%				

The model of lobbying success passes the Hosmer and Lemeshow test and the pseudo R² figures suggest that it accounts for between 21 and 30 per cent of the variance. None of the variables are significant at five per cent. Personalism is the only variable significant at 10 per cent, and, once again, it is positively associated with lobbying success. If a businessperson scores the average for every variable, the probability of their having lobbied successfully is 0.7. If the businessperson has a personalism score of one standard deviation above the mean, the probability of reported success jumps again to a very high $p=0.91$.

Overall, the soft state is the most important mode of business-government relations. The personalism variable significant in the three equations that pass the Hosmer and Lemeshow test, and it is the most powerful variable in each case. Moreover, its

substantive effect is considerable in both predicting lobbying activity and lobbying success. The one model, which questions the importance of personalism, is of dubious significance since it fails to pass the Hosmer and Lemeshow test. It is also worth noting that there is no question of the superiority of personalism when it comes to success, a much more essential element of importance than mere lobbying activity. Of course, it should also be remembered that these models do not suggest that the other modes of business-government relations are irrelevant, just that they are less important than the soft state.

4. Conclusions

This chapter has shown that soft state is probably the most important mode of business-government relations in Poland. It has almost definitely shown that personalism in Poland is too important to ignore. The existing literature on business-government relations is inadequate for the Polish case because it dismisses personalism. The importance of the soft state can only be understood in terms of the relative weakness of the other modes of business-government relations. Business associations are subject to severe collective action problems in Poland because of the large numbers of small firms, the relative absence of trade unions from the workplace and the type of industries, which are prevalent in Poland. The weakness of social capital amongst Polish businesspeople, and tardy and half-hearted political interventions, has not mitigated the collective action problems. The company state's importance is limited by the relatively low levels of foreign direct investment in Poland. The state sector also provides some potential for the company state, but, in the Polish state sector, relations with government have often been conducted on the basis of alliances with unions, which do not fit into the category of the company

state. The party state is not a rational option for the vast majority of businesses because of the turnover of parties in government. Many state-owned firms constitute a sort of party state, in that parties have considerable influence over their behaviour, but even these firms are only associated with parties in the short-term. Overall, businesspeople seek out connections with powerful politicians of all parties. It has not proved possible to provide comprehensive explanation for the source of these connections. It is quite likely that this failure is due to the absence of a comprehensive explanation. Personal networks are personal. A small number of experiences, and institutions, are not able to encapsulate Poland's business and political elite as a whole. Notwithstanding this complexity, leadership in youth organisations is clearly an early entry point to business-political networks, which pays off for many people later in life.

This chapter has provided an analysis of the four competing modes of business-government relations in Poland on a general level. It has combined qualitative and quantitative data, but with the greater burden falling on the latter. The next chapter takes a case-study approach, in an effort to complement the contribution of this chapter.

Chapter 6: Labour Law Making in the Third *Sejm*

1. Introduction

This chapter is a case study of labour law making during the third *Sejm*. The purpose of this case study is to support, undermine or elaborate on the conclusion that the soft state is the dominant mode of business-government relations in contemporary Poland. As such, it is not a stand-alone chapter, and is not intended as a comprehensive study of labour law making between 1997 and 2001. While the two previous chapters were based on general evidence, albeit with specific illustrations, this chapter aims use a single case study to contribute to the general research question of the nature of Polish business-government relations. This movement from the specific to the general requires a short methodological discussion.

2. The Labour Code as a “Case Study”

This section begins with an analysis of the characteristics of labour code reform in the context of business lobbying in general. It is vital to keep these characteristics in mind when assessing the extent to which this case study has a bearing on the more general concerns of the thesis as a whole. Basically, this consists of thinking about how “typical” the case study may be of business lobbying and, if it is untypical in any way, trying to assess the extent and nature of the deviation.

If “typical” business lobbying is measured by counting each policy issue as one observation, then the labour code is untypical of business lobbying. It is perhaps the most public of public goods sought by business. It is non-excludable. The labour

law applies to objective categories rather than named firms. It is very difficult for large enterprises to commute the labour law into private goods by obtaining special exceptions and modifications. While many of the more trivial and out-of-date regulations are routinely ignored¹, the courts tend to vindicate workers who think their rights have been infringed.² Large enterprises are the most likely to have unions and to be subject to visits by the labour inspectorate or media investigations. Small enterprises are more likely to ignore the labour code to the detriment of workers, but if this is brought to the notice of the authorities, they also find it difficult to obtain special treatment. The labour code is non-rivalrous: a gain for one enterprise in the area of labour regulations does not decrease the gains available to other enterprises. In principle, some enterprises may benefit to a far greater extent from certain labour regulations than others. However, the proposals, which were at stake here, benefited small enterprises more than large enterprises and were explicitly designed to do so. Nonetheless, large enterprises were also set to gain considerably from the proposals. In this campaign, there was virtually no question of competition within the business class, but rather all sorts of businesses stood opposed to workers and trade unions. Thus, it represents an unusually common interest amongst the business class as a whole.

Obviously, many issues, on which business lobbies, do not concern trade unions and very few concern them so directly. Another untypical element of the labour law campaign was its intense party politicisation and media coverage. Again, many issues of concern to business are of marginal interest to party politicians and the media. The wide business unity on the issue may have militated against a need to

¹ *Wprost*, No. 960, 22 April 2001

² *Wprost*, No. 1013, 28 April 2002

use personalist representation to outmanoeuvre opposing business interests. The great publicity surrounding the issues also made the personalist “behind-closed-doors” approach less feasible. Thus, the general characteristics of the policy issue clearly favour other channels of influence, and probably favour the association route most of all. If personalist representation is found to be significant in an issue like the labour code reform then it is likely that it is also significant, and indeed more significant, in other areas where conditions are more propitious.

If “typical” is measured in terms of the amount of time and resources devoted to an issue then the labour code is much more typical of business lobbying. It was granted greater prominence and received greater resources by business associations than even taxation, which was the subject of an intense but relatively brief campaign during the third *Sejm*. Therefore, the labour law campaign tells us a good deal about business lobbying as a whole in this period, even before any inferences are drawn.

Most crucially, the “case study” does not consist of one “event” or “observation” but many. It may be restricted to one policy area but it involved several major rounds of decision-making involving probably hundreds of business people, several business associations, parties, institutions and political arenas.³ These policy-making events do constitute independent episodes in that no one event was determined by the outcome of the previous event.⁴ However, the events are, to varying extents, reactions to their predecessors. The study is restricted to one parliament in which the left was out of power. So, it may be problematic to draw inference to lobbying when the left is in power. Nonetheless, as previous chapters have mentioned, the

³ Gary King, Robert O Keohane, Sidney Verba, *Designing Social Inquiry: Scientific Inference in Qualitative Research* (Princeton: Princeton University Press, 1994), 217-218

partisan composition of government in Poland does not seem to make a significant difference to the nature of business-government relations.

The study focuses on the involvement of business in the struggle over the labour code. However, it does not exaggerate the role of business by ignoring other obvious actors. Most relevantly, at all stages the study considers whether, irrespective of business lobbying, outcomes may be explained by party politics, or most plausibly, an interaction of lobbying and party politics. The next section looks at the context of the labour law campaign in terms of the existing law, the economic situation at the time and political developments.

3. Context

3.1 *Legal context*

The basis of Polish labour law is the code of 1974. Over the last fifteen years, there has been a lot of talk about replacing it with a brand new labour code designed for the new era. There is a labour law reform commission in place to draft a new code. However, the code has been substantially amended in an *ad hoc* fashion since the fall of communism. The first significant amendment made it possible to fire workers.⁵ Since then many of the amendments to the code have tended to increase protection for workers. Some of these changes were introduced in order to conform to International Labour Organisation norms. Others seem to have been the result of the strength of trade unions in the Polish party system. In 1997, the leftist and peasant government introduced substantial revisions to the labour code, which were seen as

⁴ King et al, *Designing Social Inquiry*. 222

⁵ Teresa Majtas, *Prawo Pracy: Zarys Wykładu* (Poznań: Wyższa Szkoła Zarządzania i Bankowości w Poznaniu, 1999), 21-28; Michał Seweryński, "Changes in Polish Labour Law and Industrial Relations during the Period of Post-Communist Transformation", *Bulletin of Comparative Labour Relations*, 31 (1996), 92-93

very damaging for business. Business leaders saw this as an indication of trade union power but also as a failure on their part. In the Tripartite Commission, the Confederation of Polish Employers was perceived to have registered only a token protest. Also, business leaders regretted not having taken the initiative themselves to try and reform the code in a pro-market direction.

In the third *Sejm*, a plethora of labour code amendments were proposed and many of them passed into law. Most of these were single detailed amendments, such as adjustments to the length and conditions of maternity leave. This chapter concentrates on the two most important of these various projects: the union proposal for shortening the working week and a raft of liberalising measures proposed by business. These two opposing projects were linked by all involved and formed an ongoing battle over labour law reform for most of the third *Sejm*.

3.2 Economic context

The new government inherited an economy which was the most dynamic in East-Central Europe. Poland was the first post-communist country to surpass its pre-transformation Gross Domestic Product (GDP). Although Poland eventually began to attract substantial amounts of foreign direct investment (FDI), successfully weathered the Russian crisis of 1998, and kept inflation under control, the economy deteriorated from 1997 to 2001. There were problems with the budget and with the balance of payments and, most importantly, growth slowed and unemployment climbed quickly. These problems put a lot of medium-term pressure on Poland. Poland's demographic situation means that more and more young people will be coming onto the labour market and may push unemployment even higher. Accession to the European Union was steadily becoming more and more realistic, and European

Union concerns about the Polish economy were being transformed into intense pressures. In this context, all sides took labour law reforms seriously. From a pro-market point of view, they were an obvious way to reduce labour costs and thereby re-ignite growth, cut unemployment, and ensure Polish competitiveness in the European Union. From a social-protectionist point of view, shortening the working week was not just compatible with less unemployment, it might even contribute to reducing it. At any rate, if Poland was going to join the European Union some people thought this meant that it should have the same high levels of worker protection as they perceived to be the norm amongst the "Fifteen".

3.3 Political context

Solidarity Electoral Action (AWS) won the 1997 election convincingly. Marian Krzaklewski, the man who had united the warring factions of the right under one banner, was the head of the Solidarity union. One of the issues on which he campaigned was the demand for free Saturdays. This was the last unfulfilled postulate of the original glorious Solidarity strike of 1980. The introduction of free Saturdays was included in the coalition agreement with the Freedom Union. The Freedomites, especially the then-dominant liberal wing represented by its leader Leszek Balcerowicz, were strongly opposed to any further expansion of workers' rights and instead supported liberalisation of the labour law. A similar position was held by the Conservative People's Party, which formed part of AWS. Solidarity's electoral wing, the clumsily titled, Solidarity Electoral Action – Social Movement, supported free Saturdays. The other members of the Solidarity bloc combined agnosticism and pragmatism on this issue. The main opposition, the Democratic Left Alliance (SLD), at first, took no position on the labour law issue. In government, only a year earlier, they had introduced a significant reform of the labour law. Like

the new coalition, and AWS, they had a strong labour unionist wing as well as a substantial pro-business wing, along with a large measure of virtually pure pragmatists.

Marian Krzaklewski did not take the post of prime minister, partly because he wanted to have a clear run at the presidency in autumn 2000. Instead, he manoeuvred to have Jerzy Buzek, a relatively obscure Social Movement deputy and academic, appointed premier. Buzek's government identified itself with

Biography: Jerzy Buzek

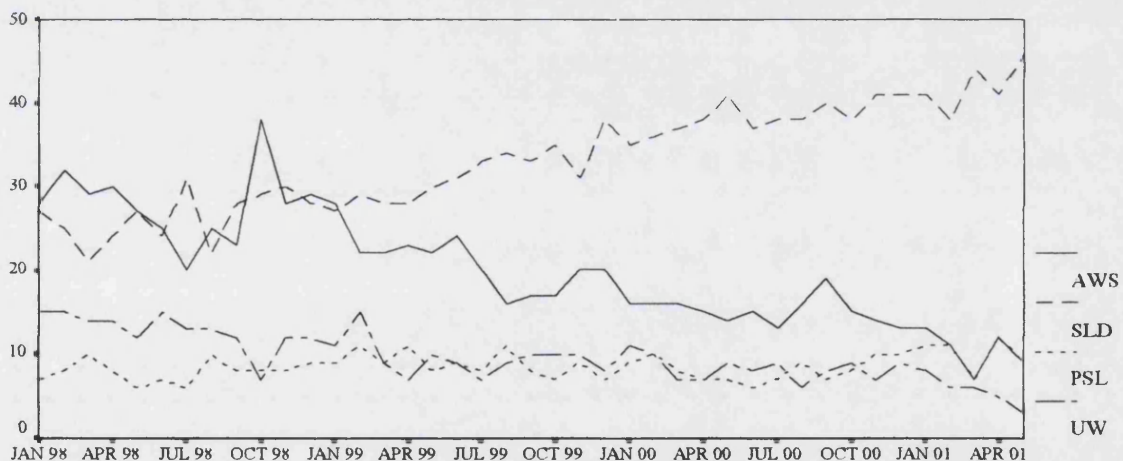
Born in 1940 and a protestant. He lived in Gliwice in industrial south-western Poland where he worked as an academic chemical engineer. He joined Solidarity in 1980 and has chaired three of its annual meetings, including its first, as well as being an important organiser in the underground days of the 1980s and an "expert" adviser. Close to Marian Krzaklewski since the eighties, he had virtually no independent political base when he reluctantly accepted the premiership. He was seen as a relatively independent, consensual leader with centre-right views. He failed to enforce discipline on AWS or coherence on the government.

the reforming governments of 1989 to 1993 and contrasted itself with the relatively cautious approach of its leftist and Peasant predecessor. The government undertook four great reforms: territorial devolution, pensions, education and the health service. None of these reforms were popular, nor did they particularly appeal to any obvious Solidarity constituency. In particular, their overall marketising thrust was more of a threat than a victory for the Solidarity union. The government, and its constituent parties, constantly declined in the polls. In June 2000, the Freedomites walked out of the coalition, leaving Buzek with a minority AWS government. The government's deputies were very unreliable and most legislation required elaborate deal making and logrolling (known as "commerce" or a "political game" in Polish). The upcoming presidential election,⁶ in which Solidarity union boss and AWS kingmaker, Marian Krzaklewski, was a candidate, brought free Saturdays to the top of the political agenda, as he needed a legislative victory with which to rally his core

supporters. The presidential election in September 2000 was a disaster for Krzaklewski, AWS and the government. The incumbent leftist Aleksander Kwaśniewski was elected in the first round with 53.9 per cent of the vote, with Krzaklewski coming a very poor third on 15.6 per cent. The “non-party” centrist, Andrzej Olechowski, came second with 17.3 per cent. The election result began a slow and acrimonious break-up of Solidarity Electoral Action. Perhaps only the necessity of a constructive vote of no confidence kept Buzek’s cabinet in power.

The opinion polls of support for political parties, shown in Table 6.1 below, speak eloquently of the record of the coalition and the single party right-wing government

Figure 6.1: Support for political parties in the third *Sejm*



Notes: From January 2001, many members of AWS and UW gradually defect to the new Civic Platform. From April 2001, the SLD score includes the small previously independent Labour Union. Don't knows and other parties are not included. Source: Centre for Public Opinion Research, <http://www.cbos.org.pl>. Monthly national adult random samples, N=600-800.

4. The Twists and Turns of Labour Code Reform

This section forms the core of the labour code case study. The personalist and non-personalist tactics of business are analysed, and their influence is assessed in the

⁶ Frances Millard, “Presidential Election in Poland, October 2000”, *Electoral Studies* 21 (2000)

context of party politics and its links with trade unions, public opinion and the economy.

4.1 The SME Bill: Almost the Employers' Utopia

Although labour code reform had been mentioned in the election campaign and included in the coalition agreement between AWS and the Freedom Union, the government made no proposals on the issue in its first year. Indeed, it was not obvious that it would ever do so, since it was already working on four other huge and complex reforms. In combination with endemic political infighting, the four reforms were relatively quickly to overwhelm the coalition. However, at the time of the introduction of the first major labour code bill, the coalition was still fairly popular and fairly united. The Polish economy was still being touted, within and without the country, as a success story and an example to other post-communist states.

Labour code reform was introduced onto the political agenda by a coalition of business associations. The alliance consisted of the Confederation of Polish Employers, the Business Centre Club, the Polish Chamber of Commerce, and the Association of Polish Artisans, representing small craft businesses. The Polish Business Roundtable was not included, probably because the identification of its members with big business was seen as a liability in the context of the political strategy behind the bill. The Polish Confederation of Private Employers had not yet been set up. The Association of Warsaw and Mazowsze Employers, a member of the Confederation of Polish Employers, representing small businesses, is sometimes mentioned as an equal partner in the campaign. As with most cooperation between Polish business associations, there was no formal umbrella group. However, most of

the co-ordination, administrative support and technical analysis seem to have been based at the Business Centre Club.

The associations had gone to great trouble to prepare a long, detailed and radical bill, which would have probably substantially increased labour market flexibility and reduced labour costs. One of the key themes of the bill was its emphasis on small enterprises. Small enterprises had been the great success of the Polish transformation but had been neglected by policy-makers of virtually all institutional affiliations and political predilections, during the first years of the transformation. However, by the mid-1990s, the importance of small enterprises, and the importance of policy towards them, was becoming an orthodoxy. A Small and Medium Enterprises (SME) committee, which had full status as a standing committee of the *Sejm*, was set up. Both the Freedom Union and AWS looked favourably on SMEs. The Freedom Union wanted to support entrepreneurship and received substantial electoral support from all sorts of private business. AWS was, overall, suspicious of large private business, especially foreign business, but was particularly attached to the doughty native small businessperson. Some of the party's deputies had a definite Poujadist air about them. As in perhaps any political system, it was hard for any party to criticise a bill that was seen to aid small business. However, there was no doubt that the bill was aimed at the labour market in general, and not just small business. It would also have had important consequences for large employers in most sectors.

The main features of the bill can be classified according to whether they applied to all enterprises, and not just small enterprises, and also according to whether they benefited business at the expense of workers, or were neutral in terms of workers' rights. The principal measures affecting all sizes of enterprise were:

1. Substantial extensions in the maximum allowable overtime.
2. Halving of both statutory rates of overtime pay.
3. Previously no more than two sequential fixed-term contracts could be signed. If an employer wanted to continue to employ a worker, he had to offer her a permanent post. The bill removed this obligation in the case of any of the previous contracts being longer than six months.

The remaining measures applied to more detailed situations: the removal of the obligation to consult with trade union federations in addition to the union at the enterprise level; easier and greater compensation awards for employers and against workers in a variety of situations; removal of the employers' obligation to pay for medical tests for job candidates and their obligation to provide paid leave for workers to seek new employment when it is the worker who has terminated the contract, etc.

The principal measure affecting small enterprises were:

1. An exemption from the obligation to post work and pay regulations for enterprises employing less than twenty.
2. Exemptions for various sizes of enterprises from a range of safety and hygiene regulations.
3. Removal of the lump sum payment to retirees for firms of less than twenty employees.

Several measures did not threaten workers rights. Probably the most significant of these was the removal of the obligation to pay for the first 35 days of sick leave, a measure which had been introduced only in 1996.⁷ This cost was to be borne by the state, which receives social insurance contributions from employers. Other worker-neutral measures related to alimony payments, life insurance, and annual leave. Not just the whole issue of labour code liberalisation, but also the specific measures of this bill, arose again and again in Polish politics for the rest of the third *Sejm*.

⁷ *Wprost*, No. 990, 18 November 2001

The business associations decided to co-operate with the SME committee of the *Sejm*. The bill encountered no opposition in this committee but suffered a crushing defeat at its first reading in a plenary session of the *Sejm*. In retrospect, business association leaders, members of the committee and others all agreed that the content of the bill and the political strategy were unrealistic. The Freedom Union chair of the social policy committee said:

The original proposition made by the Small and Medium Enterprise Committee was far too radical ... The trade unions and the social protectionist people in general thought it represented “wild capitalism” (*dziki kapitalizm*).⁸

At the time, however, employers maintained that their bill was politically realistic. However, they did not do so convincingly. For example, as evidence of the spirit of compromise in their bill, they pointed out that it did not legalise lockouts, and other features of the Polish employers' Utopia. The bill had little to offer workers. Some of the attempts to interpret measures as pro-worker were almost pathetic, such as the idea that sequential temporary contracts would offer workers “stability” or that the relaxation of health and safety regulations would lead to greater job security. The bill may have had more to recommend itself to the unemployed, because lower labour costs and easier hiring and firing might encourage employers to take on more workers and less-skilled workers who were not in demand. Most crucially, it was treated almost as a provocation by trade unions. They interpreted it as a direct challenge to their political power and also as a direct challenge to the state's vocation to protect workers against untrammelled capitalism. They were particularly irritated by statements/which argued that the labour code was “pro-worker” and should be

⁸ Interview: Lityński, 5 July 2002

amended so that there would be “equality” between workers and employers.⁹ In the opinion of the unions, and many others, this undermined the whole justification for the existence of a labour code in the first place. They argued that the code had to be “pro-worker” and that the whole point of labour laws was to compensate workers for their obvious inequality *vis à vis* employers in the free market.

However, the bill’s various supporters also thought the strategy for getting the bill through parliament was perhaps even more politically flawed than the content of the bill. The Business Centre Club’s director of lobbying mused:

Perhaps our initial methods in the Labour Code campaign were not the most suitable. At first we did not try to convince key people or ordinary deputies that the bill was a good idea. We should have expected that, because of the union links on both sides, the first reaction would be to vote against our proposal.¹⁰

The independent Peasant vice-chair of the small enterprise committee complained:

I wanted to go slower and have a fundamental discussion about the interests of employers and workers – a meeting of deputies and senators. No one listened to my proposals. A large number of proposals, clearly made by the business community, were not going to succeed in a pro-union parliament without a lot of preparatory work.¹¹

The SME committee contained no real political heavyweights and had no history of sponsoring major, or politically controversial, legislation. In presenting the bill to this committee, the business associations were only preaching to the converted. The bill had not been shown to the government or to Solidarity. Here, the lame excuse was that the bill related to small enterprises, and since small enterprises have negligible union membership there was no reason to talk to the unions. This line was not going to convince anybody. When faced with this bill, the unions, AWS and SLD

⁹ This interpretation seems to be shared by the general public. See *Wprost*, No. 1009, 31 March 2002

¹⁰ Interview: Uchman, 24 August 2000

¹¹ Interview: Jagieliński, 7 December 2000

never even considered doing anything but rejecting the bill. In fact, they gave the impression that this would be a good opportunity to show business and the SME committee where real power lay, and to discourage any such proposals in the future. Humiliatingly, some of those who had spoken in favour of the bill in the small enterprise committee were instructed by SLD and AWS to vote against the bill in plenary session and did so.

At this point, the business associations and their political allies decided to do what, with hindsight, it seems they should have done in the first place. This was to try to talk to social protectionist deputies and trade unions behind closed doors and attempt to convince them of the merits of the bill and see which elements of it might be acceptable to them. Business also decided to focus on government, which, if amenable, did still have the potential to push through significant and politically charged legislation. In effect, this represented a shift towards personalist representation. In order to get a genuine hearing from many deputies and executive politicians, it was necessary to make a personalist approach behind closed doors. Business representatives contacted politicians on a “proper name” basis rather than an “associational affiliation” basis. Representatives did not say, “I’m calling on behalf of the Confederation of Polish Employers”. The reaction to this might well have been: “I’ve got nothing to do with the Tripartite Commission” or “That Labour Code bill of yours doesn’t have a chance”. Instead, representatives announced something along the lines of, “This is Siękiewicz speaking, I would be very appreciative if you could give me some time to discuss a matter of great economic importance”. However, this round of personalist representation was initiated and co-ordinated by the associations. The labour code proposals had been drafted by the associations and

it was they who called on their more influential members to try and win over whoever they knew in the political world.

No one was particularly sure about the effect of this change of tactics. Some were optimistic that some politicians had been won over. A centrist politician said, "In my opinion, the effect of this lobbying and information campaign as to why the Labour Code should be changed can be judged as positive and advantageous".¹² However, the director of the Roundtable was bitterly cynical:

You might say to them [the trade unionists] that, for example, employers could afford to give employees a new gold watch every week, but eventually, fairly quickly, the business would be bankrupt and both employers and workers would lose. In private, these guys nod. However, officially, publicly, politically, they're demanding gold watches for everybody! It was like this with the labour code. They forget they even know you.¹³

Of course, there is a big difference between a vaguely social protectionist deputy and a professional trade unionist. The former presumably were more open to persuasion, whereas the latter would find a shift in their position on the labour code difficult to justify as a defence of their members' interests and the interests of the union itself. There definitely was a shift of opinion within the parliament towards liberalisation and there was a much more decided shift within the government. The campaign of personalist lobbying presumably made some contribution to this shift but it is impossible to say to what extent.

¹² Interview: Szejnfeld, 6 December 2000

¹³ Interview: Bańkiewicz, 9 August 1999

4.2 Party and Government Bills: Less work, Lower costs

While this campaign was ongoing, the left and the right published their own private members' bills on the labour code. These bills were mainly intended to fulfil union demands for a shorter working week but the leftist bill also paid attention to the issue of labour costs and made some gestures towards the liberalising measures of the SME bill. Over this period, it was obvious that the Polish economy had slowed down from the impressive growth of the previous few years. An important reason for the slowdown was the Russian crisis of 1998. The stability of the Polish economy in this period was seen as a great success, especially as it suggested that Poland was locked into the stable Western economic zone, as opposed to the unstable zone of emerging post-communist markets. Politically, both the government, and its recently begun reforms, were becoming increasingly unpopular. It was also clear that the government was weak and unstable, and that the premier was in a particularly constrained position. Pro-union AWS deputies were keenly aware that the return of the right had not yet delivered anything to its most powerful constituency.

Neither of the party political bills rivalled the length, detail and comprehensiveness of the SME committee bill. The Solidarity bill was proposed in the Senate. Its main provisions were as follows:

1. The forty-two hour week was to be reduced to forty hours with no reduction in pay.
2. Free Saturdays in place of old designated free days.

There were also several measures spelling out the practicalities of this change, to the benefit of workers wherever possible. In addition, there were some pro-worker and

pro-union adjustments to regulations for some special categories of worker, which were particularly common in some of the old heavy industries where unions were at their strongest. Like many AWS bills, this bill was sponsored by a faction of the party, rather than being the result of a compromise negotiated amongst the factions and brokered by its leadership.

In contrast, the SLD bill was approved by the relatively strong leadership of the party and was probably a compromise between the pro-union and pro-business factions of the left. The bill was proposed in the *Sejm* and was designed to ensure that AWS could not take the credit amongst workers, as the party that had shortened the working week. However, it also had something to offer employers and was, to some extent, inspired by the small enterprise bill. The bill simply declared a 40-hour week and increased the overtime limit from 150 to 200 hours per year. The post-communist bill would have raised labour costs significantly but it was less of a threat to employers because it did not provide for free Saturdays and did raise the overtime limit. Both the left and the right tried to dispel the impression that the passage of their bills would be an outright victory for unions. Both bills were justified by a desire to equalise conditions among workers: in many state sectors such as steel, energy and mining, the 40-hour week already existed. The SLD also argued that the reduction in working hours would compensate for a reduction in production by an increase in employment.¹⁴

It would have been strange for any government, even one as busy and disorganised as Jerzy Buzek's, not to intervene in such a central political and economic issue. Indeed, with a feeling of expectation amongst the unions, Krzaklewski's

commitment to free Saturdays, a wave of personal contacts from business and two bills from the two biggest parties in parliament it probably had little choice. Crucially, it was far from obvious what sort of stance the government would take. In fact, it seemed that the government was engaged in a tortuous process of deciding its position. It is important to remember that the government took a long time to “make up its mind” and arrive at a fairly settled position on the labour code. Within the cabinet, there were always people who were more or less openly disagreeing with and opposing the government’s position as it twisted and turned from 1999 to 2001. The uncertainty within the government seems to have been even greater than that within the AWS parliamentary party. While the AWS deputies did not appear to feel it necessary to reach a settled consensus on this, or on most issues, the government clearly had to do so, if it was intent on governing. Also, those, whose political base and political inclinations may have suggested that they would take an unequivocally pro-union view, felt quite strongly their responsibility for the wider economy, and that this was the main issue on which the government’s performance would be assessed by the electorate. As the economy continued to stagnate, and unemployment began to rise, liberalising the labour law became more and more tempting. By the end of its tenure, there was no more talk of Poland having received a knock from the Russian crisis. Poland had longer-term problems, many of which were exacerbated, or at least not addressed, by some the government’s policies and its inability to formulate and implement policies in other areas.

¹⁴ *Rzeczpospolita*, Prawo, 16 September 1998; *Ekonomia*, 29 July 1999

Within the cabinet the liberal finance minister, Balcerowicz, was the champion of liberalisation, and he was supported consistently, if not particularly forcefully, by the AWS and Christian Democrat economy minister, Janusz Steinhoff. Two pivotal players, who seemed inconsistent, were the premier Jerzy Buzek and the AWS Minister of Labour and Social Policy, Longin Komołowski. Buzek had his roots in the Solidarity Union but as a professor, rather

Biography: Longin Komołowski

Born in Czaplinek, Koszalin province in 1948. Graduate of the Faculty of Machine and Ship Construction of the Szczecin University of Technology. A senior member of Solidarity since 1980. Also, a member of Solidarity's National Commission and Chairman of its Pomeranian chapter. Set up of the Szczecin Right-wing Alliance in 1986. Deputy Prime Minister and Minister of Labour and Social Policy from 1997-2001.

than a member of the working class. Over the course of the parliament, he drew closer to Henryka Bochniarz, and seemed persuaded by many pro-business arguments. After the liberals had left the government, he continued to sponsor her Private Confederation in its bitter competition with the older Confederation of Polish Employers. Komołowski's political background clearly suggested a pro-union stance and he had no obvious connections to any business leaders. However, he was worried about unemployment and his department did initially publish a relatively pro-business bill.

Business leaders were able to make an important intervention in the intra-executive politics leading up to the government's first labour code bill. This intervention was not made through informal contacts with ministers, nor was it made through any access the business associations may have had to the executive. Business leaders were well represented on the Committee for Economic De-Regulation, which was appointed by Finance Minister Balcerowicz. Appointments to this committee were not made on the nomination of associations, or even because of the position anyone

held in an association, or even because of the size and power of their enterprises. Neither were they made on the basis of links to the Freedom Union, through, for example, its Economic Forum satellite organisation. They were made according to Balcerowicz's judgement of the sort of contribution individual personalities would make.¹⁵ In particular he appointed several members of the Roundtable, including Henryka Bochniarz, who were well known to him. Balcerowicz knew Bochniarz from their academic days at the then Central School of Planning and Statistics. They had also been in government together in the early 1990s. Bochniarz's personal connections are far too wide for her to be described as a party political appointment in terms of her personal political influence deriving primarily from her association with the Freedom Union. Many of the other people on the committee were even more clearly not associated with a particular party or even dissociated from politics in the sense of being classic "independent experts". Appointments to this committee were on a personal basis and can be classified as personalist connections of the appointees. Many other appointments in the Polish political system could be described in a similar way.

The committee had been set up both to identify deregulatory potential in the Polish economy, which could be followed up by the relevant ministry, and to introduce an "over-regulation check" into the decision-making of the government. In this context, the committee was responsible for inserting a wide range of liberalising measures into the government bill. Some of these were straightforward resurrections of measures from the SME bill, while more were inspired by the earlier measures but

¹⁵ Interviews: Bochniarz, 5 August 1999; Szejnfeld, 6 December 2000; Bąk 24 July 2000

had been substantially amended to make them less radical. Over half of the committee's suggestions appeared in the government's bill.¹⁶

The government published its bill in September 1999. In essence, it was a compromise between the pro-union bills of AWS and SLD and the pro-business bill of the SME committee. In terms of the union demands, it stipulated immediate free Saturdays and the gradual phasing in of the 40-hour week and added the bonus of two extra days on the annual minimum leave. It adopted the following measures from the original business bill:

1. The extension of maximum overtime
2. The halving of overtime pay
3. The abolition of restrictions on sequential temporary contracts.

It amended the following ideas from the small enterprise bill: obligation of employers to pay for sick leave, the removal of paid job-seeking days, the reduction of special job protection for union officials and unpaid sick days without a medical certificate. Komołowski's Ministry of Labour said that more liberalising measures might be added to the bill, but that these would be subject to negotiation between employers and unions.¹⁷

The trade union reaction to the bill was truly furious. They claimed to have discussed the labour code in the Tripartite Commission only a few months earlier and had not been alerted that anything other than the shortening of the working week was being considered. The trade unions regarded some of the government's arguments as disingenuous. For example, the government, following the lead of business and the media, talked a lot about European Union norms. However, the unions rightly

¹⁶ *Rzeczpospolita, Ekonomia*, 13 September 1999

¹⁷ *Rzeczpospolita, Ekonomia*, 13 September 1999

pointed out that these norms were the maximum hours per week set by the European Union, and that many member states had much shorter statutory working weeks. They made it clear that they were opposed to most of the bill's liberalising measures and were bitterly opposed to the most important ones: lower overtime pay, longer overtime hours and sequential temporary contracts.

The government's attempt at a grand compromise was killed off at a meeting of the Tripartite Commission in October. The unions made it clear that deputies linked to their organisations would vote against any such bill. At this time the Confederation of Polish Employers was still the only business representative in the Commission. It denounced the unions for not engaging in "social dialogue" about the original bill and the government for not consulting it about the shortening of the working week. It claimed to be in favour of "consensus and social peace, not class war" and to be ready to reach a compromise.¹⁸ Its appeal had no effect and indeed was not even reported in the business or general press.

4.3 The Single Party Government: Forty(-Two) Hours, Five Days

With the failure of its initial compromise bill, the government then decided simply to implement the unionist desiderata of shorter working hours and a five-day week. While the unions and AWS deputies wanted to implement the 40-hour week immediately, the government proposed that the shorter working hours would be phased in over two years. The decision to adopt the gradual approach was partly the result of intense media criticism and, more tellingly, a respectable poll in November 2000, which suggested that 76 per cent of Poles thought the number of working hours should be left unchanged. Although respondents thought it would benefit workers,

and would, more often than not, benefit them personally, they thought the change would damage enterprises and the national economy.¹⁹

By this stage, the issues were well within the political arena. The support in the *Sejm* for different proposals was becoming clearer and clearer. Thus, opportunities for successful direct lobbying by business had largely passed. However, with unemployment soaring, less than a year to a general election, and the governing party undergoing a meltdown, politicians had an eye on public opinion. Here, it can be argued that the personal connections of business leaders were helpful in winning over not just the elite leader-writers but also public opinion itself.

Arguing that the personal connections of businesspeople affected the media coverage of labour law policy-making is much more difficult than arguing that their personal connections affects the coverage of their statements and the activities of their own business association. Obviously, this is because the labour code was an important area of policy and one that could expect to receive a good deal of coverage anyway. However, it was widely agreed by political insiders that business leaders did affect the media coverage and that this in turn affected politics. The centrist head of the social policy committee of the *Sejm* said that:

Some of the employers have really great connections with the media, and on the matter of working hours, they managed to convince the majority of public opinion that the shorter week was not a reasonable idea. I think this opinion poll probably had a great effect on the government.²⁰

The leftist *chef de cabinet* of the Minister of Labour concurred:

¹⁸ "Oświadczenie Konfederacji Pracodawców Polskich", *Polska Scena Polityczna* 19/98

¹⁹ Representative adult national sample. N=497 Source: Centre for Public Opinion Research, <http://www.cbos.pl>

²⁰ Interview: Lityński, 5 July 2002

In the sphere of the media, business is more influential. Journalists give greater credence to the arguments of their friends from the business community than they do to trade unions. Particular business leaders have a high reputation amongst the media ... This general influence with the media was visible in the debate over the length of the working week.²¹

4.4 Epilogue

After the gradual shortening of the working week became a certainty, the battle over labour law continued. The Freedom Union resurrected a version of the SME bill. The People's Conservatives, who had now left AWS, proposed a bill which effectively introduced two labour codes – a rigorous one for large enterprises and a liberal one for small enterprises. Both bills were voted down easily by SLD, AWS and the Peasants. However, it is clear that the debate had moved on somewhat. The leftists claimed to be in favour of liberalisation, but were intending to introduce their own bill once in government, rather than supporting the "election stunts" of others. The OPZZ federation, affiliated to the SLD, said it might be in favour of some liberalisation but only in the context of a general package aimed at combating unemployment. The government asserted that it was committed to liberalisation. However, Labour Minister Komołowski said that such changes would be impossible without union support and that he was trying to achieve consensus between employers and unions. How serious he was is difficult to gauge. Solidarity itself was publicly implacably opposed to virtually all liberalising measures.

In the end, the government's solution of a gradual shortening of working hours and immediate free Saturdays was passed with the support of the Freedom Union. There was a fierce controversy as to why the Freedom Union supported this bill when it had

²¹ Interview: Długosz, 2 July 2002

consistently opposed the shortening of the working week and had vociferously demanded substantial liberalisation. The Freedom Union and AWS pointed out that an agreement on Free Saturdays had been part of the original coalition agreement signed by both parties in 1997. The opposition alleged that Freedom Union support had been traded for Leszek Balcerowicz's appointment as governor of the Central Bank.²²

The last, and most dramatic, episode of labour law legislation in the third *Sejm*, was a bill which banned working on Sunday in firms employing over five people. This bill was the apotheosis of the Poujadists in AWS and was passed with the aid of the Peasants, small parties and independents. It was aimed mainly at foreign hypermarkets, which many saw as destructive of Polish business, family life and workers' rights. There was a chorus of denunciation from the opposition, the elite press, and business. Even the government itself opposed the bill. The bill was vetoed by the President, who saw it as blatant electioneering and disastrous economics.²³

4.5 Discussion

The case study shows fairly clearly that personalist representation was an important part of the business campaign for labour code liberalisation. The bill proposed by the SME committee was an initiative of the business associations and the efforts of the Confederation of Polish Employers in the Tripartite were also clearly associational. The one-to-one lobbying of deputies and executive politicians was based on personal contacts, as was the presence of business leaders in the De-Regulation Committee.

²² Interviews: Kukliński 14 December 2000; Nowicki, 14 December 2000; Szejnfeld. 6 December 2000

²³ *Wprost*, No. 990, 18 November 2001

Much of the media coverage of the issue can be put down to the widely acknowledged personal connections of some business leaders.

It is less clear that personalist representation was effective. By the end of the parliament, business was bitterly disappointed to be no better off than it had been at the beginning. However, this leaves out the ups and downs and twists and turns of the campaign. Here it can be said that personalist representation had some significant success and that this success compares well with that of other channels. The business associations' bill, which was proposed by the SME committee, never had a chance of passing. It only appealed to the relatively small core of unequivocally pro-business deputies. Nonetheless, it undoubtedly had an important agenda-setting effect. It got political leaders interested in the issue, even if they regarded the bill as far too radical. It also incensed trade unions, which saw it, not just as an attack on the fundamental interests of workers, but also as a flagrant challenge to the political power and prestige of the unions themselves. The success or failure of personalist representation in a campaign of one-to-one lobbying of deputies and executive politicians is difficult to assess. It may have had some influence in preparing the way for a pro-business shift in the executive. Overall, however, it seems to have little effect in its aim of building a parliamentary majority for labour code liberalisation. Business involvement in the Tripartite Commission was entirely ineffectual. Seemingly the most successful of all the business resources was their membership of the De-Regulation committee. This committee of advisors picked on a personal, rather than organisational basis, by Balcerowicz, was able to write a broad raft of pro-business proposals into a bill which was approved by the government and presented as settled government policy. After the expurgation of virtually all the pro-business amendments, it seems probable that the aggressive ongoing campaign in the media

had an effect on public opinion, which, in turn, affected the government's plan to gradually phase in the new working week.

Another way of assessing the effectiveness of business associations and personalism on the campaign is to see whether they add anything to an account centred on party politics. Here, it is clear that business associations set a detailed agenda and began the real politics of this issue when their bill was proposed by the SME committee. Up to this point, there had been no substantial party political proposals on the labour code. Also, the adoption of a pro-business bill by government and the detailed content of that bill are difficult to understand purely in terms of party politics. The premier and other AWS ministers were not strongly committed one way or the other on the labour code, or, indeed, on economic policy in general. In this sort of situation, it was possible for the De-Regulation Committee to make an important contribution. Public opinion, presumably influenced by the pro-business media, probably had an effect in getting the AWS to compromise on the shortening of the working week. However, in terms of the ultimate legislative outcome, party politics was the deciding factor.

The labour law case study bears out some of the general arguments about the modalities of personalist lobbying outlined in the previous chapter. Personalism does seem to have been resorted to when the associational approach failed in the SME committee and the Tripartite Commission. In both cases, this was a reaction to the superior political power of trade unions. It is also easy to see how the campaign as a whole was a combination of personalist and associational strategies. If one of either of the personalist or associational elements were to be ignored this would make for a very misleading account of the business effort in this policy area. In addition, the

combination of the two types of representation can be seen clearly in the particular tactic of the one-to-one mobilisation. Here, it was personal representation, which gained access to policy-makers but the businesspeople came armed with analysis and rhetoric developed by associations. This is most clear in the example of the Business Centre Club, which all but briefed its Regional Lodges on how to present their case. One of the themes of the general discussion of personalism was the utility of personalism as a means of early-warning lobbying. Obviously, the labour code campaign does not fit neatly into that category, since it was initiated by business. However, the relative success of the De-Regulation Committee in getting to government before it had the chance to commit itself, is resonant of the general discussions.

It is worth reiterating how the characteristics of the labour law policy arena bear on the relevance of the conclusions of the case study to the general subject of business-government relations in Poland. The issue constituted perhaps the most public of public goods available to the business class. That personalism played a substantial role in the campaign for this most public of public goods suggests that the general arguments made earlier in the thesis are more likely to be trustworthy. These arguments relate to issues that are on average much less public, and less politicised, than the labour code. In those areas, it is reasonable to suppose that personalism can be considerably more successful than it was in the labour law campaign.

5. Conclusions

This chapter has added a case study to the more general analyses of the previous chapters. The conclusions of the case study are much more equivocal than those of the general discussions. However, the fact that the labour code seems to be one of

the least propitious policies for personalist lobbying suggests personalism is likely to be important in less politically salient and narrower policy issues. This chapter, of course, should not be read in isolation. It is much more powerful when read in the context of previous chapters, which have shown the relative weakness of the associative, company and party states in comparison with the personalism of the soft state.

This chapter, and the preceding two chapters, constitute the empirical core of this thesis. The conclusion of these chapters is that the soft state, a mode of business-government relations summarily dismissed in the literature, is the probably the most important channel of business influence in Poland, and is, most certainly, too important to ignore. The final chapter considers to what extent this conclusion can be generalised be extended from the late 1990s to the future, and to what extent it can be generalised from Poland to other post-communist countries.

Chapter 7: Conclusions

1. Introduction

This chapter begins with a summary of the preceding chapters. Section Two goes on to assess whether the contemporary system of business-government relations in Poland is transitional or is likely to endure. The third section compares Poland to neighbouring post-communist countries. Both of these analyses have a bearing on the big questions about the homogeneity of capitalist democracy, which motivated the original choice of post-communist business-government relations as the subject of this thesis. The fourth and final section places the conclusions of the thesis in the context of the nature of post-communism.

2. Summary

This thesis has argued that the soft state is the most important mode of business-government relations in Poland. In Chapter Three, it was shown how this possibility is not seriously considered in the existing literature. Previous studies of business-government relations have been dominated by the study of interest associations. It is clear that this is far too restrictive in terms of the range of actors. Grant's addition of the company and party states accounts for a much larger proportion of business-government relations in the West. However, in the Polish case it is necessary to go further and include personal connections between businesspeople and politicians as an important mode of business-government relations.

Chapter Four showed that Polish business associations are weak and pluralist. The most convincing explanation for this situation was found to be the logic of collective action, which stresses the size and number of enterprises in a potential group. Chapter Five investigated the alternatives to business associations in the Polish case. It argued that the company state was of limited relevance because of the limited role of multinationals and the tendency of many state-owned enterprises to employ joint representation with unions. The relevance of the party state is highly circumscribed by the high turnover of governing parties in Poland. Finally, the soft state seems to be the most important mode of business influence in Poland. While the sources of personal connections are complex and idiosyncratic, heavy involvement in youth organisations is a remarkably strong indicator of the level of personal connections between senior businesspeople and politicians. In Chapter Six, a case study of labour law-making in the third *Sejm* bolstered the argument, by showing that personalist representation was both used, and useful, in the most public and most important of the political campaigns of Polish business in recent years.

In order to clarify what this thesis has concluded, it is useful to state what it has *not* concluded. It has not concluded that the associative, company or party states are irrelevant. Associations play an important role in Polish business-government relations, often in combination with personalist representation. The company state is especially significant in the important foreign-owned sector. The party state defines business-government relations in some vitally important large state-owned firms. However, none of these categories represent the predominant form of business-government relations in Poland, so Poland cannot be described as an association, company or party state. Moreover, even if Poland were described as a combination

of all three, so much of Polish business-government relations would be ignored that the classification would be seriously misleading. Personalism is the mode of interaction which is barely acknowledged by existing approaches but which is central to Polish business-government relations.

This thesis has presented an original theoretical synthesis, which stresses the mutual dependence of the four modes of business-government relations. However, most of the thesis consists of an empirical argument that contradicts the emphases and assumptions of the vast majority of the literature on business-government relations. This raises two issues. The first is whether the thesis consists of a snapshot of a changing system or whether it is a portrayal of a relatively stable system. The second is whether this thesis has been an interesting case study in Polish exceptionalism or has something more fundamental to say about post-communism.

3. Potential changes in Polish business-government relations

This method of this section is to look at existing and likely trends in the principal independent variables identified in Chapter Three. Substantial changes in these independent variables would suggest substantial changes in Polish business-government relations.

The main variable for predicting the strength of business associations was the number of enterprises in the constituency of a given association. In general, as Chapter Four showed, the Polish economy is characterised by large numbers of small enterprises. Although, some of these small enterprises are likely to grow into medium-sized enterprises, there is no indication that Poland is developing into an

economy based on medium-sized manufacturing, such as Northern Italy or Germany. Thus, most sectors will remain as highly latent groups. Some sectors of the Polish economy are privileged groups, in which one giant enterprise has an incentive to bankroll an association to the benefit of many smaller firms. A combination of privatization, de-monopolisation and regulatory reform, much of it driven by the European Union, means that many of these privileged groups are becoming intermediate, or even, latent groups.

Chapter Four also argued that the mode of production of most Polish firms, trade union weakness at the firm level, and trade union influence on the political system, meant that the business class as a whole, rather than the sector or region, was the most relevant constituency for most Polish businesses. This is, of course, a highly latent group. The mode of production of Polish enterprises is becoming more unfavourable to the formation of business associations, as the economy moves towards services. Associations generally have much less to offer service enterprises than they do to industry, especially those involved in diversified quality production. Trade unions are still losing members and influence at the plant level. The collapse of AWS probably means a permanent withdrawal of Solidarity from electoral politics. This means that even the incentive to form associations at the national level has been weakened.

Social and political variables can have a marginal effect on the logic of collective action. Social capital amongst Polish businesspeople should be growing. Private business is no longer a brand new activity and Polish businesspeople are no longer neophytes. This may make collective action in business associations somewhat more

likely. On the other hand, ironically, the lack of social capital, and the weaknesses of the legal and regulatory system, provided an incentive for joining business associations, as they could provide a forum for making potentially profitable connections with other businesspeople, as well as some guarantee of the trustworthiness of those businesspeople.

In politics, there is some potential for intervention to boost business associations. The European Union officially promotes a quasi-corporatist approach to business-government relations. However, this has so far had a negligible effect on Poland, and, indeed, on existing members of the European Union. The rise of Jerzy Hausner, an SLD academic and committed corporatist, to vice-premier and Minister of the Economy has probably done something to rescue the Tripartite Commission from obscurity. Civic Platform, a party with very close connections to the Business Centre Club and the Private Confederation, has become the main opposition, and will, in all probability, dominate the next government. On the other hand, prominent members of both the SLD and Civic Platform have recently supported the foundation of a new association to rival the Business Centre Club and Business Roundtable. The new organisation, called "Leviathan" after an inter-war organisation, also contains prominent members of existing associations, such as Jan Kulczyk. Perhaps a more powerful factor, than either party politics or the European Union, is the influence of the avalanches of corruption scandals, which have overwhelmed both the right and the left while in government. A right-wing deputy told me that,

There's a lot of talk in Poland about corruption at the moment. Direct talks with businesspeople, that somebody might know, are only one step removed from corruption. Of course, it doesn't

necessarily mean anything but it can be interpreted in the wrong way ... In general, these days, we want to work with employers' organisations.¹

However, not even this final factor means that there is the political will, never mind the political capability, to change the economic structure, so that an association state becomes a possibility. Overall, little change in the importance of Polish business associations is likely in the foreseeable future.

The company state is chiefly associated with large foreign and state-owned enterprises. While foreign direct investment in Poland was negligible in the early nineties, it increased enormously in the late nineties, and after a pause, is now increasing again. Poland is becoming a country in which foreign capital is an important player in the economy, and in which foreign enterprises totally dominate some important sectors, such as car manufacturing. Thus, it is predictable that that company state will increase in importance in Poland. The relationship between the company state and state enterprises, was found to be more equivocal. Many state enterprises, relate to government in a way, which is difficult to describe as *business-government* relations. These firms are not primarily profit-seeking and their relations with government are co-ordinated with trade unions. Many other state enterprises are heavily influenced by party-political appointments to their boards. Privatization continues in Poland, and the state sector gets ever smaller. Nonetheless, change is so slow that there is no substantial basis on which to alter the basic analysis of business-government relations in the state sector.

In some countries, connections between party politics and business have been strongly affected by the positions that parties take on economic policy. Hitherto,

¹ Interview: Kukliński, 14 December 2000

this has not been the case in Poland, as the left and right blocs have had ill defined, and often difficult to distinguish, economic policies. There is a possibility that this will change in the near future. If, as seems likely, Civic Platform and Law and Justice form the core of the next government, they will have a reasonably coherent centre-right identity on economic policy, without the complication of any trade union links. If the SLD's strong organisation avoids electoral disaster, it will then be a left-wing opposition, defined by European social democracy. However, this scenario is obviously too neat. The SLD continues to be a strongly pro-business party. For example, its former leader, Leszek Miller, recently openly considered the introduction of a flat-rate income tax,² a policy, which is almost the holy grail of neo-liberalism. Law and Justice is a law-and-order, traditional values party, which is not strongly associated with economic policy, never mind free-market policy.

A politicised economy, in which the state frequently can, and does, intervene in individual enterprises, is strongly associated with the party state. Apart from continuing privatization, there is likely to be some diminution in the politicisation of the Polish economy. The European Union applies enormous pressure in this area. In contrast to the encouragement of business associations, this is a direct and fundamental policy of the European Union. Reducing politicisation is part of the implementation of the *acquis communautaire* (the body of EU law) and the implementation of the single market. For example, Poland recently had to introduce a new statute on public procurement, which would ensure that European firms could compete on an equal footing with their Polish counterparts. This has effectively removed one of the main benefits which political parties, and indeed politicians,

² To put this in context, a flat-rate tax policy was seen as evidence of the craziness of Steve Forbes who contested the Republican nomination for US president against George W Bush.

could offer to specific firms. The budgetary crisis is putting further pressure on the state to reduce interference with business and eliminate revenue-draining concessions to particular businesses. Finance Minister Kołodko and Economy Minister Hausner have both introduced plans to sweep away the huge numbers of tax breaks and licences in the Polish economy. Hausner has changed the regulations governing tax offices to reduce the potential for capricious tax assessments, as well as appointing an “entrepreneurs’ ombudsman” to defend businesspeople who think they have been badly treated by the bureaucracy.

There are several powerful factors, which should limit the de-politicisation of the Polish economy. Firstly, de-politicisation is too complicated a procedure to happen quickly. Secondly, de-politicisation cannot be fully implemented without a major change in the public service personnel, but the recruitment of a professional civil service has made little progress. Thirdly, while a handful of senior decision-makers may feel intense pressure to repair the economy and control the budget deficit, individual ministers, junior ministers, members of ministerial cabinets, etc. have strong incentives to retain the instruments of politicisation in order to maximise their own power, and deliver corrupt benefits to themselves and their parties.

The most powerful explanation for the relative absence of the party state is the high turnover of governing parties. If parties are only temporarily in power, it makes no sense for a business to make anything more than a temporary commitment to a party. At this stage, it seems virtually impossible that the current Polish government will be re-elected. There is the potential, and has been for some time, for a centrist party to govern in combination with the left, but, so far, this “historic compromise” has not

come to pass. This might make it rational for businesses to commit to a successful centrist party. Overall, however, a shift towards the party state seems unlikely.

The only variable which had a substantial effect on the level of personal connections was having held a leadership in a youth organisation. Although these organisations still exist, are still popular, and still receive state funding, this variable will not be so powerful in the future. Under communism, youth organisation leaders could expect to meet senior politicians, even the prime minister and president, and the organizations were seen as a channel of recruitment for the higher echelons of the party and the nomenklatura. Some of the factors mentioned earlier are also likely to attenuate personalism. The fear of corruption scandals is likely to reduce politicians' receptivity to personalist lobbying, but by how much, and to what effect, is impossible to tell. The de-politicisation of the economy is likely to work against personalism, which seems more functional for narrow than wide lobbying. However, it is worth remembering that personalism was important in lobbying on the labour code, a highly public good.

One of the central points of this thesis is that the modes of business-government relations must be considered in relation to each other. From this perspective, a modest move towards the company state seems the most likely change in business-government relations in Poland. The soft state is the dominant mode of business-government relations at this point in time. A shift away from personalism to the association state is improbable because of the formidable collective action problems posed by the structure of the Polish economy. A shift towards the party state is unlikely because some of the factors that may undermine personalism will also

undermine party politicisation. Moreover, continuing electoral instability stymies the party state. The company state is supported by the powerful trend towards foreign ownership, which is likely to continue. How large this change will be, and whether it will lead to anything more than a minor modification in the classification of Polish business-government relations, is impossible to tell.

3. Poland's post-communist neighbours

Like the previous section, this section looks at the key variables identified earlier in the thesis, this time applying them to an analysis of Poland's post-communist neighbours.

It does seem that the pluralism and weakness of Poland's business associations is fairly typical of other post-communist countries:

Only the Czech Republic and Slovakia have anything approaching [unified] confederations ...

The prevailing pattern is of several competing *general* business associations.³

Although, as in Poland, there is little reliable data on membership for post-communist countries, it is clear that membership is low, especially in the private sector.⁴ Strikingly, these tendencies are also evident in Eastern Germany, which has been subsumed into the very strong associative structure of the Federal Republic of Germany.⁵

The other post-communist countries are also examples of the relative weakness of political interventions to increase the importance of business associations. Their

³ Stephen Padgett, *Organizing Democracy in Eastern Germany: Interest Groups in Post-Communist Society* (Cambridge: Cambridge University Press, 2000), 76

⁴ Padgett, *Organizing Democracy*, 74. An exception here is the compulsory chamber of commerce in Hungary.

⁵ Padgett, *Organizing Democracy*, 80-99

attempts to foment corporatist policy-making through tripartite agreements have not been very successful:

[The] entire interest group system is too loosely constituted to be able to bind its members to the terms of corporatist exchange ...[and] institutions of corporatist policy-making ... [Tripartite institutions are more accurately described as] attempts by hard-pressed governments to legitimise the social costs of economic transformation.⁶

The Czech Republic's much-vaunted tripartite structure may be an exception,⁷ but even this case has more recently been re-evaluated as less significant than has often been thought.⁸ It is clear that its associational structure is far too divided for it to be compared to a corporatist archetype like Austria. Although business associations may be more important in many post-communist countries than in Poland, it does seem reasonably clear that post-communist countries cannot be described as association states.

The most striking predictor of the strength of business associations is the number of small firms. The large numbers of small firms is emphasised by Padgett in his review of the literature on post-communist business associations and his case study of Eastern Germany.⁹ However, this problem may be greater in Poland, simply due to its greater size and therefore much greater absolute numbers of enterprises. While the vast majority of enterprises in any economy are small enterprises, there are important differences across OECD economies. Two distinguishing characteristics of the Polish economy seem fairly clear. The first is the "missing middle". There is

⁶ Padgett, *Organizing Democracy*, 3

⁷ Mitchell Orenstein, "The Czech Tripartite Council and its Contribution of Social Peace" in Attila Ágh and Gabriella Ilonszki (eds.), *Parliaments and Organized Interests: The Second Steps* (Budapest: Hungarian Centre for Democracy Studies, 1996); David Stark and Laszlo Bruszt, *Postsocialist Pathways: Transforming Politics and Property in East-Central Europe* (Cambridge: Cambridge University Press, 1998), *passim*. esp. 178

⁸ Martin Myant, Brian Slocock and Simon Smith, 2000. "Tripartism in the Czech and Slovak Republics", *Europe-Asia Studies*, 34 (2000), 723-739

nothing unusual about the small number of large enterprises in Poland, but many industrial countries have a much greater proportion of medium sized-enterprises (50 to 250 employees). The category of small enterprises usually means less than fifty employees. Poland is distinguished from many other countries by the dominance of very small enterprises of less than twenty or even ten employees. Both of these characteristics militate against collective action. Neither is unique to Poland. The Czech Republic and Hungary seem to share both of the characteristics. Unfortunately, states vary somewhat in the number of employees used to categorise enterprises¹⁰ and this means comparison cannot be made with precision. However, it can be concluded confidently that there is nothing unique about the distribution of different sizes of enterprises in the Polish economy.

Political interventions may have been more important outside Poland. Poland did not set up a tripartite structure until 1993 and was the last East-Central European country to do so. In several countries this was done almost immediately, with the express aim of founding corporatist systems, which would facilitate the management and legitimisation of social change.

Social capital does seem to be lower in Poland than among its most advanced post-communist neighbours, especially the Czech Republic.¹¹ However, what really matters is the level of social capital amongst the business community. One interesting study suggests that the level of social capital amongst Polish

⁹ Padgett, *Organizing Democracy*, 91-93

¹⁰ The categories for Poland and the Czech Republic are 0-19, 20-49, 50-249, 250-499, 500+ and for Hungary 0-9, 10-99, 100-499, 500+. *The OECD small and medium enterprise outlook* (Paris: Organisation for Economic Co-operation and Development, 2000), 211-2.

¹¹ See for example, Padgett, *Organizing Democracy*, 100

businesspeople is relatively high for a post-communist country and is just lower than in the Czech Republic.¹²

Since the study of associations so dominates the literature, it is not possible to assess the importance of the other modes of business-government relations outside Poland by looking at secondary sources. Instead, I will take the more indirect approach of investigating the explanations for the other modes in Poland's neighbours. It was suggested that, in Poland, the company state is associated with the foreign-and state-owned sectors. In Table 7.1, I use the BEEPS data to compare Poland with four of its neighbours. The Czech Republic is the only other country in which the company state is associated with both foreign and state ownership. In Hungary, only foreign ownership is associated with the company state and, in Slovakia and Slovenia, only state ownership is associated with the company state. These data suggest that Poland is far from exceptional in this area, but it also suggests that generalisations from the Polish case to post-communism cannot be made. Therefore, in the following I will only compare Poland to those countries, which have similar relationships between the company state and foreign and state ownership, respectively.

¹² Martin Raiser, Alan Rousso, Franklin Steves, *Trust in transition: cross-country and firm evidence*, working paper no. 82, (London: European Bank for Reconstruction and Development, 2003)

Table 7.1: Lobbying channels for laws, rules, regulations and decrees

	<i>Foreign v domestic</i>		<i>State v private</i>	
	<i>Odds of direct v association lobbying</i>	<i>N</i>	<i>Odds of direct v association lobbying</i>	<i>N</i>
Poland	1.8	245	3.8	240
Czech Republic	1.6	149	4.3	149
Hungary	1.9	148	1.06 *	147
Slovakia	**	137	3	138
Slovenia	1.05	125	2.65	125

Source: BEEPS survey 2002. The respondents were asked whether they were members of business associations and, if so, whether, when lobbying for laws, rules, regulations and decrees, they used their business association, the firm's ties to public officials or other channels. The latter two categories have been conflated to compute the odds ratios. See section 2.1 of Chapter Five for a more detailed discussion of this methodology.

* The Hungarian exception may be related to the fact that it is the only one of the countries with compulsory chambers of commerce.

** No foreign enterprises reported direct lobbying. The N for foreign enterprises in the Slovenian sample is only 17.

Poland has had consistently lower levels of foreign direct investment (FDI) than Hungary and the Czech Republic. In 2000, FDI represented 33% of GDP in Hungary, 26% in the Czech Republic and 15% in Poland.¹³ This suggests that the company state may be a more central phenomenon in the Czech Republic and Hungary than it is in Poland. There may well be greater potential for the company state in those countries with higher FDI than Poland. It is more difficult to speculate about other countries in the region, since the relationship between foreign enterprises and the company state does not seem to be a universal one in post-communism.

Figures on the proportion of GDP contributed by the state sector are unreliable, partly because of the complexities of ownership transformation described in Chapter Two, and partly because of the incentives for governments to exaggerate their success in economic reform. Nonetheless, it seems fairly clear that Poland and

Slovenia have considerably larger state sectors than Slovakia and the Czech Republic.¹⁴ Of the five comparisons (Hungary and the Czech Republic on foreign ownership and Slovenia, Slovakia, and the Czech Republic on state ownership) two suggest Poland is less likely to be a company state, two more likely, and one puts Poland at a similar level to its comparator. The Czech Republic is the only country in which both comparisons seem to hold. In that case, foreign ownership suggests a stronger company state than Poland, while state ownership suggests a weaker company state. Overall, I very tentatively conclude that the relative unimportance of the company state in Poland is likely to be repeated in neighbouring states.

East-Central European countries have the reputation of being party states, or something similar. In Poland, this reputation was shown to be misleading. The party state seems to be restricted to a relatively narrow but important sector of Polish business-government relations and cannot be regarded as the predominant form of business-government relations in that country. The situation may be similar in other countries. In the absence of direct evidence, I will again look at the relevant independent variables.

I agreed with the arguments of the literature that a high degree of politicisation of the economy presents politicians with instruments, which can be used to ensure the loyalty of businesses to political parties. It is reasonable to argue that countries, which score close to Poland on the World Bank's indicators described in Chapter Five, have roughly similar levels of politicization to Poland. Poland's scores on Government Effectiveness, the Rule of Law, and Corruption were compared with the

¹³ Imogen Bell (ed.), *Central and South Eastern Europe* (London: Europa, 2001), 310

¹⁴ Imogen Bell (ed.), *Central and South Eastern Europe* (London: Europa, 2002)

scores of post-communist EU candidates and are presented in Appendix 5.¹⁵ The method was to identify those countries the ninety per cent confidence intervals of which did not overlap with the interval for Poland. If there is no overlap we can be ninety per cent sure that the differences in the scores are statistically significant. In terms of Government Effectiveness, Bulgaria and Romania had no overlap with Poland: their scores were much lower. When it comes to the rule of law, all other countries overlap with Poland. Finally, for the corruption score, Latvia's score is just short of an overlap with Poland while Bulgaria and Romania are again a long way behind. The limitations of the measures mean that the confidence intervals are very wide and this is partly responsible for the overlap between Poland and the other states. However, the overlap between Poland and the other countries is so overwhelming on each of the three elements of governance that it can be concluded that Poland's level of politicization is not a specifically Polish characteristic, but rather a feature of post-communism.

However, the thesis argued that politicisation, on its own, is not enough to bring about the party state. If there is a high turnover of governing parties, business will have little or no incentive to be loyal to a political party. The high turnover of governing parties is a general feature of post-communist politics. However, it does seem that Poland is among the more extreme cases. In 2000, of 11 East-Central European countries where elections were more or less free and fair, in four no party had managed to win the largest number of votes twice in a row. These countries were Poland, Estonia, Lithuania, and Bulgaria. Amongst the 11 states the overall

¹⁵ The Czech Republic, Hungary, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Bulgaria, Romania.

probability of a party winning a plurality two elections in a row was 0.29.¹⁶ The probability of a government being returned to power is most likely somewhat lower than this. In general, it seems that turnover of governing parties is likely to weaken the party state in other post-communist states, albeit, in most cases, not to the same extent as in Poland. In summary, the absence of the party state is probably a widespread feature of post-communist capitalist democracies.

Predictably, relevant literature and data is most sorely lacking in the case of personalism. However, especially in more descriptive accounts, there is some evidence of the importance of personalism. Notably, Padgett's emphasis on the importance of personalised leadership of interest associations in other post-communist countries is familiar from the Polish case.¹⁷ The phenomenon of politicization facilitates personalism much more directly than it encourages the party state. Youth organizations were a vital part of the social and political structure in all communist states, so it is fairly likely that involvement in these organizations is a good predictor of the level of personalism in other countries. However, in Poland, and elsewhere, many of the personal connections between the business and political elites, have complex, and probably idiosyncratic, sources, which have been the subject of some speculation, but virtually no systematic study.

Poland shares a weak association state with its neighbours, although associations may be somewhat stronger in other countries. In all of these cases, the formation of strong associations is made extremely difficult by an economic structure so

¹⁶ Author's calculations for Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Bulgaria, Romania, Albania and Macedonia. Data from Paul Lewis, *Political Parties in Post-Communist Eastern Europe* (London: Routledge, 2000), 62-67

¹⁷ Padgett, *Organizing Democracy*, 127

overwhelmingly dominated by masses of small firms. In some countries, early political interventions and relatively high social capital may have made a slight difference. The evidence on the company state tends to point towards a weak company state amongst leading post-communist capitalist democracies. However, it is very hard to tell how reliable this conclusion is because there is no direct evidence. Moreover, the correlation between foreign and state-owned enterprises and the company state, while common, is far from universal in post-communist states.

In the case of the party state, we are again lacking direct evidence. This time, however, the logic and available evidence seem more compelling. Poland shares a high degree of politicization with other post-communist economies, but the undoubtedly high turnover of governing parties in post-communist democracies makes it plainly irrational for any business to enter into a medium or long-term relationship with a particular political party. The evidence for the soft state outside Poland is the weakest, but there is also no evidence to the contrary. Certainly, politicization makes personalism likely, and it is hard to resist assuming that, in the absence of other alternatives, politicians and businesspeople have adapted, or created, personal connections to deal with this situation. In post-communist capitalist democracies, the soft state (Poland's present) and the company state (Poland's most likely future) seem like the most credible modes of business-government relations.

5. Polish business-government relations and post-communism

This section probes the extent to which Polish business-government relations are “post-communist”. Post-communism is meant in two principal ways. The first meaning of post-communism refers to the fact that many of the characteristics of countries, such as Poland, are legacies of the communist-era or are results of attempts to transform that legacy. This might be called causal post-communism. The second meaning is a path-dependence hypothesis, which states that because of their distinctive pasts former socialist countries will evolve into socio-political systems qualitatively different from those in the West or elsewhere. I call this distinctive post-communism.

Of the independent variables found to be useful above, only two seem not to be causally post-communist (early political interventions in the associational structure, foreign direct investment). Most, however, are causally post-communist (economic structure, social capital, state enterprise, politicisation of the economy, party turnover in government, the importance of youth organisations). However, as I argued in Chapter One, I believe only one of these variables to be distinctively post-communist. This factor is politicisation of the economy. Clearly, other economies are politicised, but the politicisation of the post-communist economy is qualitatively different to that experienced elsewhere. Politicisation does not create a party state, unless it is combined with some continuity in the party composition of government. Weak parties and high turnover in government is a legacy of communism, but is an outcome that it is also to be found elsewhere. Politicisation is also necessary for a soft state. This thesis has generally taken the view that politicisation is not sufficient

for a soft state and that it must combine with extensive and intensive personal connections amongst the elite. Such connections exist in Poland. In Chapter Three, many variables, including a whole list of characteristics of communism were hypothesised to be conducive to personalism, but Chapter Five found only one variable, having held a position in a youth organisation, to be significant. Since, youth organisations were given such a prominent and privileged role under communism, they can probably be classified as a distinctively post-communist variable. Nonetheless, this hardly constituted one of the fundamental or defining characteristics of communism, as did the relationship between the polity and the economy.

So, the current system of business-government relations is substantially post-communist, in the strong sense, of being distinctively post-communist. However, it is too early to say that post-communism represents a new type of capitalist democracy. In order to do this, the distinctively post-communist factors need to “lock in”. They need to become so strongly entrenched that the costs of trying to eliminate or modify them are prohibitively high. Some of the evidence of de-politicisation mentioned earlier suggests that post-communism has not locked itself into business-government relations. There are perhaps two reasons for this. Firstly, businesspeople who were early beneficiaries of a politicized economy have an interest in subsequent de-politicization. For example, the beneficiaries of a legal privatizations who then push for clearly defined and zealously defended property rights. Secondly, the most fundamental aspect of the European Union is the internal market. The Union is defined not so much by free trade, but by an increasingly homogeneous regulatory structure, which is hostile to politicization of the economy

by nation-states. While the power of the EU in this area is real and enormous, the enduring diversity of regulatory structures amongst member states, and the enduring politicization of economies like Italy's should not be forgotten. Against this, there are firms, which rely on enduring politicization to give them a competitive advantage. Of course, as repeated many times above, relying on politicization as an ongoing strategy is foolhardy because it puts a business at the mercy of an unstable and intensely competitive political elite. That political elite is the other principal factor tending towards a lock in of post-communist politicization. Clearly, there are also caveats regarding the political elite. The important centrist bloc in Poland has consistently been in favour of de-politicization, as have elements of the left and right. Moreover, the prospect of re-election is central to a politician's perspective. The economy is central to re-election and the balance of opinion amongst the political elite is probably that de-politicization would be better for the economy. With pressure from the EU, weak support from business, internal divisions, and a serious budgetary problem, the political elite will probably not cleave to a politicized economy.

6. Conclusions

Polish business-government relations consist of four different modes, defined by associations, companies, parties, and personal connections. The soft state, permeated by personal connections, is the most important of the four channels. The existing literature is inadequate to capture the nature of Polish business-government relations. Previous studies tend to ignore personalism and rarely treat the different modes as alternatives and complements to each other. Moreover, they have not taken seriously

the post-communist context of East-Central Europe. Poland's personalist business-government relations are distinctively post-communist, as they are grounded in the distinctively post-communist politicization of the economy. While the soft state is likely to remain important in the foreseeable future, in the medium-term the company state may become the dominant mode of business-government relations. Post-communist business-government relations may be destined to converge with the widely prevalent company state. However, for the moment, and for perhaps two decades in total, it constitutes a new type of capitalist democracy.

Interview Schedules

Note:

The interviews were semi-structured. None of the interviewees was asked all of these questions. Most interviewees were asked most of these questions, and most interviewees were also asked more detailed questions, which arose in the conduct of the interviews. Therefore, these schedules represent quite accurately the overall content of the qualitative interviews, but do not represent exactly what was asked in any particular interview.

Businesspeople:

When businesspeople lobby the political system do they prefer to use a business association, contacts in a political party, or personal acquaintances in government?

What are the main sources of division between Polish business associations?

Does state ownership limit the effectiveness of the Confederation of Polish Employers?

Is the Tripartite Commission influential in socio-economic policy in Poland?

Are you associated with a particular political party?

Are many other businesspeople associated with particular political parties?
For example? What about X and Y?

Is your firm associated with a particular political party?

Are many other firms associated with particular political parties?
For example? What about X and Y?

Is your business association associated with a particular political party?

Are many other business associations associated with particular political parties?
For example? What about X and Y?

Do businesses contribute funds to political parties? To more than one political party?

Are there specific characteristics of lobbying in the state sector? In the foreign-owned sector?

APPENDIX ONE

Do you have personal connections with politicians? With whom? From which parties?

Are personal connections important in business lobbying?

Are personal connections also important in lobbying on general issues?

Were personal connections important in the business campaign to amend the labour code? For example?

Politicians:

Do politicians prefer to consult with business associations, individual firms or acquaintances from the business community?

Which are the most influential business associations?

What are the sources of division amongst these associations?

What is the best indicator of success in lobbying, the representativeness of a business association, the number of employees in a firm, or the personal connections of a businessman?

Why are personal connections important in the Polish political system?

Are personal connections also important in general issues?

In your opinion, are the majority of individual members of the business elite affiliated with particular political parties?

Are there differences between political parties?

What types of businesspeople tend to be associated with political parties? In which sectors?

What role did your committee play in the battle over the amendment of the labour code?

What was the key factor influencing legislation on the labour code in the third *Sejm*?

Did businesspeople use personal connections in the matter of the amendment of the labour code?

Is the Tripartite Commission influential in socio-economic policy in Poland?

What do left and right mean in the Polish political system?

Is the distinction between left and right important in economic and business policy?

Interviews

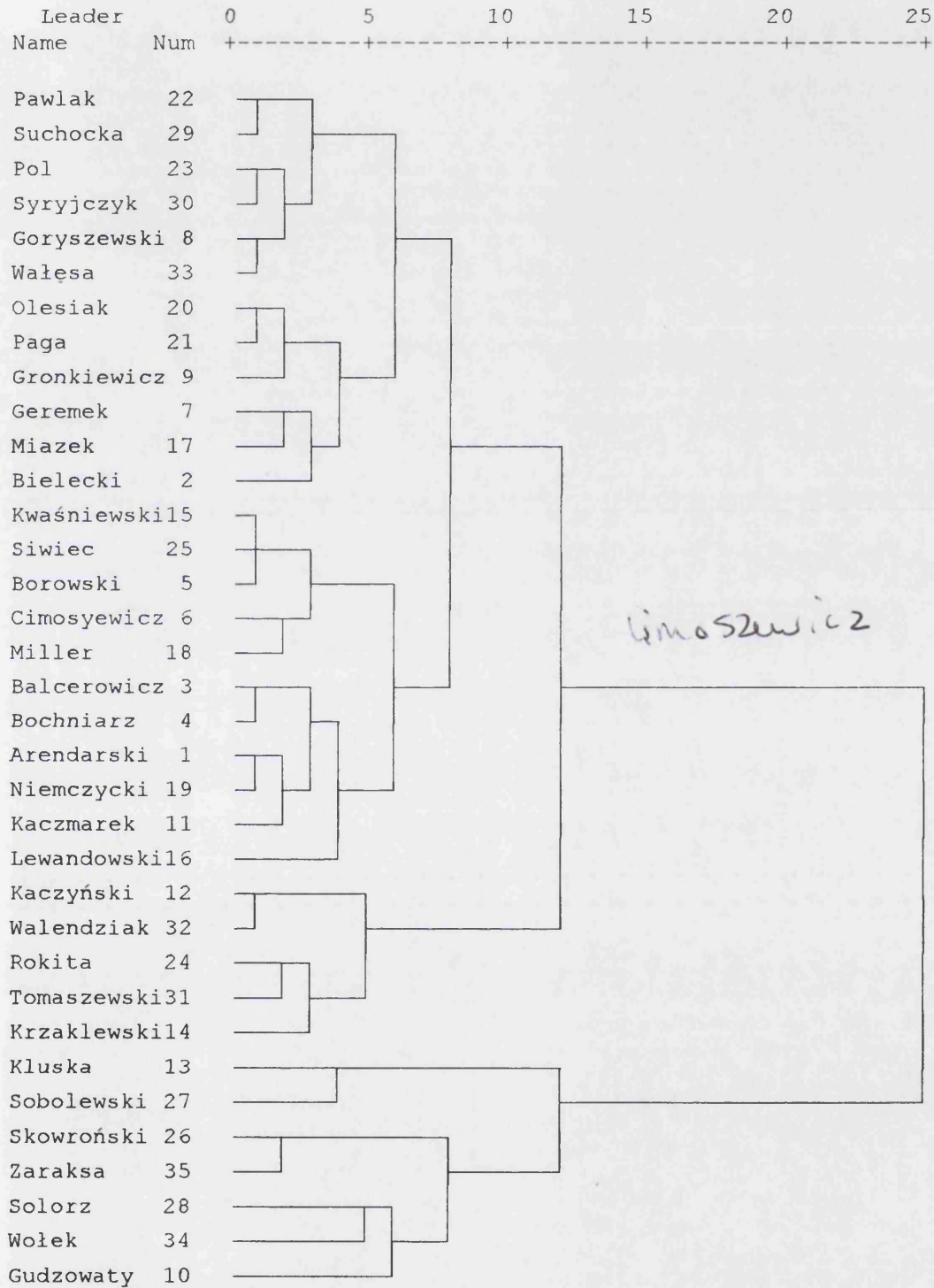
Ryszard Bańkowicz, Polish Business Roundtable, Warsaw, 9 August 1999
Mieczysław Bąk, Polish Chamber of Commerce, Warsaw, 24 July 2000
Henryka Bochniarz, Polish Confederation of Private Employers, Warsaw, 5 August 1999
Bronisław Dankowski, Democratic Left Union, Warsaw, 6 December 2000
Dagmir Długosz, Democratic Left Union, Warsaw, 2 July 2002
Krzysztof Dubiński, SEC Strategic Consultancy, Warsaw, 17 August 2000
Agnieszka Dziedzic, Feedback / Hill and Knowlton, Warsaw, 1 July 2002
Jerzy Gielgus, Solidarity, Warsaw, 13 December 2000
Dariusz Grabowski, Polish Raison d' État, Warsaw, 4 December 2000
Roman Jagieliński, Democratic Peasant Party, Warsaw, 7 December 2000
Marek Janicki, Polish Business Roundtable, Warsaw, 19 August 1999
Bolesław Jesioneck, Association of Warsaw Industrial Employers, Warsaw, 25 July 2000
Marek Kłoczko, Polish Chamber of Commerce, Warsaw, 30 June 2000
Michał Konwicki, Polish Chamber of Commerce, Warsaw, 13 December 2000
Piotr Kryszak, Mining Chamber of Industry and Commerce, Katowice, 22 August 2000
Mirosław Kukliński, Solidarity Electoral Action, Warsaw, 14 December 2000
Jan Lityński, Freedom Union, Warsaw, 5 July 2002
Roman Łuczkiwicz, Federation of Energy Industry Employers, Warsaw, 17 November 2000
Iwona Nierkoncz, Warsaw Chamber of Commerce, Warsaw, 14 September 2000
Andrzej Malinowski, Polish Confederation of Employers, Warsaw, 8 September 1999
Marek Matraszek, CEC Government Relations, Warsaw, 13 July 2000
Zdzisław Moczyński, Chamber of Exporters and Importers, Katowice, 22 August 2000
Jeremi Mordasewicz, Business Centre Club, Warsaw, 9 August 2000
Zbigniew Niemczycki, Polish Business Roundtable, Warsaw, 1 September 1999
Józef Nowicki, Democratic Left Union, Warsaw, 14 December 2000
Irena Rej, Polish Chamber of Commerce "Polish Pharmacy", Warsaw, 20 December 2000
Andrzej Stępniewski, Warsaw and Mazowse Employers' Association, Warsaw, 27 July 2000
Adam Szejnfeld, Freedom Union, Warsaw, 6 December 2000
Tomasz Uchman, Business Centre Club, Warsaw, 24 August 2000
Jan Wejchert, Polish Business Roundtable, Warsaw, 10 September 1999

List of Leaders from ISP Survey

Arendarski, Andrzej	Polish Chamber of Commerce
Balcerowicz, Leszek	Freedom Union
Bielecki, Czesław	Solidarity Electoral Action
Bochniarz, Henryka	Polish Business Roundtable
Borowski, Marek	Democratic Left Union
Cimoszewicz, Włodzimierz	Democratic Left Union
Geremek, Bronisław	Freedom Union
Goryszewski, Henryk	Peasant Party
Gronkiewicz-Waltz, Hanna	Polish Central Bank
Gudźwat, Aleksander	Bartimpex
Kaczmarek, Wiesław	Democratic Left Union
Kaczyński, Jarosław	Solidarity Electoral Action
Kluska, Roman	Optimus
Krzaklewski, Marian	Solidarity Trade Union
Kwaśniewski, Aleksander	Democratic Left Union
Lewandowski, Janusz	Freedom Union
Miażek, Ryszard	Peasant Party
Miller, Leszek	Democratic Left Union
Niemczycki, Zbigniew	Curtis Group
Olesiak, Kazimierz	Bank Gospodarki Żywnościowej
Paga, Lesław	Warsaw Stock Exchange
Pawlak, Waldemar	Peasant Party
Pol, Marek	Union of Labour
Rokita, Jan Maria	Solidarity Electoral Action
Siwiec, Marek	Democratic Left Union
Skowroński, Andrzej	Elektrim
Sobolewski, Zbigniew	BIG Bank Gdański
Solorz, Zygmunt	Polsat
Suchocka, Hanna	Freedom Union
Syryjczyk, Tadeusz	Freedom Union
Tomaszewski, Janusz	Solidarity Electoral Action
Walendziak, Wiesław	Solidarity Electoral Action
Wałęsa, Lech	Christian Democracy of the Third Republic
Wołek, Tomasz	Życie Warszawy
Zaraska, Witold	Exbud

Dendrogram from Cluster Analysis

Rescaled Distance Cluster Combine



Comparative Governance Figures

	Government Effectiveness			Rule of Law			Corruption		
	Estimate	90 per cent Confidence Interval		Estimate	90 per cent Confidence Interval		Estimate	90 per cent Confidence Interval	
		Lower	Higher		Lower	Higher		Lower	Higher
Poland	80	70.51282	84.61538	70.30303	62.04819	78.31325	72.72727	66.45161	82.58065
Czech R.	75.48387	67.30769	83.97436	70.90909	64.04819	78.31325	70.77922	64.51613	80.64516
Hungary	76.12903	67.30769	83.97436	74.54545	65.66265	83.13253	77.92208	68.3871	83.22581
Slovakia	54.19355	33.97436	70.51282	58.78788	47.59036	66.86747	62.98701	44.51613	69.67742
Slovenia	74.83871	60.89744	84.61538	77.57576	66.86747	86.14458	83.76623	77.41935	89.03226
Estonia	69.03226	47.4359	81.41026	69.09091	69.24096	78.31325	77.27273	67.09677	83.22581
Latvia	61.29032	36.53846	73.07692	60	47.59036	68.6747	49.35065	27.09677	64.51613
Lithuania	62.58065	38.46154	75.64103	61.81818	47.59036	69.87952	63.63636	43.22581	70.96774
Bulgaria	17.41935	7.051282	39.10256	47.87879	33.73494	62.04819	30.51948	12.25806	52.25806
Romania	27.74194	12.17949	51.92308	50.90909	36.74699	64.45783	37.66234	18.70968	56.77419

Notes: Figures in bold are scores which do not overlap with those for Poland.

Source: <http://www.worldbank.org/wbi/governance>. Details in Daniel Kaufmann, Art Kraay, Pablo Zoido-Lobaton, *Aggregating Governance Indicators*, World Bank Policy Research Working Paper 2195 (Washington, DC: The World Bank, 1999)

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