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**THE EFFICIENCY OF OWNERSHIP
TRANSFORMATIONS
IN POLAND – MACROECONOMIC APPROACH**

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Key words: efficiency, public ownership, private ownership, productivity, gross production output.

A b s t r a c t

The efficiency of the private sector in Poland is higher than that of publicly-owned enterprises. During the years covered by the study (1995-2004), the gap grew steadily and in 2004 the productivity in the private sector was nearly twice higher. Almost 80% of the national gross production is the result of the activity of only about 65% of the employed population.

The private sector and the whole Polish economy with it, will develop through a combination of two ways: improvement of the economic efficiency and an absolute increase in financial outlays – mainly investment – on the existing enterprises and on setting up new ones. It is therefore an intensive path of development which should predominate over the earlier, extensive model.

The privatisation process should be continued and should include most businesses which operate according to market principles and whose main activities include material production or intangible services. Special attention should be paid to so-called “difficult” branches, such as coal mining and railways.

**EFEKTYWNOŚĆ PRZEKSZTAŁCENŃ WŁASNOŚCIOWYCH W POLSCE –
UJĘCIE MAKROEKONOMICZNE**

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Słowa kluczowe: efektywność, własność publiczna, prywatna, wydajność pracy, produkcja globalna.

A b s t r a k t

Efektywność sektora prywatnego jest w Polsce wyższa od publicznej formy gospodarowania. Dystans ten, w latach objętych badaniami (1995-2004), wyraźnie się powiększał i w roku 2004

wydajność pracy w sektorze prywatnym była już prawie dwukrotnie wyższa. Prawie 80% krajowej produkcji globalnej powstaje w wyniku aktywności zawodowej jedynie ok. 65% pracujących.

Sektor prywatny, a tym samym cała polska gospodarka, będzie się rozwijać głównie dzięki kombinacji poprawy efektywności ekonomicznej oraz bezwzględnego wzrostu nakładów – głównie inwestycyjnych – kierowanych do przedsiębiorstw już istniejących, a także przeznaczonych na tworzenie nowych podmiotów. Jest to więc intensywna droga rozwoju, która powinna zdominować wcześniejszy model ekstensywny.

Proces prywatyzacji powinien być kontynuowany i obejmować większość podmiotów, które funkcjonują na podstawie zasad rynkowych, a przedmiotem ich działalności jest produkcja materialna lub usługi o charakterze niematerialnym. Szczególną uwagę należy tu zwrócić na tzw. trudne branże i podmioty, np. górnictwo i PKP.

Introduction

Ownership transformations in Poland are one of the major steps in approaching an efficient market economy system. One of its inherent attributes is the distinct predomination of private ownership. However, the condition is not ideological but purely economic. Not only literature, but also practical observations, provide many examples of the higher efficiency of privately owned enterprises as compared with those owned by public entities. The factors underlying the predominance of private enterprises vary, but they all make private enterprises more competitive, and thanks to the higher efficiency of utilisation of the means of production we have better opportunities for efficient participation in the gross economy.

On the other hand, however, the process of ownership transformations and the accompanying private sector development face numerous obstacles and hindrances. Without detailed analysis of the reasons of those tendencies it should be noted that a discussion on the subject does not always touch the main issue, i.e. the economic efficiency of one or another form of ownership. This assumption does not stem from the will to omit other arguments which justify the nearly complete (in the years 2006 and 2007) halt of the privatisation process but from a desire to base the discussion on rational arguments.

Poland is clearly retarded in terms of its economic development. The retardation is most comprehensively described by the disparity between Poland and the 15 countries of so called “old European Union”. The Gross Domestic Product per capita does not reach half of the average value of those countries. Therefore, it is a kind of the reference point, which sets the goal for our economy. However, it is not a sporting competition, but the basic condition of improving the standard of living in Poland. Our membership in the European Union and the opening of our borders with the EU have opened totally new opportunities. If the pace of the improvement of living standards in Poland proves too slow, the rate of emigration to the West will increase. If we fail to take efficient actions resulting in faster improvement of living stan-

dards, it should be expected that in the nearest future the rate of emigration, especially among young people, who are the most courageous and resourceful, will increase dramatically.

The discussion should deal mainly with seeking ways of improving economic efficiency, which can, in consequence, result in acceleration of the economic development in Poland. One of the important aspects of such discussions is the tempo and scope of economic transformations. If two sectors exist in the economy, it is natural to assess their economic efficiency.

The efficiency of ownership transformations in Poland in a macroeconomic approach is understood – in this study – to denote a comparative assessment of the publicly- and privately-owned sectors against the background of the economy as a whole. The assessment is based on an analysis of productivity. It does not take into account the disproportions and conditions existing in the sectors, nor does it evaluate the ownership transformations in the economy. Therefore, it is a general fragment of a description of the economy which only deals with the relations between two sectors: public and private. It can also be the starting point for more detailed studies.

Methodical assumptions, subject and scope of the study

This macroeconomic analysis is based on a general approach to the issue of the efficiency of macroeconomic transformations in the Polish economy. In this general approach only two sectors, public and private, have been separated. The first one includes enterprises owned by the state and by local government units and also numerous state-owned businesses whose activities are based on the principles of efficiency, i.e. those which are self-financing. The group also includes non-profit entities, e.g. local government property, state agencies and other budgetary entities. The private sector is equally varied and has very different origin. It includes privatised enterprises, i.e. those that used to be owned by the state. There is a sizable group of businesses which have been privately-owned since the beginning of their existence. Bałtowski calls them “always private” (BAŁTOWSKI 2002, s. 21). Both the group of privatised businesses and those that have always been private include businesses owned by Polish and foreign nationals. Various forms of cooperative ownership account for a considerable portion of the enterprises from the group. The private sector includes also non-profit entities; these are various foundations, associations, etc.

Such a general approach and separation of only two groups of subjects of study, each of which is internally varied (and some of their elements do not

gain profit), considerably restricts the level of detail of the analysis. **On the other hand, however, a macroeconomic approach allows for drawing conclusions related to the social efficiency of the public and private sector. If their efficiency varies, a discussion could be initiated concerning their quantitative interrelations and the areas of activity which should be included in a pro-efficiency model of enterprises whose goal is profit-gaining.**

The analysis includes a general assessment of productivity. It is based on the value of gross production output per 1 person employed in 1995 and in the years 2000-2004. The value of the gross production output has been calculated in comparable prices from 2004 based on price indexes, and more precisely – on the gross production output in 1995-2004 (*Rocznik Statystyczny* 2005, p. 437).

The work efficiency (productivity) is defined as the ratio of the effects obtained (P – gross production output) to the work outlay (N – number of employed). This relation is expressed by the formula: $w = P : N$ and determines the whole of relations between the effects and outlay of work in consecutive years of the study.

Assuming that productivity is the main area of the study, a significant methodological problem was encountered – agriculture. The dominant part of the gross production output in agriculture comes from the private sector (over 90%). However, the number of people employed in the sector, which provided the basis for the assessment, decreased in 2002 by over 2 million people as compared to 2001 and previous years. The change was brought about by estimates based on the National Population and Housing Census of 2002. The data differ by over two million from the estimates based on the results of the Agricultural Census of 1995 (*Rocznik Statystyczny* 2003, p. 135). Consequently, if the denominator is reduced from over 4 million people employed in agriculture (in 1995-2001) to about 2 million (in 2002-2004) only due to different estimates, no other decision could be made but to exclude this branch of economic activities from the study.

Scale and scope of ownership transformations

Ownership transformations can be described in a variety of manners. These include a detailed analysis which takes into account all the forms of transformations, while at the same time including a description of quantitative changes and presenting the economic efficiency of the processes. This approach can help to prepare a specific monograph of the issue (BAŁTOWSKI 1998). It can have the form of an interesting essay, retaining a scientific character and presenting the issue in an interesting literary form (WILCZYŃSKI 2005). The

problem can be presented in an original form taking into account its regional aspects (KAWIECKA 2005). Ownership transformations are accompanied by specific macroeconomic trends; such a descriptive form can also be used to presented the problem discussed here (HELLER et al. 2003, p. 71-114).

Such vast possibilities of presenting a scientific approach to the problem of ownership transformations show the diversity of the problem. The fragment presented here adopts the classification, applied by the Central Statistical Office, into the public and private sectors. The relationships between those sectors is expressed by means of an analysis in absolute numbers. In this manner, the gross production output (Tab. 1) and the number of employed people (Tab. 2) is presented, while the portion of the gross output and that of the number of people employed in the private sector is shown in relation to the corresponding numbers for the whole country (Tab. 3).

The data presented in Table 1 indicate that during the period under study, the value of gross production output (without agriculture, hunting and forestry) increased in Poland, in comparable prices, from PLN 1104 billion to about PLN 1745 billion, i.e. by over 58%. During the same period, the production output in the public sector decreased from about PLN 455 billion to about PLN 374 billion, i.e. by nearly 18%. At the same time, an increase by over 111% was recorded in the private sector.

Table 1
Gross production output by ownership sector, without agriculture, forestry and hunting
(years 1995-2004 in millions PLN, comparable prices from 2004)

Item	1995	2000	2001	2002	2003	2004
Total gross production output without agriculture, forestry and hunting	1 104.404	1 548.412	1 566.114	1 588.294	1 653.952	1 745.208
Gross production output in the public sector without agriculture, forestry and hunting	455.163	412.253	373.749	371.136	379.492	374.418
Gross production output in the private sector without agriculture, forestry and hunting	649.241	1 136.159	1 192.365	1 217.158	1 274.460	1 370.790

Source: *Rocznik Statystyczny Rzeczypospolitej Polskiej*. 2003, p. 347, table 1; 2005, p. 437, table 1, p. 676, table 5, p. 681, table 11. Presentation of data and calculations by the author.

The information resulting from such presentation of data is very general – that the role of the public sector in Poland is diminishing, but the process is relatively slow. It is also interesting that an especially large reduction of the gross production output in the public sector was observed only in 1995-2000 and in 2001, whereas in 2002-2004 the decrease was

relatively small, and in 2003 even a slight increase of 2.2% was recorded in relation to the previous year. The value of gross production output in the private sector, in absolute numbers and in comparable prices, increases much faster. The increase was not just a replacement of the dwindling public property, but resulted from the absolute growth of the production capacity in the private sector.

One of the important elements of production capacity is the number of people employed. During the whole period, the number (without agriculture, hunting and forestry) decreased in Poland from about 11.3 million to about 10.6 million people, i.e. by about 6.3% (Table 2). A much larger reduction was observed in the public sector where the number of people employed decreased by over 37.5%. But, as with the gross production output, a greater reduction rate was observed in the initial period of the study, that is, from 1995 to 2000 and in 2001. The conclusion that can be drawn is that 2002 was the first year when the process of ownership transformations in Poland slowed down. The two subsequent years (2003 and 2004) corroborate the observation.

Table 2

The employed population by ownership sector in Poland
(without agriculture, hunting and forestry, years 1995-2004, thousands)

Item	1995	2000	2001	2002	2003	2004
Total employed population without agriculture, hunting and forestry	11 292.2	11 184.2	10 705.9	10 642.2	10 502.4	10 580.7
The public sector without the people employed in agriculture, hunting and forestry	5 852.5	4 261.3	3 977.5	3 860.2	3 739.9	3 656.6
The private sector without the people employed in agriculture, hunting and forestry	5 439.8	6 922.9	6 730.4	6 782.0	6 762.5	6 924.1

Source: *Rocznik Statystyczny Rzeczypospolitej Polskiej*. 2003, p. 147, tab. 8; 2005, p. 234, tab. 5. Presentation of data and calculations by the author.

In the private sector an increase in the size of the employed population by over 27.3% was recorded (Tab. 2). However, Table 2 indicates that the statement does not fully reflect the changes that took place in the sector. The main increase in the number of the employed took place before 2000 – about 27.3% in relation to 1995. In the subsequent year (2001), a drop by about 2.8% was recorded, whereas in 2002 there was a slight increase by about 0.8%. The year 2003 was another year with employment decreasing by about 0.3%; in 2004 an increase by about 2.4% was observed. 2001-2004 were actually the years of stabilisation of the number of the number of people employed in the private sector. This may

have been caused by the slow-down in the transformations of state-owned companies into private businesses, by reducing the inflow of direct foreign investments into new private enterprises and by an improvement in the work efficiency.

Table 3

The share of the private sector in Poland (1995-2004, percent)

Item	1995	2000	2001	2002	2003	2004
The share of the private sector without agriculture, hunting and forestry in the gross production output, comparable prices from 2004	58.8	73.4	76.1	76.6	77.1	78.5
The share of the employed in the private sector in the total number of employed, without agriculture, hunting and forestry	48.2	61.9	62.9	63.7	64.4	65.4

Source: *Rocznik Statystyczny Rzeczypospolitej Polskiej*. 2003, p. 147, tab. 8, p. 347, tab. 1; 2005, p. 234, tab. 5, p. 437, tab. 1, p. 676, tab. 5, 681, tab. 11. Presentation of data and the calculations by the author.

The data presented in Table 3 show that the role of the private sector was increasing significantly until 2001 when its share in the gross production output exceeded 76%, and reached almost 63% in terms of the employed population. Although subsequent years saw an increase in the private sector, it was much slower than the previous period covered by the study, i.e. 1995-2000 and 2001.

Of the three factors which have been behind the development of the private sector in Poland, the changes in the direct foreign investment rate seem the most remarkable. In the years 1995-1999, about 5.4 billion USD on average was invested annually, with an increase in each year in relation to the previous one, from about 3.7 billion USD in 1995 to 7.3 billion USD in 1999. The following year, 2000, saw the highest level of foreign investment in Poland – about 9.3 billion USD. In each consecutive year a considerable decrease in the investment level was recorded – 5.7 billion USD in 2001, 4.1 in 2002 and 4.6 in 2003 (KARASZEWSKI 2005). However, the statement seems to be contradicted by the 2004 data: the foreign investment in that year amounted to over 12.6 billion USD (*Rocznik Statystyczny* 2005, s. 603). However, it is only an apparent contradiction, as the outcome of the investment will become manifest only in future.

A more detailed explanation of the reason of the ownership transformation process has been offered by W. Kawiecka. In her opinion, the first reason is a considerably weaker economic growth rate, followed by a decrease in investment demand and the need to implement restructuring actions in the

privatised assets. Privatisation of difficult and sensitive infrastructural sectors (mining, metallurgical industries) as well as intangible services in the public utility area (health care), also seem an important argument. Another important reason are complicated, costly and time-consuming privatisation procedures (KAWIECKA 2005, p. 119-139).

The slowing of the privatisation processes, resulting in a smaller increase in the role of the private sector, can therefore be explained by slower inflow of foreign capital, but it is also an outcome of administrative decisions, which do not always have the form of legal acts, but result from the general political climate surrounding the privatisation processes.

Productivity in the public and private sector

The development of the private sector in an economy which is undergoing ownership transformations follows three paths. The first one, termed extensive, includes transformation of state-owned into privately-owned companies. The second one involves an absolute increase in financial outlays (mainly for investment) in the private sector, that is, in the existing or newly-established enterprises. The third path is an improvement of economic efficiency in the whole private sector, from both the macro- and micro-economic perspective, i.e. an increase in productivity and an improvement of the efficiency of the utilisation of investment expenditures.

As the public assets for privatisation are near exhaustion, the extensive path of the private sector development will be gradually replaced with its intensive variant. An absolute increase in capital outlays is, without doubt, an important source of development, as it can contribute to a more intensive expansion of the national economy, but only in combination with an improvement of the economic efficiency. Development, which has its sources in an improved efficiency of work and capital utilisation, is a more rational way for two reasons. Firstly, the private sector, including its particular entities, is more competitive against other participants of the market. Secondly – the resources involved in this sector are more rationally utilised, so smaller outlays can ensure the same volume of production and services or the same level of outlays can yield a greater value. The characteristics of the private sector therefore include low outlay consumption or a high productivity of the production means.

The data presented in Table 4 and in Figure 1 show that productivity measured as the value of the gross production output in comparable prices from 2004 increased in the whole economy by over 68%. The private sector recorded an increase of 66%, while the public sector only of 32%. The conclusion is that the productivity growth rate in private enterprises was more

than twice as high as in the public entities. Considering that in 1995 the index for the private sector was higher by 53% than the corresponding value for the public sector, the 2004 gap of over 93% is no longer surprising. Therefore, the efficiency of utilisation of the human factor in 2004 in the private sector is nearly twice as high as in the public sector.

Table 4
Productivity, total employed population, the number of employees in the public and private sectors without agriculture, hunting and forestry (value of gross production output in PLN per 1 employee in comparable prices from 2004)

Item	1995	2000	2001	2002	2003	2004
Total employed population without agriculture, hunting and forestry	97 802	138 446	146 285	149 245	157 483	164 943
Public sector without agriculture, hunting and forestry	77 772	96 743	93 966	96 144	101 471	102 395
Private sector without agriculture, hunting and forestry	119 350	164 116	177 161	179 469	188 460	197 974

Source: *Rocznik Statystyczny Rzeczypospolitej Polskiej*. 2003, p. 147, tab. 8, p. 347, tab. 1; 2005, p. 234, tab. 5, p. 437, tab. 1, p. 676, tab. 5, 681, tab. 11. Presentation of data and the calculations.

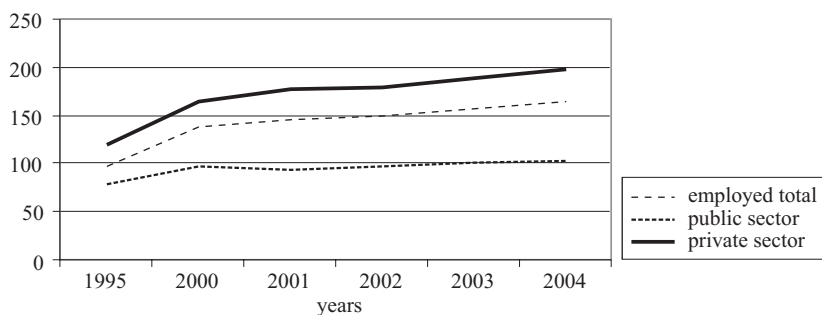


Fig. 1. Global production value in thousands PLN per 1 employed

Source: *Rocznik Statystyczny Rzeczypospolitej Polskiej*. 2003, p. 147, tab. 8, p. 347, tab. 1; 2005, p. 234, tab. 5, p. 437, tab. 1, p. 676, tab. 5, 681, tab. 11. Presentation of data and the calculations by the author.

Such a considerable difference in productivity may indicate that the results achieved by the private sector account for most of the national economic growth. Since 2000 the public sector has been recording stagnation in terms of the efficiency of work utilisation, while for the private sector it has been a period of growth. As a result, the diagram for the relations in the whole economy is nearly parallel to that describing the private sector, while for the public sector it is nearly horizontal.

Summary and conclusions

The study has shown that the efficiency of the private enterprises in Poland is distinctly higher than that of the public sector. During the period covered by the study the disparity was growing and in 2004 the productivity in the private sector was nearly twice as high as the efficiency of work utilisation in the public sector. Together with the fact that nearly 80% of the national gross production output is the result of the activity of only about 65% of the employed population, this raises questions whether such a high share of the public sector in Poland is justified.

If the efficiency of the private sector in Poland is so much higher, the present lack of political will to continue ownership transformations should not restrict the criticism related to the presence of public ownership in the economy. A question arises to what extent some of the state-owned companies are only a form of social protection for their employees and how indispensable they are for the national economy? The predominance of social functions over the economic results, which was – at least in the socialist economy – the justification of the existence of some enterprises, was one of the reasons of the collapse of the whole system. Hence, putting forward such arguments again in relation, e.g. to mining, postal service or railways, is unacceptable. A serious discussion should be started about how best to utilise the higher economic efficiency which, due to its value, has gained a social dimension and cannot be reduced to the efficiency of one or another company.

1. The processes of creation and development of the private sector in Poland have so far been dependent on two factors. The first of them was transformation of state-owned companies into private enterprises, the other – establishing new businesses. Both of them require capital to function. Limited size of the national sources of funds make foreign capital a fundamental factor. The significant slow-down of the tempo and scope of the ownership transformations in Poland, especially since 2002, has had two main reasons. One of them was stopping the privatisation of the state-owned companies by administrative means and the other – a lower inflow of foreign capital to the Polish economy.

2. The period covered by the study can be divided into two phases. One is the time of progressive ownership transformations. They had its source in the inflow of direct investment capital, a relatively high growth rate and a growing significance of the private sector. The second phase began in 2001/2002 when the amount of foreign capital coming to Poland was significantly reduced, the economic growth rate decreased and the state owned enterprises offered for privatisation were such whose transformation faced considerable obstacles. The effect was the slow-down of the private sector development caused by administrative decisions.

3. Regardless of the reasons of the slow-down of the tempo of ownership transformations in Poland, it is now known that dependence of the further development of the private sector, and in consequence the whole economy, on the tempo of privatisation, will be gradually reduced. The lack of political will to continue the process, and the small number of attractive objects of privatisation require another path of development. The private sector, and the whole economy with it, will develop by combination of two complementary ways – improvement of the economic efficiency and an absolute increase of investment outlays in the existing companies as well as establishing new businesses. This is therefore an intensive path of growth, which should dominate over the previous extensive model.

4. Undoubtedly, the privatisation process will remain a source of the private sector development. It should embrace most enterprises whose activities are based on market principles and which deal with material production or intangible services. Special attention should be paid to sensitive branches and entities, such as mining and state railways.

5. A totally new path of ownership transformations should include – preceded by profound studies and discussion – applying market principles to, which also means privatisation of, public utility areas, such as education, culture, healthcare, environment protection or communal services. Such decisions should be based on more detailed studies which would not only produce simple assessment of their economic efficiency, but would also cover other, more detailed aspects.

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