

The State-Led Transition to Liberal Capitalism: Neoliberal, Organizational, World-Systems, and Social Structural Explanations of Poland's Economic Success¹

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Neoliberals argue that rapid liberalization and privatization can transform postcommunist economies into Western-style capitalist systems. Organizational sociologists argue that these policies produce a unique variety of capitalism, while world-systems theorists argue that they lead to underdevelopment. This article advances a social structural alternative in a crucial case. Poland's relative economic success resulted from prolonged state ownership and an interventionist state employing various industrial policy tools that facilitated efficiency-enhancing market-oriented restructuring before ushering in beneficial foreign direct investment. The resulting capitalist system closely resembles the typical pattern found in most late industrializers.

Almost 15 years ago, the Soviet Union and its Eastern European satellites were subject to a revolutionary transformation for the second time in a century, altering the lives of hundreds of millions of people, along with the global economic and geopolitical landscape. Intellectual advice for

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this transformation was provided by economists working from the neoliberal neoclassical, or the “orthodox economic,” research tradition—proponents of what came to be known as the “Washington consensus.” This advice was seized on by postcommunist elites, who had themselves, quite reasonably, developed an aversion to the overbearing role of the state in the economy during communism.²

As a result, the first postcommunist elites were usually able to implement some version of the Washington consensus without serious opposition (UNDP 1999, p. 30; Murrell 1996, p. 31; Greskovits 1998, pp. 22–23). That said, social scientists working in the broad neoclassical sociological research tradition were quick to challenge the neoliberal-inspired transition policies and the comparative economics on which they were based. This should not be surprising: sociology was born in an attempt to understand the transition to capitalism in Europe, and the core assumptions of economic sociology are the exact opposite of neoclassical neoliberal ones.³

The sociological critiques of neoliberalism can be divided into three competing metatheoretic camps within the larger neoclassical sociological tradition (see the debate in *AJS* in 2001): (1) World-system theorists insist on placing causal primacy for a country’s development path on forces emanating from the world system. For them the transition ushers in not convergence with the advanced capitalist core but underdevelopment. (2) The varieties of capitalism approach places primacy on the country’s internal social and organizational structure. The organizational perspective stresses microstructures or networks at the firm level. (3) The social structural approach stresses macrolevel structures, like state structures, and the pattern of conflict and collaboration within the power elite (or segments of the dominant class) over state structures.

We examine the strengths and weaknesses of these perspectives by

² See the seminal work of anthropologist Janine Wedel (2001) on these networks, and Kennedy’s (2002) and Eyal’s (2000) cultural analyses.

³ Neoclassical economics builds on the work of Smith and Ricardo, while neoclassical sociology builds on the work of Marx, Weber, and Durkheim (see Smelser and Swedberg 1994). The different assumptions of the two research traditions are the importance of social relationships versus methodological individualism, cognitive limitations on information versus free and widely distributed information, the reliance on habits when possible and the importance of norms versus strictly rational utility-maximizing behavior, and a society stratified by power versus free and voluntary actions (see the more detailed discussion in Smelser and Swedberg [1994, esp. p. 4, table 1]). One could also add the historical nature of neoclassical sociology compared to the claims for social laws generalizable across all time and space for the neoliberals. Both Marx and Weber emphasized the historical nature of society (and the potentially contingent historical evolution of the mode of production and mode of administration, respectively)—whereas the core of neoclassical economics is ahistoric equilibria.

analyzing the transition to capitalism in the most successful postcommunist economy, Poland.⁴ The relatively successful outcome in Poland was the result of *an interventionist and developmental state which facilitated state-owned enterprise (SOE) restructuring prior to privatization through competitive auction, prominently to multinational corporations. These foreign owners provide technology, capital, and markets, further facilitating successful enterprise restructuring.* The neoliberals were wrong that “the market” was the path to advanced capitalism, because they neglected the necessity of an interventionist state, acting well beyond their ideal “night-watchman” model, in managing a successful integration into the global economy (see Frye and Shleifer 1997). World-systems theory is unable to explain why Poland (and the rest of Central East Europe) did not succumb to the pattern of underdevelopment found in the former Soviet Union. The organizational account does not anticipate the new ownership structure of the postcommunist economy, which comes to be dominated by the same types of property configurations found in other developing capitalist countries. The social structural contribution is to affirm the need for a developmental state in the postcommunist context and to highlight the importance of foreign direct investment for successful development.

There are seven sections to this article. The first reviews the competing theories of postcommunist transition and generates testable hypotheses at the level of mechanisms. The second discusses methodology, arguing from a neo-Lakatosian position in favor of prioritizing crucial case studies that use both qualitative and quantitative data. The third details the Polish state’s economic policies. The fourth provides a qualitative assesment of property change and restructuring based on case studies of firms. The fifth provides a quantitative assessment of the structure of property and evaluates the theories at the level of mechanisms using randomly sampled firm-level data. The sixth synthesizes these data, producing a theoretical description of the features of Polish capitalism. In the conclusion, we specify the theoretical implications of this analysis for the comparative study of postcommunist capitalist systems and development more generally.

THE SOCIAL SCIENCE OF POSTCOMMUNIST TRANSITION

The varying social scientific approaches seek to explain how the transition took place, offering different explanations for postcommunist variation

⁴ Poland has the highest rate of growth (59.9%) of all the transition countries (see table 1 later in this discussion).

in performance, and different ultimate end points (i.e., the institutional features of the postcommunist economy).

Neoliberal Neoclassical Transition Economics

Neoliberal economists designed the radically antistatist shock therapy policy package that served as a blueprint for economic change in the postcommunist world. Shock therapy policies—rapid and extensive stabilization, liberalization, and privatization—were crafted to allow efficiency considerations to shape the organizations of the new capitalist economies. Stabilization meant limiting government spending and currency emissions (thereby creating a stable value of money). Liberalization meant allowing free trade and free prices. Privatization meant transferring SOEs into private hands.

Once these changes were accomplished, a new efficient set of organizations would replace the deformed and inefficient SOEs that were inherited from socialism (see Sachs 1991, p. 3; 1996; Frydman, Gray, and Rapaczynski 1996; Kosolowski 1992; Lipton and Sachs 1990a; Fischer and Gelb 1991; Blanchard et al. 1993, pp. 10–11; Carlin, Reenen, and Wolfe 1994, p. 72; for an excellent review, see Spenner et al. [1998]. The mechanisms at work come straight from Smith and Ricardo: “Private ownership would ensure profit-oriented corporate governance, while liberalization of trade and prices would set free the competitive market forces that reward profitable activities. Firms would have therefore both internal and external incentives to restructure” (EBRD 1999, p. 298). After a relatively brief period of economic contraction (usually claimed to be six months in public pronouncements [Wedel 2001]), during which resources would reallocate according to each country’s comparative advantage, postcommunist economies would enter a growth trajectory that would close the developmental gap with Western Europe, and its citizens would experience a “democratically based rise in living standards” (Sachs 1994, p. 25).

For both economic and political reasons, neoliberals insisted that SOEs should be privatized as quickly as possible. Political factors are expected to impinge on the operation of SOEs, leading to suboptimal use of resources (e.g., firms may put off unpopular restructuring). Public ownership increases the chances that the state will continue to bail out inefficient firms—thereby failing to harden budget constraints. These subsidies contribute to inflation, undermining stabilization. State ownership also creates opportunities for corruption by state officials. Similarly, state bureaucrats do not have the necessary incentive structure to properly monitor the managers of SOEs, providing opportunities for corruption by enterprise insiders.

All of these economic arguments favor the privatization of as many SOEs as possible, as quickly as possible. However, neoliberals believe rapid privatization is even more urgent for political reasons. Unless accomplished quickly, neoliberals warned, “the political battle over privatization will . . . lead to a stalemate in the entire process, with the devastating long-term result that little privatization takes place at all” (Lipton and Sachs 1990a, p. 298). Managers and workers in inefficient SOEs will have an interest in derailing privatization and maintaining state subsidies and protection. Thus one of the aims of rapid privatization is “to decrease the *political* power of the state sector” (Frydman, Rapaczynski, and Turkowitz 1997, p. 84). Owing to this time constraint, privatization “must take place before firms have been restructured” (Blanchard et al. 1993, p. xiv).

For the most prominent neoliberals privatization could not proceed as it has in the West, where firms are sold one at a time to the best potential owner. There were simply far too many SOEs, and not enough potential owners. Lipton and Sachs warned: “If the [Polish] government becomes enmeshed in case-by-case bargaining, there will be no end in sight” (Lipton and Sachs 1990a, p. 298). So, neoliberals reasoned, a significant amount of the shares of SOEs must be given away. In addition to transferring some shares to firm insiders to buy their support for privatization, this would involve some type of “mass privatization” program, in which citizens would receive (or buy for a nominal fee) vouchers that could be exchanged for shares of privatized enterprises. In addition to its speed, this solution would “gain popular support” for the transition to a private economy (Lieberman, Nestor, and Desai 1997, p. 1).

Although neoliberals recognized that various market institutions would also have to be created, they understood that accomplishing the following fundamental tasks took precedence: forging a stable monetary environment, establishing a system of private property, and replacing state with market integration. The institutions facilitating firm restructuring were among those postponed. As a result, the shock therapy policy package contained a huge lacuna: How were firms expected to find the resources for desperately needed restructuring?

Clearly, mass privatization would create owners devoid of the necessary financial resources. And since one of the main tasks of transition was to drastically curtail state subsidies and to leave “allocative decisions to the private sector” (Frye and Shleifer 1997, p. 354), the state was not supposed to provide any substantial amount of investment capital. Capital for firm restructuring would have to develop as a result of “the power of natural market forces.” Liberalization (given macroeconomic stability) would lead to competition, which would in turn lead to “the rapid emergence of markets for goods, labor and capital, thereby creating an appropriate

environment for the massive reallocation necessary for a fundamental transformation of the economy” (Lipton and Sachs 1990*b*, pp. 102, 111).

Waiting for foreign investment, another possible source of this capital, was seen as impractical because it clashed with the need for rapid privatization. At the beginning of the transition “countries were perceived as too risky for foreign investment,” and it was assumed that nationalism would make large amounts of privatization through foreign direct investment (FDI) unpopular (Lieberman et al. 1997, p. 8; Blanchard et al. 1993, p. 81).

We wish to highlight that the neoliberal policy package is incompatible with sector-specific industrial policies. Such policies violate the prescription of low and uniform tariffs and the elimination of other types of protection (e.g., quotas), as well as the need to radically curtail firm subsidies. They also fail to “get prices right” (Krueger 1974, 1990; Bhagwati 1986). Throughout the postcommunist world, neoliberal ministers of industry and trade made the same quip: “The best industrial policy is no industrial policy” (Bochniarz 2001). It was firmly believed that “imperfect markets” were vastly superior to “imperfect states” (Wade 1993).

Neoliberals believe that the most successful postcommunist countries are those that most closely hewed to the neoliberal policy package. The economies of these countries would quickly resemble the market capitalism of the “advanced West”—capitalist ownership integrated by free markets (see EBRD 1996, 1999, 2001; de Melo and Gelb 1996; de Melo et al. 2001; Sachs 1996; Fischer, Sahay, and Vegh 1996).

The World-System Theory of Postcommunist Involution

If the neoliberals can be seen as capitalism’s optimists, world-systems theorists are its pessimists. They describe the transition from socialism as a process of forced globalization that benefits rich countries at the expense of the masses of the postcommunist world (Gowan 1999; Andor and Summers 1998; Chossudovsky 1997; Stiglitz 2002; Staniszki 2001; Burawoy 2001*a*; Kagarlitsky 1999). While most social scientists from this perspective acknowledge that local social and productive relationships are important, they nonetheless identify global capitalism as the most crucial causal force. We focus on the work of Michael Burawoy, who pays great attention to local productive relations, but ultimately falls back on the force of the global capitalist system as the ultimate determinant of postcommunist developmental outcomes.

Burawoy has been studying the transition from communism through rounds of ethnographic fieldwork in Hungary and then Russia over the last decade and a half. First, Burawoy formulated the theory of merchant capitalism (Burawoy and Krotov 1992), which was reformulated as a

world-systems-compatible theory of postcommunist “involution” (Burawoy 1996, 2001a). According to the theory of merchant capitalism, the transition from communist party rule meant the withering away of the state as a consequence of an attempt to implement neoliberal transition policies (Burawoy and Krotov 1992, p. 19). Instead of producing economic development, this produced underdevelopment, as the pathologies of the old economic system were only reinforced. The informal relationships that emerged between enterprises trying to solve for problems in the shortage economy are re-created, leading to the dominance of barter over market integration. Old socialist conglomerates strengthen themselves and reinforce their monopoly positions. Finally, worker control of the labor process is increased, and the workers become merged with the means of production. As a result, there is no systematic pressure on firms inducing them to constantly reinvest in the means of production or to change products to maximize profits. Surplus is appropriated in the sphere of circulation by “merchant capital,” a politically connected trade and financial elite, producing demodernization.

Burawoy (1996, 1999, 2001a, 2001b) expanded his merchant capitalism thesis into the theory of postcommunist involution. Ultimately, the withering away of the state and the reproduction of soft-budget constraints (and not the monopoly power of conglomerates, or the merger of the workers with the means of production), is identified as the crucial causal ingredient in Russia’s economic performance: “At each step of the transition the absence of an effective state explains the unintended consequences of reform as the acceleration of economic involution” (Burawoy 1996, p. 1111). Even though involution was driven by state collapse, Burawoy insists this is not a transitional system, but rather an “emergent and enduring type [with] nothing inherently unstable about [it]” (Burawoy 1996, p. 1115).

Ironically, it is the state itself which locks in permanent involution by continuing to bail out inefficient firms, thereby maintaining soft-budget constraints. As a result firms do not go out of business, and resources are not reallocated to more efficient uses. “Russia . . . ended up with a perverse combination of private property and soft budget constraints. The result is involution” (Burawoy 1996, p. 1112).

Burawoy explicitly frames his theory of postcommunist involution in a world-systems approach. He argues that “the system logic [of capitalism] effectively wipes out origins. Even though capitalism may diverge from sector to sector, from country to country, from region to region, these divergences are interconnected—the result of common underlying economic processes” (Burawoy 2001b, p. 1109). Unlike early formulations of world-systems theory, Burawoy recognizes the importance of local social structure. To the extent that differences in different postcommunist sys-

tems exist, this is attributed to an (unspecified) combination of the world system and local social structures under socialism (see Burawoy 2001*b*, p. 1111).

However, there is a stronger world-systems logic at work than appears, because these very social structures are also shaped by the world system. The dominant domestic class comes to consist of a “merchant-financial bourgeoisie dependent on its close ties to the state and an appendage of international capital” (Burawoy 2001*a*, p. 280). Indeed, Burawoy comes close to early, strong formulations of the determinative power of the world system: “England in the nineteenth century and Russia at the end of the twentieth occupy opposite positions in the global economy of their time. For the former, foreign explorations offered new markets and cheap resources that drove domestic accumulation, *while for the latter, foreign connections propel domestic disaccumulation, draining its human and natural resources*” (Burawoy 2001*a*, p. 280; emphasis added).

The world-systems theory of postcommunist involution would predict that the most successful postcommunist countries limited their exposure to the world system. However, since the whole point of postcommunist transition was incorporation into the world system, almost all of the postcommunist world should have experienced “involution” or demodernization. As a result of the insertion into the world capitalist system, enterprises should have retreated to barter arrangements, the state should have continued to subsidize failing companies, investment into the productive sphere should have ceased, and surplus should have been funneled out of the country.

The Organizational Theory of Recombinant Property

Many scholars studying the transition to capitalism emphasize the importance of organizational and institutional legacies for understanding postcommunist society. They argue that at the firm level, local managers rely on preexisting routines in dealing with the new environment. They criticize the neoliberal vision of building capitalism on a tabula rasa and claim that the new system is being built not on the ruins of communism but *with* the ruins of communism (Stark 1992, 1996). As a result, organizational forms and institutional configurations created under state socialism are re-created under postcommunism (Nielson, Jessop, and Hausner 1995; Campbell and Pedersen 1996; Smith and Pickles 1998). The most influential work coming from this camp is David Stark’s theory of recombinant property (Stark 1996; Stark and Bruszt 1998, 2001).

The thrust of Stark’s critique of neoliberal transition theory is that it has a simplistic understanding of comparative economic systems, which ignores the importance of institutional legacies and accompanying social

networks. There is no “transition” from “plan” to “market” but a “transformation” to an unknown end point. Using Hungary as his primary example, Stark argues that neoliberal policies did not create “private property” and “market integration” as found in the West. Rather, a new ownership form, “recombinant property,” emerges, characterized by blurred firm boundaries resulting from networks of cross-ownership and the intertwining of private and state ownership (Stark 1996, p. 1007). As a consequence, firms engage in a great deal of cooperation and collaboration, and survive not only by performing on the market but by receiving bailouts and subsidies from the state. Thus, Stark describes “the emergence of a distinctively East European Capitalism that will differ as much from West European capitalisms as do contemporary East Asian variants” (Stark 1996, p. 1016).

Stark’s theory is meant to describe the postcommunist political economy via path-dependent processes. It therefore does not attempt to make generalizable predictions about what enhances collaborative behavior, which may or may not facilitate firm restructuring (Stark 1996, pp. 112–15).

A Structural Theory of Postcommunist Divergence

We present a theory that builds on Konrád and Szelényi’s (1979) analysis of the social structure of late communism, combining it with Jadwiga Staniszkis’s (1991) early work on postcommunism. This is a social structural theory that identifies domestic social structure/elite configuration as a crucial factor in shaping the transformation of the postcommunist economy, primarily through its influence on state policies and its cooperation with foreign capital.

Staniszkis (1991) argued that within the power elite in late communist society there was a battle between the old apparatus and the “New Center”—itself divided between “globalists” (who wanted to integrate into the world capitalist system and introduce multiparty democracy) and populists (who wanted to reform the party and embrace self-management). The New Center, led in Russia by Gorbachev, was victorious over the old apparatus—but collapsed after the system change.

In the new postcommunist environment, politics is “mostly symbolic” since civil society needs privatization to come into existence. To this end, a revolution from above was attempted, conducted in the “theoretical interests” of a capitalist class that did not yet exist. Staniszkis argued that the victory of the globalizers would lead to the emergence of “dependent development” in the postcommunist world, as the “ontological opening” would allow some technology transfer from the West.

We build on Staniszkis’s core insights about the role of the state (the “revolution from above”) in making capitalism, and the emergence of a

system of “dependent development” in which Western technology transfer becomes possible. We combine this emphasis on state policy and foreign technology transfer with Konrád and Szelényi’s (1979) theory of socialist social structure.

For Konrád and Szelényi, communism had a power elite that consisted of three segments—the dominant bureaucratic elite (the *nomenklatura*), the technocracy, and the humanistic intelligentsia (dissidents). The pattern of conflict and collaboration among these three segments during and after the collapse of communism (sometimes affected by a mobilized working class) determines the path of transition and the resulting variety of capitalism (King and Szelényi 2005; King 2002). Excluding the still Communist Party–dominated East Asian systems, within the postcommunist world proper there are two basic paths, which lead to two different varieties of capitalism.

“Capitalism from above” represents the path led by an alliance of a section of the old *nomenklatura* with the upper reaches of the technocracy, particularly enterprise managers. Former members of the *nomenklatura* were able to use their relationships and positional power to transform themselves (often through their clients) into major property holders. In this path, the role of the grand bourgeoisie was filled from the top of the old social system, creating a grand bourgeoisie “from above”—consisting of “clientelistic capitalists” or (“oligarchs”) and their political patrons. When the *nomenklatura* was defeated by an alliance of the technocracy and intelligentsia (possibly also in alliance with the working class, as in Poland), these forces were able to prevent many members of the *nomenklatura* from using their connections to become major owners. Instead, the majority of the commanding heights of the economy were sold to MNCs and other foreign investors, creating a grand bourgeoisie “from without”—from outside the old stratification order.

In both paths, “capitalism from above” and “capitalism from without,” radical market reforms were attempted. In systems created “from above,” the state was permeated by patron-client links between “clientelistic capitalists” and their patrons. This reduced the state’s bureaucratic capacity, preventing the relative separation of politics and economics that is the hallmark of what Weber called modern rational capitalism. Without a decently strong developmental state to help forge internationally competitive industries, many firms were pushed into labor-intensive low value-added niches, and were forced to rely on highly inefficient nonmarket integrating mechanisms in order to survive.⁵ Only firms whose owners

⁵ These are barter, debt swaps, payment in kind, granting access to the means of subsistence rather than paying wages, and reliance on political connections for profitable activity.

have personal links to political elites were granted access to valuable raw materials, enabling them to export and thrive. The collective result was a state with low capacity, which, along with a very inefficient economy dependent on exports of raw materials, created a system of “patrimonial capitalism” in which the most important assets were personalistic connections to the state.

In systems created “from without,” neoliberal policies did not cause as much long-term developmental damage. First, because the state was not as riddled with patron-client links, it maintained much more capacity and was able to assist firms in restructuring through microeconomic policies and by providing an adequate set of institutions to make modern capitalist activity possible. The patron-client links existed as well, but were not nearly as extensive. Second, the new foreign owners were far superior to the “clientelistic capitalists” in terms of transferring technology, providing investment funds, and providing global marketing networks. Conversely, they virtually never bartered, traded in the black economy, or made late payments.

The combination of a stronger state, and high levels of foreign investment and technology transfer from export partners, prevented the slide of most firms into prolonged use of nonmarket integration mechanisms, sparing the state a severe contraction of its revenues (for taxation becomes highly problematic under these conditions). The demand provided by foreign markets, investment resources provided by foreign owners, and the “visible hand” of the state helped firms to successfully restructure (i.e., change their operations to be able to compete on the liberalized domestic and export markets).

In this variety of postcommunist capitalism the economy will come to be dominated by export-oriented manufacturing, and the grand bourgeoisie will consist of foreign investors. Social property relations will be capitalist (private ownership and free wage labor), the state will be a liberal but developmental one, and there will be the relative separation of the political and economic spheres.

Mechanisms and Hypotheses

We agree with Hedström and Swedberg (1996, 1998) and Elster (1989) that by specifying the mechanisms operative in macrotheories we gain a superior vantage point for social analysis. Following Stinchcombe we define mechanisms as “bits of theory about entities at a different level . . . than the main entities being theorized about” (Stinchcombe 1991, p. 367). By collecting data on the level of mechanisms we can generate “*deeper*, more *direct*, and more *fine-grained* explanations” that move beyond the “black box” of correlational explanations (Hedström and Swed-

berg 1996, p. 287; original emphasis). Such an analysis helps to capture the social processes that unfold as the “cogs and wheels” (Elster 1989, p. 3) of macrocausal metatheories whirl away.

We believe that identifying mechanisms is particularly useful in comparative analysis. By generating competing hypotheses from these mechanisms we can avoid the greatest pitfall of macrocausal comparative analysis: too many variables and not enough cases. The mechanisms invoked by the four theories are (1) the market, (2) private property, (3) state intervention, (4) foreign ownership, and (5) foreign competition.

Neoliberal economic theory, with its emphasis on the pathologies of state ownership, would predict that, all things being equal, private domestic firms will outperform state-owned firms. The social structural theory—because Poland maintained a bureaucratic state and pursued industrial policies—would not predict, all things being equal, that private domestic firms would significantly outperform SOEs. We can thus generate two competing hypotheses:

HYPOTHESIS 1.—Everything being held equal, private domestic firms will have better performance than SOEs.

HYPOTHESIS 2.—Everything being held equal, private domestic firms will not have better performance than SOEs.

The same logic applies to subsidies (as examples of state intervention) and enterprise restructuring. From the neoliberal economic perspective, subsidies should dampen successful restructuring by softening the discipline of the market, thereby taking away the need to reinvest in the means of production. From the social structural position, the Polish state, because it is a bureaucratic state attempting to foster capitalist modernization, will subsidize firms even as it maintains discipline over them, at least partially equalizing firm performance across the economy.

HYPOTHESIS 3.—Everything being held equal, subsidized firms will have worse performance than unsubsidized firms.

HYPOTHESIS 4.—Everything being held equal, subsidized firms will not have substantially worse performance than unsubsidized firms.

For the social structural position and the world-systems theory, the most important ownership effect is not state versus domestic, but domestic versus foreign. The neoliberal research tradition has no theoretically grounded reason to expect that foreign capital is superior to domestic capital; capital is capital regardless of origin. From the social structural position, however, FDI links firms into the historically generated circuits of capital accumulation in the advanced core. The advantages of early capital accumulation are large, especially in capital, technology, and know-how, and the advantages of a well-established distribution network in the richest markets in the world.

World-systems theorists also emphasize the importance of foreign own-

ership and cooperation. FDI, however, should lead to worse performance as it is a parasitic link that drains the periphery of its surplus via transfer pricing or market destruction. While some world-systems theorists would insist that foreign-owned firms can perform well but still hurt the overall economy, many negative effects are theorized to take place at the micro-level (Andor and Summers 1998; Gowan 1999; Chossudovsky 1997).⁶ Burawoy (2001*b*, p. 280) strongly implies this as well with his formulation that “foreign connections propel disaccumulation.” Thus, we generate two more competing hypotheses:

HYPOTHESIS 5.—*Firms with FDI will outperform domestic private firms.*

HYPOTHESIS 6.—*Firms with domestic private ownership will outperform firms with FDI.*

The logic of foreign ownership applies equally to foreign competition. For the world-systems theorists, penetration of the domestic market by foreign competition leads to the defeat of domestic firms and the underdevelopment of the economy. Marx and Weber agreed with Smith that market competition was a crucial mechanism by which individual capitalists were forced to reinvest surplus in the means of production by specializing, innovating, and accumulating. Thus we generate two additional hypotheses from the world-systems theory in contrast to either the social structural or neoliberal theory:

HYPOTHESIS 7.—*Firms with higher levels of foreign competition will restructure more than firms with lower levels of competition.*

HYPOTHESIS 8.—*Firms with higher levels of foreign competition will restructure less than firms with lower levels of competition.*

These hypotheses will be evaluated in the proceeding sections—informally for the case studies, and formally with the survey data.⁷

CASE SELECTION IN COMPARATIVE SOCIAL SCIENCE FROM A NEO-LAKATOSIAN PERSPECTIVE

Why study Poland? Can analyzing one case refute alternative theories? Why is Polish economic change important to sociologists in general? An-

⁶ At the country level, FDI is clearly associated with both stronger economic performance and democratic rule throughout the postcommunist world (see EBRD 1999). But this applies only to overall levels of FDI, not FDI as a percentage of GDP (Mencinger 2003). While world-systems theorists can plausibly argue that in the medium to long run, FDI will result in underdevelopment, this prediction is not falsifiable yet.

⁷ In a longer version of this article available from the authors, we discuss the advantages of the use of both qualitative and quantitative methods in studying postcommunist transition. Here it is enough to point out that this is typical of the most influential works (e.g., Stark 1996), and that the greater validity of the case studies is complemented by the greater reliability of the survey data.

swering these questions requires us to reconstruct Lakatos's theory of competing research traditions for comparative social analysis.

Burawoy (1989, 1990) famously advocates a Lakatosian understanding of progress in social science, opposing the dominant inductivist approach as originated in Mill's canons of induction (Skocpol and Somers 1980). Skocpol and Somers argue that "the logic involved in the use of comparative history for Macro-causal analysis resembles that of statistical analysis, which manipulates groups of cases to control sources of variation in order to make causal inferences . . . a kind of multivariate analysis" (Skocpol and Somers 1980, p. 182). In practice this means the use of Mill's method of agreement and/or disagreement (Skocpol and Somers 1980, pp. 183–84).

The most obvious problem comparativists have when they try to mimic multivariate statistical analysis is that they quickly run out of degrees of freedom. There are simply too many variables for the number of cases even in those works with the greatest comparative scope. This is especially true since there need not be any single cause of some outcome (Ragin 1987). Ragin has ingeniously confronted the "small-*N* problem" by incorporating Boolean algebra (fuzzy sets) in trying carefully to design comparisons to take account of the different possibilities of necessary and sufficient conditions (Ragin 1987, 2000). We feel that even when using fuzzy sets comparativists will usually run out of cases.

We agree with Burawoy that those who think of comparative social science as duplicating the logic of statistical inference are leaving out much of what comparative social scientists actually do. Burawoy, following Lakatos, observes, "We would have no theories if we always abandoned them when they were refuted by facts" (Burawoy 1989, p. 760). Rather, science progresses through the competition of groups of scholars in "research traditions." Rather than seeking a single confrontation of the theories and the facts, scientists typically seek to defend against refutations of their own theory (Lakatos 1970, see especially pp. 119, 133, 155). Thus, science advances not in any single confrontation of "theory" with "facts," but with defensive attempts by scientists to save their original theories. "The history of science has and should be the history of competing research programs (or if you wish, 'paradigms')" (Lakatos 1970, p. 155).

To put it with Lakatos's contemporary, Thomas Kuhn (1970), "normal science" consists of trying to incorporate "anomalies" within particular paradigms (research traditions). Over time, the accumulation of anomalies will lead to a "scientific revolution" in which one paradigm replaces another. For Lakatos, normal science consists of attempts to defend against attempts at refutation from rival research traditions, or by rival theories within research traditions. Research traditions can only gradually win or

lose over other research traditions by the accumulation of two different types of strategies of refutation by individual scholars.

One attempt at refutation leads to the “degeneration” of research traditions: attempts to save the core metatheoretical postulates are made by limiting the scope of the empirical phenomenon to which the theory applies or by labeling disconfirmations as “exceptions.” Arguably, the greatest degeneration can be seen in the emergence of unresolved paradoxes within the research tradition. The other strategy to defend against refutation is to incorporate the facts by building a new theoretical plank “consistent with the hardcore” theoretical postulates, a new “belt of theory” to defend the core (Burawoy 1989; see Lakatos 1970, p. 187).

To distinguish our approach from the more relativistic interpretations of Lakatos (or Kuhn) it can be considered neo-Lakatosian. In this interpretation, theories can never be disproved—the total rejection of a research tradition (or paradigm) can never be secured by the facts. Rather, other processes or forces determine when a “paradigm shift” or the death of a research tradition occurs. Thus, there is no real scientific progress, and science does not provide a superior way of knowing things than other systems of thought, like folkways or magic (Feyerabend 1975). Lakatos and Kuhn (at least in the second edition of *Scientific Revolution*) did not adhere to this position. For them, as cases pile up that can or cannot be positively explained by research traditions, science is progressing. As maps improve without ever perfectly corresponding to the terrain, science can move closer to objective truth even though it can never reveal a perfect correspondence of reality uninfluenced by metatheoretical logic. Unlike epistemological relativists, we consider ourselves heirs to Mill’s forbearers Hume and even Bacon; scientific induction is crucial in uncovering truth. Of course, we eschew the overly narrow inductionism of Bacon, recognizing that Hume’s induction exists in dialectical relationship with Descartes’s deduction.

Also, unlike Burawoy, we hew to the orthodox Weberian position that social scientists must strive to separate their subjective values from their social analysis—values should be acknowledged but should not contaminate the facts. Such contamination can be reduced by cultivating a reflexive understanding of one’s own metatheoretical underpinnings and methods, and their concomitant normative implications.⁸

Furthermore, we seek to evaluate research traditions and metatheories against each other by carrying out multiple tests of their purported mechanisms. Social scientists should try to make competing “metatheories” or

⁸ We believe that in many scientific journals authors make normative judgments, only such commentary is not singled out and is deemed “objective” when the editors and readers are part of the same research tradition as the writer.

“research traditions” commensurate with each other so that they can be directly compared against one another. Thus we believe that social scientists—through careful case selection and paying close attention to the measurement of social mechanisms—can partially “telescope” scientific progress, even though we understand that no single comparative study will decisively disprove a metatheory. From the neo-Lakatosian perspective, individual studies point out the strengths and weaknesses of theories located in competing research traditions, instead of providing decisive negative proof in the Popperian sense.

In our neo-Lakatosian reconstruction, social scientists engaged in comparative historical research should be explicit about identifying the macro independent and dependent variables. However, they must recognize that the value of a case study does not lie only in the proving or disproving of various macrocausal theories with reference to these macrovariables. We believe that the best works of comparative social science provide “thick” studies of crucial cases.

Such studies identify the big independent and dependent variables, thereby locating themselves within a research tradition. However, cases are “successful” or convincing not only because of the identification of a correlation between independent and dependent variables in a single or a few countries, but also from the “thick description” of the country cases. Moore’s (1966) *Social Origins of Dictatorship and Democracy* is not a classic only because it “controlled” for class and state structure among six cases, but also because of the quality of the individual case studies in the core chapters of the book. It is because of the convincing Moore does as he lays out his interpretation of the cases that his six-country comparison is taken as a persuasive demonstration of his theory relating class structure to the path of modernization.

The classics of comparative social science are classics because they combine a strong macrocausal analytic with compelling thick descriptions of their cases—whether there are six cases, three cases (e.g., Skocpol 1979; Brenner 1977), or one case (e.g., Neumann 1942). There can be a huge scientific payoff with remarkably thin descriptions if the proposition is powerful enough, and the historiography uncontested. But normally, thin descriptions must rely on a relatively higher number of cases (such as Therborn’s [1979] seminal account of the relationship between capitalism and democracy in the OECD countries). For the most part, however, classics of the comparative canon consist of thick description of a small number of cases.

We have a two-part definition of a “thick” case. First, we mean an in-depth understanding of a historical case (along the lines advocated by Weber). This is the historical version of the Geertzian “thickness” of ethnographic accounts: providing multiple voices and piles of evidence. This

provides a compelling narrative account of a case that is supported by a variety of interviews and documentary sources.

Second, thick cases have multiple measures of the mechanisms that the metatheory postulates to be operative at a lower level of analysis. When there are numerous pieces of data that measure how mechanisms are functioning, and the data are diverse and of high quality, the case study is “thick.” Thus, the N we are paying attention to is not simply one or three or six, but much higher, depending on the particular measures of the mechanisms. In this article the N is made up by the economic history of one country (Poland), but also 22 firm case studies, and survey data from 246 randomly sampled firms.

In this neo-Lakatosian understanding of the comparative method, social science is advanced the most with research on crucial cases. Certain cases become battlegrounds for comparing research traditions and metatheories. For example, in the field of comparative development, South Korea and Taiwan have received much research attention from competing schools (see the useful review in Chibber [2004]). The scientific community, within and between research traditions, makes judgments over time based on the accumulation of empirical studies of crucial cases. Some cases loom larger than others. These cases are crucial because of their heightened importance in the intersubjective world of the community of scholars. Typically these are big countries, or countries that are either conspicuous successes or failures.

Poland has had a special place in the study of the transition, since it was the first of the former Warsaw Pact countries to undergo a radical attempt at transforming its economy. Poland also recovered the earliest and has grown the most, 59.9% since the transition, with only Slovenia and Albania even close (see table 1). This contrasts with most of the population of the old Soviet empire, who live in countries that suffered substantial negative growth. Poland therefore qualifies as a critical case by our criteria.

Neoliberal economists declared Poland a country where neoliberalism was implemented in close to ideal fashion. For the social scientists in this research tradition, Poland’s confirmation of neoliberal theory has, we contend, reached the status of what Merton called a “pseudo-fact”: “the socially plausible, in which appearances persuade though they may deceive” (Merton 1959, p. xiii).

In much of the neoliberal literature Poland’s relative success was attributed to the policies of “shock therapy,” famously implemented by Leszek Balcerowicz. Poland’s relative success is therefore seen as proof that neoliberal transition policy is the very best possible. The noted institutionalist economist Peter Murrell writes: “The reforms of 1990 are the best-known application of shock therapy. To some observers, they

TABLE 1
GDP PER CAPITA OVER TIME (in Constant 1995 U.S. Dollars)

COUNTRY	GDP PER CAPITA		% GDP PER CAPITA 1990–2003
	1990	2003	
Poland	2,990	4,781	+59.9
Russia	4,294	3,528	–17.8
Ukraine	1,934	1,133	–41.4
Belarus	2,098	2,248	+10.8
Moldova	1,002	519	–48.5
Georgia	1,753	941	–46.3
Armenia	790	870	+1.1
Azerbaijan	759*	705	–7.2*
Kazakhstan	2,040	2,102	+3.0
Uzbekistan	803	714	–11.0
Turkmenistan	1,086	1,050	–3.2
Tajikistan	557	292	–47.7
Kyrgyz Republic ...	745	477	–36.0
Lithuania	3,418	3,208	–6.1
Latvia	3,279	3,611	–9.2
Estonia	3,822	4,546	+18.9
Hungary	4,857	5,943	+22.3
Czech Republic	5,269	5,861	+11.2
Slovakia	4,258	4,877	+14.5
Slovenia	8,711*	12,763	+46.5*
Croatia	5,432	5,720	+10.7
Macedonia, FYR ...	2,741	2,494	+9.1
Albania	842	1,190	+41.1
Romania	1,702	1,745	+2.5
Bulgaria	1,716	1,827	+6.4
Mongolia	489	457	–6.1

* Dates vary slightly for these entries: for Azerbaijan, GDP is from 1992 and %GDP from 1992–2003; for Slovenia, GDP is from 1993, and %GDP is from 1993–2003.

were very successful: admiration of the Polish reforms was apparently an important ingredient in the calculus of the Russian reformers” (Murrell 1993, p. 112). Indeed, for many academics, journalists, and pundits, “Poland has always been considered to be ‘the best student in class,’ a faithful follower of the IMF-created stabilization program and in the end one of the few examples of success of the IMF” (Belka 2001, p. 46).

The various sociological critiques of neoliberal theory, if they wish to challenge the neoliberal research tradition, must also somehow account for Poland’s transition experience. If neoliberalism leads to involution, should not Poland be at least as much blighted as Russia? If not, why not? Poland, with a weaker military and greater debt, should have been even more vulnerable to unfavorable incorporation into the world system.

What new theoretical plank would have to be added to incorporate the Polish experience into the theory of involution? Similarly, did the implementation of the neoliberal “blueprint” in Poland produce a variant of recombinant property like Stark and Bruszt claim it did in neighboring Hungary and the Czech Republic? If not, why not? While it is true that Stark explicitly claims there is path dependency in determining the transition, it still would be very surprising if there was a total absence of recombinant property in Poland. With substantially lower levels of FDI as percentage of GDP, and much greater residual state ownership, one would expect enterprise actors to have had at least equal opportunities and incentives to create this type of property in Poland compared to its neighbors.

While we compare the strengths and weaknesses of these four theories with the different types of data, we need to keep in mind the level of analysis from which they start. The neoliberal and the social structural theories start at the level of the nation-state, and both believe national factors (policy choices and social structures) to be decisive. Thus, the data presented below will provide a more substantial clash of these theories against each other than with the other theories. In contrast, the world-systems theory and the organizational theory start above (at the global) and below (at the firm) level—and thus the confrontation of the theories is not as extensive. Scholars from these research traditions could accept the following empirical findings, claiming that they are not trying to explain facts at the national level, at least not in Poland. This response represents what Lakatos calls a degenerative strategy—to limit the scope of the theory in order to protect it.

THE HISTORICAL RECORD OF STATE INTERVENTION IN POLAND

States will seek to conceal their activities that do not correspond to the rhetoric used by dominant international actors (Wade 1990). This is undoubtedly true in the postcommunist environment, especially Poland, given its population’s ideological affinity with Reaganism and anticommunism. This tendency was reinforced by the quick turnover of Polish governments, making it very difficult to get comprehensive information about all the ways in which the Polish state intervened in the economy. The following historical evidence in no way represents a systematic account of the Polish state’s involvement in building a liberal capitalist economy. Still, this evidence clearly calls into question the neoliberal story. For, despite the neoliberal rhetoric, the Polish state intervened early and often in the economy, in ways explicitly proscribed by neoliberals, in an effort to manage the transition.

The Neoliberal Experiment

In the first year of postcommunist Poland, the government lived up to neoliberal expectations. On January 1, 1990, Leszek Balcerowicz, the minister of finance in the first Solidarity-led government, introduced shock therapy policies focusing on liberalization and stabilization. These were seen as the best solution to the profound economic problems that Poland faced at the outset of transition: hyperinflation as well as a huge foreign debt. Macroeconomic instability was considered to be the number-one problem, which had to be solved prior to further reforms.

The Balcerowicz plan had eight components: (1) fiscal consolidation: moving the budget from a deficit of about 3% of GDP in the last quarter to rough balance in 1990, mainly through a decrease in subsidies; (2) control of inflation through a domestic credit squeeze, resulting in high refinancing rates for banks (36% at a monthly rate in January 1990); (3) tight income policy: an excess-wages tax was levied on SOEs that paid wages higher than a specified level; (4) convertibility of the zloty: the exchange rate was set and pegged low, making the average Polish industrial wage 40 cents an hour; (5) trade liberalization: tariff rates were decreased to an average of 10% and were made more uniform, and pervasive quantitative restrictions and licensing requirements on trade were largely eliminated; (6) price liberalization: the proportion of controlled prices was decreased from 50% to 10%, and most remaining regulated prices, especially energy prices, were sharply increased; (7) curtailing enterprise subsidies; and (8) privatization. Privatization was planned and debated in 1989–90 but did not form part of the initial package of reforms, being left for a second stage (Orenstein 2001, p. 35). However, this would be before the firms were restructured, and would take the form of a mass privatization program.

This program failed to solve Poland's most pressing problem, as inflation remained much higher than economists predicted, and got into the low 30s only in 1993.⁹ Most significant, however, is the fact that the economy quickly found itself in the midst of a recession, with real GDP falling by 15% and industrial output declining by 40%. The recession was painfully and directly felt by the population, whose standard of living fell as its job security disappeared. In 1990, the unemployment rate rose from a negligible amount to 6.1%, in 1991 it went up to 11.8%, and by 1993 hit 15.7% (EBRD 1996).

After only a year, the neoliberals' feared political backlash occurred,

⁹ The original forecasts held that inflation would be reduced from about 18%–50% a month during the period of August–December 1989, to about 5% in March 1990 and about 2% a month in the second half of 1990 (Jakóbkik 2000, p. 148). Inflation, which was 585.8% in 1990, declined to 70.3% for 1991 (EBRD 2001).

and all of the planks of the Balcerowicz program except the convertibility of the zloty and the limitations on wage growth began to be reversed. The neoliberal-dominated first government, led by Tadeusz Mazowiecki, fell in December 1990 and was replaced by another right-of-center Solidarity government, led by Jan Krzysztof Bielecki. While Bielecki was closely associated with the group of "Gdańsk liberals," his government took a more modified view of the transition, one that can be termed "controlled liberalism" rather than "neoliberalism." The defining feature of "controlled liberalism" is the use of a non-neoliberal state to create a liberal market society (in other words, it accepts the neoliberal end point but significantly alters the neoliberal prescription for getting there).

The Polish state exceeded the role assigned by neoliberal theory in at least three important ways: (1) by usurping the market mechanism by selecting which firms would be extended credit and thereby survive the transition, (2) by adopting various industrial policy tools to guide the reallocation of resources,¹⁰ and (3) by acting as an active owner of the thousands of SOEs, restructuring many of them before privatization via competitive auctions.

Usurping the Market Mechanism by Selecting Which Firms Would Survive

The market allocation of resources was central to the neoliberal model of transition. Chief among the tasks to be performed by the free play of market forces was the selection of firm survival and expansion. From 1991 to 1993, the Polish state, through the activity of the Ministry of Industry and Trade, along with the involvement of a 100% treasury-owned company called the Agency for Industrial Development (AID) and nine major state-owned banks, decided which firms would be allowed to go bankrupt from the high interest rates of Balcerowicz's stabilization program. This was done on a case-by-case basis, until the legal infrastructure that allowed for a systematic evaluation of all of Poland's major firms was in place.¹¹

¹⁰ We do not wish to imply that there was a single coherent industrial policy proposal that was implemented. As the narrative will show, there were multiple industrial policies variously implemented at different levels of government. We believe, on the basis of our interviews and other work, that a good deal of this industrial policy occurred on the local level in close collaboration with the enterprise managers, closely resembling what Evans (1995) calls "embedded autonomy."

¹¹ The following description of events is based primarily on published accounts, along with interviews with various governmental elites, among them two of the central elites in these processes. One is Henryka Bochniarz, who was the minister of industry and trade in the second Solidarity government, from January to December 1991. The other

The first state institution to modify the neoliberal blueprint was the Ministry of Industry and Trade. The former minister of industry and trade in the second Solidarity government believed that her role was to “behave like an owner of the over 8,000 large SOEs” that existed at the beginning of the transition (Bochniarz 2001). Therefore, her first task was to collect information on these firms. The ministry, working with the state-owned banks, “started to make an information system to see what kind of shape the firms/industries were in—and we tried to locate our industries in the world market” (Bochniarz 2001). The government also began work on a crucial piece of legislation, the Law on Financial Restructuring of Banks and Enterprises, which would serve as the basis for a systematic intervention in the credit process. In the two years during which this law was drafted (it finally passed in 1993), the ministry gave help to firms “on a company by company basis,” often in response to strikes induced by managers colluding with workers (Bochniarz 2001).

The AID was empowered to give and underwrite loans, buy equity stakes, coordinate restructuring programs using its own as well as external resources, help in liquidating enterprises and managing the postliquidation assets, and help to organize and hold shares in regional development agencies (Krężel 2001; Czerwińska 1995). According to its longtime general director and president, Arkadiusz Krężel, his organization “deals with firms in complete economic shambles. We take them, get everything in order to make it possible for them to be private. We assess the situation—if the risk is acceptable we either give loans or underwrite bank guarantees—or we do direct investment. Then we privatize after restructuring” (Krężel 2001). According to Krężel, the agency was involved in 800 such projects as of 2001, and at the time of the interview, in July 2001, it had 160 firms in its portfolio.

The impetus behind the formation of the agency in December 1990 was political. It sought to soften the transition by aiding firm restructuring, and to protect state revenues. Krężel (2001) explained, “If a firm is going bankrupt and is the only employer in the region—and unemployment will jump to 25% instantly—we buy a piece of the company we believe will operate at a profit—set up a new firm—and employ a portion of old workforce while the firm profits.” According to Krężel, there were only 10 to 15 failures out of these 800 projects. Krężel (2001) emphasized that the AID, “unlike a private firm, looks not just at our own profits, but looks at how a firm impacts the state treasury.” So they may buy an equity stake and try to restructure a firm in order to save money that the state would have to pay out to the unemployed. It is important to note that

is Arkadiusz Krężel, who has been the general director and president of the AID from 1991 forward.

this organization was not advocating a statist version of capitalism but, rather, a state that actively seeks to soften the negative effects of the transition. Its ideology, at least as articulated by Krężel, was thoroughly liberal in the desired end point. For example, they take equity stakes only “when it is difficult to find a strategic investor” (Krężel 2001).

The AID, along with the Ministry of Industry and Trade, the Ministry of Finance, and the large state-owned banks, finally got the legal infrastructure to deal comprehensively with deciding which of the 8,000 large SOEs were to be deemed creditworthy, and thus allowed to restructure their debt on very favorable conditions. The Enterprise and Bank Restructuring Act was passed in February 1993, shortly before the reformed communist successor party, the Democratic Left Alliance, swept back into power (Krajewska 2001, pp. 321–22, 328).

According to the accounts of Krężel (2001) and Bochniarz (2001), the ministry, the big state-owned banks, and the AID, utilizing the data bank created by the Ministry of Industry and Trade under the Bielecki government considered the fate of all of Poland’s SOEs. As a result of the severe contraction in the economy, and the huge increase in the price of credit following the stabilization effort, virtually all large firms were in serious financial crisis and were unable to meet their debt obligations (see also Krajewska 2001, p. 321). These instruments of the state combined their capacities and reviewed the creditworthiness of all major firms. Thanks to a recapitalization of a billion U.S. dollars, the large state-owned banks had the authority to reduce a firm’s debts for up to two years. To qualify, each firm had to have a restructuring plan that was found acceptable by the creditors and the government. According to Krężel, the healthiest 70% of the SOEs were handled by the big state banks, which extended them additional credits. The AID would take the lead in dealing with the least healthy 30%. Two-thirds were allowed to go bankrupt, and one-third were to be restructured and then sold to suitable strategic investors.

Therefore the state—through the bureaucratic capacity of the Ministry of Industry, the AID, and the large state-owned banks—stepped in for “the market” and decided which firms would be allowed to go bankrupt and which would be given credits for restructuring. Krężel, recognizing the incongruence of what the AID was doing and Balcerowicz’s declared liberalism, described his own thinking: “I am a big liberal—but [I’m for] practical—controlled liberalism—not the idealized version. The state has to play a role, to give a chance to private initiative. It needs to soften market failures—it needs to think as a super firm” (Krężel 2001; see also Krajewska 2001, p. 317; Czerwińska 1995, p. 77).

Implementation of a Variety of Industrial Policies

For the neoliberals vertical industrial policy was seen as the *sine qua non* of violating market rationality. In the first year of transition, under the Mazowiecki government, the guiding principle, declared by Tadeusz Syryjczyk, the minister of industry and trade in the first Solidarity-led government, was “the best industrial policy is no industrial policy” (Bochniarz 2001). For the next two years, however, electoral backlash induced a relaxation of adherence to these principles. First, liberalization was partially reversed. This included partial reversals on monetary expansion, the administration of prices, and tariff revenues as a percentage of imports (see table 2). Still, anger over neoliberal policies remained, and no wonder, with unemployment rising and other social ills, like poverty, exploding.

It was a testament to this dose of neoliberalism that in the September 1993 elections the communist successor party (the Democratic Left Alliance or SLD) staged a stunning reversal, and came into power in a coalition with the Polish Peasant Party (or PSL, also a continuation of the communist-era organization). With the SLD/PSL coalition government (which would last until September 1997) came a new finance minister, Grzegorz Kołodko, who was Balcerowicz’s Keynesian and proindustrial policy counterpart. Declaring a new “strategy for Poland” (in June 1994), the government actually kept in place the program (“Principles of Industrial Policy”) enacted by the fourth Solidarity government, and utilized the legislation passed by the Solidarity governments to implement the grand debt clearing and credit extensions using the Law on Financial Restructuring of Banks and Enterprises.¹²

There were many instruments of industrial policy proper. Consistent with sector-specific industrial policy, there was an increase in protection as measured by tariff revenues as a percentage of imports. The World Bank provides data on the share of lines with specific tariffs and the standard deviation of tariff rates for 1991 and 1996 in Poland. These are the types of protection that are likely to accompany industrial policy—specific protection of particular lines of products, and therefore a less

¹² The “strategy for Poland” proposed three main goals: balanced economic growth, macroeconomic stability, and individual welfare. The document also called for expanded social dialogue. The strategy assumed economic growth of 5% or better, to be financed by national savings and foreign direct investment. In terms of macroeconomic policy, it was supposed to be restrictive enough to control inflation, but not enough to limit demand. Finally, the strategy called for increased competitiveness on the part of Polish industry (Jakóbiak 2000, pp. 181–82). One should note that the previous administration, faced with social unrest, also tried to extend social dialogue. The State Enterprise Act, signed in February of 1993, was intended to set up tripartite councils. The pacts were never implemented, however, as the government fell by a no-confidence vote in May of the same year.

TABLE 2
REFORM OSCILLATION IN POLAND: MONETARY AND LIBERALIZATION POLICIES

Year	Broad Money (%changed)	% Administered Prices in CPI	Tariff Revenues (% of Imports)	Ruling Party
1990	NA	11.0	NA	Solidarity coalitions
1991	37.0	11.0	12.7	
1992	57.5	14.0	14.6	
1993	36.0	16.0	15.0	Sept.: SLD/PSL
1994	38.2	17.0	17.4	
1995	34.9	17.0	14.0	
1996	29.3	15.0	10.0	
1997	30.9	12.0	5.3	Sept.: AWS/UW
1998	25.2	10.0	3.9	
1999	19.3	9.0	3.1	
2000	11.8 (est.)	9.0	2.4	June: AWS

SOURCES.—World Bank 1999, 2001; EBRD 2000.

NOTE.—AWS = Akcja Wyborcza Solidarność (Solidarity Electoral Action); PSL = Polskie Stronnictwo Ludowe (Polish Peasant Party); SLD = Sojusz Lewicy Demokratycznej (Democratic Left Alliance); UW = Unia Wolności (Freedom Union). During 1990–93, there existed four coalition governments composed of Solidarity factions (not counting a futile month-long effort by Waldemar Pawlak to form his own government, in June 1992). These governments were led by Tadeusz Mazowiecki (September 1989–December 1990), Jan Krzysztof Bielecki (January–December 1991), Jan Olszewski (December 1991–May 1992), and Hanna Suchocka (July 1992–September 1993). With the exception of Olszewski’s government, which was a clearly conservative, right-of-center coalition, the other governments represented alliances of ideologically disparate Solidarity factions. According to the Polish Constitution, passed in 1997 under the SLD/PSL coalition, it is the independent Central Bank that is responsible for both setting and implementing monetary policy. It was also during the tenure of the communist successor party coalition that the new law on the Central Bank, implementing the constitutional principle, was passed (August 27, 1997). Earlier, after a law was passed in 1992, the Central Bank no longer had to heed the government’s Principles of Monetary Policy.

uniform rate (a greater standard deviation of rates). In 1996, after three years of rule by the Democratic Left Alliance, the share of lines with specific tariffs increased from 0%, in 1992, to 5.6% (quite high by international standards), and the standard deviation went from 10.6% to 23.8% (also quite high by international standards [World Bank 2001, p. 337]).¹³

The first government interventions into industry were enacted on a case-by-case basis by the Ministry of Industry and Trade, as well as by the AID. With the new government, there was the rise of sector-based programs that included petrochemicals, electronics, packaging, pharmaceuticals, transportation equipment, machinery for agriculture and food processing, light industry, rail, and construction materials. Government support often took the form of targeted tax breaks for investment in new lines of production (granted both by the treasury and by local govern-

¹³ For the sake of comparison, the Russian figures for 1997 were 0% (lines with specific tariffs) and 8.5% (standard deviation of rates).

ments), but also included government takeover and rehabilitation (most prominently in the coal sector).¹⁴

Many of the policies and programs listed above were introduced by the center-right government and continued by the communist successor coalition that came to power in September 1993. At the same time, other sectoral programs were elaborated by the communist successor coalition while building on the ideas sketched out by its predecessors.

A new industrial policy program was adopted in May 1995. This policy intended to stimulate exports by constructing and supporting an institutional infrastructure that would underpin a system of export insurance and guarantees. Based on a 1994 act, the Export Credit Insurance Corporation was set up, with the intent of insuring credits taken out for export support.¹⁵ In 1995, another act was passed, which provided for state coverage of part of the export credit interest. Under a 1997 law, the state treasury could give credit guarantees for the purchase of materials and components used in production for export (Ministerstwo Gospodarki 2001; Bochniarz and Krajewski 1997; Lipowski and Macieja 1998, p. 119).

Another facet of industrial policy has been the support of technological development. A 1994 decree of the Council of Ministers allowed investment expenses to be subtracted from taxable income, up to 50% of the latter's value.

The government also promoted the creation of special economic zones and regional development agencies. The zones were intended to attract investors, especially foreign ones, to regions in special need of restructuring, above all to those suffering from high unemployment. The main incentive was the taxation arrangement: companies in the zones obtained tax exemption for the first half of the duration of a zone's lifetime (usually 20 years). Thereafter, they would pay 50% of the usual tax rate.

The first zone was created in Mielec in 1995, under the supervision of the AID. Two more zones were established in 1996, and in 1997 another 14 followed. The explanation given for such a high number of zones was their diverse purposes: restructuring of regional industry (such as industry servicing coal extraction, or light industry), industrial diversification of regions, reduction of regional unemployment, and the development of scientific research complexes (Kryńska 2000, pp. 37–54).

We know of only two evaluations of the effectiveness of a number of the sectoral industrial policy programs (Bochniarz and Krajewski 1997,

¹⁴ Details about these laws and programs are available from the authors.

¹⁵ The scope of the agency's activities was extended in 2000, when it was authorized to insure Polish investments abroad as well as the costs of searching for foreign markets, among other amendments.

pp. 182–91; Lipowski and Macieja 1998, pp. 118–19). These analyses, which evaluated the extent to which the stated goals of these programs were realized, provided only illustrative examples and not any type of systematic data which an independent reader could use to judge their validity. Nonetheless, they were performed by a former minister of industry and trade (and current head of the Polish Confederation of Private Employers) and respected Polish economists, and we can presume they contain substantial insider information. Lipowski and Macieja claim that the coal program had only been partially implemented, but did make substantial progress toward the policy's goals. The Bochniarz and Krajewski assessment was more critical of the effects on the coal sector—arguing that it primarily sustained employment. Both assessments state that the iron and steel programs were only partially implemented, but led to substantial restructuring and modernization. Sznajder's (2006) in-depth case study of the steel sector confirmed this finding. Both assessments also state that the shipbuilding program was essentially unimplemented.

The neoliberal policy package proscribed active industrial policy, especially sector-specific programs. Thus, painting Poland as a neoliberal success story is simply inaccurate. As a last-ditch defense, neoliberals could claim that Poland's performance came despite the state's weight and intervention in the economy. But this would still leave unexplained why such an interventionist state did not generate the developmental debacle predicted by neoliberal theory.

The State as Real Owner of Its SOEs

According to neoliberal theory, privatization was supposed to be introduced as quickly as possible. In order to speed up the privatization process following the initial taming of inflation, plans were drawn up under the second Solidarity government for a mass privatization scheme using vouchers. However, the law, elaborated in mid-1991, was not passed until early 1993; there were difficulties getting enterprise employee councils to support it and problems with forming the necessary coalition (Orenstein 2001). So even though plans for rapid large-scale privatization had been drawn up, they were not enacted because of political pressure by workers and the electorate (Kramer 1995, p. 654; EBRD 1996, p. 165). The law, moreover, was not implemented until 1995–96, and even then it was enacted in a much reduced form, affecting only about 530 enterprises, mostly medium-sized ones that amounted to only 10% of the productive potential of SOEs (Bałtowski and Mickanowicz 2000).

Thus, the progress of large-scale privatization was stalled—at least in comparison with other leaders in the region. The most prominent neoli-

berals recognized this about Poland and judged the country harshly for its deviation from the blueprint (Aslund 1995, p. 248; Sachs and Lipton 1992, p. 221).

Indeed, Poland has maintained a large SOE sector for years. According to Krężel (2001), after more than 12 years of transition, Poland still had 1,000 large SOEs. As of 2002, “the State continue[d] to own a dominant stake in . . . steel, energy, gas petrochemicals, heavy chemicals, air transport, railways, spirits, sugar and the armaments industry” (Krężel 2001). Polish state assets represented 32%–34% of GDP that year, compared to the 10%–15% found in the EU (Commission of the European Communities 2002, pp. 93–94).

Most typically, SOEs increasingly restructured under competitive pressures and were eventually privatized to strategic investors (either domestic or, more likely, foreign). This had a beneficial effect on state revenues in two ways. First, according to data compiled by the Ministry of Finance on all enterprises with more than five employees, SOE taxes were “the main source of budgetary income spent on the public service sector, including investment in human capital,” at least until 1997 (Domański 1997, p. 23). And because until 1995 SOEs were subject to the *popiwek*, a tax on excessive wages in the public sector, they were disproportionately taxed, and ended up subsidizing the emergent private sector. Second, because firms had been restructured, when they were put up for privatization, there appeared, typically, several legitimate potential strategic owners, and so the Polish state’s privatization revenue was far greater than it would have been if the pace of privatization had been faster.

It is increasingly clear that the most dynamic part of the Polish economy seems to be under foreign ownership, disproportionately exporting and importing (Liberska 1997, pp. 2–4), especially with the EU. Kamiński and Smarzyńska (2001) report that FDI initially entered Poland in advertising-intensive sectors in the early 1990s (somewhat supporting the world-systems expectation that this FDI was seeking domestic markets rather than production opportunity). However, the reasons for initial entry into Poland did not necessarily have much to do with future development. In the second half of the 1990s, FDI entered increasingly skilled labor-intensive industries, capital-intensive industries, and sectors with a large export potential (Kamiński and Smarzyńska 2001, p. 266). Also, there was a gradual shift from joint ventures to majority foreign ownership. Fully foreign-owned companies accounted for 40% of FDI in 1993, 45% in 1995, and 50% in 1998. This was likely a move to increase control as cutting-edge technology was transferred (Smarzyńska 2000).

These foreign-owned firms led an export boom. They exported \$3.609 billion in 1994, and \$13.528 billion in 1998, while locally owned firms exported \$13.577 billion in 1994, and \$14.661 billion in 1998. Of the 500

largest firms in Poland in 1999, 144 were foreign owned (29% of the total), and they were responsible for 46% of the exports from these firms. In 1998 they exported 62% of their production, compared to 49% for domestic firms (Kamiński and Smarzyńska 2001, p. 277).

Not only was the Polish economy reoriented to exports to the EU, but the composition of exports changed as well. Exports shifted away from food, grains, and beverages (from 20% in 1989 to 10% in 1993), as well as from industrial supplies and materials (from 32% to 22% and 14%, respectively, in the same time span) in favor of capital goods, such as vehicles and vehicle parts (from 11% in 1989 to 27% in 1998; Kamiński and Smarzyńska 2001, pp. 273–75).

Essential for evaluating the impact of these exports is the faster rate of growth of the skilled labor-intensive exports to the EU (which grew by 175% from 1993 to 1998), over unskilled labor-intensive exports (which grew by 73%), and the rapid growth of capital-intensive exports (which grew by 166%; data calculated from UN COMTRADE database by Kamiński and Smarzyńska [2001, p. 273, table 2]). As the case studies will illustrate, the biggest MNCs have led the increase in skilled labor-intensive and capital-intensive exports (Kamiński and Smarzyńska 2001, p. 277). Firms like Philips, Fiat Poland, and Thomson were the engines powering these exports, and they will only gain prominence in the future.

Those sympathetic to the world-systems approach would highlight the increase in imports made by foreign-owned firms and exporters. But what is the overall developmental consequence of this dependence? And what is the role of foreign-owned firms in this phenomenon? The world-systems theorists make a lot out of the negative trade balance caused by imports. And it is true that foreign-owned firms import significantly more than domestic ones. However, there are several mitigating factors. First, all the trade deficit is not entirely caused by the import of industrial goods, but a lot by pent-up consumer demand. Second, this outflow is covered by inward FDI. Foreign-owned firms have imported a lot of capital goods, which they use both to satisfy domestic demand through import substitution and to export (they imported \$1.086 billion of capital goods in 1994, which steadily increased to \$3.274 billion in 1998 [Kamiński and Smarzyńska 2001, p. 276]). To the extent that firms assemble what used to be imported, they are actually lowering the trade deficit. Third, over time, they will purchase more and more of their inputs domestically, as they become available. Indeed, they will be forced to purchase the cheapest inputs of sufficient quality, regardless of where they are produced, or else lose out on liberalized domestic and international markets. However, foreign-owned firms (most of which are multinationals) will have a greater ability to export than domestically owned firms, everything else being equal. This, of course, is the consequence of having well-established mar-

keting networks and brand name recognition in the advanced markets (both enormously expensive undertakings).

FIRM-LEVEL CASE STUDY DATA

While we believe that the public record of government intervention strongly undermines the neoliberal interpretation of the Polish transition, firm-level case study data will allow us to observe the hypothesized mechanisms at the microlevel, strengthening our finding and allowing us to speak to the world-systems and organizational theories. We will present five cases, each illustrating a pattern of firm transformation consistent with our story of state-facilitated transition via controlled liberalization.

Our goal with the case studies is to examine the “natural life course” of particular firms, to identify different strategies managers employ to reconfigure their firms that collectively transform the postcommunist industrial system. Four firm trajectories are dominant among the medium and large enterprises, producing, when aggregated, the base of the economy. These are: (1) the market-dependent SOE (36.36%); (2) late privatization via FDI after state-led or supported restructuring in large SOEs (18.18%); (3) domestic greenfields, leading to FDI (13.64%); and (4) FDI of large SOEs prior to restructuring (9.09%). A fifth trajectory consists of the small and medium-sized firms that were privatized via Poland’s quite modest mass privatization scheme of 1995 and then listed on the stock market (18.18%). The last trajectory is medium firms (4.54%) privatized via a lease-to-buy arrangement by managers and employees. We will now illustrate this typology with several case studies.

Market-Dependent SOEs

This textile firm (case 15), although still under state ownership in the summer of 2001, was market dependent and was forced to implement restructuring in order to survive. We can call this property form “state capitalism,” because it is increasingly market dependent but is not privately owned.

In 1989, on the heels of the Tiananmen Square massacre, Polish firms were no longer allowed to trade with China, costing this firm 60% of its market. Shock therapy also created a crisis, as the company’s investment subsidies and credits were cut, leaving it with huge unused productive capacity, an unknown trademark, and many employees. Moreover, most of the firm’s suppliers went bankrupt, leaving one domestic monopolist, which raised prices.

The director of the textile firm, who had been deputy director for a

long time prior to the transition, was forced to restructure and reorient production in order to survive. This was made slightly easier, however, by a loan provided by the division responsible for the light fabric at the Ministry of Industry and Trade after the communist successor party coalition SLD/PSL came into power (anonymous interview, 2001). To the neoliberals, this loan would be considered anathema, the continuation of “soft-budget constraints” that would guarantee that a company would not restructure.

With these funds, the firm was able to modernize all of its machines with labor-saving technology purchased from the crisis-ridden Western European textile sector. It reoriented to the local market, decreased employment from 1,600 to 1,100, and paid all of its taxes. It managed to make constant investments in the production process to keep up with trends in world prices. Indeed, the firm spent 3% to 5% of its \$25 million turnover on research and development, which, in addition to helping the company make its own designs, was spent on figuring out how to incorporate foreign technology into its factory. The firm had become extremely dependent on Western Europe—not for its market (it exported only 10% of its output) but for its inputs (80% of which were imported in 2001).

This state-owned enterprise, then, far from blocking the transition to capitalism (as Sachs and the neoliberals warned), helped make the Polish transition possible. After restructuring was initiated with a loan from the state, it supplied the state with revenue, even as it constantly upgraded by incorporating Western technology and successfully competed on the liberalized domestic market.

Late Privatization after Restructuring to FDI

This paper manufacturer (case 11) received state funds for restructuring (which, along with reinvested turnover, totaled \$150 million), prior to privatization. In 1990, it exported 20% of its product to Western Europe; by 1995, these exports had grown more than 50%. The company was privatized only in 1997, by a German paper multinational, which invested another \$170 million, allowing further expansion into Western Europe. This firm integrates the Polish economy with the Western European ones, while simultaneously making it dependent on the decision of a firm with operations in many countries, making investment decisions with its global empire, not Poland’s development, in mind.

Small Domestic Greenfield Leading to FDI

In 1987 two engineers launched a small domestic start-up to service Western consumer electronics in Warsaw (case 16). The firm grew and ex-

panded to other cities. Later that year, the company started importing Philips and other major brands of electronic appliances for retail.

Eventually, the company decided to build an assembly plant in Poland to avoid tariffs, and it grew by contracting with a Philips subsidiary to produce Philips television sets for the Polish market. A manager from a state-owned company producing television sets was hired to build a new factory, bringing many of his colleagues with him. The firm was situated near Gdańsk in order to take advantage of the large pool of unemployed skilled and educated labor, the proximity to a major transport center, and, consistent with our theory, the boosterism of the local city council which provided tax breaks for investments and helped the firm negotiate with the state bureaucracy.

The company expanded its contracts with other subsidiaries to produce VCRs, TV tuners, and PC (printed circuit) boards. The Western partners supplied the technology (typically, they “loaned” it to the company). By 1995, the company employed 800 people and was steadily growing. At this point, Philips bought it out, having become interested in the strong Polish market. Low labor costs induced the company to shift all its European production to Poland. By 2001, it employed 2,000 people and produced 3.3 million television sets, exporting 90% of its output (70% to Western Europe), making it the number one producer, with 21%–22% share of the European market. The firm also had 30% of the Polish market and 10% of the market in the rest of Central and Eastern Europe. In addition, the company made 11 million tuners and 4.3 million PC boards a year. It also attracted numerous suppliers, who set up factories immediately adjacent to it that employed another 2,500 workers. While the company produced many inputs locally, by value they were 60% to 70% imported. The major component (the tubes) would soon be produced by a Philips company in the Czech Republic.

This manufacturer of televisions in Poland started as a small greenfield and literally grew into a joint venture and then became incorporated into a multinational corporation that transferred technology and provided investment capital and access to coveted Western markets. The fact that the Polish firm was incorporated into a firm with a long history of successful capitalist accumulation brought significant advantages, even as it made Poland dependent on the investment decisions of a Western European multinational, on the level of Western European demand, and on imported inputs. This type of development enhanced Poland’s ability to catch up with Western Europe, but at the price of increasing Poland’s vulnerability to an externally induced economic crisis.

Other Paths and an Outlier: Patrimonial Restructuring in a Liberal System

There are two other “paths of transition” of the medium and large enterprises observed in the case studies: (4) FDI prior to restructuring; and (5) the small and medium-sized enterprises that were privatized under Poland’s 1995 mass privatization program. Path 4 needs no explanation except that the foreign owners without fail transferred technology and exported to the EU. The mass privatization cases, however, deserve special attention, for they represent the neoliberals’ preferred method of privatization.

We believe that it is not a coincidence that these firms were the least successful restructurers in the sample of firms. We will discuss a heavy-engineering company privatized in 1995 under Poland’s mass privatization program (case 2). Thirty-three percent of its shares were transferred to fund no. 11 of the state-sanctioned investment funds. Twenty-two percent went to other investment funds, 25% stayed with the state treasury, 4% went to employees, and the rest was sold to individual investors. As with three of the four cases in the sample privatized in this way, the investment fund was described as a disaster (and indeed a threat) by management.¹⁶ The fund made no investments in the firm, and did not even guarantee its credit so that it could obtain loans. As a result of this mass privatization, as the director described it, “six or seven years were lost to the firm” (anonymous interview, 2001). Management’s only hope was to one day be acquired by a strategic investor.

According to the director, the firm was forced from the cash economy after “Sachs’ draconian reforms” (anonymous interview, 2001). The coal companies could not pay in cash, so they paid in coal. This in turn meant that the firm had to pay its suppliers in coal. It was also forced to accept nonpayments from its customers, as banks stopped providing credits to finance purchases. The firm began to periodically arrange chains of debt swaps. It initially paid employees in coal as well, but this practice ceased when gas became the prevalent form of home heating. So this firm behaved like many in the former Soviet Union—engaging in various non-monetary transactions and failing to restructure effectively.

Overall, the firm-level case studies support the account generated from social structural theory: an embedded developmental state facilitated firm restructuring (both SOEs and greenfields), but eventually foreign owners (along with purchasers and suppliers) came to drive the pattern of accumulation.

¹⁶ The only qualification to this evaluation was that the fourth firm found the investment fund useful because it gave its managers the idea of issuing a public offering of its stock, which raised some investment capital.

QUANTITATIVE DATA

In order to help us gain confidence in generalizing the findings from the case studies to the Polish economy we turn to randomly sampled survey data from a Polish oversample of 246 firms. This survey was carried out by the World Bank and the EBRD in conjunction with Gallup in 1999 as part of a survey covering 4,000 companies in 25 postcommunist countries.

We first divide ownership up into three exhaustive categories. These are firms with any foreign ownership (FDI), firms with majority state ownership, and domestic private firms. Forty firms had foreign investment (16.26% of the sample), ranging from 3% to 100%. The mean was 59.91%, and the standard deviation was 35.15%. The mode (11 firms) was 100% foreign ownership. Forty-six firms had some state ownership; the mean was 59.91%, the standard deviation 37.48%, and the mode 100% (19 firms). We code these as SOEs if the state has a controlling share (more than 50%)—yielding 26 cases (10.57% of the total sample). The remainder we code private domestic, constituting 73.17% of the sample or 180 cases.

Of the private domestic firms, we have information for the question “Which of the following best describes the type of owner which now has the largest stake in your firm, either directly or indirectly?” The options are: individual, family, domestic company group, foreign company, bank, investment fund, its managers, its workers, government or government agency, other, don’t know/no answer, and collective farm.

As we can see from table 3, more than 77% of all firms identify individuals or a family as the type of largest owner. Moreover, the ownership of firms was very concentrated. Among the private domestic firms, the majority of shares was held by only one shareholder in almost 50% of the cases, and by two or three shareholders in over 28% of the cases.

We find little evidence of the ownership patterns that characterize recombinant property. The large majority of firms are privately owned, with a small number of shareholders, most of whom are identified as individuals or families. Of those firms coded private domestic property, only 12 firms had any state ownership. Thus, we see very clearly that we have a set of formal property ownership that is typical of traditional capitalist economies—various types of private domestic firms, mostly owned by private persons or families, mixed with foreign-owned (and part-foreign-owned) private firms, and a residual of state-owned enterprises (some of which have been partially privatized).

We use these data to help us identify the strengths and weaknesses of the neoliberal, social structural, and world-systems theory with regard to ownership and enterprise performance (see table 4). Organizational theory, although rooted at the organizational level of analysis, is excluded because

TABLE 3
CHARACTERISTICS OF FIRMS

Type of Ownership	N (%)
Foreign investment	40 (16.25)
State-owned enterprises	26 (10.57)
Private domestic	180 (73.28)
Type of largest owner of private domestic:	
Individuals	120 (66.67)
Family	20 (11.11)
Domestic business group	16 (8.89)
Investment fund	4 (2.22)
Managers	3 (1.67)
Workers	9 (5.00)
State	2 (1.11)
Don't know/not applicable	1 (0.56)
Total	180 (100)
No. of owners that hold majority share of private domestic:	
One	89 (49.44)
Two or three	51 (28.33)
More than three	40 (22.22)
Total	180 (100)

it does not seek to produce transcontextual generalizations about enterprise performance (Stark 1996, p. 112).

We have direct measures of subsidies and foreign competition. *Subsidy* is measured by a question asking if the firm obtained a subsidy (including toleration of tax arrears) from the federal or local government. *ForComp* is measured by a four-point scale about perceived competition from foreign companies as an ordinal ranking from “not at all important” to “slightly important” to “fairly important” to “very important.”

We include a number of control variables. There are seven sector dummy variables: manufacturing, farming, trade, transport, services, construction, and retail. We collapse one firm in *mining* and one listed as “other” with *farming*. We also control for monopoly position (*monopoly*), a measure of firm age in years since founding (*age*), and a dummy variable *size* indicating the firm has 500 or more employees. Finally, a dummy *privatized* indicates the firm was privatized.

For the dependent variables—or measures of “firm restructuring”—we will use a variety of common indicators. Because the data set contains mostly categorical data, we construct dummy variables for firm performance, necessitating logistic regression. The most standard measure of success is having a high rate of profit—the excess of revenue minus costs. *Profrit20* indicates the firm had a profit rate of 20% or above. Increasing

TABLE 4
ODDS RATIOS (AND SES) FOR INDICATORS OF PERFORMANCE

	Sales	Exports	Qualaccr	Employ	Invest	High Profits
FDI vs. domestic						
private	2.990*** (1.350)	4.217** (2.343)	4.858** (3.1671)	4.950*** (2.378)	2.198 [†] (.962)	3.44** (1.525)
SOE vs. domestic						
private .....	.419 (.250)	1.890 (1.357)	2.154 (1.808)	.029** (.035)	.638 (.367)	.587 (.355)
Subsidy	1.089 (.550)	.716 (.493)	2.064 (1.867)	.222* (.154)	.952 (.473)	.661 (.336)
ForComp	1.102 (.133)	1.494* (.307)	1.553 [†] (.391)	1.259 [†] (.175)	1.305* (.160)	.790* (.096)
Privatized .....	.716 (.282)	.657 (.386)	1.075 (.675)	.069*** (.044)	.772 (.304)	.545 (.216)
Monopoly	DPS N=3	2.420 (3.610)	DPF N=2	2.994 (.154)	DPS N=3	.217 (.216)
Size	1.336 (.701)	.770 (.526)	7.326** (5.062)	.896 (.687)	.710 (.364)	.569 (.303)
Age .....	.997 (.008)	1.007 (.011)	.995 (.013)	.986 (.010)	.996 (.008)	.992 (.008)
Manufacturing .....	.538 (.330)	7.187 [†] (8.106)	6.784* (6.661)	.722 (.476)	.247* (.175)	4.040* (2.390)
Farm .....	.301 (.212)	3.110 (3.891)	1.361 (1.631)	.6316 (.4920)	.195* (.153)	2.335 (1.581)
Retail .....	.269* (.166)	DPF N=49	.416 (.570)	.285* (.182)	.129** (.093)	1.786 (1.031)
Services .....	.996 (.726)	.459 (.690)	DPF N=26	1.382 (1.011)	.331 (.262)	4.109* (2.858)
Trade .....	.633 (.403)	1.829 (2.187)	1.346 (.797)	.922 (.589)	.239* (.175)	1.346 (.797)
Transport .....	.292 (.215)	3.0744 (3.816)	1.091 (.776)	.342 (.281)	.242 [†] (.199)	1.091 (.7761)
N	234	188	237	237	234	237

NOTE.—DPF = dropped, predicts failure perfectly; DPS = dropped, predicts success perfectly.

[†] $P < .1$.

* $P < .05$.

** $P < .01$.

*** $P < .001$.

exports, by our definition, is an indicator of restructuring. This strongly implies that the firm was able to gain market share in the supercompetitive world market. *Exports* indicates the firm increased its exports over the last three years. Similarly, the variable *qualaccr* indicates the firm received an international certificate of quality accreditation (an ISO 9000 rating), indicating industrial upgrading to the level of the world market. Increasing sales is another commonly used indicator of firm performance in transition economies, as it implies a successful adaptation to market in-

tegration. *Sales* indicates the firm increased sales over the last three years. Hiring new employees also indicates restructuring—as new organizational activities require employees with additional skills. *Employ* indicates a firm has increased the number of employees over the last three years. Finally, *invest* indicates the firm made new investments in the last three years—which clearly indicates some restructuring activity (for the use of these indicators in econometric models see the literature review in King [2000]).

How these indicators of performance line up for the neoliberal and social structural theories is straightforward. The predictions derived from the world-systems approach, however, require some discussion. In this perspective, foreign-owned firms seek ownership primarily to capture domestic market share, very possibly by selling finished products produced outside of the country, or assembling foreign parts for domestic consumption. In both cases, the need for investment will be minimal. The same goes for hiring new employees, obtaining ISO 9000 quality certificates, and increasing exports and sales. World-systems theorists might predict different effects of profitability depending on the circumstances. Some world-systems theorists would not be surprised at high rates of profit, since a major mechanism of the theory is the transfer of surplus out of the country through the repatriation of profits, and foreign firms might be enticed into a postcommunist country with promises of tax holidays, which should boost profitability through transfer pricing *into* the postcommunist country. Of course, with time, tax holidays expire, and (outward) transfer pricing to avoid taxation will gain prominence. World-systems theorists tend to assume transfer pricing to be the main mechanism of surplus appropriation and thus predict that foreign ownership should result in low profitability. We assume the latter for the purposes of this article (although of course the sign of the coefficient will allow the evaluation of both predictions).

The full regression equation is

$$\begin{aligned}
 Y = & a + \beta(\text{FDI}) + \beta(\text{SOE}) + \beta(\text{Privatization}) \\
 & + \beta(\text{ForComp}) + \beta(\text{Subsidy}) + \beta(\text{Monopoly}) \\
 & + \beta(\text{Age}) + \beta(\text{Size}) + \beta(\text{Manufacturing}) \\
 & + \beta(\text{Farming}) + \beta(\text{Trade}) + \beta(\text{Transport}) \\
 & + \beta(\text{Services}) + \beta(\text{Retail}) + \varepsilon.
 \end{aligned}$$

Private domestic is the excluded ownership category, and construction is the excluded sector category.

Table 4 summarizes the results from the regression equation. On only one of the six indicators of restructuring do domestic private firms outperform SOEs. All things held equal, SOEs are 97% less likely than

domestic private firms to have hired new employees over the last three years. This perhaps is a legacy of the discriminatory tax on excess wages for SOEs that was in place until 1995. Quite possibly SOEs developed routines to rely on retraining their existing employees as opposed to hiring outside labor. At any rate, the other five indicators of firm performance are not close to being statistically significant, and SOEs are actually more likely than private domestic firms to increase exports and gain international quality accreditation. Thus, the pattern across all the indicators is more consistent with hypothesis 2 than with hypothesis 1.

Similarly, on five of the six indicators, hypothesis 4 is supported over hypothesis 3. The one indicator of performance that is negatively associated with subsidies is hiring new employees. This may only indicate that subsidies flow to firms in a response to job loss.

Similarly, the pattern strongly supports hypothesis 5 (firms with FDI will outperform domestic private firms) over hypothesis 6 (domestic private firms will outperform firms with FDI). Everything being held equal, firms with foreign investment compared to domestic private firms are 199% more likely to have increased sales in the past three years, 322% more likely to have increased exports over the last three years, 386% more likely to have received an ISO 9000 accreditation in the past three years, 395% more likely to have hired new employees in the last three years, 244% more likely to have a profit rate of 20% or more, and 120% more likely to have made investments in the past three years (although this is only marginally statistically significant [$P = .072$]).

Finally, hypothesis 7 is supported over hypothesis 8—firms with greater levels of foreign competition restructure more than firms with lower levels of foreign competition in four cases (although two have only marginal levels of significance)—with the exception of the profitability indicator. For each level of perceived competition (on a four-point scale), firms are 49% more likely to increase exports, 53% more likely to obtain quality accreditation, almost 26% more likely to increase employment, and more than 30% more likely to increase investments. Firms were, however, 21% less likely to have high rates of profit. This overall pattern is consistent with restructuring under the pressure of competition (thereby inducing innovation as well as lower profits).

Overall, this statistical analysis corroborates the comparative and case study evidence. Poland's economy is predominantly private, but SOEs restructure and become marketized prior to eventual privatization. The dynamism of the economy comes from foreign investment as Poland's economy reindustrializes on the basis of exports to Western markets and the technological transfer of MNCs and other core-based purchasers.

A MODEL OF POLISH CAPITALISM

What type of capitalist system has emerged in Poland? First, there was not much evidence of postcommunist involution among the case studies or the random sample of firms—almost all firms made investments into the production process. There were, however, recourses to patrimonial integrating mechanisms—but this occurred especially in mass privatized firms, as well as firms unable to integrate into the global economy.

Similarly, there was no clear evidence of any recombinant property in the 22 case studies. In 15 cases there was some interenterprise ownership, and/or partial state ownership—and thus potentially recombinant property. Of course, these do not necessarily indicate recombinant property as Stark describes it, since these formal ownership patterns are consistent with a wide range of actual ownership relations in systems with extensive corporate ownership, including all forms of vertical and horizontal integration. What Stark means by recombinant property is dense cross-ownership ties tracing and facilitating interfirm cooperation, with partial state ownership allowing for an appeal to the state as an alternative “legitimizing principle,” resulting in recurrent state bailouts (Stark 1996, p. 993). This type of ownership was present in none of the 15 firms in which some amount (no matter how small) of interfirm ownership and/or some amount of direct or indirect state ownership continued to exist. These ownership patterns resulted from one of four different situations: (1) small residual ownership shares (conferring no control) left over from socialist-era reforms, (2) as a means to break up giant socialist conglomerates to induce strategic foreign investment, (3) as a scheme to minimize taxes, and (4) as horizontal integration.¹⁷ The latter two mechanisms are typical of all corporate economies, and the first two are only temporary deviations from the emergence of foreign ownership. Overall, there were only trivial amounts of cross-ownership among these firms, and all interviewees described a clear separation of the state and the private economy (i.e., there was no interference by or involvement of state officials), and unambiguous market integration.

The private sector, including a substantial amount of FDI, has constantly grown at the expense of the state sector. The private sector’s share of the GDP grew slowly but steadily, from 45% in 1992 to 70% in 2000 (EBRD 2001, p. 180). The evidence does not seem to indicate the existence of some version of a unique postcommunist capitalism based on recombinant property. Rather, what has emerged in Poland would be quite familiar to neoliberals: market-dependent firms with clear boundaries, employing free wage labor, competing with other firms (both foreign and

¹⁷ A longer version of this article available from the authors elaborates on these four situations, but see app. table A1 for a summary.

domestic). Of course, there are SOEs around in large numbers, but this is far from unusual in Western European economies. Moreover, all of the directors of the firms in the case studies under state ownership expressed the hope that they would find a strategic foreign investor to privatize them. Similarly, business groups have emerged, but these too are present in most capitalist countries. We can expect domestic business groups and MNCs to continue to privatize the remaining SOEs, while the less promising will eventually be rehabilitated by the state or allowed to go bankrupt.

In Weberian terms, the economy is indeed an example of “modern rational capitalism” (Weber 1978). The state is a fairly well-functioning bureaucracy with relatively high capacity, there are free and fair elections and a free press, and private actors dominate the economy. Most important, there is a relative separation of the political system and the economy. That is, it is possible to be a capitalist without also being seriously involved in the political system.

At the same time, the Polish state pursued a variety of industrial policy tools to aid enterprise restructuring. Our primary research and other published accounts do not point to widespread rent seeking as predicted by neoliberal theory. Rather, the presence of domestic and foreign competition seems to have disciplined the firms, forcing them to channel state subsidies into market-oriented technological investment. Thus, a good deal of Polish industrial policy seems to have taken the form of what Schrank and Kurtz (2005) refer to as open economy industrial policies; policies that provide subsidies for export, rather than old-style industrial policy that provided protection of infant industries and import substitution.

The Polish system, however, is not identical to the capitalism found at the core of Western Europe, because it is significantly poorer (and thus a “late industrializer”), and extraordinarily dependent on FDI and trade. While some of the smaller European economies are probably similarly dependent, it seems possible that Poland may have a greater reliance on MNCs for technology transfer (a consequence of the outdated capital stock resulting from prior shielding from Western competition, and a failure to phase out old technology in communist Poland’s “shortage economy”). It also seems that even more of the “commanding heights” of the Central Eastern European economies—banking, telecom, utilities, and high-tech manufacturing—are foreign owned. For example, 77.5% of Polish banking stocks are held by foreigners, compared with 4% in Germany, 3% in Italy, 10% in Spain, and 13% in Austria (Staniszki 2001, p. 5). Polish growth has become extremely dependent on imported industrial goods, foreign markets, and the investment decisions of foreign-owned firms and banks. It is therefore extremely sensitive to exchange-rate fluctuations and changes in external demand.

CONCLUSION

This review of postcommunist Poland's economic history, although only a partial sketch, should substantially weaken the notion that Poland's relative success has anything to do with the superiority of neoliberal transition theory and practice. Neoliberal theory cannot easily explain the fact that the Polish state took an active role in leading the transition from "the plan" to "the market." The Polish state was strongly procapitalist, and it succeeded in creating an economy relatively separate from the state. However, the state actually grew in size and was clearly developmentalist.¹⁸ State action was the initial foundation of Poland's successful transition, as it enabled and induced domestic firms (SOEs and private) to restructure to be competitive on world markets. It also facilitated eventual MNC entry, which brought investment and, crucially, technology transfer and marketing networks in the EU, both contributing to manufacturing exports. The integration into global commodity chains of skilled-labor and capital-intensive manufactured goods prevented the Polish manufacturing sector from falling back into nonmarket methods of integration, thereby preventing the involution of the state and economy as witnessed in much of the postcommunist world.

Not only were the neoliberals wrong about economics; their political predictions have not come to pass. Delaying large-scale privatization did not lead to a politically powerful constituency that blocked or reversed the transition from a planned economy to a market capitalist society. Rather, Poland's relative success came despite a lack of political insulation for reform technocrats, a necessity according to neoliberal economists. As Ekiert and Kubik (1998, p. 547) noted: "In Poland mass protest actions were more common than in any other postcommunist country and contributed to both political instability and a relatively high level of accountability for reform measures and policy decisions implemented by the ruling elites."

The neoliberal rebuttal to these assessments would likely be to invoke the "orthodox paradox." Such a defense would point out that these (non-neoliberal) measures were *temporary*, and therefore simply a manifestation of the "orthodox paradox" (first identified by Kahler [1990, p. 55])—that a strong state is necessary to usher in a liberal economy. This defense conflates a "strong state" with a "developmentalist state." The solution to the "orthodox paradox" (as articulated by Kahler, or any neoliberal economist that we know of) was not to advocate Keynesian and microinterventionist policies (including sectoral industrial policy), and certainly not to slow down the privatization of large enterprises to allow them time to

¹⁸ According to Ekiert (2001), employment in Poland's public administration more than doubled, from 69,319 in 1989 to 171,246 in 1998.

restructure.¹⁹ The identification of a paradox simply excludes the phenomenon from being covered by neoliberal theory (in this crucial case in the extremely important “transition” period), a clear example of what Lakatos referred to as a “degenerating” research tradition.²⁰

While the neoliberals were incorrect about the means through which the comparatively successful Polish transition occurred, the case-study data suggests they were more on target about the end point than a prediction derived from the organizational analysis of Stark, who theorized a “distinctive variant” of capitalism emerging in Eastern Europe based on firms with “recombinant property.” The same conditions that lead to recombinant property in Hungary and the Czech Republic should also exist in their Central European neighbor, Poland. And yet the Polish economy, 10 years after the transition, was dominated by private property that was market integrated. There was insignificant blurring of public and private property, as the theory of recombinant property specifies. Rather, an organizationally distinct state (concretely consisting of the Ministry of Industry and Trade, the AID, and state-owned banks, among other state organizations) greatly influenced the activity of firms through regulation and subsidies, and at times through equity ownership, just as in the advanced capitalist core. Of course, these data do not refute the theory of recombinant property, which never claimed to predict property change in Poland, but it does seem to require some additional belt of theory to explain why Poland is different from its Central European neighbors.

World-systems theory also requires additional theoretical fortification to account for the Polish case. To say, as Burawoy does, that differences between Russia and Central Eastern Europe are as much caused by the “insertion into the world system” as “their communist origins” seems difficult to defend. The “agents of globalization,” the World Bank and the

¹⁹ Kahler himself is not a neoliberal, but rather critiques both the neoliberal and heterodox economists.

²⁰ Neoliberals familiar with Poland’s economy could point to the fact that Poland experienced declining GDP rates starting in 1998 (while it averaged 6.6% from 1995–97), dipping from 4.0% in 2000 to 2.0% by 2001, before bottoming out at 1.4% in 2002, and rebounding to 3.6% in 2003 and an estimated 5.5% in 2004. Could it be that this slowdown was caused by excessive “statism”? We think it is more likely that this slowdown is a consequence of the normal functioning of liberal dependent capitalism in several ways. First, it corresponds to the slowdown in Germany and the EU, and the dependent developer is very much dependent on demand in the core of the capitalist economy—in this case, Germany. Second, the slowdown corresponds to a tight contraction of broad money (monetary emissions and bank loans), as indicated in table 1. Part of this reflects the victory of AWS/UW over the SLD/PSL alliance in 1997 and the concomitant macroeconomic policy. In part, tight money keeps the currency strong, which makes it easier for Poland to service its foreign trade deficit. At any rate, Poland’s growth seems to be accelerating again.

IMF, along with MNCs, would logically have had much greater leverage over the much smaller states of Central Eastern Europe than they had over Russia. How then is Russia “inserted” into a disadvantaged place relative to the Central European cases?

Moreover, it hardly seems that the “system logic” of global capitalism is wiping out the differences between Central Europe and the rest of the postcommunist world. If anything, the differences are growing, as the countries of Central Europe maintain liberal polities with relatively effective states, have economies dominated by manufacturing exports, and welcome foreign ownership of the commanding heights of the economy. In contrast, Russia has turned into a semiauthoritarian regime with a very weak, if bloated, state administration. The commanding heights of the economy are owned by politically connected capitalists, and the economy is dominated by raw-materials exports while much of the high-tech manufacturing sector has been wiped out. While capitalism might be converging within Central Eastern Europe, it is increasingly diverse throughout the postcommunist world.

A reformulation of world-systems theory to fit the Polish case would have to substantially transform its core logic. Such theorists would have to claim that the world system keeps (or sends) countries to the periphery by excluding them from flows of international capital and exchange. However, this can also be interpreted as a degeneration in the subresearch tradition—as it reverses one of its central “hardcore postulates”—that multinationals and involvement in the world system are the mechanisms that serve to usher in underdevelopment.

Of course, as world-systems theorists would rightly point out, the transition success was beyond easy control of any class, class alliance, class segment, or state agency. External events and forces are crucial in countries much larger than Poland. Still, states can pursue better and worse policies to foster growth.

Most generally, this article extends to the postcommunist world the findings of those who emphasize the importance of a bureaucratic state with high capacity (Evans and Rauch 1999) which pursues developmental policies (Evans 1995; Wade 1990) for successful integration into the global capitalist system.

Neoliberals can rebut this statist argument by pointing out that while there might be some successful cases of industrial policy, there are many, many examples of industrial policy that have degenerated into nothing more than inefficient rent seeking. This raises the crucial question: Why are some developmental states successful, while many others seem to only waste resources by coddling inefficient crony capitalists? Chibber (2002) provides one answer to this question, claiming that the difference between unsuccessful state intervention in India and successful state intervention

in Korea is not that the latter had a strong bureaucracy while the former had a weak one. Rather, it was the presence of a “nodal agency” in Korea that oversaw the entire planning apparatus, and the lack of such an agency (with sufficient power to enforce its will) in India.

In Poland there was no such supra-agency coordinating the many different industrial policies. Instead, our analysis of Poland suggests that state resources were not wasted by enterprises because firms had reason to believe that these subsidies would not be extended indefinitely. Meeting the criteria for entry into the EU was a looming reality, meaning that the state faced serious pressure to reduce subsidies and completely liberalize most markets in the near future. Unlike old-style, import substitution industrialization (ISI) policies, the policies employed by the Polish government mostly sought to foster survival on liberalized domestic markets and winning foreign market share, rather than to protect the local one from foreign penetration. These policies were aimed at softening the shock of restrictive monetary policies, giving firms breathing space to gradually restructure as they prepared for sale to foreign investors. The extensive use of tax breaks for investments and exports is much more difficult to appropriate as rents than direct subsidies. This type of “open economy” industrial policy seems to be far more resistant to capture than old ISI versions (Schrank and Kurtz 2005).

In addition, this article contributes to a “progressive problem shift” in the neoclassical sociological subresearch tradition by bringing the role of foreign direct investment into the center of the analysis. This is not a concession to neoliberals, who have no theoretical reason to favor FDI over domestic capital. It is drawn from the “core postulates” of neoclassical sociology; the history of capital accumulation is crucial to global development.

We must emphasize that the evidence in this article indicates that a successful transition is not just the function of an embedded developmental state pursuing industrial policies, but also of large amounts of FDI. Industrial policy facilitated enterprise restructuring, while accelerating levels of FDI brought technological upgrading and global market share in skilled and capital-intensive manufacturing sectors.

This leads to the question: Why was Poland able to pursue this path? We believe that the ultimate cause can be found in the pattern of conflict and collaboration in the postcommunist power elite. In Poland and the rest of Central Eastern Europe the technocracy and intellectuals blocked the nomenklatura’s bid to transform itself into a grand bourgeoisie, steering state property into the hands of foreign capitalists (Eyal et al. 1998, 2001; King 2002; King and Szelényi 2005). This fact, our analysis suggests, explains a substantial amount of the divergence in postcommunist capitalism.

APPENDIX A

TABLE A1
CASE-STUDY BASIC INFORMATION

Case	Sector	No. of Employees	Path	State Help	Dependence on Foreign Inputs	Dependence on Exports	Dependence on Foreign Investment	Possible Recombinant Property	Actual Substance of This Ownership
1	Machine tools	200	1	Yes	Yes	Yes	No	Yes	Residual cross-ownership
2	Machine tools	420	6	No	Yes	Yes	No	Yes	Residual state ownership
3	Machine tools	287	6	No	No	Yes	Yes	Yes	Separate firms for tax reasons
4	Vehicles/parts	219	6	No	Yes	Yes	No	Yes	Residual state ownership
5	Ship engines	3,800	1	No	Yes	Yes	No	Yes	SOE decentralized, preprivatization
6	Heavy engineering	1,131	1	Yes	Yes	No	No	Yes	SOE decentralized, preprivatization
7	Heavy engineering/mining equipment	240	7	Yes	Yes	Yes	Yes	No	
8	Heavy engineering/mining equipment	408	1	No	Yes	Yes	No	Yes	SOE decentralized, preprivatization
9	Pharmaceuticals	1,800	2	Yes	Yes	No	No	Yes	Residual cross-ownership
10	Pharmaceuticals	1,100	1	Yes	Yes	No	No	Yes	SOE decentralized, preprivatization

11	.....	Paper	1,400	2	Yes	No	Yes	Yes	No	Residual cross-ownership
12	.....	Paper	700	2	Yes	No	No	Yes	Yes	Residual state ownership + subsidiaries
13	.....	Paper	1,770	5	No	Yes	Yes	Yes	Yes	Residual cross-ownership
14	.....	Textile	200	6	Yes	Yes	No	No	Yes	
15	.....	Textile	1,100	1	Yes	Yes	No	No	No	
16	.....	Televisions/electronics	2,000	3	Yes	Yes	Yes	Yes	No	
17	.....	Televisions/electronics	4,200	5	No	Yes	Yes	Yes	No	
18	.....	Furniture	2,050	3	No	Yes	Yes	Yes	Yes	Horizontal integration
19	.....	Ceramic basin furniture	900	2	No	No	Yes	Yes	Yes	Separate firms for tax reasons
20	.....	Apparel	700	3	No	Yes	Yes	Yes	Yes	Residual cross-ownership
21	.....	Apparel	140	1	Yes	Yes	Yes	No	No	
22	.....	Apparel	1,110	1	Yes	Yes	No	No	No	

NOTE.—Paths: 1 = commercialized SOE seeking strategic (mostly foreign) investor; 2 = late privatization to FDI after restructuring; 3 = small domestic greenfield leading to a medium or large joint venture; 4 = small domestic greenfield leading to FDI; 5 = FDI prior to restructuring; 6 = mass privatization and public stock offering; 7 = lease to own by managers and employees. Dependence = at least 30% of inputs are imported, at least 30% output is exported, dependent on foreign owner or banks for investment capital.

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