Perspective of Polish Business: An historical Snapshot

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Excellency, Distinguished Guests, Ladies and Gentlemen,

Let us look at an historical snapshot of Poland and its business.

Some of you may ask, what is the connection between history and business?
For Polish people history is to learn from, history serves as the foundation for a nation to progress. Throughout the centuries, history has contributed to where Poland stands today, providing inspiration to generations to be strong, to innovate, and to have vision. Business will always exist, but will only progress bringing rewards for its founders and community at large if country history as a foundation would be considered, assessed and its outcomes put to good practice.

Let us look at some of the historical facts about Poland:

- First country in Europe to introduce constitution 1791
- Not on world map for 123 years: 1795-1918
- Injury insurance for workers instituted 1889 – 5 years after Germany, 8 years before introduction in Britain
- It was a multi-ethnic and multi-denominational country in 15-18th century (Catholicism, Orthodox, Judaism, Islam), this continued until the end of World War II in 1945
- Fastest growing economy in Europe 1918-1939
- Was the first country of former socialist countries to break from its politico-economical doctrines – revolution of 1990
- Was first country to introduce the "Shock Therapy" known as the Balcerowicz plan of 1990

In 1795 the constitutional republic of Poland lost its independence due to weak internal politics and the simultaneous invasion by armies of the German, Austrian and Russian Empires. Throughout much of the nineteenth century and until independence was regained after World War I, Poland's economic development was severely stunted as it served the economies of these three occupiers. Despite this, the industrial revolution that was sweeping Western Europe did occur in Poland and is illustrated through examination of the Polish boomtown of Łódź in the late nineteenth century. Łódź was perhaps the Manchester of Poland, at one point the fastest growing city in the world with a population that increased exponentially from 13 000 in 1840 to 340 000 by 1908 due to a burgeoning textile industry, and the entrepreneurial undertakings of its multicultural society. In terms of advances in the development of the welfare state, a system of injury insurance for workers was instituted in Poland in

1889, just five years after this historical advancement was introduced in Germany, and 8 years before such a system was instituted in Britain.

Ladies and Gentleman,
I would strongly encourage you to become familiar with the brilliant work of well respected and renowned Polish Director Andrzej Wajda who in his *"The Promised Land" – "Ziemia Obiecana"*, based on novel by Nobel Prize winner Wladyslaw Reymont, brought the industrial development in 19th century Łódź and the combined influences of the Polish, Germans, Russians, Jews. Three industrialists representing different ethnic groups in Poland built a textile factory at the turn of the century. This unique film will allow you to learn about these different cultures, values and business drives.

During the interwar period between 1918 and 1939, Poland faced large economic difficulties in having to integrate lands that had not been united under one government for 123 years. The new Polish nation, inherited three different rails (that previously had served Vienna, Berlin and Moscow), three systems of civil, fiscal and commercial legislations and three different currencies, customs units and credit systems. Bringing the three parts into a single economic unit was a difficult and complex task resulting in much state intervention.

Reconstruction proceeded rapidly in the wake of currency depreciations that facilitated Polish entrepreneurs exploring the foreign markets and assured a steady flow of stable hard currencies into Poland. Furthermore, the small business operators supported the economy by a relatively fast turnover of their funds and employment of both skilled and unskilled groups in society. Just before the outbreak of World War II, Poland's GDP was rising, unemployment rates were falling, and a significant shift from agriculture to modern industry had been achieved. Such progress was in a large portion assigned to the business undertakings by well-educated and economically astute young entrepreneurs turning historical disadvantages of country division into the fastest progressing economy of Europe. The government of Prime Minister Wladyslaw Grabski, appointed in 1923, conducted radical budget and currency reforms, put a halt to excessive emission and replaced the mark by the traditional Polish zloty, which in 1925 became one of the most stable currencies in Europe. According to the quotations on the Warsaw Stock Exchange the value of the dollar dropped from 8.90 for 1 zloty in 1928 to 5.30 in 1938, and that of the pound sterling from 43.39 to 25.93, The new investment program which was set into motion in 1936, foresaw the construction of a Central Industrial Zone, covering the triangle between Kielce, Lublin and Rzeszow inhabited by about 6.5 million people with an aim to become the site of industrial enterprises of great significance for the national economy, and providing employment for over 100 000 workers. This was to resolve the large social problems: of unemployment reaching 40 percent in the large cities, overpopulated villages, and most importantly to bring the backwards area of Eastern Poland into good economical and social standing. In 1922 the Parliament passed a resolution about the construction of a new sea port in the village of Gdynia, at exactly the same spot where Jan Pleitner, the architect of King Wladyslaw IV, planned to build a port in the middle of the seventeenth century. During the last two years before the Second World War only Copenhagen could be regarded as Gdynia's equal as regards the tonnage of ships calling in Baltic ports (in 1939: Gdynia - 6,5 million tons, Gdansk- 4,8 million tons, Helsinki - 3,4 million tons, Riga - 1 million tons, and for the comparison Shanghai - 8 million tons). Furthermore, here it needs to be added that Poland of this time registered a significant shift from agriculture to modern industry.

It is here I propose to look at some of the selected Polish firms:

- Cegielski – Sulzer – Poznań, originally est. in 1913, where German technicians learned the skill.
- Calisia / Pianino by Arnold Fibiger – Kalisz, est. 1878, where Polish Jewish family produced one of the most known European pianos
- E Wedel – Warszawa, est. 1851, who expanded his operation to London and Paris

The outbreak of World War II in 1939 however, marked the end of independence and free-market based economy in Poland until the break-up of the Soviet Union, and the institution of "shock therapy" in 1990. World War II brought destruction, misery and despair, putting a halt to any business activities of Polish firms. Warsaw, the capital of Poland became the most devastated city in Europe. Furthermore 38 percent of the national economy of Poland was destroyed. Poland lost over six-and-a-half million of its citizens and was left with over 600,000 invalids. Poland lost 14,000 production enterprises, 1 million farms, and 40 percent of all its buildings. According to international experts estimated material losses totalled 16.9 billion dollars according to prices in 1939.

After being handed to Stalin by Britain and the USA under the terms of the 1945 Treaty of Yalta, Poland's economy underwent centralization and the conversion to a true Soviet-style economy. Poland was rebuilt after the destruction of the World War II and rapidly industrialized with a particular focus on mining and manufacturing at the expense of agriculture, consumer goods and services. Government implemented national collectivisation of land but managed to control only 14.4 percent with 85.6

percent remaining in private hands. Over one million peasants were given land (small farms). This resulted in Poland becoming a unique socialist country with a central government and the existence of private entities.

Ladies and Gentleman,
If we divided you here into two equal portions, we would most probably end up with an equal amount of opinions regarding both the politics and economics of Poland at the time. However, one should consider the fact that Poland was not part of the "Marshal Plan", as for example the occupier –Germany, and had to stand on its own despite difficulties both internally and externally.

The "reforms" - carried out in the late 50s, 60s, and early 70s delivered some economical improvements, however had not solved principals, allowing sustainable economic growth.

It is wise to bring in this juncture the fact that the existence of the private sector was always legally guaranteed in Poland and that the private entrepreneurs and small workshops were allowed to operate with a condition that their goods and services were sold to the state sector.

In order to attract foreign capital to Poland, mainly from Polish people residing in America, the first "PPS Companies" with 100 percent foreign capital were allowed to commence their operations within the country between 1979-1980. The beginning of the 1980s brought further liberalization of the "Crafts Code", and subsequently in 1983, the pre-War Commercial Code of 1934 was reintroduced. This code, while amended to maintain many privileges of the state economy, provided a legal framework for corporate private business. Between 1981-1988 numbers of small private firms operating in Poland doubled, and by 1989 represented over 22 percent of total GNP. By late 1980s, privately generated incomes accounted for 45 percent of all incomes in Poland. While agriculture played an important role in the Polish private sector prior to transition there were an estimated 960,000 registered sole proprietors and 650,000 self-employed workers in the non-agriculture sectors before 1989. It is needless to say that by the time full transition began the Polish private sector had a strong head start.

The reform process in the eighties, was coined the "treadmill" of economic reforms, by Prof. Gertrude Schroeder, and inevitably resulted in a weaker state of the economy and furthermore this "treadmill" simply deepened a decade long crisis. The effects were a 1989 per capita GNP that was 13 percent below that of 1979, and a hard currency debt of $US40b equivalent to five times the national exports for that year.

Any hopes of recovery were dampened by the burden of debt servicing that amounted to 56 percent of the 1989 hard currency earnings. By the late eighties the government had resorted to forcing exports and hence precipitated stifling shortages of all types of consumer goods. The phenomena of "shortflation", that is simultaneous "shortages" and "inflation", pushed the annual rate of inflation to around 2000 percent at a time when wages were below 1978 levels.

The issue facing Poland moved beyond, whether to pursue a market economy, but how to get there. The choice amounted to a "shock therapy" reform strategy or gradualism for some like Hungary, but for Poland the choice was clear. The author Jozef van Brabant espouses the notion that the "duration of the transition depends upon the initial conditions and speed at which policy makers can successfully embark on implementing the agenda". The initial conditions in Poland were less favourable than in Hungary or the Czech Republic but politicians realised that if they adopted a more gradual approach as Hungary the transition would merely take even longer.

Once again we may elaborate here on the issue of correctness and availability of choices but what represents an undeniable fact is that Poland undertook the most ambitious economic reform programme out of the other "Central and East European" nations.

"Shock therapy" of the 1990s devised by the American economist Jeffrey Sachs and first implemented in South American economies, is a term borrowed from medicine that describes the application of an electrical current to a patient, so as to provide a "quick and lasting relief to a severe disorder", and in the context of economic restructuring with regards to Poland, it was an attempt to reverse half a century of economic degradation. It is known as the Balcerowicz Programme after the then Deputy Prime Minister and Minister of Finance Mr. Leszek Balcerowicz. The fundamental aims of the reform program were to stabilise the hyperinflation, free prices, liberalise trade, and restructure the foundations of the economy toward a market system. What this involved was rapid price and trade liberalization, sharp cutbacks in the budgetary deficit and tight monetary policy. The transformation underlying the programme sought to execute an abrupt and massive change in the shortest time possible. It is important to note that stabilizing the economy was of first priority and then to commence structural/systematic reforms. There were four main components to the macroeconomic aspect of the reform programme. The first was fiscal consolidation, in which Poland was able to turn a substantial budget deficit equivalent to 7.4 percent of total public spending in 1989 into a 1.6 percent surplus by 1990. The second component aimed to control inflation by controlling growth in domestic credit. The third was a wage control policy aimed at limiting wage growth, and finally the fourth was to ensure the convertibility of the zloty, that had to be substantially devalued for this to occur. As a result of this convertibility, the anti-export bias of the old exchange rate system was removed and Polish entrepreneurs and their enterprises were hence able to compete both locally and in the world markets.

The strengthening of the private sector and all related entrepreneurial activities for both previous operators and the new comers was supported by extensive legal and institutional changes. There were also low barriers to entry for new firms so labour could be redistributed from state-owned to new private enterprises. At the end of 1990 Poland was still in arrears with $US30b pending, however in 1991 a deal was struck with the Paris Club and the London Club resulting in debt reduction by 50 percent, thus providing a clearer road for the large-scale Foreign Direct Investment inflows. At the same time the government calculated that about twice the total state debt was in "cash", hidden in the hands of the Polish population. In order to bring these financial resources into official circulation the government loosened up banking restrictions. This resulted in a vast exchange of hard currency to polish zloty, by the majority of the population, allowing them to support their hard daily existence. Moreover, already well operating entrepreneurs have placed large sums of money in banks, calculating their potential to quadruple their investment within a short period of time due to the high interests offered by banks.

Certainly in the economic context, an instantaneous improvement is impossible and it is understandable that it would take not only time, but produce negative side effects, particularly social, against which its overall efficiency should be measured. By 1992 Poland had more than 700,000 new companies registered, had growing unemployment and the fastest growing economy in Europe. With this economic transformation Poland has emerged once again as a state faithful to its historical traditions, such as "guaranteeing civil rights, unrestricted entrepreneurial activities, freedom of expression, political pluralism and self-government by mutual agreement of competing interest groups

Ladies and Gentleman,
Today Poland stands in front of new opportunities. 1st May 2004 marks the new beginning with Poland becoming a full-fledged member state of the European Union. Despite many existing problems it is expected that Poland will attract a large foreign investment. The government indicated lower tax for businesses, to 19 percent, and the economic forecast is predicted at GDP 4.0 percent. Furthermore, Poland is to continue the privatisation process, however further high unemployment is expected. Currently the most controversial issue of all is "agriculture", which is to attract further EU

member negotiations, but as all negotiations its aim is to be positive for all involved delivering prosperity and progress. The EU is not a phenomenon it is a result of European nations learning from their history.

In conclusion, I would like to bring to your attention that simultaneous process of social, political and economic changes in Poland are far from over. However, the historical advancements and the favourable geopolitical situation of Polish business can once more follow in the footsteps of past generations, bringing besides wealth and jobs the unlimited personal potential for each individual.
Thank you for your attention. I am now open to any questions.