

The State after State Socialism: Poland in Comparative Perspective

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EVEN A CURSORY look at the growing literature on contemporary Eastern European politics reveals a considerable change in thinking about the state and its role in post-1989 transformations. Initially, inherited East European states were considered to be a problem. Decisive measures were contemplated to limit their power, size, and presence in political and economic domains. Recently, state weakness and policy failures have been identified as the main causes of stalled and unsuccessful reforms as well as various pathologies of transformations: disintegration of central authority structures, official corruption and organized crime, explosion of social inequalities, revenue decline, contraction of public services, and so forth. In short, a more powerful and active state is increasingly seen as a necessary solution to the challenges of postcommunist transformations. This change of the analytical and normative optics reveals an interesting irony: communism left behind not a powerful bureaucratic Leviathan but a weak and inefficient state. Consequently, the road to democracy and capitalism in Eastern Europe leads through a massive state-building process. After the first decade of transformations it has become clear that the failure to restructure and strengthen the state apparatus poses serious risks to the entire process of transformations.

In this chapter, I shall focus on the pattern and sequencing of state reforms in Poland. During the first decade following 1989, the Polish state experienced one of the most comprehensive processes of institutional transformations in the region. At the same time, Poland emerged as a leader of market reforms, recorded the dynamic economic growth, attracted a huge share of the direct foreign investment coming to the region, registered significant improvement in living standards of its citizens, and became one of the leading candidates to join the European Union. Is there a relationship between the extent of state reforms and successful economic transformations? Why was the Polish state able to introduce such an extensive package of institutional reforms? What fac-

tors favor comprehensive state reforms in the postcommunist environment? These are some of the questions I shall address below.

THE STATE AND TRANSITIONS TO MARKETS AND DEMOCRACY

While political parties, elections, and vibrant civil societies are indispensable for modern democracy, the state has a critical role in shaping, fostering, and protecting democratic regimes. According to Juan Linz and Alfred Stepan, "modern democracy . . . needs the effective capacity to command, regulate, and extract. For this it needs a functioning state and a state bureaucracy."¹ Similarly, the effective state is indispensable in initiating and implementing fundamental economic, political, and social reforms. As Peter Evans emphasizes, "the state remains central to the process of structural change."² At the same time, many observers of policy reforms around the world noted that reformers and their advisors were not sufficiently concerned about the importance and consequences of state restructuring. Adam Przeworski criticized the dominant reform strategies in Eastern Europe for their lack of attention to the state. He argued that "the principal mistake of neoliberal prescriptions is that they underestimate the role of state institutions in organizing both the public and private life of groups and individuals. If democracy is to be sustained, the state must guarantee territorial integrity and physical security; it must maintain the conditions necessary for an effective exercise of citizenship; it must mobilize public savings, coordinate resource allocation, and correct income distribution. And if state institutions are to be capable of performing these tasks, they must be reorganized, rather than simply reduced."³ Robert Kaufman made a similar point: "Through Eastern Europe and Latin America, a central challenge for the consolidation of both democracy and market reforms has been the construction of state bureaucracies capable of implementing economic policies, providing social services, and maintaining public order."⁴ Even the World Bank, which for years preached the circumscribed role of the state, rediscovered the importance of the effective state administration: "An effective state is vital for the provision of the goods and

services — and the rules and institutions — that allow markets to flourish and people to lead healthier, happier lives. Without it, sustainable development, economic and social, is impossible."⁵

Such concerns and the renewed appreciation of the importance of the state and its capacity generated a set of general recommendations designed to strengthen the state institutions and enhance the state's capabilities in dealing with challenges of major political and economic transformations. According to Kaufman, efforts at strengthening the state should focus on the following sets of policies:

1. The centralization and political insulation of control over macroeconomic policy, particularly spending and monetary decisions. . . .
2. The decentralization and/or privatization of bureaucracies charged with the delivery of social services — on the assumption that local authorities will be more responsive to constituent demands and that competition among providers will enhance the efficiency of services.
3. The delegation of regulatory functions to independent agencies charged with monitoring service providers. . . .
4. The creation of a more capable cadre of senior civil servants . . . recruited according to meritocratic criteria, provided with considerable discretion . . . , and evaluated in terms of performance standards.⁶

While these and similar recommendations were generated to respond to the governability crisis affecting mostly developing countries, their applicability to postcommunist countries proved to be highly relevant.

Given the centrality of the state in regime transformations and market reforms, it is surprising that until recently reforms of the state have attracted little attention among students of democratization and East European politics.⁷ This omission has its roots in the initial conceptualization of the main dilemmas or challenges facing East European societies after the fall of communism. In his influential essay Ralph Dahrendorf set the theoretical agenda for studying the postcommunist transformations, emphasizing the centrality of three parallel developments: establishment of a democratic political regime, creation of a market economy, and reconstitution of civil society.⁸ His concerns with the cost of economic transformations and difficulties in restoring viable civil society pushed the issue of state transformations to the background: state restructuring

¹ Juan Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation* (Baltimore: Johns Hopkins University Press, 1996), 11.

² Peter Evans, "The State as Problem and Solution: Predation, Embedded Autonomy, and Adjustment," in Stephen Haggard and Robert Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press 1992), 140.

³ Adam Przeworski et al., *Sustainable Democracy* (Cambridge: Cambridge University Press, 1995), 12.

⁴ Robert Kaufman, "The Politics of State Reform: A Review of Theoretical Approaches," *Estudio/Working Paper* 1997/98, Instituto Juan March (June 1997): 1.

⁵ *World Development Report 1997: The State in a Changing World* (New York: Oxford University Press, 1997), 1.

⁶ Kaufman, "The Politics of State Reform," 1–2.

⁷ See Arista M. Cirauvas, "The Post-Leninist State: A Conceptual and Empirical Examination," *Communist and Post-Communist Studies* 28 (1995): 379–92.

⁸ Ralph Dahrendorf, *Reflections on the Revolution in Europe* (New York: Random House, 1990).

was conflated in part with democratization and in part with market reforms. Similar views, underestimating the critical role of the state reforms, were apparent in the debates on the nature of simultaneous transitions.⁹

Such understanding of the principal dilemmas facing East European reformers was based on the mistaken assumptions about the strength and institutional capacity of communist states and on a generalized liberal mistrust of the state. The dominant theoretical approaches in the field of East European studies accepted the notion of a strong, institutionally comprehensive, and capable communist state.¹⁰ It was commonly believed that new democracies in the region inherited such a state. Moreover, in debates on reform strategies, the neoliberal ideas gained the upper hand:¹¹ the state was construed as a predatory institution eager to interfere in and distort both emerging democratic politics and markets.¹² From such a point of view, the main challenge of transition was to find ways in which the state and its predatory impulses could be constrained by market forces, civil society, and representative institutions.

This understanding of transition dilemmas obscured the fourth fundamental dimension of postcommunist transformations—the state restructuring and building process—that interacts in many critical ways with the formation of the democratic regime, market economy, and new civil society. To illuminate these relations, it is analytically useful and necessary to distinguish between regime and state transformations.¹³ This distinction implies that while rapid regime change can fundamen-

⁹ For the debate on the multidimensional nature of postcommunist transformations, see Claus Offe, "Capitalism by Democratic Design: Democratic Theory Facing the Triple Transition in East Central Europe," *Social Research* 58 (1991): 865–92; Piotr Stropnicka, "Dilemmas of the Great Transformation," *Sisyphus* 2 (1992): 9–27; Valerie Bunce, "Comparing East and South," *Journal of Democracy* 6 (July 1995): 87–100; Leslie Ann-ji, Thomas Biersteker, and Abraham Lowenthal, "The Problem of Simultaneous Transitions," in Larry Diamond and Marc E. Plattner, eds., *Economic Reform and Democracy* (Baltimore: Johns Hopkins University Press, 1995), 226–40.

¹⁰ See Cirrautas, "The Post-Leninist State," 381–84.

¹¹ See Alice H. Amsden, Jacek Kochanowicz, and Lance Taylor, *The Market Meets Its Match* (Cambridge: Harvard University Press, 1994), 161–70.

¹² See, for example, Andrei Shleifer and Robert Vishny, eds., *The Grabbing Hand: Government Pathologies and Their Cures* (Cambridge: Harvard University Press, 1998).

¹³ Robert Fishman analyzed this distinction in the context of democratization in his paper "Rethinking State and Regime: Southern Europe's Transition to Democracy," *World Politics* 42 (April 1990): 422–40, arguing that "a regime determines who has access to political power, and how those who are in power deal with those who are not. . . . Regimes are more permanent forms of political organization than specific governments, but they are typically less permanent than the state. The state, by contrast, is a (normally) more permanent structure of domination and coordination including a coercive apparatus and the means to administer a society and extract resources from it" (428).

ally alter the core political relations, state institutions and modes of action display much greater permanence and institutional continuity. It also highlights inherent tensions between the state and regime transformations. For these reasons a historical institutional approach adopted in this chapter is the most effective strategy in reconstructing temporal trajectories and patterns of state transformations, identifying critical junctures, and explaining outcomes. Moreover, it is also essential to reconstruct not only short-term temporal sequences but also longer historical processes that shape position and capacity of specific states as well as routine strategies the state actors employ to solve dilemmas they face.

Throughout the twentieth century, Eastern European countries were characterized by highly statist policies by virtue of being late developers and nation-state builders. In fact, as Joseph Rothschild argued, the state-driven socioeconomic development was "a thread of continuity from the interwar period into . . . East Central Europe" under communist rule.¹⁴ At the same time, East European states were traditionally characterized by weak administrative and political institutions, paucity of formal-rational procedures, clientelism, and considerable legitimization deficit. The imposition of the communist rule significantly enhanced despotic as well as infrastructural power of the state.¹⁵ At the same time, however, the weakness of the formal-rational procedures and legitimization deficit persisted. Moreover, the institutions of the party-state were based on interlocking dual hierarchies: functional domains of state activities were coordinated and supervised by the parallel state and party administrative bureaucracies, and the communist party apparatus was the sole locus of authority at all levels of the state organization.

During the five decades of communist rule, East European party-states experienced a complex institutional evolution. In this process not only their repressive policies and capacity markedly declined, but their infrastructural power eroded as well. As David Stark and Laszlo Bruszt noted, by 1989 "weak states faced weak societies. Instead of powerful party-states, this view sees cumbersome but weak bureaucracies, ineffective in achieving the goals of economic growth and social integration, headed by demoralized leaders whose belief in their own ideologies had withered apace with the exhaustion of their political and economic programs."¹⁶

¹⁴ Joseph Rothschild, *Return to Diversity* (New York: Oxford University Press, 1993), 21.

¹⁵ The distinction between despotic and infrastructural powers of the state was introduced by Michael Mann, "The Autonomous Power of the State: Its Origins, Mechanisms, and Results," in John A. Hall, ed., *States in History* (New York: Blackwell, 1986), 109–36.

¹⁶ David Stark and Laszlo Bruszt, *Postsocialist Pathways* (Cambridge: Cambridge University Press, 1998), 16.

East European states were profoundly affected by the collapse of communist regimes. The rapid disintegration of administrative structures of communist parties in post-1989 Eastern Europe left behind small and organizationally weak states. The disappearance of the party side of the party-state created an institutional void that diminished capacity of these states in many fundamental ways. Swift democratization and the escalating economic crisis exacerbated uncertainties and contradictory pressures on the state apparatus and weakened or fragmented the structures of domination. Political and economic openings exposed these states to global economic forces and political constraints of global politics. At the same time, in contrast to other institutional domains of postcommunist societies, states faced a distinct disadvantage: the recombination of resources, actors, and institutions that characterized much of the developments in the economic domain and within civil society was not an available option for transforming the state.¹⁷ The party side of the party-state disappeared swiftly and thoroughly and could not be legitimately incorporated as one of the constitutive elements of the new democratic state structures.

In many postcommunist countries the rapid and radical devolution of state power took place. It led to the collapse and dismemberment of communist federative states (Czechoslovakia, Soviet Union, Yugoslavia),¹⁸ Political corruption combined with growing autonomy of local and regional structures evoked images of "feudalization" or "soft," fragmented, and administratively weak states of the Third World.¹⁹ Commentators pointed to many specific problems faced by these states, such as the absence of rule of law and low accountability of public officials,²⁰ fiscal crisis,²¹ "state desertation,"²² and diminishing state autonomy resulting

¹⁷ For the analysis of recombination strategies in the economic domain, see *ibid.*, and in the civil society domain, see Grzegorz Ekiert and Jan Kubik, *Rebellious Civil Society: Popular Protest and Democratic Consolidation in Poland* (Ann Arbor: University of Michigan Press, 1999).

¹⁸ See Valerie Bunce, *Subversive Institutions: The Design and the Destruction of Socialism and the State* (Cambridge: Cambridge University Press, 1999).

¹⁹ See Jadwiga Staniszkis, *The Dynamics of the Breakthrough in Eastern Europe* (Berkeley: University of California Press, 1991), 171–75; Katherine Verdery, *What Was Socialism, and What Comes Next?* (Princeton: Princeton University Press, 1996), 204–28; Kathryn Stoner-Weiss, "Central Weakness and Provincial Autonomy: Observations on the Devolution Process in Russia," *Post-Soviet Affairs* 15 (1999): 87–106. For the debates on the nature of African states, see, for example, Arthur Goldsmith, "Africa's Overgrown State Reconsidered," *World Politics* 51 (1999): 520–46.

²⁰ Stephen Holmes, "Cultural Legacies or State Collapse? Probing the Postcommunist Dilemma," in Michael Mandelbaum, ed., *Postcommunism: Four Perspectives* (Washington, DC: Council for Foreign Relations 1995), 22–76; "What Russia Teaches Us Now," *The American Prospect* 8 (July–August 1997): 30–39.

²¹ John Campbell, "The Fiscal Crisis of Post-Communist States," *Telos* 93 (1992): 89–110.

²² Guy Standing uses the term to describe deteriorating public services and salaries of

from the capture of state agencies and policies by strategically located elites, firms, and organizations.²³ In short, the relatively weak state of late communism lost not only a great deal of its despotic but also a substantial amount of its infrastructural power as a result of the democratic transition and market reforms. Paradoxically, these considerably weakened states were entrusted with the gigantic task of designing and implementing policies aimed at fundamental transformation and restructuring of political, economic, and social orders of their societies.

The experiences of the first decade of postcommunism generate a fascinating set of questions for students of states:

1. What is the extent of continuity and breakdown in patterns of organization and activities of postcommunist states?
2. How have political struggles over state activities, boundaries, and structures affected newly democratized East European regimes?
3. Are new states expanding or contracting in their institutional organization, size, role in the economy and society, and capabilities?
4. Are new states able and willing to secure individual rights and liberties, provide essential collective goods, and maintain a favorable environment for the promotion of a market economy and democratic participation?
5. Who comprises new state elites and what factors shape and constrain their preferences and policy choices?
6. Are new states transparent, responsive to democratic control and social interests, as well as procedurally fair in their policy making?
7. What factors explain differences and diverging trajectories of state reforms and, more specifically, what is the impact of the EU enlargement prospects on the extent of state transformations?

These questions strike at the heart of what Philippe Schmitter identified as "the most significant issue for contemporary political science: How can democracy be consolidated in the aftermath of the transition from authoritarian rule."²⁴

A dearth of serious empirical studies makes it impossible to offer sys-

public officials, which eroded the capacity of public administration ("Labor Market Governance in Eastern Europe," *European Journal of Industrial Relations* 3 (1997): 133–59. See also Mario Nui and Richard Portes, "Central Europe: The Way Forward," in Rich and Portes, ed., *Economic Transformations in Central Europe: A Progress Report* (London: CEPR, 1993), 1–20.

²³ See, for example, Joel Hellman, Geraint Jones, and Daniel Kaufmann, "Seize the State, Seize the Day: An Empirical Analysis of State Capture and Corruption in Transition," paper presented at the Annual Bank Conference on Development Economics, Washington, DC, April 18–20, 2000.

²⁴ Philippe Schmitter, "Interest Systems and the Consolidation of Democracy," in Gar Marks and Larry Diamond, eds., *Reexamining Democracy* (Newbury Park: Sage, 1992), 157.

tematic assessment of the role of the state in postcommunist transitions across the region. It would be also premature to develop comprehensive policy recommendations at this point.²⁵ We also still struggle with the lack of credible comparative data and difficulties in measuring various dimensions of state activities. Facing such difficulties, this chapter will provide only limited and preliminary answers to the above questions, relying on the experiences of Poland during the last decade.

Poland provides a good starting point for a more comprehensive investigation of the state reforms and their impact on economic and social policies. Engulfed in the devastating economic and social crisis in the end of the 1980s, Poland emerged as one of the most successful reformers and the fastest growing economy in the region by the mid-1990s. During the same time, political, social, and economic disparities among ex-communist countries increased considerably, making the former Soviet bloc one of the most diversified regions of the world (see tables 11.1 and 11.2). During this period, Poland not only succeeded in building a democratic regime and a market economy, but the Polish state underwent fundamental transformations that were more extensive than in any other postcommunist country. It is the contention of this chapter that the scope and direction of state transformation contributed to the overall success of Polish reforms. I shall argue that efforts to recast the state administrative structures and policies were a critical part of the successful transition from state socialism in Poland and provided foundations for the rapid economic growth, rising living standards, and closer integration with Western political, military, and economic structures in recent years.

THE TRANSFORMATION OF THE POLISH STATE

The diverging trajectories and initial outcomes of postcommunist transformation across Central and Eastern Europe may be explained by several factors often construed in terms of competing accounts. Historical legacies and initial conditions, design, timing and sequencing of reforms, quality of new elites and their policies, institutional choices, and the extent of external support provide important clues for the range of outcomes emerging in the region. The causal relations among these factors and their strength, however, are not obvious or easy to determine. More

²⁵ Deyesh Kapur identifies similar weaknesses in the recent World Bank Development Report pointing to insufficient empirical evidence and absence of specific policy recommendations for strengthening institutional capacities of the state. See "The State in a Changing World: A Critique of the 1997 World Development Report," *Working Paper Series* no. 98-2, Weatherhead Center for International Affairs, Harvard University.

TABLE 11.1
Progress of Political and Economic Transformations in Selected Postcommunist Countries

	Index of Transition Progress ^a	Economic Freedom Index ^b	Country Risk Index ^c	Press Freedom Index ^d	Political Freedom Index ^e	Corruption Perception Index ^f
Czech Republic	36.0	2.20 (27)	60.19 (44)	20 (F)	3 (F)	4.3 (42)
Estonia	35.0	2.05 (14)	54.34 (55)	20 (F)	3 (F)	5.7 (27)
Hungary	38.0	2.55 (42)	61.83 (42)	30 (F)	3 (F)	5.2 (32)
Poland	36.5	2.75 (54)	61.67 (43)	19 (F)	3 (F)	4.1 (43)
Slovenia	34.0	2.90 (63)	71.28 (32)	27 (F)	3 (F)	5.5 (28)
Bulgaria	30.5	3.30 (95)	39.75 (84)	30 (F)	5 (F)	3.5 (52)
Lithuania	32.0	2.65 (46)	52.08 (59)	24 (F)	3 (F)	3.4 (57)
Romania	32.5	2.55 (42)	50.10 (61)	20 (F)	3 (F)	4.1 (43)
Slovakia	29.5	3.65 (124)	33.80 (107)	44 (PF)	4 (F)	2.9 (68)
Serbia	33.5	2.85 (59)	48.44 (66)	30 (F)	3 (F)	3.5 (52)
Albania	25.0	3.50 (110)	28.18 (146)	56 (PF)	9 (PF)	2.3 (84)*
Belarus	16.0	4.25 (146)	29.11 (140)	80 (NF)	12 (NF)	4.1 (43)
Croatia	32.5	3.45 (106)	47.08 (70)	63 (NF)	8 (PF)	3.7 (51)
Ukraine	26.0	3.85 (133)	29.96 (134)	39 (PF)	7 (PF)	2.6 (75)

^aSource: European Bank for Reconstruction and Development, *Transition Report 2000* (London: No. 2000/14, 34, and 36). Economic transition indicators are combined with legal transition indicators.

^bSource: Gerald O'Driscoll Jr., Kim R. Holmes, and Melanie Kirkpatrick, *2001 Index of Economic Freedom* (Washington, DC: Heritage Foundation 2001). Lowest score 5.0, highest score 1.25. The index is composed of factors including political risk, trade policy, taxation, government intervention in the economy, monetary policy, wage and price control, property rights, capital flows and foreign investment, banking regulation, and black market.

^cSource: *Euromoney*, March 2000. Highest possible score 100.

^dSource: Leonard R. Sussman, ed., *Press Freedom Survey 2000*, Freedom House 2000. Countries scoring 0–30 on 100-point scale are regarded as having a free press; countries scoring 31–60 are partially free.

^eSource: *Freedom in the World. The Annual Survey of Political Rights and Liberties 1999–2000*, Freedom House 2000. Highest possible score 2, lowest possible score 14.

^fSource: *Transparency International*, 2000 Corruption Perception Index, www.transparency.de. This index is constructed as a compilation of a number surveys conducted in each country and ranges between 10 (highly clean) and 0 (highly corrupt). The score for Albania is from 1999 index.

over, their impact may decrease or increase in different stages of transition and differ across the region, and they may interact in many complex ways. There is still much research to be done to entangle particular patterns of reforms and to generate the sufficient evidence necessary to understand specific cases of postcommunist transformations. New theoretical and empirical efforts are essential to provide convincing cross-regional comparative accounts.

The reform process in Poland has several distinct features in comparison with other postcommunist countries. The Polish transition began in

TABLE 11.2
Selected Economic Indicators, 1989–1999

	Years of GDP Decline	GDP Fall after Recovery	GDP Growth, 1989–94	GDP Growth, 1995–99	GDP Growth, 1989–99	1999 GDP (1989 = 100)	GDP per Capita, 1999	Unemployment, 1999
Czech Republic	6	Yes	-2.0	1.5	-0.4	95	\$5,189	9.4
Estonia	6	Yes	-6.2	4.5	-1.3	77	\$3,564	12.3
Hungary	4	No	-2.6	3.4	0.1	99	\$4,853	9.1
Poland	2	No	-1.1	5.8	2.0	122	\$3,987	13.0
Slovenia	4	No	-2.1	4.0	0.7	109	\$10,020	7.5
Bulgaria	6	Yes	-4.6	-1.6	-3.2	67	\$1,513	16.0
Latvia	4	Yes	-8.3	3.0	-3.2	60	\$2,582	14.4
Lithuania	5	Yes	-9.4	3.2	-3.7	62	\$2,880	14.1
Romania	7	Yes	-4.6	-0.8	-2.9	76	\$1,517	11.5
Slovakia	4	No	-3.5	4.0	0.6	100	\$3,650	19.2
Albania	4	Yes	-2.9	6.3	1.3	96	\$1,102	18.0
Belarus	6	No	-4.3	3.1	-1.0	80	\$777	2.1
Croatia	6	Yes	-7.3	4.3	-2.0	78	\$4,467	12.6
Ukraine	10	No	-10.3	-5.5	-8.1	36	\$619	4.3

recovery

Note: GDP data from EBRD, *Transition Report 2000*, November 2000.

1980 with the emergence of the Solidarity movement and was characterized by rapid mass mobilization and open political struggle between the newly constituted independent organizations and the entrenched forces of the party-state. This early effort of democratization was aborted by the imposition of martial law and the delegitimation of the Solidarity trade union. Its legacies, however, shaped Polish politics through the 1980s.²⁶ By the end of the decade, democratization was back on the agenda, this time leading to the orderly transfer of power to new political elites. But this long process of deconstruction of the Polish party-state left a visible imprint on the consolidation phase taking place after 1989.

As a result of the "round table" negotiations that began in Warsaw on February 6, 1989, Poland became the first country in the Soviet bloc to initiate a peaceful transfer of political power. The semidemocratic elections in June 1989 led to the political triumph of the relegalized Solidarity movement, the first noncommunist government in the region was in office by the end of the summer, and the Communist Party dismantled itself by January 1990. The transfer of power was followed by comprehensive transformations of the national political institutions and local administration and radical economic reforms. The new political elites that emerged from the Solidarity movement set Poland on the course toward liberal democracy and a market economy.

The transformation policies, however, had to be forged and implemented amid the deepening economic crisis, regional political chaos, as well as disintegrating regional economic and political institutions. These external adversities combined with radical macroeconomic stabilization measures contributed to a sharp contraction of the economy, decline in real incomes, dramatic rise in unemployment, new social inequalities, and growing insecurity. Few people anticipated such harsh realities, and public opinion polls registered considerable disappointment with government policies. Professional and social groups threatened by the changing economic environment, especially in heavy industry and agriculture, responded with strikes and protests. In Poland mass protest actions were more common than in any other postcommunist country²⁷ and contributed to both political instability and a relatively high level of accountability for reform measures and policy decisions implemented by the ruling elites.

At the same time, the political consensus concerning the extent, speed,

²⁶ See Grzegorz Ekiert, *The State against Society* (Princeton: Princeton University Press, 1997).

²⁷ See Grzegorz Ekiert and Jan Kubik, "Contentious Politics in New Democracies," *World Politics* 50 (1998): 547–81.

and sequencing of institutional reforms, which initially unified the new elites, unraveled. The post-Solidarity political bloc, united for the 1989 elections and initially constituting a single caucus in the parliament, split into several fiercely competing parties with contrasting programs and political agendas. Consequently, during the first postcommunist decade, Poland experienced a turbulent political evolution. It had four parliamentary, three local, and two presidential elections, as well as ten consecutive prime ministers and eight governments. Not long after its political triumph in 1989, the Solidarity-based political movement disintegrated, and descendant political parties were often unable to form effective electoral coalitions. Ironically, the ex-communist parties were returned to power as a result of the 1993 elections and for the next four years were in charge of guiding the transformation process. In the following elections in 1997, the coalition of parties built around Solidarity was able again to wrest political power away from ex-communist parties and revitalize the reform agenda.

To summarize, the Polish case stands out among all postcommunist transitions due to at least five unique features. They include:

1. Pioneerism and tradition of political struggles. The unraveling of state socialism began in Poland in 1980 with the rise of Solidarity, or arguably even earlier, during the rebellions of 1956, 1968, 1970, and 1976. The symbolic, intellectual, and institutional aspects of this revolution were far more pronounced and articulate than in other countries of the region, and massive oppositional resources were generated. Moreover, the institutional evolution of the Polish party-state was greatly accelerated, resulting in, among other things, autonomization of the state administration and redefinition of the relationship between the party and state bureaucracies.
2. Formation and disintegration of the massive political movement. Both the rise of Solidarity in 1980 and its revival and disintegration in 1989–91 had a decisive formative impact on the shape of Polish postcommunist politics.
3. Administrative reform. Poland carried out the earliest and most comprehensive administrative reform in East Central Europe. As a result, in the first stages of transition the state was significantly decentralized, and local communities were burdened/blessed with a number of administrative prerogatives and responsibilities. In several subsequent steps, the central state administration and state finances were thoroughly reformed, and the new layer of self-government was added. The reform of the major state services (pensions, health, education) followed.
4. Political fragmentation and instability. Poland experienced more political conflicts and more intense political competition than other countries in the region. As a result, the country experienced frequent government turn-

over and a large number of elections. The highly competitive and unstable political life together with free media contributed to a higher degree of accountability, more political control over policies, restraint of rent-seeking behavior, and less corruption.

5. Early and radical economic reform. Poland's first democratic government implemented radical macroeconomic measures, known as "shock therapy," early in the transition process. Moreover, the reform momentum was maintained through the entire period, despite changes of government and ruling coalitions.

The combination of these five features heavily influenced the Polish political and economic transformations. Massive political mobilization and the initial consensus about the need and direction of reforms created a strong momentum for comprehensive institutional transformations. The reactivation of local elites (through Citizens' Committees) and the decentralizing administrative reform led to the decoupling of national and local/regional politics. This, in turn, shielded local social, political, and—most importantly—economic processes from the volatility of central politics.²⁸ Vice versa, state policies were at least partially insulated from local challenges. Moreover, the intense political competition at all levels of the political organization prevented the stabilization of semireformed institutions and the entrenchment of the early winners of economic reforms.²⁹ Such a situation helped to maintain the momentum for further reforms. Finally, the concentration of the most costly economic measures during the initial period of transition helped to preempt and forestall the opposition to reforms, made them irreversible, and created conditions for the fast recovery, solid economic performance, and growing legitimacy of the new political and social order.³⁰

At the first glance, the transformation of the Polish state can be perceived as a chaotic process driven exclusively by unexpected exigencies and the short-term political calculations of elite politicians. In their comprehensive evaluation of the Polish administrative reform, Andrzej Kidyba and Andrzej Wrobel argue that

²⁸ See Jan Kubik, "Decentralization and Cultural Revival in Post-communist Transformations," *Communist and Post-Communist Studies* 27 (1994): 331–55.

²⁹ This situation contrasts with the developments in some other countries, especially Russia, where short-term economic winners were able to create a "partial reform equilibrium" with "concentrated rents for themselves, while imposing high cost on the rest of society" (Joel Hellman, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions," *World Politics* 50 [1998]: 204–5).

³⁰ For comparative data on public opinion, see, for example, Richard Rose and Christian Haerpfer, "New Democracies Barometer V," *Studies in Public Policy* no. 306 (Glasgow: Center for the Study of Public Policy, University of Strathclyde, 1998), 17, 25.

the reform of public administration in Poland lacks a coherent and national program to be implemented gradually. Subsequent governments, in their attempts to realize temporary political goals or provide ad hoc solutions to problems which arise unexpectedly, have tended rather to support their own, frequently short term visions rather than considering long term implications. Consequently, the system of administration tends to expand to incorporate new institutions whose *raison d'être* is dubious at best or whose existence is calculated for a short period only. It is no wonder that under such adverse conditions internal relations within the administration suffer, the organization lacks clarity, effectiveness wanes and all sorts of barriers and limitations multiply.³¹

While such views mirror the prevailing popular perceptions, casting of the reform process in terms of chaos, particularism, and inefficiency may be highly misleading, especially when one compares Poland's experiences with those of other postcommunist countries. The uncertainties and turmoil of the state transformation process reflect, above all, the political and institutional complexity of such massive state reforms and their social impact. Any significant change in even highly inefficient state policies or institutions disrupts everyday routines and expectations, has weighty distributional consequences, and directly affects wide segments of the population and many powerful social actors. Consequently, opposition to reforms can be easily mobilized and ensuing political struggles contribute a sense of profound instability. In addition, the perception of chaos is magnified by intense political conflicts and struggles among political elites that characterize democratic competition as well as the process of designing, enacting, and implementation of the specific reform measures.

In contrast to those who emphasize chaos, political expediency, and inefficiency, the process of institutional reforms in Poland can be seen as remarkably determined, motivated by a grand design, and generally consistent. Although it has been slow and convoluted, it was based on the considerable consensus among main political actors, regarding the ultimate direction and goals of reforms. It was guided by a set of well-defined objectives that were initially elaborated during the roundtable negotiations in 1989: state decentralization and self-government for local communities, small and efficient central state administration, fiscal discipline, reduced role of the state in the economy, generous welfare policies, as well as transparent and efficient regulatory institutions. These general objectives remained unchanged through the subsequent

³¹ Andrzej Kidyba and Andrzej Wrobel, *Public Administration in Poland: Its Structure and Powers*, Economic and Social Policy Series, no. 34 (Warszawa: Friedrich-Ebert-Foundation Poland, 1994), 7.

debates and were reflected in reform proposals and measures implemented by the consecutive governments. There were, however, intense controversies regarding particular reform designs and their likely impact on various social and professional groups. Political conflicts and debates centered not on objectives but on institutional strategies and proposals for specific social policy changes. Conflicts were particularly intense because they were firmly rooted in competing political visions and programs and much less in particularistic interests of elite politicians. Nowhere did the dominant neoliberal vision clash with traditional social-democratic sentiments and ideas so intensely as in the domain of social policy and state obligations vis-à-vis various social and professional groups.

Due to the highly contested nature of each proposed reform measure, the specific government proposals were carefully designed, widely consulted, and quite efficiently implemented. This highly partisan and demanding policy-making environment had beneficial, although often unanticipated, impact on specific reform measures in the long run. What were frequently criticized as unnecessary obstructions and irresponsible delays in introducing necessary measures and attributed to the pettiness or ideological zeal of politicians resulted in a better reform design and more control over their outcomes. The history of the long-stalled mass privatization program provides a good example of such a situation. Because of delays caused by intense political conflicts, Poland was able to avoid most of the problems that plagued hastily implemented Czech and Russian mass privatization schemes.

It is not only the policy design and the contentious policy-making environment that characterized the state reform process. The transformation of the Polish state followed a particular sequence of reformist measures. It started with the amendments to the communist constitution that changed fundamentally the system of government, and with the reform of local administration. The creation of the local self-government was the first legislative initiative of the newly established upper chamber of the Polish Parliament (Senat). The reform, implemented in March 1990, created 2,483 democratically constituted territorial units (*gminy*). In the spirit of the principle of subsidiarity, the act empowered local communities to deal with local issues.³² The local self-government

³² See Renata Wrobel, *Cztery Lata Reformy* (Warszawa: Presspublica, 1994); Hellmut Wollman, "Institution Building and Decentralization in Formerly Socialist Countries: The Cases of Poland, Hungary, and East Germany," *Environment and Planning* 15 (1997): 463-80; Joanna Regulska, "Local Government Reform," in Richard F. Staar, ed., *Transition to Democracy in Poland* (New York: St. Martin's Press, 1998), 113-32; Lena Kolarska-Bobinska, ed., *Druga fala polskich reform, 1989-1998* (Warszawa: Instytut Spraw Publicznych, 1999); Kolarska-Bobinska, ed., *Cztery reformy. Od koncepcji do realizacji* (Warszawa: Instytut Spraw Publicznych, 2000).

was granted considerable powers and resources and took over many tasks performed previously by the state administration (maintenance of infrastructure, primary education, health services, administration of public property, partial responsibility for maintenance of law and order, etc.). During the same year, 254 regional offices (*urzędzi wojewode*) designed as auxiliary organs of the state administration were established to increase efficiency of the state apparatus and to facilitate the relationship between self-governed *gminas* and the state.

The reform of the local government was followed by the reform of the state finances and its extractive capabilities. It included the introduction of the new tax system (personal income tax was introduced in 1992 and the VAT in 1993) and the reform of tax collection mechanisms. The implementation of the new tax system was well prepared and successful. It ensured the uninterrupted flow of revenues and a relatively high level of tax compliance. The 1997 OECD survey stated that "maintaining fiscal revenues has been a major challenge in all countries in transition. In Poland, tax revenues, non-tax revenues and social security contributions have been comparatively well maintained."³³ Fiscal stability was a critically important issue for securing the progress of transformations by allowing the maintenance and expansion of, among other things, safety nets and large social programs. As Theda Skocpol argues, the "state's means of raising and deploying financial resources" is the most important factor in explaining the state's "capacity to create or strengthen state organizations, to employ personnel, to coopt political support, to subsidize economic enterprises, and to fund social programs."³⁴ In fact, the postcommunist welfare state became more extensive: the share of social expenditures in GDP increased from 17 percent in 1989 to 32 percent in 1995.³⁵

The first post-1989 governments made serious efforts to design and facilitate organizational and institutional changes within the state administration, although the governmental instability and ensuing political debates as well as the complexity of reforms greatly slowed down the pace of transformations envisioned at the beginning of transition.

³³ OECD *Economic Surveys: Poland 1997* (Paris: OECD Publications, 1997), 39.

³⁴ Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in Peter Evans, Dietrich Rueschmeyer, and Theda Skocpol, eds., *Bringing the State Back In* (New York: Cambridge University Press, 1995), 17. See also Jose Antonio Cheibub, "Political Regimes and the Extractive Capacity of Governments: Taxation in Democracies and Dictatorships," *World Politics* 50 (1998): 349–73; John L. Campbell, "The State and Fiscal Sociologies," *Annual Review of Sociology* 19 (1993): 163–85.

³⁵ See, for example, Tomasz Ingłot, "Historical Legacies, Institutions and the Politics of Social Policy in Hungary and Poland, 1989–1999," in Grzegorz Ekier and Stephen Hanson, eds., *Capitalism and Democracy in Central and Eastern Europe: Assessing the Legacy of Communist Rule* (New York: Cambridge University Press, 2003).

Although the noncommunist reformers lost power to ex-communists the PSL-SLD governments (1993–97) continued the program of transformations, focusing their attention on the reform of the central administration.

The legislation enacted in 1996 commenced the process of fundamental changes in the structure and operation of the government and state administration. It laid foundations for the creation of a strong government and rationalization of its organizational structures. It also increased the prerogatives of the prime minister, facilitated more efficient management of state assets, and established the professional civil service. The main intention of the reform was to focus the activities of government ministers on policy and regulatory issues and relieve/prevent them from micromanaging the economy and provision of state services. The act strengthened ministries responsible for macroeconomic regulation (especially the Ministry of Finance), created better management of public property, and improved the quality and stability of civil service. The transformation of the national-level administration was completed in 1997 by additional legal regulations and especially by the Act on the Polish National Bank, extending the power and autonomy of the central bank. As a result, Poland maintained remarkable financial and currency stability and was able to control inflation, and its central bank emerged as a powerful national actor.³⁶

The territorial reform of 1998 constituted another critical element in the process of state transformations. It created the second tier of the local self-government by establishing 365 new, self-governing territorial units (*powiaty*). At the same time, the reform reduced the number of state-administered regions from 49 to 16 in order to create large and economically viable regions and decrease the state direct involvement in local affairs. The regional offices created in 1990 were abolished, and state administrative functions were consolidated. This reform left nearly 50 percent of the state budget in the hands of local communities, transferred important social tasks to the local self-government, and streamlined the structure and prerogatives of the state administration.

The next stage of state transformations comprised the most difficult and controversial reforms: the pension system, health care, and education. The question of how to redesign these critical services and programs has been hotly debated since 1989, and consecutive governments developed various policy proposals.³⁷ The detailed reform projects were completed in 1998 and a political consensus was reached about their

³⁶ See Wojciech Maliszewski, "Central Bank Independence in Transition Economies," *The Economics of Transition* 8 (2000): 749–89.

³⁷ For the detailed evaluation, see Stanisława Gołnowska, *Political społeczna. Koncepty-instytucje-koszty* (Warszawa: Poltext, 2000).

design, merits, and necessity. The Solidarity-led government, which succeeded ex-communists in 1997, moved the projects through the Parliament and vigorously pushed ahead with implementation. In 1999 Poland introduced ambitious and comprehensive pension reforms. The existing pay-as-you-go system was transformed into the three-pillar system based on individual retirement accounts.³⁸ Two mandatory sources were created: (1) the state-run social security component (first pillar), managed by the legally autonomous public organization, the Social Insurance Institution (ZUS) (which also covers disability, sickness, and accident payments), and (2) the fully capitalized component managed by strictly regulated private pension funds (second pillar). The ZUS collects contributions for both pillars. These two components were supplemented by the third pillar—voluntary private insurance. The system is designed to achieve long-term financial sustainability and an increase in future benefits, which depend on the amount paid by individual contributors. It also guarantees a minimum pension. As part of the reform, a system of state-regulated but privately managed national investment funds was established in 1998, creating twenty-one new financial institutions.

Also in 1999 the health system reform was introduced. The responsibilities for funding and delivering health services were decentralized. The reform established sixteen territorially based Health Care Funds and a special one for the military and police employees. The funds pay medical benefits to all insured under their jurisdiction and sign contracts with doctors and hospitals for the delivery of all medical services. All employees pay mandatory premiums collected by the ZUS and transferred directly to the funds. Under the reform the insured person is able to choose his or her doctor and the health care institution in which he or she wants to be treated. The new system was designed to introduce competition in the health sector and, at the same time, to establish more rigorous control of health expenditures and reduce waste and mismanagement.

The reform of the education system was launched in 1999 as well. It introduced a number of fundamental changes, initially mostly at the primary and secondary education level. The cycle of instruction was redesigned, curricula changed, and even more responsibility for financing and running schools was delegated to the local self-government.

All three reforms were quite efficiently implemented, despite considerable opposition from various professional groups in affected sectors and

opposition parties. The decade-long delay in reforming these major spheres of state activities reflects well-known difficulties and dilemmas common to both developed and transition countries. As Robert Kaufman argued, "the administrative difficulties in creating or strengthening elite macroeconomic agencies are generally less severe than those of reforming larger, service-providing segments of the state apparatus."³⁹

This brief overview suggests that the Polish state experienced extensive institutional transformations during the first decade following the collapse of state socialism. Despite intense political conflicts over the content and implementation of reforms that produced the appearance of administrative ineffectiveness and institutional chaos, the Polish state developed better capacity to respond to challenges of simultaneous transitions than many of its postcommunist neighbors. It is also better organized and more effective, and it seems to possess more "infrastructural power" than its communist predecessor ever had. Interestingly, the logic of state transformation in Poland corresponds well with the policy recommendations advocated by the World Bank and other international financial organizations. In the remainder of this chapter, I will briefly describe the direction of state transformation in Poland as measured against the agenda of state reform, stressing the need for centralization and insulation of control over macroeconomic policy, decentralization and privatization of social services, delegation of regulatory functions to independent agencies, and creation of more capable civil service.

CENTRALIZATION AND POLITICAL INSULATION OF CONTROL OVER MACROECONOMIC POLICY

Compared to the period before 1989, the autonomy and relative capacity of the Polish state have been enhanced, despite the substantial devolution of its power. First of all, after 1989, when many expected to see the huge, bureaucratic "communist Leviathan" cut down and limited, the new postcommunist state in Poland actually grew in terms of employment and the number of specialized central state agencies (see table 11.3). The Polish state became much bigger during the analyzed period. Employment in public administration more than doubled, increasing from 69,319 in 1989 to 171,246 in 1998. In 1999 46,000 employees were added, provoking a public debate about the excessive expansion of the state apparatus.⁴⁰ Interestingly, the growth of employment in the state administration outraced significantly the growth of

³⁸ See Katherina Muller, *The Political Economy of Pension Reform in Central Eastern Europe* (Chatham: Edward Elgar, 1999); Hans-Jürgen Wagoner, "The Welfare State in Transition Economies and Accession to the EU," *West European Politics* 25 (2002).

³⁹ Kaufman, "The Politics of State Reform," 9.

⁴⁰ See the interview with Witold Kieżun in *Gazeta Wyborcza*, October 30, 2000.

TABLE 11.3
Employment in State Administration and Local Self-Government, 1989–1998

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Central state's agencies	32	35	37	39	40	43	44	—	—		55 ^a
State administration	71,135	69,319	75,229	93,344	104,739	115,374	133,330	141,494	156,856	163,487	171,246
Local self-government	96,716	92,260	83,583	77,551	90,110	108,333	135,022	139,295	133,369	142,114	138,227

Sources: *Rocznik Statystyczny* (Warszawa: GUS, 1989–1999). For 1987–89 local state administration includes those employed in 49 provincial offices (*urzędy wojewodzkie*). Since 1990 it includes those employed in 49 provincial offices and in 254 newly created regional offices (*urzędy wojewodzkie*). On January 1, 1999, the number of provincial offices was reduced to 16 and an additional level of local self-government was introduced comprising 308 new territorial units. Data do not include employees of the Ministry of Internal Affairs (employment increased from 145,014 in 1990 to 181,494 in 1993, to 187,102 in 1996, and 184,700 in 1998), Ministry of National Defense (civilian employment and the size of the armed forces decreased from 363,400 in 1990 to 314,400 in 1993 and 289,968 in 1996), and Ministry of Justice (with employment of 39,739 in 1993), with the exception of employees of the ministerial office.

^aThe number of central state agencies in the end of 1999.

THE STATE AFTER SOCIALISM

TABLE 11.4
Employment in the Public Sector in Poland, 1990–1998

	1990	1993	1995	1996	1997
Public-sector employment	8,941.9	5,613.9	5,394.9	4,823.9	
Percent of all employed	54.9%	38.1%	35.9%	31.2%	
Armed forces	363.5	314.4	309.0	290.0	287.5
Internal security	145.0	181.5	185.0	187.1	188.7

Source: *Rocznik Statystyczny* (Warszawa: GUS, 1998), 126, (1999), 130.

employment in the local self-government, despite the fact that considerable responsibilities were shifted to the local self-government.

The growth of state employment can be attributed to the effort to reorganize the old while building new spheres of the state administration in order to respond to new domestic and international challenges and regulatory needs engendered by the emergence of markets as well as the requirements of the EU accession process. In fact, the overall size of the public sector (including state-owned enterprises) decreased approximately by half as a result of privatization policies. There was a significant reduction in the size of the armed forces, as illustrated in table 11.4. Ironically, by the end of the decade, employment in the national security apparatus was much higher than it had been under the communist regime. As a result of this expansion, the Polish state is much bigger than the state in other postcommunist countries, especially those where the reform process is stalled or reversed. Tito Boeri demonstrates employment in the state sector (excluding state enterprises) increased during the transition period in the more successful Central European countries, while it declined in the less successful countries of the former Soviet Union.⁴¹ Similarly, when one looks at government spending as a percentage of GDP (one of the routine measures of state size), on average government expenditures declined only from 46.6 to 43.9 percent in the successful reformers in Central Europe (Visegrad countries), while they fell from 50.8 to 33.1 percent in the countries of the former Soviet Union.⁴² Moreover, as the OECD data in table 11.5 show, general government employment has already reached the level of some West European welfare states. This significant expansion of the state size in transition

⁴¹ Tito Boeri, *Structural Change, Welfare Systems, and Labor Relocation: Lessons from the Transition of Formerly Planned Economies* (Oxford: Oxford University Press, 2000).
⁴² Nauro F. Campos and Fabrizio Coricelli, "Growth in Transition: What We Want, What We Don't and What We Should," *CEPR Discussion Paper*, no. 3246 (March 2000), 23, 67.

TABLE 11.5
General Government Employment as a Percentage of Total Employment

	1995	1997	1998
Czech Republic	5.4	5.8	5.8
Hungary	7.3	7.2	—
Poland	18.0	18.4	—
Belgium	19.2	18.7	18.4
Denmark	30.3	30.2	30.0
France	24.9	24.9	24.5
Germany	13.2	12.9	12.6
Ireland	13.2	12.2	11.2
Italy	18.0	17.5	—
Spain	15.5	15.6	15.1
Sweden	32.1	31.5	—

Source: *Analytical Databank*, OECD.

of employment and a high level of state spending provoked intense debate on the economic effects, desirability, and limits of state growth. Many critics argued that Poland cannot sustain such a sizable state in the long run without hurting economic freedoms, competitiveness, and country's economic performance.

Second, the new state became quite effectively insulated from old organized interests and, therefore, more autonomous. According to David Bartlett, it experienced the shift of "power within the state administration away from the branch ministries, which had served as the main venue for particularistic bargaining under communism, and toward agencies of macroeconomic regulation."⁴³ In Poland, the Ministry of Finance became the locus of governmental power, and the minister of finance was elevated to the rank of the deputy prime minister. This shift of power away from spending ministries and the breakdown of old networks and linkages between the state and organized social actors provide important clues for understanding the capacity of the Polish government to introduce and sustain radical economic and social reforms.

The autonomy and power of ministries responsible for macroeconomic regulation were enhanced through consecutive reforms of the governmental administration and by the creation of the independent central bank. Policymakers also benefited from the window of opportunity provided by the radical breakdown of the old and the slow emergence of

new domestic interest groups.⁴⁴ The 1996–97 reform of the central administration also strengthened the power of the prime minister, ensured better coordination of the government activities, and separated policymaking and regulatory functions from everyday administrative tasks. The creation of sixteen large regions in 1998 and the delegation of many tasks previously held by the central administration to new regional offices streamlined state activities even further. Moreover, in 1996, following several years of preparation and debates, the legislation creating the professional civil service was introduced. It established rules and procedures in accordance with international standards. The reform intended to depoliticize the state administration and created conditions in which high-ranking state employees were shielded from the impact of transient government changes. Positions within the state administration subjected to political turnover were clearly defined and limited to the highest posts in the government (ministers, deputy ministers, general directors) and regional administration. The law also introduced ten positions, public competition for higher managerial posts, and professional training programs.

Third, the extractive capacity of the Polish state has been greatly expanded through reform of the tax system completed by 1994. In terms of design, tax reforms followed existing European models. Their implementation was successful, and collection mechanisms have been working reasonably well. According to the OECD survey, "the Polish authorities took a very cautious and thorough approach to introducing VAT, which has paid off handsomely... VAT receipts grew from month to month and quickly exceeded the revenues collected from the old turnover tax... enforcement has been vigorous and as a consequence there are no problems with tax arrears."⁴⁵ As a result, financial stability was achieved and budget deficits have been under control. Sustainable streams of revenues allowed an increase in spending in some critical areas (infrastructure, internal security) as well as securing necessary funding for emergency spending and restructuring of the most troublesome sectors of Polish industry (armament, steel, coal mining) and agriculture.

Finally, the Polish state was able to push for the radical reform of large social services, laying foundations for a modern welfare system. The 1999 pension reform was the boldest and most comprehensive comparison with other postcommunist countries at that time. Fundamental reforms of the health services and education followed early

⁴³ David Bartlett, "Democracy, Institutional Change, and Stabilization Policy in Hungary," *Europe-Asia Studies* 48 (1996): 48.

⁴⁴ For the elaboration of this point, see Leszek Balcerowicz, *Socialism, Capitalism and Transformation* (New York: Central European University Press, 1995).

⁴⁵ OECD *Economic Surveys: Poland 1994* (Paris: OECD Publications, 1994), 173.

measures aimed at decentralization and commercialization of social services. For example, the legislation adopted in 1991 allowed the establishment of private schools at all levels of education. As a result, by the end of the decade, 26 percent of all college students were trained in over one hundred new private universities and colleges. In short, through the twin process of privatization and fiscal as well as administrative decentralization, the foundations for more efficient and sustainable social policies were established. Moreover, substantial progress has been made in privatizing state-owned enterprises and banks as well as in restructuring the deeply distorted and notoriously troubled heavy industry sectors, such as coal mining and steel industries.

In sum, since 1989 the inefficient and small state inherited from the old regime has been greatly transformed. The state administration has become larger, better organized, professionalized, and in many ways more efficient. The state apparatus has been increasingly focused on policy making and regulatory functions. Moreover, state finances were rationalized and public spending and monetary policies have been relatively sound. Additional resources have been devoted to the maintenance of law and order and infrastructure. It can be argued that the state reforms created relatively stable institutional foundations to facilitate economic growth and foreign investment. They contributed to rising living standards and alleviation of many social problems. They also made possible the progress of the EU accession process and integration with Western political and economic organizations.

DECENTRALIZATION AND PRIVATIZATION

Two parallel processes contributed to the significant decentralization of state functions and ways in which the delivery of social services was transformed. First, two waves of local government reforms created two tiers of self-governed territorial units. This allowed many tasks performed previously by the state administration to be delegated to local authorities on the assumption that they are better equipped to identify spending priorities and oversee efficient use of funds. Encouraged by the results of the first wave of decentralization in the 1990s, the 1998 legislation, creating the second tier of local self-government, increased the responsibilities and amount of public funds controlled by local self-governments. In 1997, during the debates on the second round of territorial reforms, the internal report of the Polish government stated that

the results (especially economic ones) achieved by local self-government during the first six years following the reform proved beyond any doubt that the strategy of decentralization was correct. Despite the difficult insti-

tutional, political and economic environment, gminas maintained fiscal balance, and registered 1.8% surplus in their budgets. Local officials were very careful in taking new credits and were able to avoid the debt trap. Moreover, gminas were eager to invest (20% of their income was invested in various infrastructural projects) contributing significantly to overcoming the recession and stimulating subsequent economic growth. Activities of the local self-government had also a profound impact on stabilization and regulation of property rights.⁴⁶

Second, the process of privatization reduced substantially the direct state involvement in the economy. Poland's multitrack privatization process benefited from the involvement of local self-governments to whom jurisdiction the substantial amount of state property was transferred. While small-scale privatization was quickly and efficiently implemented the acrimonious political debate about blueprints for mass privatization postponed its implementation for several years. The delay allowed the Ministry of Privatization to develop a more effective and economically viable program, expanded the scope of more efficient capital privatization, and opened more opportunities for direct foreign investment. As a result, privatization was more gradual and decentralized and has been taking place in a better prepared and regulated environment than many other countries. Moreover, growing stabilization of the economic situation, better macroeconomic results, and increasing international perception that Poland's transformations are on the right track brought a steady stream of foreign investment. By 1998 Poland had become one of the biggest recipients of foreign direct investment in the region.⁴⁸

REGULATORY OVERSIGHT AND THE DELEGATION OF REGULATORY FUNCTIONS TO INDEPENDENT AGENCIES

In general, external controls over the state's administration in postcommunist countries were expanded as a result of the revived parliamentary, judicial, and media oversight. The new states relinquished some of their power both upward to the international agencies and organizations (World Bank, IMF, etc.) and downward to local self-governments. The constraints imposed by international lending institutions were especially effective in reducing the state's capacity to pursue inflationary policies and to freely implement major policy changes. In addition, it

⁴⁶ Ministerstwo Spraw Wewnętrznych i Administracji, *Panstwo sprawnie, przyjaźnie* (Warszawa, 1997), 7.

⁴⁷ See John Earle et al., *Small Privatization* (Budapest: CEU Press, 1994), 205–17.

⁴⁸ See EBRD, *Transition Report 2000* (London: EBRD, 2000), 74, 79–91.

land's institutional choices, such as granting independent status to the central bank, introducing the VAT, or pursuing fiscal and administrative decentralization, facilitated bureaucratic self-restraint and fiscal discipline. Moreover, successive governments paid special attention to developing regulatory capacities and frameworks. In many instances this insistence on efficient regulations delayed the implementation of reform measures. The development of capital markets can serve here as a good example. According to the OECD,

the general approach pursued by the authorities has been first to assure that regulatory safeguards meeting international standards were in place. . . . This may have slowed the development of markets somewhat, but it was felt that it would assure against the risks inherent in the unregulated development of security markets. In line with this strategy, the powers of the Security Commission were further enhanced in December 1993 with a pre-emptive widening of the scope for penalizing stock exchange offenses.⁴⁹ Other regulatory bodies were created as well to oversee specific policy areas.

The highly competitive and politicized environment that magnified the political oversight and accountability of politicians and state personnel provided an important impulse for heightened concerns about regulatory efficiency and transparency. Unintended consequences or problems caused by specific policies were frequently used as powerful political weapons by the parliamentary and extra-parliamentary opposition. In addition, the reform measures were hotly contested by mighty trade unions, professional organizations, and other interest groups, as well as being scrutinized by the media. These multiple points of critique and opposition forced each government to prepare, revise, and consult on countless projects before any degree of consensus was reached and final measures could be accepted by the Parliament. To defend policy proposals, the government always commissioned in-depth policy analyses exploring their potential consequences from both domestic and foreign experts and consultants. Moreover, the prospect for EU accession facilitated the adoption of many specific institutional solutions that became accepted as European standards. As a result, in contrast to many other postcommunist states, Poland has developed a relatively efficient regulatory framework, increased accountability of state officials by creating independent regulatory agencies, and put in place relatively effective institutional mechanisms of enforcing laws. This, in turn, reduced the levels of corruption, increased tax compliance, and provided a relatively stable, predictive, and secure environment for business activ-

ities.⁵⁰ In 1998 Britain's Economist Intelligence Unit gave Poland the highest grade among all postcommunist countries in a ranking of business environments. Other assessments of the economic and political situation in the region also acknowledged significant improvements in many areas and consistently placed Poland at the top of their ranking (see table 11.1).

CONCLUSIONS

Despite some common misconceptions about the strength and capacity of communist party-states, in the wake of the state socialism collapse East European states were small, weak, and ineffective. In Mann's terms they had considerable "despotic power" and weak "infrastructural power" that is, the capacity to "penetrate civil society and to implement logically political decisions throughout the realm."⁵¹ Through the last 1970s and 1980s the communist states presided over the longest peaceful economic decline in the twentieth century and gradually lost their control and institutional grip on their societies. In 1989 much of the "despotic power" was gone with the inauguration of democracy and rule of law, and their "infrastructural power" eroded even further as a result of the regionwide economic depression and institutional chaos multiple transitions. The rebuilding of state institutions became one of the most critical tasks facing new political elites. The fall of state socialism opened up the opportunity for institutional reconfiguration and a definition of state powers and functions. Yet, despite an initial flurry of official declarations, debates, and partial reforms, the institutionalization of the new state architecture and practices faced real problems. Institutional and legal reforms were slow in coming and often have not been sufficiently deep to reshape the inherited state apparatus and alter the behavior of state functionaries. In fact, partial reforms increased the vulnerability of state institutions to corruption and multiplied their weaknesses.⁵²

The range of initial outcomes of state transformations varies significantly.

⁵⁰ It is important to emphasize that after the initial surge in crime rates in the early 1990s, they stabilized in the mid-1990s and even started to decline in certain categories after 1995. See *Rocznik Statystyczny 1997* (Warsaw: GUS, 1999), 65–67.

⁵¹ Michael Mann, "The Autonomous Power of the State: Its Origins, Mechanisms and Results," *Archives Europeennes de Sociologie* 25 (1984): 188–89.

⁵² Interestingly, the index of governance created on the basis of the enterprise survey conducted in the region has a U-shape, with higher values for the least and the most reformed countries. Similarly, the extent of state capture studied by the EBRD analyses show that partially reformed countries are most likely to be affected. See *Transition Report 1999*, 115–21.

cantly across the region. Some communist countries experienced the spectacular state collapse and dismemberment. In others, especially in the successor states of the former Soviet Union, state reforms were blocked or mishandled and the state apparatus was captured by powerful interest groups. This led to rapid pathologization of the political and economic life (official corruption, organized crime, stripping of state assets, etc.), which in turn led to financial instability, collapse of services, and a serious governability crisis.⁵³ In contrast to the post-Soviet cases, the process of state reconfiguration was more successful in countries of East Central Europe. Although the transformation process has been uneven and its outcomes are still uncertain, countries such as Czech Republic, Hungary, or Poland have been able to reshape the institutional architecture of the state and enhance its capacity. This may explain, in part, the progress these countries have made in consolidating their democracy and building a market economy.

Observers and students of democratic transitions have become convinced that efforts to create an effective state are the indispensable element of the successful political and economic transformations. In its 1996 report the World Bank emphasized that "getting the government's own house in order—achieving tighter control on expenditure, better budget management, and tax administration, while reforming fiscal relations between levels of government—is a high priority for advanced and lagging reformers alike."⁵⁴ And, in fact, the experiences of the last decade increasingly show that the democratic future and economic prosperity of postcommunist countries hinge to a large degree on their ability to build the efficient, accountable, and democratic state.

The analysis presented in this chapter reveals a largely unexpected picture of state reform in Poland. In contrast to many other countries in the region, Poland's ruling elites were relatively successful in rebuilding the state and public administration during the first decade of postcommunist transformations. Through a highly contentious process, marked by fierce political debates, countless reform proposals, and both deep structural and piecemeal changes, Poland has constructed a stronger, more capable and efficient state. The new state is characterized by a high degree of accountability, as well as the ability to regulate emerging markets and prevent excessive rent seeking and corruption.⁵⁵ The re-

formed state developed relatively effective extractive capacity and is able to provide essential public goods, maintain or even expand the indispensable safety nets, and deliver social services. In fact, Poland is on its way to achieving the goal of creating an "efficient, friendly, and secure state," outlined several years ago in the government reform proposal. It can be argued that the robust economic growth and rapidly rising living standards can be, to a large degree, attributed to this success in rebuilding the central state administration, expanding the local self-government, and reforming entitlement programs.

How one can explain the success of Polish reforms? Several factors may account for this outcome. First, Poland entered the postcommunist period with a wide-ranging consensus among all significant political actors regarding the need for fundamental, structural reforms. Nowhere in the region were communist institutions and policies more discredited and delegitimized than in Poland. The depth of the economic crisis provided additional urgency and encouraged politicians to seek innovative solutions to problems they had to confront. Moreover, this consensus was based on the shared acceptance of neoliberal ideas among new political elites. These ideas were embraced not only by a large group of politicians who were well-educated, experienced in opposition activities against the old regime, and Western oriented, but also by the majority of the former ruling elite. They had broad popular support as well. Neoliberal views, according to observers, were "very visible in the media, especially in the press, which, at least in Poland, has had a very liberal, pro-market bent." Paradoxically, they were also influential among the actors traditionally hostile to liberalism: "Solidarity was probably the only trade union in the world that, for a short period of time at least, supported radical market reform."⁵⁶ In addition, the scope and boldness of the economic reforms introduced by the first post-1989 government gave additional impetus to other fundamental reform projects. Second, Poland's postcommunist politics has been characterized by robust political competition. It produced a higher degree of accountability, more political control over policies, and restraint in rent-seeking behavior, and it kept the issue of reforms at the center of political agenda. In fact, the EBRD research shows that countries with more competitive and fragmented (run by multiparty governments) systems achieved greater progress in economic reforms. The Polish case suggests that the same regularity applies to state reforms as well.⁵⁷ Moreover, the nature of the emerging party competition secured the continuation of reform policies, despite frequent changes of ruling coalitions. The Polish party system has strong centripetal tendencies, extremist political views

⁵³ See, for example, Stephen Holmes, "What Russia Teaches Us Now: How Weak States Threaten Freedom," *The American Prospect*, no. 33 (July–August 1997); Hellman, "Winners Take All"; and Valerie Spetling, ed., *Building the Russian State* (Boulder: Westview Press, 2000).

⁵⁴ *From Plan to Market: World Development Report 1996* (Oxford: Oxford University Press, 1996), 110.

⁵⁵ See "Corruption in Poland: Review of Priority Areas and Proposals for Action," *Report by the World Bank* (Warsaw: World Bank, October 11, 1999).

⁵⁶ Amsteden, Kochanowicz, and Taylor, *The Market*, 168.

⁵⁷ See *Transition Report 1999*, 104 and 112.

on both sides of the political spectrum are marginalized, and main competing parties embraced relatively similar reform agendas. In addition, the pluralist and competitive nature of Poland's civil society (with its politically divided and organizationally fragmented labor movement) prevented the emergence of powerful interest groups able to capture the state and block the reforms.

Third, the prospects for EU enlargement created a set of powerful incentives to reform various aspects of public administration and state practices in order to conform as close as possible to the West European standards in the effort to fulfill the pre-accession obligations and secure earlier admission to the European Union.

Finally, the timing and sequencing of reforms created a virtuous dynamics. The sequence of reform measures—decentralization, enhancement of extractive capabilities, reform of the central administration, second phase of decentralization, reform of public services—seems to be optimal for sustaining the reform momentum and securing implementation of successive reform measures. This factor lends credibility to the path dependency ideas emphasizing the importance of sequencing and earlier events in the process of institutional change.⁵⁸

The transformation of the Polish state is still underway. It will take several more years for all elements of the reform to be in place and for their outcomes to become apparent. The process, however, is well advanced, and Poland is likely to have a fully reformed state sooner than many of its postcommunist neighbors.

⁵⁸ See, for example, Paul Pierson, "Increasing Returns, Path Dependence, and the Study of Politics," *American Political Science Review* 94 (2000): 251–67.

CHAPTER 12

Rotten from Within:

Decentralized Predation and Incapacitated State

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As a CRITICAL characteristic of political systems, weak state capacity is widely observed in the developing world. The concept of state capacity promises such analytical utility that it has been used repeatedly, as an explanatory variable, to probe the causes that promote—and stifle—economic development in developing countries.¹ At the same time, state capacity has itself become a dependent variable. Some scholars have attempted to explore the factors that generate and increase state capacity. This study, however, concerns itself with the erosion of state capacity in countries experiencing regime and/or economic transitions.

Regime and economic transitions have produced massive political, social, and economic dislocations—some temporary and others long-lasting—in many parts of the world. Among the dislocations observed, the erosion of state capacity is arguably a defining characteristic of transition, as the examples of the former Soviet Union, Eastern Europe, China, and other countries in the developing world demonstrate. Moreover, compared with countries where the state, as an authoritative administrative organization, has simply collapsed and political anarchy has prevailed, countries that have seen their state capacity decline perhaps ought to consider themselves fortunate.² The decline of state capacity per se is not necessarily a curse—or a blessing—for the countries where such a development has occurred. In some cases, the decline of the state may be viewed as largely a positive political and economic development if it occurs in a country where the ancient regime has used

¹ The argument that state capacity is a decisive factor in economic development has been made in numerous works. See Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925–1975* (Stanford: Stanford University Press, 1982); Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrialized Countries* (Ithaca: Cornell University Press, 1990); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990).

² For an early discussion on failed states, see Gerald Helman and Steven Ratner, "Saving Failed States," *Foreign Policy* 89 (Winter 1992–93): 3–20.