

TRANSITIONAL TENDENCIES IN PUBLIC ENTERPRISES – SIGNALS FOR MONETARY POLICY IN POLAND

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„It is simple enough to produce a fish soup of fish, our transformation is about producing fish of a fish soup”.

Cezary Józefiak., 1994

Abstract

The purpose of this paper is to present structural changes that took place in the main sectors of the Polish industry² in the nineties. I would like to focus in particular on the changes to *corporate governance* and the way of financing at different stages of the development of the industrial sector. I have taken into account public funds investments related to the restructuring of some industries and their low effectiveness in order to draw a structural policy model allowing for making reference to the public expenditure incurred and their balancing platform. The framework that I propose requires, however, the redefining of some statistical data for the purpose of determination of a development stage of an industry, the level of technology innovation, the separation of submarkets, etc. If the state - for political reasons - invests public fund in the restructuring of industries which are in their declining phase, and if these costs are not balanced against the revenue made on industries which are in their emerging phase, this will generate additional lasting public finance deficit, which in turn may affect the rate of inflation in the context of faster money creation caused by the issuing of bonds for the purpose of financing it.

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² I.e. those where production accounts for generating of ca. 80% of industry value (12 divisions) according to GUS (Main Statistical Office) data.

Due to systemic changes, dynamic entrepreneurship growth, privatisation and capital movement liberalisation which had taken place in our economy in the nineties the ownership structure and *corporate governance* underwent fundamental changes. The results of research covering groups of 20 largest corporations from 27 countries around the world point to the co-existence of various forms of ownership of economic subjects and, consequently, different forms of governance³. The research has confirmed the view about the dominating share of private ownership, which is exercised most of the time by means of a controlling share owned by the families or institutional investors. In 16 out of 27 economies covered by the research there is, however, a significant share (>5%) of public ownership controlling the largest enterprises, mostly state-ownership. Currently there is a similar situation in Poland. The share of enterprises governed by the state in the group of 100 of the largest enterprises reaches up to 40% (table 1), also the Treasury is a significant shareholder among the largest companies, the shares of which are publicly traded.

Table 1. The share of enterprises in which the Treasury is the sole or dominating corporate governance subject (in%) in the group of 100 of the largest enterprises in Poland.

	1999	2000	2001
Enterprises owned solely by the Treasury.	41	29	29
Enterprises with the Treasury majority holding	7	11	9
Enterprises with the Treasury minority holding (Total)	48	40	38

Source: *Rzeczpospolita* daily, 500 List, 2000-2002.

As a result of the transformation phenomena mentioned the structure of generating the national wealth has changed. The section 'industry' in 2000 generated 26.6% of gross added value and 23.4 % of gross domestic product (GDP). (Table 2.). And although the

³ a.o. La Porta and others. (1999)

share of industry in the GDP structure in the nineties was going down this is still the largest section of the Polish economy.⁴ The corporate sector has currently (2001)

Table 2. The structure of generating gross domestic product in Poland by the main sectors

	1990	1995	2000
Agriculture	8.5	6.2	3.3
Industry	43.6	32.2	23.4
Construction	9.5	5.7	7.3
Services-trade	13	13.5	18.3
Services-finances	0.5	1	2
Services-other	34.4	47.1	53

* It involves additionally fishery and forestry .

Source: Statistical Yearbooks GUS, Jakóbiak (2000), actual prices.

a 45% share in generating the GDP. In the nineties the industry was the main driving force of economic growth due to a high growth dynamics, higher than the GDP increase, and due to an increase of labour efficiency⁵.

Table 3 . Sold production of industry by ownership sectors (percentage share)

	1992	1994	1995	1996	1997	1998	1999	2000	2001
Public sector	71.8	60.6	53.1	47.6	35.8	30.9	29.9	28.0	11.5
Private sector	28.2	39.4	46.9	52.4	64.2	69.1	70.1	72.0	88.5

Source: Statistical Yearbooks GUS 1994 – 2002.

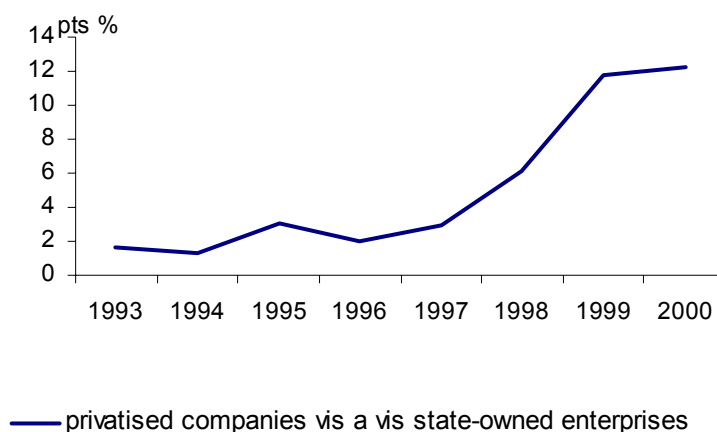
Total sold production of industry is generated in nearly 90% (88,5% in 2001) in enterprises classified as private. The private sector includes domestic private ownership, total foreign ownership⁶ and co-operative ownership (co-operatives). In the private ownership category there are enterprises established as private and the so called „privatised enterprises”, privatised following to various privatisation processes (capital

⁴ Jakóbiak,2000

⁵ Czyżewski and Orłowski, 2000; Rapacki, 2002:

privatisation, mass privatisation, employees buy out privatisation, bankruptcy privatisation etc.).

Fig. 1 The difference in governance results depending on the form of ownership of an enterprise – gross profitability



Source: Bałtowski (2002:91), own calculations.

Twelve divisions of industry generate nearly $\frac{3}{4}$ of the value of sold production of industry (see table 3). The majority of them are definitely dominated by private ownership (the average for this group is 79.0% against 59.6% for industry in total), but what is characteristic is the fact that there is still quite a high share of public enterprises⁷ in these industries. Statistics has not recorded a division of NACE classification in which all the enterprises are 100% private ownership. The share of foreign ownership differs from one division to another. The maximum share reaches over 50% in the division “manufacturing of motor vehicles...” and at the same time this is the most privatised industry in Poland – the share of private sector in the total value of sold production of industry amounted to 97.5%. The form of ownership and the way of *corporate governance* are the features, which strongly differentiate the group of enterprises covered by the research in Poland. The enterprises privatised in capital privatisation process, particularly with the share of foreign capital, were much more profitable in the nineties than the

⁶ it might happen that a foreign investor is controlled by its state.

⁷ for the purposes of this paper the term “public enterprise” defines an enterprise – which is directly or indirectly governed by the state (public authority) and it should not be mistaken for “public company”, „public corporation” - the shares of which are publicly traded and moreover, it is characterised by very dispersed shareholders. Due to the system of appointing the state authorities, based on a political criterium, this type of ownership is defined as „political ownership” (Bennedsen, 2000:560). M.Bałtowski has written more extensively on the the structrue of public enterprises set (2002:21),

public sector enterprises and they maintained their profitability - as opposed to the public sector – in the period of exogenous shock in 1998-99⁸.

Among the analysed divisions of the Polish industry the largest share in the value of sold production of industry belongs to the division „manufacture of foodstuffs and beverages (19.5% GDP), characterised by a high share of private sector enterprises (83%) and an average globalisation of ownership of means of production (18.3%).

Table 4 Ownership structure of the main divisions of industry

	% GDP	Share of private property	Foreign property
Industry divisions	2000	1999	1999
Manufacture of foodstuffs	19.5	83.1	18.3
Electricity, gas, steam & water supply	8.8	3.5	1.8
Manufacture of motor vehicles	6.5	97.5	50.4
Manufacture of chemical products	5.5	66.8	35.7
Manufacture of coke, refined petroleum products	5.5	4.2	3.6
Manufacture of basic metals	4.8	41.2	33.1
Manufacture of metal products	4.7	88.5	20.9
Manufacture of non-metallic mineral products	4.7	85.9	36.7
Manufacture of machines and equipment	4.4	67.3	17.9
Manufacture of furniture	3.7	89.6	15
Mining of coal and lignite; extraction of peat	3.5	2.6	2.1
Manufacture of timber and timber products	3.3	91.0	16.4
Other divisions of industry	25.1	59.7	21.3

Source: GUS (2000:36), GUS (2002)

In the majority of divisions of the Polish industry there is a similar situation of ownership diversification (over 50% of private ownership). But we also find divisions in which production is concentrated in public subjects (state-owned) and in subjects with a minimum foreign capital share in the sold production of a given division. Such a

⁸ GUS (2000:15); Bałtowski, (2002: 91)

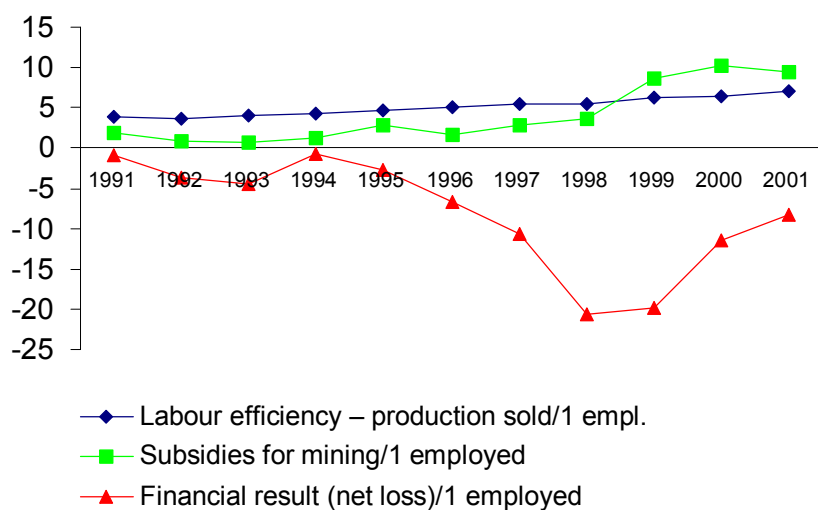
state of affairs is due, among other things, to adopted legal regulations wrongly defining strategic economic subjects. This group includes coal-mining, lignite and peat industry” (private sector share: 2.6%), division of generation and supply of electrical energy, gas and heat” (3.5%), division of „oil refining and cokemaking” (4.2%), division of collection, purification and distribution of water (5.2%). This group may also include the industry of „manufacture of metals” with the share of private sector amounting to 41%. In total the industries of this sector generate 23.8% of the global industrial production, which is nearly 6% GDP of 2000. The total employment in these divisions was 526.2 thou. people (16.9% of the total employment in industry).

The analysis of governance results for public enterprises and private enterprises grouped in the 12 divisions covered by the research, generating over $\frac{3}{4}$ of added value industry in 1998-2002 (2 quarter), points to the dominance of the private sector companies as far as governance results are concerned. In the period covered by the research, 1998-2001, in 52 cases out of 57 (91.2%) a higher net profit (or lower net loss) was recorded in the private sector in comparison to the public enterprises, with 48% of cases of private enterprises having made a net profit (by analogy 44% - gross profit) while in the same period the remaining public subjects recorded a net loss. Similar results were obtained while analysing the ROE return on Equities and ROA return on Assets of the division – the private sector enterprises tended to obtain better governing results. In 62% of observations the private sector obtained a positive return on the capital invested, in the case of the public sector it was true for only 18.9% of the cases (mainly in the following divisions: manufacture of coke, refined petroleum, and electricity, gas, steam and hot water supply).

In the difficult period of 1998-2002 (external demand shocks and recession) the private sector enterprises were losing the capacity to generate profits to a much lesser extent. The number of profitable units in a sample was going down slower in the private sector than in the public sector. This difference is particularly well visible in the industry of „manufacture of basic metals” where the group of profitable public enterprises diminished by 40% while private ones only by 10%, similar proportions occur in the chemical products sector (37% and 3% respectively), „manufacture of motor vehicles....” (67% and 9%) „manufacture of wood ...”, „manufacture of fabricated

metal products...”, manufacture of machinery and equipment...”. an opposite tendency – increase in the number of profitable enterprises, including public ones – is observable in the division „ generation and supply of electric energy, gas and heat” (an increase by 6% in the number of profitable public enterprises in 1998 – 2002 (I half of the year), against a 22% decrease in the number of profitable private enterprises) and in the division „manufacture of coke, refined petroleum products...”. in the division of coal-mining and agglomeration of hard coal the number of profitable units did not change (17) and it accounted for ca. 50% of those submitting complete reports to GUS.

It may be noted that in the period of recession private enterprises reach and record worse results, but the main financial indices remain positive. In the public sector in the period covered by the research the results were getting worse much faster and the financial indices were negative. This phenomenon may be explained by a different governance flexibility and a different approach to restructuring. In private enterprises the response to the first signs of recession is quicker and involves reacting by cost adjustment (reduction of employment), as well as by supply adjustment (reducing production, price response, stabilisation of inventories), so as to maintain the indices which are crucial to securing company sources of funds on the level that allows for a further financial restructuring of the enterprise. In public enterprises („state-owned”), with ineffective corporate governance, the reaction to recession comes later, the omission of acting, necessary in such case (employment reduction, production reorientation, disposal of other assets, etc.) leads to the increase of costs and brings about a loss, and in the context of capital weakness of these enterprises also a fast deterioration of results and financial indices.

Fig. 2 Costs and effects of the restructuring of coal-mining industry

Source: own calculations for example the PARG, GUS data and other.

Due to the lack of proper *corporate governance* incentives on the part of the owner (the owner being the political administration of the Treasury) such a situation is tolerated and used as a means of gaining additional funds (this time from another, after banks, suppliers and budgetary decision makers, stakeholder in the person of a taxpayer who becomes a stakeholder and who consequently - due to soft subsidies (the shortage of budgetary means) - bears the costs of high tax ceilings, higher inflation and incomplete statutory benefits (indebtedness of ZUS, PFRON, and others). This forced stakeholder of state-owned enterprises practically does not have any means of influencing the acting of the management board of such an enterprise. The only power that they have is the power of their vote in election. The change of this situation which is costly to the taxpayer may occur if the electorate gives the state ruling power to a party which has declared to separate political power from economic governance in enterprises, and which will actually be able to finish privatisation. If this is not the case (there will be no privatisation) then the voter's decision will only consolidate the system of political governance (merely some other people will become „political owners”). But in the longer term this system will be rejected (falsified) anyway due to its inherent weakness following from the ineffective *corporate governance* of a public (state-

owned) enterprise. The story of restructuring and privatisation of the coal-mining industry in the nineties is a good illustration of such process.

In the coal-mining industry we may presently observe effects of, among other things, the peculiarity of the corporate governance system which has been taking shape for the last 12 years. Practically all the statistically relevant subjects of this division are „political enterprises”. Their shareholder – the holder of capital shares – is the Treasury, represented by the Minister of Economy. Among stakeholders (interest groups) we may distinguish among employees, managers, financing institutions (banks), suppliers and contractors, fiscal authorities, environment protection services.

Despite the state’s involvement in the restructuring of this sector (a dozen or so of restructuring programmes) and allocation of huge financial means for implementing the programmes it was impossible to make this division of economy profitable and solve its main problems. The same applies to iron and steel industry, railway transport, sugar industry. Further preservation of the *status quo* may lead to negative effects to the mining industry itself and to the whole Polish economy once Poland joins the single market of the European Union.⁹

Estimates of the expenditure incurred from public funds to the coal-mining industry give the amount of PLN 18.6 billion in 1993-2000 (in actual prices)¹⁰ and over PLN 34 bn in 1990 – 2001 (in prices of 2001). According to our research only budgetary subsidies in 1990-2001 amounted to PLN 9.721 billion in total (actual prices) which was equivalent to PLN 40. 2 billion in prices of 2001¹¹.

The estimates of public expenditure for the coal-mining industry state an amount of PLN 18.6 bn between 1993 and 2000 (in current prices)¹⁰ and over PLN 34 bn in 1990-2001 (in 2001 prices). As it follows from our investigations, budget subsidies in the period of 1990-2001 totalled PLN 9,721 bn (current prices) which was equivalent to

⁹ Gilejko (ed), 2001;

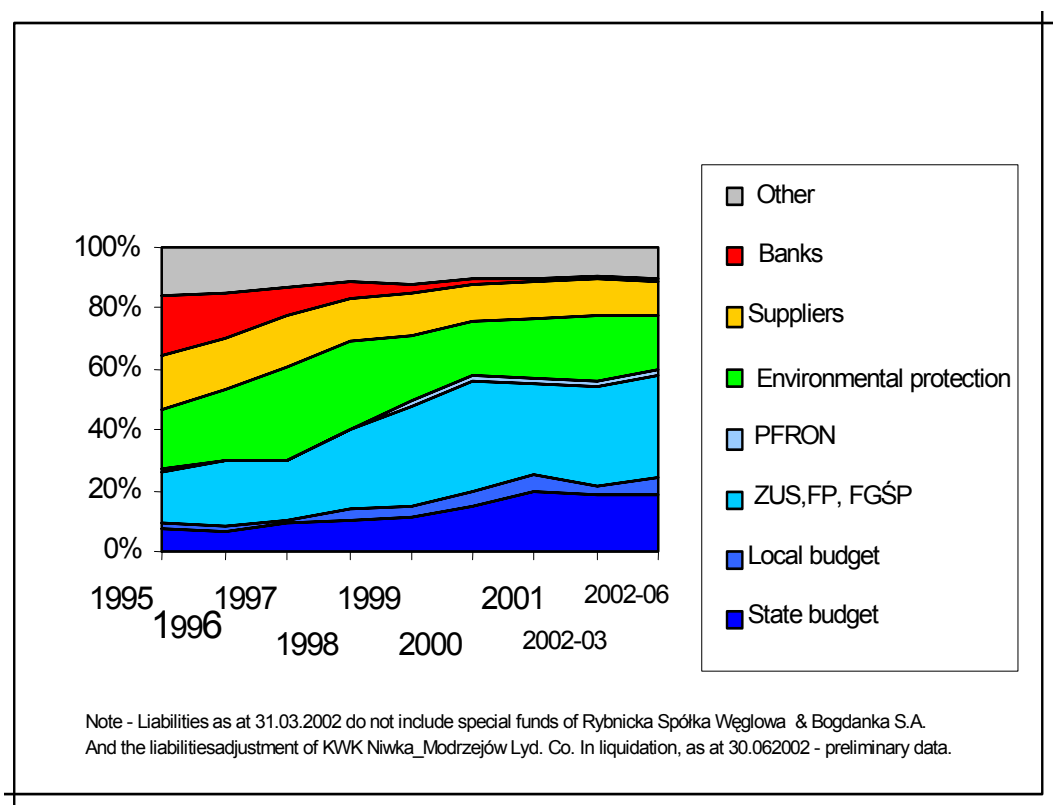
¹⁰ Bałtowski, 2000, NIK, 2002;

¹¹ A discount rate equal to the average annual inflation rate (CPI according to NBP), which is an approximate equivalent of yield if the money was deposited on an account with interest rate matching inflation rate, without taking into account the rate of return and risk.

¹⁰ Bałtowski, 2000, NIK, 2002;

PLN 40.2 bn in the prices of 2001¹¹. However, in the period under investigation, this industry had negative financial results in all the financial years. Its total loss amounted to PLN 19.2 bn (current prices). At the same time, gradual growth of debt could be observed despite the repeated “debt forbearance” actions towards mines, which absorbed, i.e. decreased the budget (and other) receivables, a sum of ca PLN 14.2 bn (see Fig. 3). The mines’ annual accrual of debt amounts to ca PLN 20 bn (current prices), and the liabilities of this sector totalled over PLN 21 bn by the end of 2001.

Fig. 3. Coal-mining Liabilities Breakdown, 1995-2002



Source: based on PARG S.A

An attempt to sum up all public expenditure incurred in this industry (subsidies, covering annual losses, cost of debt forbearance, debt accrual) shows an inflow of

¹¹ A discount rate equal to mean annual interest rate was used (CPI according to the NBP), which corresponds approximately to the value which would be obtained if the means were invested in a deposit whose interest would allow to maintain the money value despite current inflation, without the rate of return or risk

means during 1990-2001 equal to PLN 108.2 bn at the prices of 2001. These costly restructuring efforts resulted in the reduction of the number of working coal mines by 50% during 1991-2001, the reduction of the coal output and sales by ca 30%, and the reduction of employment by 63% by the end of the year. The level of employment reached by the end of 2001 was, however, much higher than planned in the restructuring scheme (135 thousand) which, anyway, would not have led to the coal mining industry being profitable. Experts' opinions indicate that the Polish mining industry cannot be called competitive until its output exceeds 1000 tonne per an employee. Since 1993, public expenditure for 1 employee in the coal-mining industry had been distinguished by more rapid growth dynamics than the growth dynamics of 1 employee's output. However, this dynamic growth of the net loss per 1 employee came to a halt in 1998 due to the reduction of employment. Nonetheless, the level of this ratio has still remained high (-8260 zlotys/1 employee) and is likely to deteriorate further this year. Despite the implementation of the expensive employment restructuring scheme in the mining industry, the redundancy rate in the coal, lignite and peat mining industries amounted only to 14.7% in 2000, while the average for the processing industry was 26.0%, including 27.3% in the private sector, and in the most dynamic industrial sectors with high private ownership, the rate exceeded 30%.

As things are now – two months before the end of the government restructuring scheme – it is even hard to roughly specify a date for this industry to achieve a condition which would not require government financial intervention. This means that it will continue bearing losses instead of giving return on huge means invested in it in recent years. Who is going to incur further costs of such governance? As it has been observed so far, besides the budget subsidies, the largest part of necessary means for the functioning of the industry have been derived from output taxes, not paid to the state budget; from unpaid National Insurance, Labour Fund and Guaranteed Employees' Benefit Fund contributions (Fig. 3). The proportion of the latter liabilities has been rapidly increasing in recent years, and has exceeded 50% of the total liabilities of the coal-mining industry. Banks have significantly reduced their commitment to financing the industry. The factor behind the reduction of lending to finance undertakings which do not promise a return of invested means, even in the presence of risk-minimising government guarantees and considerable state budget means inflowing to the mining industry, can be seen in the

private owners' corporate governance effectiveness. La Porta's study, mentioned at the beginning, showed that state ownership in public companies is greater in countries where shareholders' are more weakly protected law. The above observations from the Polish economy justify the statement that the state's considerable presence in the system of corporate governance correlates with another feature of the legal system, i.e. "weak protection of stakeholders", including mostly tax-payers.

To explore the structure of financing (capital) of enterprises in other studied branches of industry, I used the long-term liabilities coverage ratio (LTLC¹²) and the liabilities/capital ratio (LE¹³). In most of the analysed industries (branches), their private sector economic activity was in greater part financed from the external funds (liabilities). The difference is particularly great in the branches of: "manufacture of foodstuffs..." "manufacture of machinery & equipment...", "manufacture of vehicles...", "manufacture of wooden products...", "manufacture of furniture...". Public enterprises use external funds to a lesser degree.

In branches with a high proportion of the public sector, the situation is different – the public sector enterprises show an increasing rate of external financing which has recently exceeded the amount of equity (e.g. 12 times more in the metal products manufacture industry, nearly 4 times more in the coal-mining industry). In the "power generating...", "chemical", "non-metallic products...", "metallic products..." industries, the debt of the public sector is greater than that of the private sector and is has been increasing more dynamically in the last two years. Although in 2001 the industrial enterprises of the public sector produced only 11.5% of the industrial output sold, their liabilities made up nearly 1/3 (31.6%) of the total debts by the end of the year (private sector, 88.5% and 68.4%, respectively). The increasing indebtedness was particularly noticeable in the mining industry and in the power generating and supplying industry...

An enterprise's high borrowing is not negative in itself; as practice shows, it is even recommendable to reach a certain level of indebtedness in order to reliably create the value of an enterprise; the amount of the borrowings differs according to the

¹² LTLC, i.e. the ratio of a company's total long-term liabilities to total capital funds (equity + liabilities)

enterprise's branch of activity and strategy. Keeping the level of external capital (liabilities) too low can limit the development of an entity, while exceeding the optimum can endanger the stability of its functioning (the spiral of borrowing). The foregoing remarks refer both to private-owned and state-owned (public) enterprises. However, as far as the latter are concerned, the specific character of the public owner's corporate governance becomes visible, leading to the costs being ultimately transferred onto the stakeholders (tax-payers) who do not possess sufficiently effective instruments to protect their rights and property.

As I have mentioned before, public ownership still exists in many economies despite its negative aspects (lower effectiveness, moral hazard, lower flexibility). The effectiveness of corporate supervision of this form of ownership depends on the nature of markets on which public (state-owned) enterprises function. Competition on the market of products is one of mechanisms strongly affecting – disciplining – corporate managements, which forces them to imitate the best (most efficient) companies on the market, and this in turn can explain the endurance of state ownership also in market economies. On the other hand, the intensiveness of competence makes the financial conditions with which companies must cope to survive so harsh that this should eliminate public enterprises from the economy. The fact that they are still present can be explained by the government using legal protection and protectionism of different types. Hence state ownership is often associated with industries in need of restructuring - with declining branches.

An attempt at a model of financing restructuring

A modern State exerts its power in the economy by performing its functions which consist in creating a legal framework for the market functioning, in affecting markets allocating resources, in creating methods and instruments (schemes) of the redistribution of revenues and, above all, by proper fulfilling the function of ensuring the macroeconomic stability of the economy¹⁴. The state influences the structure of the economy, mainly indirectly (through regulations), but sometimes also directly through

¹³ Liabilities/Capital ratio, i.e. the ratio of total liabilities and equity. In the paper, calculations made in the program PONTinfo Gospodarka 2000 have been used; I am grateful to the company PONT Info from Warsaw for giving me a possibility of using them. Thank you.

its ownership of economic entities. In the sectors where, as a result of nationalisation of direct investment, the state owns economic subjects (e.g. the Polish metallurgical industry, coal-mining industry, transport systems, electrical power industry and others) a complex process of interpenetration of the ruler's function (empire) and the owner's function (dominium) takes place. Unfortunately, the combination of these functions has not produced any positive effects as yet, both for these industries and the economy at large, and first of all, for the tax-payer.

The primary goals of a prudent state's structural policy include, among other things, improvement of the effectiveness of the economy by creating good conditions for more rapid movement of resources from the areas of lower effectiveness to the ones where high returns (effectiveness), and thus taxes necessary for the functioning of the state, can be obtained. This is connected with modernisation of the economy through emphasising the development of the branches which are the carriers of technological, organisational and civilisation progress. At the same time, the state must see to it that the structural changes do not strengthen raw material barriers (e.g. by liquidations in the mining industry), energy barriers (by becoming dependent on one source of energy) as well as demographical and other barriers, but that they enable creation of the country's new competitive advantages which are necessary for the nation's development.

The economic development and technological progress are connected with the phenomenon of the appearance of new industries and extinction of "old" industries. A market economy ideal would be if, following the self-creation of emerging industries, the old branches died down – and off - (reduction to current demand) on their own and were finally liquidated.. However, because of the widely understood institutional conditionings (e.g. appearance of a lobby for an old industry, historical conditionings (sentiments), defectiveness of regulation, moral hazard, weakness of the financial market, asymmetric information and many others) these transformations do not run perfectly effectively. Like in creating human capital, indispensable for the birth of new industries, where the state plays an essential role (Kukliński, 2001), it also takes up important tasks in extinguishing the declining industries (Walewski, 1999). This especially concerns traditional branches of industry, whose "dying down" is a

¹⁴ Sobczak 2001

phenomenon connected with technological changes which affect all economies at a similar level of development.

	Initial phase	Growth phase	Decline phase	Geriatric phase
	Investing > taxes	Profit > taxes > financing	Decreasing profits < taxes < support subsidies (financing of taxes,	Tax shrinkage investment reluctance, loss
Taxes	Minimal	Increasing payments	Decreasing payments	Suspended, inability to pay
<i>Shareholders</i> (Capital)	Founders' own, Venture capital	Owner's capital, superseded by financial capital	Capital diversification, frequent changes, pensions funds (conservative)	Ousting private financial ownership in favour of state ownership
<i>Stakeholders</i>	VC funds	Financial institutions	Employees	Tax-payers – obligatory
Corporate governance efficiency	Very strong, necessary to implement a winning strategy	Strong, with downward tendency	Weak	Weak, of deficient state owner, to complete cycle strong cg is needed – privatisation only
State support	Possible in theory; hardly feasible (asymmetric information - which project will be successful)	Harmful, weakens cg	Harmful, „one way ticket” – no effective way out	Duty if state is strong (well- managed), strong moral hazard at taxpayers' cost

Source: own

Balancing properly the rate of old industries' withdrawal and of the new ones' appearance so as to prevent social unrest, collapse of economic growth, and thus the inflow of the state's revenues (tax), seems to be the essence of structural policy. The implementation of an industrial policy means incurring costs. They are covered from tax revenues or other receipts from the state's assets. The ownership of industrial enterprises is part of them; however, the weakness (defectiveness) of corporate governance when the state is the owner, hinders the state gaining considerable revenues. Revenues turn up when the state gets rid of the economic subjects which it owns (privatisation); in this case, the revenues are occasional and not too high due to, among other things, low efficiency of the public sector as compared with the private sector, which is reflected in the investors' price offer. Where costs are incurred, it is necessary

to specify their effectiveness (productiveness) and efficiency – to decide whether they allowed to achieve the target. Such analyses should be of particular importance when public means are spent and there are alternatives for their allocation.

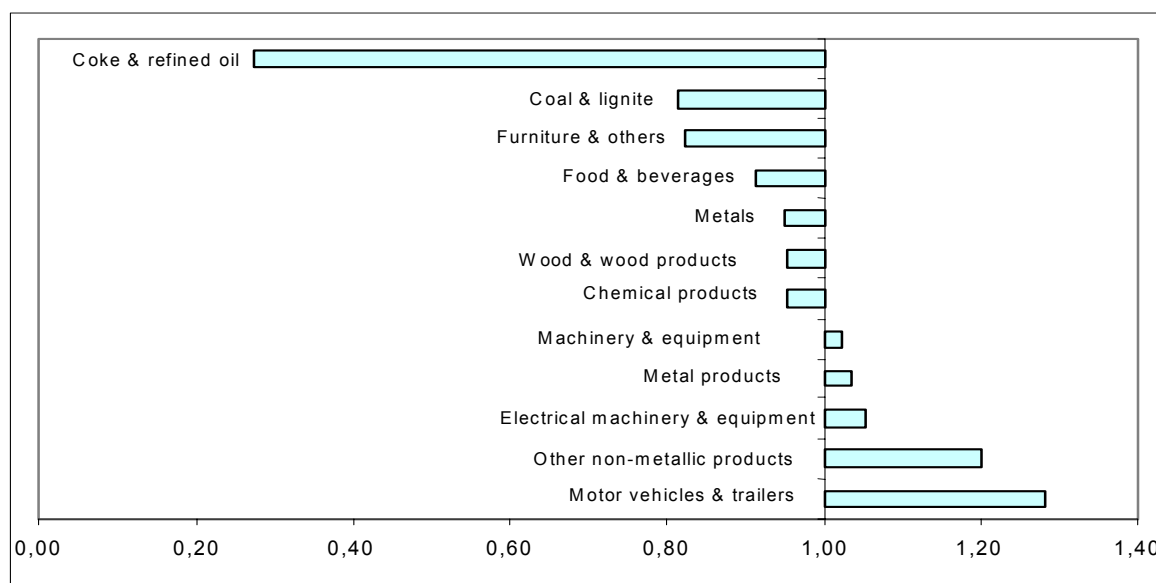
Let us try to see the structural policy activities as part of the economy restructuring model (narrowed to industry). It includes industrial branches at concrete stages of development. The life cycles of industries assume a sinusoidal shape around an axis determined by the points of equilibrium of expenditure and revenues. The area above the axis signifies the state of an industry generating profit (at the growth and decline phases) and thus a of tax inflow, while below the axis is the net loss of the industry, caused either by high investment expenditure (at the initial phase of the industry) or by excessive costs while revenues are decreasing (at the geriatric phase). The life cycles of an old industry and of a new one follow a parallel course and should be shifted by one phase in relation to each other in order to be able to finance the development of the emerging industry from the profits of the “ageing” industry. The financial (capital) markets should act as intermediaries in this process; they should be as competitive (contestable) as possible to effect this allocation, fundamental for the economy, in a most efficient way. In this model, the state’s structural policy is reduced to a proper phase adjustment so as to speed up a new industry passing point 0 (then it becomes profitable and generates – indirectly or directly – an inflow of taxes), or to delay the old industry passing to the area below the profitability axis (which will require the use of public means because of the above mentioned structural conditionings), but, first and foremost, to apply such a system of incentives as to minimise the necessary public expenditure for the restructuring goals (incentives for investors, legal system efficiency, bankruptcy effectiveness), i.e. to lead to the quickest possible liquidation of the “old” industry.

In order for this process to run its course properly, from the perspective of monetary policy, there should occur the balancing of the inflows of means coming from procreative structural policy (from emerging industries) with the inflow of means invested in transformational structural policy. The situation gets complicated when, under certain circumstances, the life cycles of the industries shift: the old industry has already reached point 0 and generates losses while the new industry still remains at the initial phase and requires high expenditure. At this point, the problems with financing

the restructuring accumulate, strengthened, moreover, by state ownership in the economy. They result in increasing fiscal burdens and/or a sustainable budget deficit, which in both cases can be unfavourable for the development of the economy and can bring inflationary effects¹⁵.

Industries at the geriatric phase have excessive employment, strong unemployment risk and the employees' skill level far from desirable in the emerging industries whose development ought to ease social tensions resulting from the regularities of the "decline" of industrial branches. In new industries, we can notice shortage of workforce, but with appropriately high qualifications, which greatly limits potential investors and makes it impossible to achieve high productivity. In the branches with high participation of private investors (including foreign investors), we can see definitely higher labour productivity than in the branches where state-owned enterprises dominate.

Fig. 4. Dynamics of labour productivity in main branches of the processing industry during 1996-2000 (dynamics in the whole processing industry = 1)



Source: GUS (2002)

In this model, I assume the separation of the state from ownership in the discussed industries, i.e. its fulfilling only the indirect (regulatory) ruling functions. This does not

¹⁵ Mishkin, (2002)

preclude the possibility of a state intervention to reduce unemployment, e.g. by helping employees to pass to new industries (re-qualifying) or by lowering tax burdens temporarily. Another area of the state's activity may lie in the social protection of disinvestments in an old industry, connected with the employees' imperfect flexibility and with the liquidation of the sunk cost or other externalities of the old industry (e.g. destruction of environment). High unemployment (significantly exceeding the natural rate of unemployment) is not accepted due to its high social cost, which seems to justify the investment of the taxpayer's money in maintaining employment in selected industries. Such an excuse can be grounded only in the short term and on condition that the intervention is combined with other reforming processes. In practice, however, there are no attempts at cost-benefit analysis or comparison of costs. This leads to such situations as we have been observing for many years: one "restructuring" following another, quasi-reforms since they do not solve problems, do not lead to improvement¹⁶ but cause greater and greater accumulation of costs, finally transferred – directly or indirectly - on the taxpayers who can act effectively and pay their social tributes. Therefore it is necessary to depart from the branch type restructuring, where a decrease of output, of employment, a change in the organisational structure or administrative appointment of winners are the targets. A holistic view at the process of restructuring in the national economy is more and more necessary and balancing it so as to guarantee the equivalency of inflows of public means, according to the above outlined model. This means a "financial" view on restructuring since this view is the only one to guarantee effective allocation of means, which is the more important because the taxpayer's means are invested here.

It is not the branch structure that decides the potential of restructuring in an economy, but the structure created according to the criterion of the development stage of enterprises and branches (industries, markets and sub-markets). The participation of new, emerging branches in the economy and their potential to create the added value, and thus taxes, should determine the range and rate of the state's commitment to restructuring old, deceasing, inefficient enterprises and branches of industry.

¹⁶ Balcerowicz (2000)

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