

Tomasz Domański\*, Wojciech Grzegorzczak\*\*

MARKET STRUCTURE IN POLAND

1. Introduction

The article is an attempt at answering a question whether demopolization of the market structure is possible in conditions of the economic reform introduced in Poland at the present time. This market structure is characterized with a high degree of organizational concentration and monopolization, which is a consequence of command-type methods used in the past in its formation. It is our opinion that effective implementation of the economic reform accompanied by restoration of the appropriate role to be played by the market will be largely dependent upon changes in this structure. Such a process, however, calls for major transformations in the role and functions of central economic organs, which in their present form promote consolidation of detrimental monopolistic branch structures. It also calls for the abandoning of command-type methods in management of enterprises and their hierarchic subordination to the Centre. The article analyzes main acts of law defining principles of the economic reform and the available statistical materials.

2. Principles of the Market Structure Formation  
in Poland in Previous Years

In the centrally planned economy, the market structure was

\* Dr, senior lecturer, Institute of Marketing, University of Łódź (Poland).

\*\* M.Ec. assistant, Institute of Marketing, University of Łódź (Poland).

formed by the Centre<sup>1</sup> This process was based on the following assumptions:

- organization of the economy according to its branch structure, which consisted in the linking of enterprises according to similarities in production into one economic organization;
- creation of a multi-level organizational structure, in which units of a lower level are subordinated to those being superior to them in the organizational structure;
- uniform character of organizational structures.

The market structure shaped on the basis of the above principles was characterized with a high degree of monopolization and concentration, and especially in the sphere of organization. Till today, there are many controversies regarding the role of monopoly in the centrally planned economy. Its detrimental impact is not questioned in the market economy countries. On the other hand, in the centrally planned economics it is often identified with the state monopoly for means of production and not with a monopolistic position of particular enterprises. It is also assumed that the Centre is able to ensure a harmony between goals of monopolistic enterprises and the general social goal. This view has not been confirmed, however, by the past experience.

The process of concentration has led to elimination of small enterprises from the market. In the period 1965-1982, the share of small enterprises (employing under 100 persons) in the socialized industry dropped from 25.7 to 9.6 per cent. This trend was most pronounced in the seventies. The average employment figure went up from 700 to 875 workers per enterprise between 1970 and 1981 reaching 1330 workers in socialized enterprises in 1981 and 270 workers in cooperative ones. As a result, about 22 per cent of all enterprises employed 70 per cent of the total manpower with the concentration coefficient amounting to 0.870. It was accompanied by a rapid process of organizational concentration. Over the period 1960-1981, the number of socialized enterprises diminished from 6815 to 5210 i.e. by 23.5 per cent, in this the number of state enterprises from 3514 to 2999 or by ca. 14.6 per cent and

---

<sup>1</sup> By the market structure we understand here the number, size, spatial distribution of enterprises, conditions of their appearance in the market and their cooperation. See: J. D i e t l, Marketing, Warszawa 1981, p. 29.

that of cooperative enterprises from 3301 to 2143 or by ca. 35 per cent. About 10 per cent of all companies possessed 70 per cent of all fixed assets in industry, and about 0.6 per cent generated 31.5 per cent of net output in 1981<sup>2</sup>. The degree of monopolization is perhaps proved best by the fact that there is a full monopoly in production of some consumer goods e.g. washing machines (automatic), vacuum cleaners, sewing machines, typewriters, motor-cycles, TV sets, cameras. Another thing is that there are also such production areas, in which the number of producers may be quite big but a few major producers turn out over a half of total output (e.g. in chemical industry, the share of 4 biggest enterprises ranged from 15 to 21.5 per cent per each one of them). Similarly, many producers may be contributing a small share of total output but the share of an industrial association grouping them in total supply may range from 75 to 100 per cent (e.g. production of furniture of clothing)<sup>3</sup> (see Tab. 1).

T a b l e 1

Concentration of production - some examples

Product	Number of enterprises	Share of the biggest enterprise (%)	Share of 4 biggest enterprises (%)	Share of industrial association in total supply (%)
Women's footwear	81	19.81	47.27	90.69
Men's clothes	64	16.51	45.87	75.83
Trucks	3	54.40	-	100.00
Buses	2	50.50	-	100.00
Tractors	1	100.00	-	100.00
I.C. engines	1	100.00	-	100.00

S o u r c e: S. J a k u b o w i c z, Monopol a struktura [Monopoly and Structure], "Przegląd Organizacji" 1983, nr 1.

<sup>2</sup> Rocznik statystyczny przemysłu 1982 [Statistical Yearbook of Industry], Warszawa 1982.

<sup>3</sup> M. B a r t o s i k, Zakres i stopień monopolizacji produkcji w przemyśle i jej wpływ na kształtowanie cen [Scope and Degree of Production Monopolization in Industry and Its Impact on Price Level], [in:] "Materiały i Prace Zakładu Badania Cen" 1983, nr 68, p. 47-58.

Development of huge economic units within particular industrial branches and groups of interests led to appearance of tremendous economic disproportions. It became necessary to perform fundamental changes in the entire national economy.

The concept of economic reform, which first appeared in the period following August 1980 events, was based on principles of autonomy and self-financing of enterprises. The aim of the reform was to reconstruct market functions with economic decisions made by enterprises taking into account these functions. In order to accomplish this aim it was necessary during the first stage to undertake actions promoting deconcentration and demonopolization of the market structure. These actions were to liquidate also the hierarchic subordination of economic units operating in the market to central organs of the economic administration, abolish an intermediate level in management of enterprises, and ensure an equal access to the market and means of production for all economic units (socialized and private).

### 3. Legal Foundations of Changes in the Market Structure

#### 3.1. Principles of State Enterprises' Entry Into the Market

These principles have not undergone any major changes. State enterprises continue to be set up by central state administration organs. The so-called "founding organs" for the already operating enterprises became branch ministries in most cases<sup>4</sup>. The introduced changes concerned possibilities of opening enterprises operating along general principles and enterprises belonging to public utilities. The latter established by local organs of administration were to deal, first of all, with municipal services although they may be also established in other sectors of the economy. They have been subordinated to founding organs enjoying extensive rights as regards their possibilities of intervention and management of these enterprises by means of commands<sup>5</sup>.

<sup>4</sup> Ustawa o przedsiębiorstwach państwowych z 25 września 1981 r., art. 9, 67 [Act on State Enterprise from 25th September 1981, art. 9, 67], "Dziennik Ustaw" 1981, nr 24.

<sup>5</sup> Ibidem, art. 9 § 3.

On the other hand, enterprises operating along general principles have obtained a much bigger range of autonomy. They may also integrate, split or establish joint ventures with foreign enterprises, cooperative and social organizations. Such decisions are taken by the founding organ with an earlier approval of the workers' council. If the object of the enterprise's activity is to be changed then it is enough to obtain the approval of the founding organ<sup>6</sup>.

### 3.1.1. Possibilities of Creation of Enterprise Groupings

State enterprises are legally empowered to create their associations. It is assumed that such associations will be performing auxiliary service functions. Participation of enterprises in these associations is voluntary and based on a concluded agreement. The sides have been given big freedom in determining principles of functioning of associations<sup>7</sup>. Simultaneously, there are envisaged numerous possibilities of establishing compulsory associations. The autonomy of associated enterprises in such a case has been considerably restricted by a wide scope of intervention rights with which the founding organ has been equipped<sup>8</sup>.

### 3.2. Principles of Cooperative Units' Entry Into the Market

The previous development of the cooperative system was characterized with a big degree of the state intervention. This sector was included into the national economic planning and encompassed by the same economic management system as that in the entire state sector. Consequently, the organizational structure and field of activity of the cooperative system were determined by the state as well, which resulted in a high degree of organizational concentration. All cooperatives were subordinated to their regional and central associations. Therefore, within the framework of the economic reform it became necessary to introduce similar changes in the cooperative sector as those in state enterprises.

In accordance with the new principles, establishment of coop-

<sup>6</sup> Ibidem, art. 13 § 16.

<sup>7</sup> Ibidem, art. 59 § 60.

<sup>8</sup> Ibidem, art. 60 § 2 and art. 66.

erative units was made subject to approval of a cooperative association. Such an association evaluates economic feasibility of a cooperative unit to be established. All cooperatives are obliged to join one of their central associations, which can be hardly reconciled with the guidelines of the economic reform<sup>9</sup>. Cooperatives have also obtained a right of cooperating with other economic units operating in the market and joining their associations. They can fuse with one another. On the other hand, any change in the object of their activity, location, or organizational structure must be approved by the central cooperative association<sup>10</sup>.

### 3.3. Conditions of the Private Sector Units' Entry Into the Market (Without Agriculture)

Entry into the market of the economic units belonging to the private sector<sup>11</sup> was always subject to approval of local administration organs. Their refusal to grant such approval did not have to be justified very precisely, which afforded a possibility of discretionary actions for them.

In the new situation, the rights of administration organs in this field have been described more precisely although not explicitly enough<sup>12</sup>. Simultaneously, state enterprises are allowed to sell unnecessary capital goods to natural persons and non-socialized enterprises. Initially, there were introduced favourable changes in taxation of the private sector. The amount of non-taxable income was raised and tax reliefs were applied in case of investments and depreciation of fixed assets. These changes were restricted, however, to private handicraft industries and they did not encompass the private trade units. The upper limit of employment (up to 15 persons) has been preserved in the private sector. Any changes in the object and territorial range of activity continue to depend on approval of administration organs. Meanwhile, since

<sup>9</sup> Prawo spółdzielcze, art. 4, 6, 9 [Act on Cooperative Law], "Dziennik Ustaw" 1982, nr 30.

<sup>10</sup> Ibidem, art. 66, 96, 103, 108, 110.

<sup>11</sup> They refer to private trading and handicraft units.

<sup>12</sup> Ustawa o wykonywaniu rzemiosła z 27 stycznia 1983 r. [Act on Handicraft Industries from 27th January 1983], "Dziennik Ustaw" 1983, nr 7.

1984 mediumsize (with regard to incomes) handicraft and trade units have to pay higher taxes. Despite these constraints, private enterprises seem to have been given better possibilities of entering the market than it was the case before.

#### 3.4. Conditions of Foreign Enterprises' Entry Into the Market

Foreign legal and natural persons may conduct economic activity on the territory of Poland. They may enter into joint ventures with participation of Polish producers or carry out economic activity on their own. A permission is given by an administration organ at regional level or the foreign trade minister if their economic activity involves export or import<sup>13</sup>.

Foreign enterprises may conclude agreements on cooperation with Polish enterprises, contract credits in Polish banks and rent state property. They may also undertake their own investments or new forms of activity, open new plants and subsidiaries provided it does not infringe upon the terms of the obtained permission. Otherwise, they have to apply for extension of its terms<sup>14</sup>. Foreign enterprises are also entitled to benefit from a three-year period during which their incomes are not taxed while those exporting their products do not have to pay taxes on business receipts.

#### 4. Changes in Organizational Structure of the Market

Favourable conditions created for foreign and private enterprises have led to growth of their number and employment volume. This is confirmed by the following Tab. 2.

In 1983, foreign enterprises employed about 0.3 per cent of total employment volume in small manufacturing sector or about 0.12 per cent of total manpower in the national economy. They created about 0.1 per cent of export revenues and 0.5 per cent of value of

<sup>13</sup> Ustawa o zasadach prowadzenia na terytorium PRL działalności gospodarczej w zakresie drobnej wytwórczości przez zagraniczne osoby prawne i fizyczne z 6 lipca 1982 r., art. 1 [Act on Conduct of Economic Activity in Small Manufacture by Foreign Legal and Natural Persons on Poland's Territory from 6th July 1982, art. 1], "Dziennik Ustaw" 1982, nr 9.

<sup>14</sup> Ibidem, art. 7, 20, and 23.

Table 2

## Development of companies with foreign capital

Year	Number of enterprises	Employment volume in thousand	Turnover in million zloty	Export value in US \$ thousand
1980	76	1.5	833	630
1981	79	3.5	3 100	2 000
1982	251	11.0	16 000	9 000
1983	380	20.0	17 314	6 800

Source: A. Kostka, Opodatkowanie przedsiębiorstw polonijnych [Taxation of Polish Enterprises], "Finanse" 1983, nr 11 and "Przegląd Techniczny" 1983, nr 1.

gross output. Thus, their contribution was quite modest. On the scale of the entire national economy they could hardly represent any bigger competition for state enterprises. They could be competitive for them only in local markets. On the other hand, they represented quite significant competition for the private sector and small-commodity cooperative units.

Similar, growth trends were recorded also in private handicraft and trade enterprises, which can be seen from the following Tab. 3.

Table 3

## Market share of private handicraft and trade enterprises

Year	Handicraft enterprises		Trade enterprises	
	employment in thousand persons	enterprises in thousand	employment in thousand persons	number of selling points in thousand
1980	409	226	45.7	21.3
1981	440	242	48.8	23.9
1982	470	265	55.8	28.7
1983*	590	282	-	-

\* Data cover the first six months.

Source: Own estimates based on Rocznik statystyczny 1980-1983 Statistical Yearbooks for 1980-1983, Warszawa 1980-1983.

Despite the fact that legal regulations concerning the private sector came into force later on its growth was very rapid. Over



the period 1980-1983, employment in private handicraft units went up by ca. 43 per cent and their number - by 26 per cent. In the private trade sector, employment rose by 22 per cent between 1980 and 1982 while the number of selling points by ca. 34 per cent. It is interesting to note that during the analyzed period, there predominated one-person private enterprises - ca. 63 per cent, with twoperson enterprises constituting a further 18 per cent, while those employing more than 8 persons made up only 0.6 per cent. Private handicraft enterprises having at their disposal only 0.27 per cent of all fixed assets generated 2.8 per cent of the national income<sup>15</sup>.

Nonetheless, it should be noted that the entire private sector (without agriculture) did not play any major role in the national economy. It employed only 5.2 per cent of the entire manpower and generated 6 per cent of the national income. It was thus a complementary element with regard to the market structure and even its marked growth could not exert any major influence on its structure. It was due to absence of any more specific determination of its role in the system of centrally planned economy and its more difficult access to capital goods.

On the other hand, no major changes could be observed in the organizational structure of state and cooperative sectors, despite the fact that any transformations in the market structure should begin with the socialized sector. It is due to its leading role in the economy and a high degree of monopolization and concentration. For these transformations to be effected, there must be restructured the role and functions of central organs of the economic administration and their ties with enterprises.

The actions undertaken so far prove to be insufficient. And although the number of branch ministries was reduced from 11 to 6 simply through their fusion, their functions remained unchanged<sup>16</sup>. Branch ministries still have the right to control and evaluate operations of enterprises subordinated to them, appoint and recall their directors, and impose additional tasks to be carried out by enterprises. At the same time, chronic shortages in supply of consumer and capital goods and the existing seller's market provided an argument for continuation of command-type solutions being

<sup>15</sup> "Życie Gospodarcze" 1983, nr 45.

<sup>16</sup> Ustawa o utworzeniu urzędów ministrów branżowych z 3 lipca

irreconcilable with assumptions of the economic reform. Administration organs have not been deprived of their right to interfere with internal affairs of enterprises (e.g. application of centralized distribution of capital goods, imposition of production directions etc.). These temporary solutions were oftentime synonymous with return to management methods based on commands. In this way, there was maintained subordination of enterprises to ministries, and the market was treated as a supplementary form of economic activity. Similar trends could be also observed in the cooperative sector where central cooperative associations had the right to perform control over cooperative units, and administration organs - to impose additional tasks to be executed by them.

Freedom in diversification of production and the right to split or liquidate enterprises, which are of a great importance in demopolization of the market, have been submitted to control of branch ministries, which are known to have been traditional centres of monopolistic tendencies.

In the cooperative sector, elimination of monopolized structures should be taking place more rapidly. Numerous cooperative units with their small employment, local character of their activity, and bigger elasticity of this activity could counteract monopolistic tendencies quite effectively. The difficulty here lies in the fact that establishment of new cooperative units, their division or a change in the object of their activity continue to depend on central branch cooperative associations. An obligation of membership in such associations leads to consolidation of the existing monopolies.

Similarly, liquidation of industrial associations - an intermediate level of management and establishment of associations of enterprises from various branches were aimed at elimination of monopolistic structures. And although the former industrial associations were abolished, the new associations of enterprises, replacing them have been again based on the branch criterion. The main reason behind decisions to join them was a possibility of obtaining deficit raw materials for production. Also those associations, which were set up on an obligatory basis, observed the branch criterion. In this way, branch monopolies have been pre-

1981 r. [Acts on Establishment of Branch Ministries from 3rd July 1981], "Dziennik Ustaw" 1981, nr 17.

served and barriers have been posed towards other forms of cooperation and integration of enterprises.

Transformations in the market structure have been also hampered by the fact that the reform has not encompassed a big part of the economy characterized with a high degree of concentration and monopolization. Another barrier is the fact that it was introduced in the cooperative sector too late (in late 1982). Neither has there been passed the antitrust act. Although its adoption could hardly lead to demonopolization of the economy, it could provide legal foundations for removal of monopolistic practices and strengthening of the consumer's role in the market.

All the above mentioned factors account for the fact that no major changes in the market structure have taken place. It is hard to draw here any more general conclusions as too little time has passed since the economic reform was introduced, and changes in the market structure occur over longer periods of time. However, application of transitional solutions, which differ from the main guidelines of the reform, has led to preservation and growth of branch-type monopolies.

Tomasz Domański, Wojciech Grzegorzczak

#### ZMIANY W STRUKTURZE PODMIOTOWEJ RYNKU W POLSCE

Celem artykułu jest opis i analiza struktury podmiotowej rynku w Polsce, w pierwszym etapie reformy gospodarczej, 1981-1983. Skuteczne przeprowadzenie reformy gospodarczej oraz odtworzenie podstawowych funkcji rynku w dużym stopniu zależą od istotnych zmian w strukturze podmiotowej przedsiębiorstw. Procesy koncentracji i monopolizacji rynku mogą okazać się równie niekorzystne w gospodarce centralnie planowanej, jak i w gospodarce rynkowej. Podstawowe akty prawne reformy, jak również praktyka jej wdrażania w zbyt małym stopniu prowadzą do demonopolizacji rynku oraz do dywersyfikacji jego struktury za pośrednictwem tworzenia nowych przedsiębiorstw.