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**Negative Effects of the Process of Transformations as the BARRIERS
to the Development of Small and Medium-Size Firms**

Negatywne efekty procesu transformacji jako BARIERY rozwoju małych i średnich
firm

ABSTRACT

Whatever methods of transformation process are used, (interactive or imperative) the decisive factor for acceptance by the society is the apparent growing rate of the living standard of the society gained from the reform. Further development of the people first of all depends upon the new investment and accumulation ability. For those purposes the middle class plays the most important role. But ruining of the middle class hampers the development of SME.

GDP AS AN EXAMPLE OF INVOLUNTARY ACTIVITY IN THE
TRANSFORMATION PROCESS

In this paper, we must seek to limit our understanding of what we mean by the term transformation process.

Every process has a goal. Generally, a process entails the continuous run of events which are interconnected and lead to a definite change in the object, a person, people or things. In the course of a process, the very internal dynamics of the change determine the sphere, phase or stage of the change, its progress and development, and what the final form, shape, appearance quality or nature of the object of change will be. The Oxford Advanced Learner's Dictionary defines the word "process"

as a connected series of action, change etc., which can be voluntary or involuntary".¹

So what is transformation? It is simply the process of making a determined effort at changing the form, shape, appearance, quality or nature of something.

In this paper, transformation should therefore be understood as a process of reforms involving a continuous conscious or unconscious activity of human being. According to Jerzy Hausner², the approaches to transformation can generally be grouped into two: imperative and interactive methods. In the imperative method or approach, the transformation process is an experiment initiated and directed by the central authority. For the experimenter, the citizens are simply the objects of this policy, they do not participate in defining it. The aim is to force upon them the desired changes in mentality and behaviour and to cause them to adjust to the new rules or the game-rules defined by the "experimenters" — the State.

In contrast, the interactive approach consists of the elicitation of the desired changes by means of a process of social interaction. Here the central authority, although the initiator is also a participant, treats the other agents as independent participants in the process of change and the definition of the goals of the changes. Thus, the imperative approach and the interactive approach in both cases, the conscious activities. We propose then, that the results of any conscious activity can be negative (deliberate or unintentional) or positive.

On the other hand, transformation can be a process of unconscious activity. Unconscious activity is the activity which is involuntary and cannot be controlled. This is especially true of the period in socio-economic transformation when the economy can be described as abnormal (see Table 1).

In the above table the estimated figures supplied in each of the years by the government showing the probable GDP and the real GDP indicate that economic activities were involuntary. If one studies generally these estimated and real annual figures for each year, the statistical difference between the real and the expected values will point out what

¹ The Oxford Advanced Learner's Dictionary of Current English: Polish Scientific Publisher — Warsaw 1988.

² J. Hausner: Thesis About Imperative vs. Interactive Strategy of Systematic Change in Central and Eastern Europe: Conference organized by the Institutional Analysis Section of the Institute of Philosophy and Sociology of the Polish Academy of Sciences, held at Radziejowice on November 18—19, 1993. Thesis about Imperative vs. Interactive Strategy of Systematic Change in Central and Eastern Europe p. 1—3.

Tab. 1. Expected and real decline in the annual GDP rate (%) in three countries: Poland, Hungary and Czech Republic: 1989—1992
 Spodziewany i rzeczywisty spadek rocznego wskaźnika GDP (w%) w trzech krajach: w Polsce, Węgrzech i w Czechach: 1989—1992

country	Year results	1989		1990		1991		1992	
		exp.	real	exp.	real	exp.	real	exp.	real
Poland		4.2 ¹	0.2	-3.1	-11.6	3.5	-7.6	0	0.5-2
Hungary		-1-2	0.4	0-0.5	-3.3	-4	-12	3	-5
Czech Rep.		1.8	1.4	2.5	-0.4			.	-8.5

¹ net material product.

Source: based on "Polish Economy 1990—1993" Polish Academy of Science, Institute of Economic Scientific Publisher Semper, Warsaw 1993, p. 10.

barriers were posed to success and also the falsity or non-preciseness of the bases for the expected figures.

Below, an attempt is made to explain that position by looking at the economic and social aspects of the transformation processes and their results in Poland's reforms package.

OTHER ECONOMIC FACTS AND TRANSFORMATION PROCESS

The introduction of the market economy has taken hold in all countries of the former Soviet-bloc now numbering 27 (except former GDR). The three countries (Poland, Hungary, Czech Republic) stand out from the rest. Hungary was the first to edge out from the command economy as far back as the late 1980's. Poland followed in 1989 and the former Czechoslovakia in 1990. Since then all three have re-established more or less the basic legal and institutional framework for a market economy: the most important of these being: a) decentralisation of economic decision making; that is, shifting power from the central economic bodies (governmental) down to the enterprises; b) democratisation of the economic sphere by establishing self-management and private ownership; c) restructuring of economic instruments of control, in the economy: banking, finance, and taxation systems. These principles lay the foundations for different specific programmes of reform in various areas of economic activity to improve the socio-economic position of the society.

In Poland all aspects of everyday life have changed. The society seems to have forgotten the hardships of the socialist era. For example:

— the people have been freed from the daily burden of endless queuing for food and household necessities,

— the zloty (Polish official currency) was devalued in order to boost foreign trade (export and import),

— firms have been restructured to meet the challenge of the market economy,

— Poland's economy (GDP) grew, 4% in real terms in 1993 and the government budget deficit has fallen from over 7% of GDP in 1989 to below 3% in 1994³,

— foreign debt is reduced almost 50%,

— even though the privatisation and reprivatisation process is very slow; most foreign trade, over 80% of retailing, 75% of construction, over 60% road transportation and nearly 30% of industrial sale now come from the private sector which account for 50% of GDP and 60% employment including agriculture.⁴

Thus, clearly the reform is proving positive. From these indications Poland seems to have a promising future economically.

Despite these positive trends, there are also negative trends and these negative trends are obstacles of the reform process and simultaneously collapse the development of SME. For example.

1. The sudden exposure to international free competition destroyed industries and job.

2. The problem of shortage has however been replaced by another: the many hours wasted in hunting for a good prices, the money wasted on non-guaranteed contraband goods from bazaars and shops that have sprung up illegally.

3. The restructuring process also meant a reduction in the number of the employees and increase in the output and higher entry requirements for workers of those who remain. That is bad labour practice.

4. Resulting from bad labour practices, widespread discontent among workers and continuing strike actions leading to economic losses.

5. Rate of unemployment is increasing.

6. Real wages and incomes have declined.

7. Current account balance is negative.

8. Purchasing power for luxury goods is increased.

The above mentioned economic and social indicators are illustrated graphically and in the Table below (Table 2).

1. From graphs I, II, III and IV it is understood that there is economic chaos.

2. Figures in the current account balance and exchange rate of zlotys, indicate devaluation is meaningless when, there is a huge and unfavourable trade balance.

³ The Economist, vol. 331 no 7859 April 16th 1994.

⁴ A. Robinson: A year of rising output, Financial Times, June 17, 1993.

Tab. 2. Ownership per 100 households
Stan posiadania na 100 gospodarstw

Year good purchased	1985	1990	1992
cars	27.2	33.2	41.4
colour TV	23.1	67.1	91.4
video-cassette recording	—	20.1	53.4
washing machine	38.7	63.5	69.7

Source: The Economist, no 7859, vol. 331, April 16th 1994.

Fig. 1. Real net wage index, 1990=100
Wskaźnik rzeczywistych zarobków netto, 1990=100

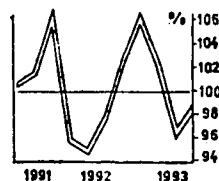


Fig. 2. Growth of GDP % change one year earlier
Wzrost zmian GDP (%) rok wcześniej

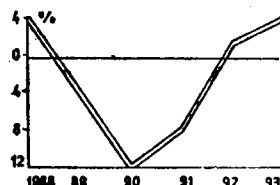


Fig. 3. Unemployment rate
Wskaźnik bezrobocia

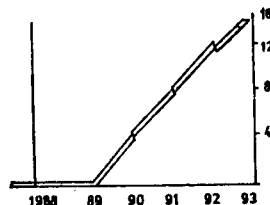


Fig. 4. Consumer price % increase one year earlier
Wzrost cen (%) rok wcześniej



Source: Figures 1, 2, 3 and 4 from the same: The Economist, vol. 331, Survey of Poland, April 16th 1994, p. 84.

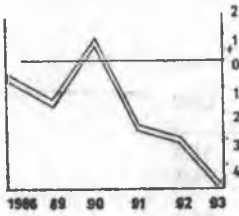


Fig. 5. Current account balance in bn. USD
 Source: Monthly Statistical Information, January 1994
 Bieżący bilans handlowy w mld USD

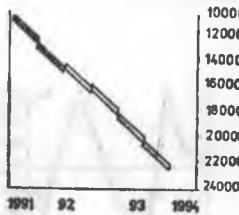


Fig. 6. Exchange rate of zloty per USD inverted scale
 Source: See Fig. 5.
 Kurs wymiany złotego na USD

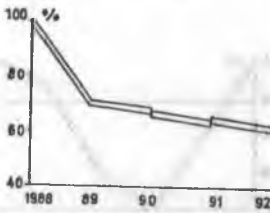


Fig. 7. Housing construction decrease, average of 1980—1988=1.00%
 Spadek ilości oddawanych mieszkań, struktura mieszkaniowa, wskaźnik za lata 1980—1988

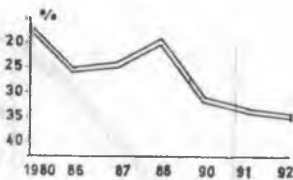


Fig. 8. Inverted scale rate of poverty
 Wskaźnik zubożenia społeczeństwa

3. Finally when the trend of the poverty gap, house building and the growth of GDP analysed, there is unreal distribution of the material wealth. The interesting figures may be the purchasing powers of the society for some goods (See Table 2 above) and the inverted scales of rate of poverty gap and the real wage index. One can at this point only agree with the Prussian economist Ernest Engels (1821—1896) who after studying the relationship between the quality of goods demanded and income, concluded that the demand for some "luxury" goods may increase proportionately more rapidly than income, whereas the demand for necessities" may grow proportionately less rapidly than income".⁵

⁵ W. Nicholson: Microeconomic Theory Basic Principles and Extensions, 4th Edition USA 1989, p. 133.

Therefore, the above mentioned goods, even if they were second hand, are luxury goods for the vast majority of Poles. Rather than investing in housing and accommodation, the households preferred to buy those luxury goods. Based on the fact that unreal distribution of material wealth and chaotic economy are a result of the transformation process, we can identify two main groups of people in the society: first the low-income group of people who are exposed to "3S" (Sadness, Starvation, Sickness) and, the upper-income (legally or illegally) groups of the people having "3V" (Volvo, Villa, Video).

This abnormal division of the society resulting from the distorted distribution of material wealth is destroying the middle class. Naturally, the middle class which must be high in number within the whole population are being marginalised toward the poverty group. In fact this cannot stop the tide of reform, but rather it creates the barrier to development of small and medium sized enterprises which must be built and developed by the middle class.

The problem in today's Poland, which affects the development of SME is not only the economy, but also the relationship between persons and community, government and the people, the church and the laity, workers and employers, in short, a social crisis.

SOCIO-ECONOMIC INDICATORS AND ACTIONS TAKEN BY THE STATE AUTHORITIES

Crisis has been variously defined as: "a combination of trends that [has] reached a radical turning point and has important implication"; a "breaking turning point in a trend of processes", and as "a structural breakdown from which we can go up and down, for better or for worse".⁶

Thus, crisis is nothing. It is simply the starting point of a process. But in case of social life, crisis is the unusual relation of the society caused by negative result of economic reform. Any economic reform must bring social change, and when that result of social change is negative we call it social crisis. As some politicians say, "there is no painless reform":

1. Whole categories of the workers such as teachers, university professors, doctors, nurses, railwaymen etc. have lost their former socio-economic prestige along with their former relatively high income.

⁶ J. Tortosa, J. Irvine: Crisis and Danger; Polish Academy of Science Committee "Poland 2000", Warsaw Spec. No 1985.

2. The social service (organised government services providing help and advice to those who are in need or trouble) have disappeared or have been limited to the minimum, or where they exist they are practically non-functional.

3. Women are discriminated from the work place (this is because of their natural obligation — especially maternity leave).

4. Criminal activity is on the increase⁷: In 1989, 457,589 criminal cases were reported. In 1990, the number increased to 883,346. An increase of 64.31% — an abnormally high figure. From those data theft and breaking — in to houses in 1989 amounted to 219,581 and in 1990, 431,056; an increase of 97.2%. People actually fear to walk outside their homes after sunset.

5. Social security is unhealthy, though above 33% of the whole population was living below the poverty level in 1992, compared to 15% in 1980.

From the economic point of view the gross domestic product, average monthly income or annual per capital income has been used as a social indicator, because change in these figures means change in the means of living. But this is not necessarily true.

The living standard of the society is declining though the GDP increased 4%. Furthermore, to find the income and expense of young people, a survey was conducted among students about to graduate from the high school. In March 1994, such students had an average of 922,000 zloty as their disposable income per month. The difference between the maximum and minimum disposable income and their ability of spend the money was very vast. The most wealthy student stated that he had spent 32 million zlotys (USD 1,450) that month. Despite that rather high mean average (922,000 zł), 50% of the respondents indicated that they had less than 400,000 zlotys at their disposal.⁸

Hence, the wealth of a minority of the respondents pushed up the average. That means the official economic indicators (5 mln average monthly income and 2.1 mln poverty gap in this year⁹), conceals the presence of both the poor majority and the rich minority and probably indicate an income level which does not exist. This is supported by the results of a survey on "Life in Poland" by the Polish Public Opinion. The results of the survey showed that two-thirds of Poles feel that their

⁷ Przeglad Rządowy nr 7—8 (37—38) Social security, August 1994.

⁸ Polish Public Opinion, Income and Expense of Young People, August 1994, p. 4.

⁹ Weekly Newspaper, "Dziennik" no 84, (168), April 29, 1994.

everyday lives are difficult. As can be seen in the Table 3, in the period from 1988 to 1994 (seven years in total), no change was recorded in the living standards of Poles.

Tab. 3. Answers of respondents as percentage of the whole population for sample "How's life in Poland"
Odpowiedzi respondentów (w procentach w stosunku do ogółu ludności) na ankietę "Życie w Polsce"

Life in answers responding	Year		
	1988	1992	1994
it is very difficult	22%	14%	16%
rather difficult	54%	53%	52%
not very difficult	21%	29%	27%
not difficult at all	3%	4%	5%

Source: Polish Public Opinion, Life in Poland, June 1994 p. 3.

Tab. 4. A sample of the most important difficulties faced by Poles in their day-to-day living

Najważniejsze problemy, z jakimi stykają się Polacy w życiu codziennym

Difficulties	Year	
	1988	1994
problems associated with career	36%	11%
running a household	19%	19%
unemployment or fear of unemployment	—	11%
difficulty of financial situation	14%	51%
health problem	10%	20%
housing situation	5%	5%
old age loneliness	—	5%

Source: see Table 3.

The factors contributing to difficulty in life have a lot of change comparing with the difficulty itself. In the 1980's problem number one was identified as being the difficulty in obtaining consumer goods. Today unemployment and lack of financial income stand first.

Health problems and medical care constitute the second problem next to economic problems and are regarded as something which is a greater problem at this moment than it was during the communist time. Old age loneliness is a new phenomena. Even though the fundamental indicators of living standard (financial problem, health problem, or unemployment) increase in sheer number and rate, about 32% of the respondents answers were positive as before the reform. This shows

that Poles are very optimistic. However, about 2/3 of the society live in difficult conditions.

Naturally the purpose of economic and social indicators is to enable the authorities to direct the direction of the reform in order to prevent the society from the poverty. But as official Statistics indicate, it is not practical. In addition to the above problems there are legal problems caused by the state authorities:

1. Rules often change and they are not clear for the directors of firms; these affect firm's plan (e.g. VAT simply weighs down firms with paper work).

2. Rules which are thought to protect legal firms come out too late; and this enables the illegal firms to outwit the legal firms from the market by means of market competition.

3. One set of economic rules for the other played malicious tricks. For example the privatisation and restructuring of industrial firms has increased the number of people who go on early retirement, but they have generally been allowed to draw their pensions and continue to work freely for several months (18 months¹⁰) for employers, that is why many employers advertise in the newspaper for pensioners instead of ablebody workers.

4. Political and ideological misunderstandings delay actual decisions which are important for economic activity. (Power struggle between the Executive and the Legislature, hampered the privatisation process).

5. The financial policy of the government: high rate of bank interest (40—45) did not attract the investors. Thus no investment of new firms and hence no development.

Because of the above mentioned reasons and other similar economic and social problems, Poles proved the incapability of the previous government (Solidarity and Liberals) and voted for communists on September 19, 1993, to slowdown the pace of transformation process.

Here is a question: has the slowdown of the reform shown a positive effect on the society? No. But, people in any society look forward to full employment, not unemployment, they want fair trade, not free trade, they want equality, not discrimination and inequality, they want an efficient market mechanism in order not to waste time and money, hun-

¹⁰ Law on Employment and Rehabilitation of the Disabled of May 9, 1991 (Dz.U. No. 46, item 201 of 1991) and Changes in Personal Income Tax Law of July 26, 1991. Art. 2 and Art. 26.

ting for good price, they dream of prosperity and a healthy life, not degradation and poverty.

As M. Fuszara argues "the picture of recent change in Polish society would be incomplete, if only the difficulties were discussed; if all the improvement of every-day life brought about by the market economy were left aside".¹¹ It is a fact, that change focused only on the aim of creating a market economy rather than on the aim of improving the living standard of the society will end in social decline which is more difficult to reverse once the rate is high. The danger is not that Poland might revert to communism; it is that the communist mentality which hinges on command economy, will politically hamper the tenacity of purpose of government to pursue the process to market economy consistently.

Half measures are more dangerous than not beginning — the collapse of small and medium-size enterprises will make Poles poorer and less free society than they were before 1989.

STRESZCZENIE

Przedmiotem artykułu jest ukazanie negatywnych skutków w procesie transformacji od gospodarki planowej do gospodarki rynkowej jako BARIER rozwoju małych i średnich przedsiębiorstw w Polsce.

Pojęcie „proces” jest to „przebieg następujących po sobie i powiązanych przyczynowo określonych zmian, stanowiących stadia, fazy, etapy rozwoju. Każdy proces ma cel. Transformacja systemowa jako proces reform od gospodarki planowej do gospodarki rynkowej wymaga odpowiedniej metody kierowania. Jakakolwiek metoda (interaktywna czy imperatywna) jest prowadzona, to najważniejszą rzeczą jest akceptacja zmian przez społeczeństwo. Sukcesem procesów transformacyjnych (akceptacji zmian przez społeczeństwo) jest wzrost poziomu życia ludzi. Rozwój zależy natomiast od zdolności akumulacji kapitału i wielkości nowych inwestycji w gospodarce.

Procesy transformacji gospodarki składają się z działań w pełni świadomych, zaplanowanych i takich, które można określić jako mimowolne, występujące w sposób niekontrolowany, będące poza zasięgiem oddziaływania decydentów. Jest to szczególnie widoczne wtedy, kiedy gospodarka nie jest ukształtowana w pełni w sposób prawidłowy, kiedy nazywamy ją „anormalną”.

W Polsce obserwujemy podstawowe wskaźniki rozwoju gospodarczego: inwestycje, zatrudnienie, dochód społeczeństwa itp., prawie wszystkie są negatywne. To określa, w jakich warunkach społeczeństwo żyje. W Polsce można zidentyfikować istnienie tylko dwóch grup społeczeństwa: pierwsza przeważająca część społeczeństwa to ludzie o niskich dochodach, drugą, niewielką, grupę stanowią ludzie o wy-

¹¹ M. Fuszara: *Economic and Industrial Democracy*, an International Journal Vol. 15, No. 1, February 1994, p. 75.

sokich dochodach. Od czasu transformacji (1989) z powodu nieracjonalnego gospodarowania majątkiem narodowym, klasy średniej prawie nie ma (nie widać). Zniszczenie tej klasy to hamowanie rozwoju całego kraju — społeczeństwa.

Problem podziału społeczeństwa jest nie tylko zagadnieniem ekonomicznym, ale jest to również kwestia relacji między społeczeństwem a jednostką, rządem a społeczeństwem, pracownikami a pracodawcami, które to problemy powodują poważny kryzys społeczny. Oczywiście można zgodzić się ze stwierdzeniem, że nie ma bezbolesnych reform, ale trzeba podjąć określone działania, aby zmniejszyć negatywne skutki procesów przemian ustrojowych. Jeżeli nie, te negatywne skutki transformacji dojdą do nieudanych reform, które mogą spowodować nieodwracalne straty kulturowe, polityczne i ekonomiczne oraz trudniejsze życie, trudniejsze nawet niż przed reformą.

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