

## **POLISH «WELFARE STATE» AFTER TRANSFORMATION. CONCLUSIONS AND RECOMMENDATIONS FOR UKRAINE**

*Стаття є спробою представлення результатів суспільної трансформації в Польщі з точки зору демонтажу соціалістичної «welfare state». Економічна, суспільна та політична трансформація створила абсолютно нову реальність як у масштабі країни, так і окремих її регіонів та суспільних груп. Аналіз досвіду Польщі може бути предметом зацікавленості в контексті подібних процесів на Україні як для вчених, так і для практиків.*

**Ключові слова:** економіка, суспільна та політична трансформація, «welfare state».

*Статья является попыткой представления результатов трансформации в обществе Польши с точки зрения демонтажа социалистического «welfare state». Экономическая, общественная и политическая трансформация создала абсолютно новую реальность как в масштабе страны, так и в отдельных её регионах и общественных группах. Анализ опыта Польши может быть предметом заинтересованности в контексте подобных процессов в Украине как для учёных, так и практиков.*

**Ключевые слова:** экономика, общественная и политическая трансформация, «welfare state».

*The article is an attempt to present social effects of the transformation in Poland from the perspective of socialist «welfare state» dismantling. Economic, social and political transformation generated utterly new reality on a national level as well as in its individual regions and social groups. The analysis of Polish experience may be of interest amongst both the academic researchers and practitioners in the context of similar processes occurring in Ukraine.*

**Key words:** economic, social and political transformation, socialist «welfare state».

**Introduction.** For more than 20 years Poland and its citizens have experienced positive and negative effects of social and political transformations initiated in 1989. The world in Anno Domini 2012 is not functioning in the veil of neoliberal euphoria of free market and continuous economic growth. The European Union is immersed in economic crisis. The societies anxiously look into the future fearing for their sparse jobs.

Considering the situation and Poland's experience in transformation process so far, the attempt to reach conclusions regarding Ukraine is, in the author's opinion, worth the effort. Both the state and its citizens are symbolically half the way that may lead to taking advantage of our previous social and economic practices. Ukraine gained independence in 1991 [1], the first free elections were held later in 1994. The process of approximation with the EU is still pending.

The Nobel Prize winner in Economics, Prof. Oliver Williamson referred to the nature of the current crisis during his appearance in Poland and symbolic birthplace of «Solidarity» – Trójmiasto on 29th September 2011,

saying: « (...)We could have foreseen all of it and we did, but we expected it would settle itself. We were misled by the confidence the market was miraculous, yet standard economic assumptions failed». Further conclusions he draws are clear: «The economy must allow for the attainment of social sciences to much greater extent. Sphere of politics or religion is all that has its influence on societies and transaction-based economy. The knowledge of human nature, human behaviour is of uppermost importance for economic theories we create» [2].

The author of this article drew similar conclusions as early as in 1990s with reference to Poland and social consequences of the transformation, not considering domestic social, economic and cultural factors.

**Socio-economic situation before the transformation. Dimension of the socialist «welfare state».** The essence of the socialist welfare state consisted in accomplishment of the program of «total welfare state» [3], which type of social policy was labelled by Gosta Esping-Andersen and Ivan Szeleney «state socialism» [4].

In practice, in the Polish conditions, it meant an attempt to effect the idea of collectivistic social order, which was concurrent with the popular desire to guarantee the individual social security. The objectives targeted by the builders of the new system, like the right to work, education, recreation, social insurance, etc, were known and fulfilled by several European states within their «welfare state» system. It was, thus, nothing new; what was new, was the scope of the changes and the radicalism with which they were introduced: they were implemented by such radical means as the agrarian reform or nationalization of industry.

Real socialism created a system of «social accomplishments» with the state taking responsibility for their fulfilment. The idea that the state was intended to be the sole provider of social policies, was consistently implemented throughout the 1950s.

The state provided appropriate institutional instruments and exerted control over socio-economic processes previously occurring in a spontaneous way by defining tasks and directives for participants of these processes; it also appropriated resources necessary to effect these tasks [5].

Individuals were deprived of the initiative and responsibility for the part they played in communal life. They were incorporated into performance of centrally coordinated tasks, they were no longer judged by their actions, but only by their readiness to carry out directives from above.

What accomplishment of state collectivism meant in practical terms, was lightness of being and a right to dis-responsibility. People lived in state-owned flats, bought state-baked bread, used state-run medical system, holiday centres, transportation... The state developed the schooling system, thus fulfilling social promotion aspirations (special privileges for young people of working-class and peasant origin); it also granted substantial material assistance to students (free tuition, stipends, dormitories and halls of residence). For over forty years «social» price-tags were affixed to several commodities: their prices were officially inspected, and their production, particularly of food products, subsidised. The system enslaved, but it also relieved one of his burden.

During the forty years of the system's domination, the society grew accustomed to egalitarianism of life and developed attachment to their «state» jobs. This is where they spent most of their lives; this is also where they fulfilled their leisure- and culture-related needs. The main entity to implement social policies in the times of real socialism were enterprises, and all this was carried out under the patronage of trade unions. The cost of cultural and social activity – company-organised vacation, crèches, medical centres, swimming pools, sports halls, football teams, etc. – formed a part of the overall cost of running an enterprise.

Before 1980, active opposition to the system was the province of small groups of the intelligentsia. Until 1980, the majority of the society accepted socialism and its values, although they were aware of the discrepancies between the ideas and actions taken by the authorities [6].

Among other things, growth of opposition in the society was related to unfavourable phenomena of social nature, a general shortage of commodities and a decline in their quality. This resulted in emergence of a new model of social stratification typical of the socialist society, as well as in breaking the principles of social egalitarianism through operation of the «nomenklatura». This brought a gradual shift of accents from «equality» to «liberty», although the majority of the society maintained their support for key principles of egalitarianism in the area of pay, income and prices [7].

**Post-1989 changes in Polish political, economic and social system.** 24 August 1989 is a symbolic date in Poland, as it marked the beginning of a system transformation that covered all areas of social, political and economic life. That day, the Polish Parliament appointed a new head of government; it was the first such case in the entire Soviet bloc that the nominee should come from circles other than the Communist party: he was the leader of the opposition. The transformation process meant facing political, social and economic challenges.

The change originated in a series of protests and strikes staged by workers. It stemmed from their demand to improve living and working conditions, as well as to democratise and socialise the state.

«Solidarity» was a social movement joined by organising bonds but first of all by emotional ties. The end and crash of the movement was the fact that the communist system very fast and easy stopped existing – the enemy disappeared. The enemy who made the movement effective and what is more important active. At the moment of taking the office «Solidarity» was not the owner of the essential programme, also social one.

People without any social and administrative experiences appeared at the «headquarters» of the country. Suddenly it turned out to be the movement had no one to have the influence. Many members of the «Solidarity» started to Quarrel among themselves and became founders of quite new and different political parties. There are registered over 300 political parties in Poland at present. Each of them has its own programme and the result is no real, true, convincing one.

System changes in Poland were based on the so-called «Balcerowicz Plan»: a package of economic system reforms, prepared in just 111 days, whose implementation started in 1990. The name comes from the name of the main author of these reforms, the then Deputy Prime Minister and Minister of Finance, Leszek Balcerowicz. Together with a group of experts (incl. Jeffrey Sachs, Prof. Stanislaw Gomułka, Stefan Kawalec and Wojciech Misiąg) he drafted a plan intended to make a shift from the centrally-planned to free-market economy possible.

The plan consisted in ten acts passed by the Polish Parliament (Sejm) in December and signed by President Jaruzelski on 31 December 1989:

1. State Enterprise Financial Management Act, which removed guarantees of existence of large state-run enterprises irrespective of their financial results and

production effectiveness; it made instigating bankruptcy proceedings against unprofitable enterprises possible.

2. Banking Law Act, which made financing the budget deficit by the central bank illegal, and thus made unrestricted issue of money without cover impossible.

3. Credit Act, which – by connecting the rate of interest with the rate of inflation – abolished credit preferences previously enjoyed by state enterprises.

4. Excessive Pay Tax Act, which introduced limits to growth of nominal pay in companies related to actual growth of prices (the so-called «popiwiek» tax payable when growth limits were unlawfully exceeded).

5. New Taxation Principles Act, which introduced uniform principles of taxation in all sectors of economy.

6. Foreign Investor Economic Activity Act, which obliged foreign enterprises to sell foreign currency to the state at the rate determined by the central bank; it exempted enterprises with foreign capital from payment of the «popiwiek», as well as made transfer of profits abroad possible.

7. Currency Law Act, which introduced internal exchangeability of the zloty, abolished the state's monopoly in foreign trade, and obliged enterprises to sell earned foreign currency to the state.

8. Customs Law Act, which standardized principles of levying customs duty on imported goods in all economic entities.

9. Employment Act, which changed operation principles of job centres.

10. Particular Conditions for Employee Dismissal Act, which provided protection to persons made redundant (particularly in case of group layoffs), guaranteed severance pay, and introduced periodic compensation for the unemployed.

The above acts, the ensuing restrictive policy of the National Bank of Poland. As well as numerous privatisation processes, resulted in a significant reduction of inflation, floating of the zloty, considerable economic growth, and relative stabilization of the economic situation. Proprietary transformations were considered the main direction of system changes in the Polish economy. In July, the Sejm passed State Enterprise Privatisation Act, and on 30 July 1990 established Ministry for Proprietary Transformations [8]. The process of privatisation was initiated, with shares of five major state enterprises put up for sale. This meant that a major restructurisation of the socio-economic system and transition from collectivisation economy to one dominated by private enterprise had got under way [9].

From the point of view of the number of «transformed» enterprises, the most effective method was this of liquidation. On the strength of State Enterprise Privatisation Act, liquidation of 542 of them was initiated [10]. The majority of liquidated companies were construction, industrial and agricultural enterprises. In the 1990s, the number of state enterprises in Poland decreased four-fold [11]. As a result of bankruptcies and liquidation of several state enterprises, as well as job cuts in the surviving ones,

the rate of unemployment after the initial phase of system transformation reached the level of 10 % in 1993. The Balcerowicz Plan is most often criticised for contributing to a significant decline in the living standards of numerous groups of people, in particular employees of unprofitable state companies and collective state farming enterprises (PGRs), and to forming areas of extreme poverty and structural unemployment, which processes have been permanently deepening until today.

#### **Cost of transformation – social stratification.**

The social cost of transformation was on the one hand the effect of the size of changes, and accumulation of errors made by subsequent Polish political elites, on the other [12]. From the very beginning, the dominant factor in this complex process was this of time; practical and political determination resulted in individual cost – which on a number of occasions involved whole social groups – not being taken into consideration. As these groups inhabited certain rural areas, in particular regions the stratification became more evident than in others. Structural changes of the economy only deepened the traditional division into the developed areas, i.e. large centres like Warsaw, Poznań, Wrocław, or the western part of Poland, and the underinvested and underdeveloped South and the so-called Eastern Wall [13]

Abandonment by the state of the role of principal guarantor of social security entailed very serious changes, incl. emergence of new, social issues of unemployment and poverty, previously unknown on such a major scale.

**Issue of Unemployment.** Unemployment in Poland significantly differs from this phenomenon in the countries of Western Europe. The reasons for unemployment in Poland have been mainly related to transformation of the entire economic system and differentiation of the labour market.

The characteristic trait of Polish unemployment was its abrupt emergence; very dynamic, it would soon turn into a mass phenomenon. Another characteristic feature is the fact that impoverishment of the unemployed begins in Poland at a lower level of wealth than in the countries of Western Europe. In Poland, no system of individual insurance against unemployment exists. Poverty of the unemployed is often related to the length of the unemployment period. The unemployed who have lost their entitlement to unemployment benefit become charges of social welfare institutions.

The main reason for unemployment in Poland was the significant drop of production in the public sector. And although activity in the private sector simultaneously grew, it did not compensate for the decrease of production in the public sector. According to statistics, in 1990-1991, the drop of GNP exceeded 18 %, employment level in the public sector fell by 2 million people, while the private sector increased employment by 400 thousand people. These tendencies find confirmation in other data: 85 % of the unemployed had been employed before, of which 65 % worked in the public sector; 46 % of the unemployed were laid off due to liquidation of entire enterprises or particular posts. Of every five liquidated, one new workplace

was created. One can see that the prime reason for growth of unemployment was collapse of production [14].

Close control of nominal pay growth combined with liberation of prices resulted in such profound decrease in demand that part of production output did not find buyers on the domestic market. A decline in real consumption expenditures followed, which was related to a significant drop of real income and real financial resources.

Another factor which adversely influenced demand for domestic production was a significant increase of competitive consumer imports. Besides consumer demand, another element to lower internal demand was a decline in investment. Without a doubt, this was inflation, lack of investment resources in the public sphere due to excessive fiscalism and high interest rate, as well as low level of investment in the private sector, that exerted a negative influence upon the range of investment [15].

Liberalisation of economic life, which broke monopolies and brought competition from world markets, had to be followed by a decline in production output by a technologically backward economy, one that was less attractive in comparison to international competitors. Polish enterprises were unable to meet foreign competition both on the domestic and foreign markets. The theoretically equal chances for domestic and international enterprises, in practice meant discrimination of domestic production, as a considerable part of consumer imports was subsidised. The rate and range of economic liberalisation had a direct influence upon the decline of production. It is believed that the faster and deeper it goes, the faster and deeper the ensuing decline of production. The part of production decline which is related to its low quality, low technical standard and excessive cost, i.e. to its non-competitive character, cannot be easily recreated. A particularly difficult situation on the labour market in Poland was observed in regions where the PGRs were the dominant employment sector, as it was there that rapid and not well thought-out proprietary transformations took place. It was a very specific sector of the economy: in 1989 the PGRs employed 435 thousand people. With families, this accounted for ca. 2 million people who lived in 6 thousand special residential compounds. At the end of 2003, only 78 thousand people remained employed. This resulted in a very high rate of unemployment (over 25 %) in regions where this sector of economy was dominant, as opposed to the national average of 18 % [16]. Particularly high levels of unemployment were (and still are) observed in Warmińsko-Mazurskie (27,6 %), Lubuskie (23,8 %) and Zachodniopomorskie (25,5 %) provinces [17].

Data concerning the structure of unemployment is also very alarming. According to 2002 National Census, 60,5 % of the unemployed persons in rural areas were people in the 15-34 age group, 25,7 % had not completed primary education, and 44,8 % only had primary vocational education. Also, the situation related to length of unemployment period was very unfavourable: over 47 % of the unemployed in rural areas were people who remained without employment for a period of

over one year. The situation in the so-called post-PGR housing estates was tragic: unemployment of ca. 40 % affected whole (multi-generation) families; over 30 % of the unemployed persons remained without employment for a period of over 7 years.

**Issue of Poverty.** Rapid changes after 1989, incl. growing unemployment, led to emergence of the problem of poverty on a scale unknown to the Polish society in the post-war period.

Poverty in Poland is linked to two very important factors of structural nature: on the one hand, Polish agriculture was opened to market economy, which brought impoverishment of the whole community (phenomenon particularly noticeable with former PGR employees); on the other hand, a specific character of urbanisation and industrialisation of the country made structural changes affecting different spheres of the economy be felt particularly strongly on the social level. Both former PGR employees and those of liquidated major industrial enterprises had limited adaptive capacity.

At the beginning of the 1990s, an acute decrease of real income occurred in the society: in 1990, it affected 80 % of households, with 64 % of the society describing their living standards as «bad» or «very bad» [18]. The decline of living standards concerned not only the two groups mentioned above. What is interesting, by the end of the 1990s poverty in rural areas touched mainly former PGR employees and their families; after 1997, a gradual increase of poverty level can be observed among individual farmers.

Without a doubt, growth of poverty with all its consequences was significantly influenced by growth of unemployment level, as well as growth of the cost of living in Poland. Furthermore, research points to other crucial factors:

- large number of children per family;
- low income predominantly from sources other than gainful employment;
- low level of education of the family head;
- residence in rural area or in small town communities suffering from structural unemployment [19].

In 1992, the percentage of the society living at the social minimum level equalled 32 %, in 2000 – 54 %, and in 2003 – 59 % [20]. The percentage of people living below the minimum subsistence level (survival level expenditure) also systematically grew: in 1994, it equalled 6,4 %, in 2002 – 11,1 %, and in 2004 – 12 %.

In 2004, fifteen years after the beginning of the transformation process, assessment (based on application of synthetic index ELSI – Economic Living Standard Index) of people's material situation is very clearly-cut: almost 1/4 (24 %) of the surveyed persons lived at a very low level, 30 % lived at a level described as low or rather low, 37 % qualified for the group of adequate living standards, a small group of 9 % enjoyed good, and only 0,5 % very good living conditions [21].

This translated onto fears and expectations: 34 % of Poles were worried about their material situation, 15 % expressed worries about lowering their previous living standards, while 12 % expressed fear of falling

into poverty. Poles' greatest hopes concerned decrease of unemployment (28 %); smaller ones – improvement of economic situation (only 20 %) [22].

**Conclusions and recommendations for Ukraine.**

Today, Ukraine does not need to undergo a «shock therapy» in the name of neoliberal ideals, which was the case in Poland as well as in Russia under the rule of Boris Yeltsin [23]. Even the «Godfather» of the transformations, Jeffrey Sachs, publicly deprecates his support for neoliberalism, stating indeed that «(...) My fundamental beliefs have never changed. I am an ardent supporter of the social market economy, while in Europe I might just as well be regarded as a social democrat. (...) Problem of Poland, on the other hand, consisted in the presence of planned economy and the fact, that a market system did not exit. Therefore, I had to act fast, just as Ludwig Erhard while carrying out the monetary reform in 1948. We did not have the luxury of five or ten years (...)» [24].

Ukraine is not nor does it have to fall under time pressure. It can take advantage of experience gained by other states in the region, not necessarily Chile, Argentina or Brazil, where economist educated in Chicago by Milton Friedman implemented his neoliberal experiments under the protection of military dictator-ships [25]. They enjoyed «mental comfort» and unparalleled in normal conditions opportunity to disregard public opinion, interests of great international corporations were valued more highly than interests of domestic economy.

Poland, under «pressure» of history, exceptional character of the situation, took every effort to carry out the reforms in compliance with the requirements set by international financial institutions. This was coupled with lack of experience the new elites that originated from «Solidarity» lacked in governing the state. The euphoria related to democracy, breaking up with a long-standing subordination to the USSR, seemed to be the right solution, irrespective of the social and economic consequences.

The elites in modern Ukraine, descending from various political environments have longer experience in independent governance than the beginner groups of Polish politicians. It is easier for them to take sovereign decisions, not being prone to the pressure of time. Especially today, when straightforward comparison, reference too often made by the Western states to such, in their opinion, universal concepts as capitalism; liberalism; free market; liberty; democracy, etc. have turned out slightly outdated nowadays, when the world economic and social triumph is celebrated by such countries as: Chinese People's Republic, Brasil ruled by President Luiz Inácio Lula da Silva, Russia or India.

Errors of transformation in Poland brought consequences connected with underdevelopment of entire regions, as well as bankruptcy of thousands of business entities administered by the state, which had created stabilisation as part of the model referred to in the West as a socialist «welfare state». Social groups linked to huge working places, oriented towards abruptly broken economic relations with the USSR and other Eastern Bloc countries, were exceptional victims of the situation. For the time being, the same goods

were not in demand amongst the consumers in other countries in Europe and worldwide. Neither were they interested in cooperating and purchasing semi-finished products from Poland.

Euphoria of the elites, distrust or even hostile attitude towards Russia excited by part of the elites, led to further reduction of economic contacts. As a result, markets in such sectors as agricultural and food, furniture, household chemistry, machine industry and light industry were lost. The gap previously filled with products from Poland was now taken by companies from the West Europe and Asia. Analogous mistakes do not have to be made by Ukraine. Its willingness to establish social and economic links with the West Europe need not involve breaking or weakening economic relations with Russia.

Poland, in the initial stage of transformations, was regarded as an ideal partner for positive social and economic dialogue with the East. Advantages of the situation were used at the lowest level only, while the roads in Poland are being destroyed by millions of trucks delivering goods to the East. At the same time, we are obliged to pay for raw materials imported from Russia in cash, making the trade deficit deeper and deeper. Unemployment and impoverishment of the entire regions are a logical consequence of this state of affairs. For that reason, more than 2 million young Poles found their jobs in Great Britain, Ireland, Germany, the Netherlands after the accession to the EU. This leads to an increased threat caused by negative demographic balance and ageing of the societies. Ukraine should take all the effort to avoid those mistakes and by all means establish advantageous development conditions in the country, so as to keep the younger generation and not to force them to labour migration.

The areas formerly managed by state agricultural farms (Polish abbreviation: PGR) have functioned as social and economic «deserts», heartlands of unemployment, destitution and social exclusion for decades. No chances were created for the population group in that areas. Privatisation and free market were supposed to be the only alternative [26].

Small, domestic agricultural – food cooperatives and processing plants either fell into decline or were eliminated. Their place was taken by world brands, capital and technologies, thus depriving thousands of their jobs and pauperising entire regions.

Ukraine has an inconceivably better potential here. Historically, it has always been regarded as granary of Europe, it should exploit its opportunities, create domestic sector, give chances to cooperatives and promote its own goods, not only on a vast national market but also internationally.

Following the expansion of capital and large international retail chains in Poland a number of small trade companies went bankrupt, which entailed job losses and deprived many families of earning opportunities.

Ukraine should take notice of negative consequences of the processes in Poland and make efforts to maintain the production as well as domestic brands and retail outlets in domestic hands. It should strive for strengthening internal retail chains, modernising them in a way that will prepare them for possible competition

with foreign companies, when new economic – legal reality allows for their attempt to capture the market.

Lack of domestic capital in Poland has often appeared as an argument. Meanwhile, a substantial part of banking sector was transferred to foreign hands in the initial stage of the transformation. It generates extremely unfavourable situations, for in crisis situation central offices of the institutions decide on the transfer of funds in Poland and cost reductions, which brings for example dismissal of employees. Therefore, Ukraine should by all means endeavour to keep the sector in its hands as much as possible, for it is in the interest of the state and the citizens.

Polish families are the victims of transformation. Closing social infrastructure related to the former jobs resulted in an abrupt and advancing demographic low. Women suffered in this situation exceptionally. At the same time, amongst economically and socially developed European countries are Denmark, the Netherlands, Sweden, Germany. No drastic social cuts in the name of neoliberal ideology of free market occurred there. A state looking towards the future in terms of development must think about generations to come. That is why Ukraine should strive to create advantageous social conditions for young married couples, promote population growth rate, establish its own model of social safety in practice.

**Summary.** Poland, both the elites and the society, were subject to a great, historical experiment in the last decade of the 20th c. It consisted in retreating from planned economy with strong influence of the state towards neoliberalism and free market rule. Undeniable success that followed, caused a number of mistakes where ordinary citizens were the victims Ukraine may avoid many of them taking a look at Poland and its reforms from the present perspective – learning from its mistakes. The world in 2012 is a totally different reality when compared to what took place in 1989.

After the neoliberal euphoria, the times of crisis and deeper afterthought ensued. The future will show if the knowledge resulting from experience of the others is taken advantage of by the elites and the society of Ukraine. Perhaps, through this experience also the Ukrainian society will build its welfare and stable future, choosing its own reality-based way of steady development. Ukraine's steady development will not have its high price in loses of social dimension because a stronger «partner» will succeed in executing the only rightful way of development. Let's hope it is implemented with a harmonious cooperation of both states and societies, for many aspects in their histories are common, just as was the case in other European societies that resiliently develop today.

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