

# **The Role of Local Government in Supporting Ownership Transformation at Enterprises in Poland After 1990**

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## **Abstract**

In the history of local government in Poland after the WWII two periods are generally indicated. The first one refers to the years 1950-1989. During that long time interval in Poland local government was dissolved and replaced with national councils, modeled on the Soviet Union solutions. The second period started in 1989 and has lasted up to present day. It is related to restoration of democracy in Poland and also of the local government. Dissolution of the local government in Poland took place on 20th March 1950. On that day the Polish Sejm adopted a resolution on territorial units of uniform public authority. Basing on the resolution the system of national councils was constructed, following the Soviet model. National councils did not have attributes allowing to recognize them as local government units. They were deprived of legal personality, own property or budget. Therefore, the role of institution providing for social needs at local level was taken over by enterprises. Such situation deformed life of local community. The concept of local homeland was excluded from use. Transformation of political and economic systems that began in Poland in 1989, and related to it reconstruction of local government, (on the basis of Act of 8th March 1990), enabled restoration of the local government after nearly fifty years of nonexistence. From the moment of reconstruction, the local government took over the responsibility for fulfilling social needs. At the same time enterprises, undergoing the process of restructuring and ownership transformations, as part of the reduction of so-called nonproductive assets, gave to the local governments, often for free, parts of assets that were connected with social activities of plants, for instance: apartments belonging to the enterprise and technical and municipal buildings (water and waste water facilities, water treatment plants and local roads).

This paper, basing on selected cases, shows what tasks were carried out by enterprises that replaced local government (first part of the paper), and describes the scale of problem, referred to as enterprises "abandoning" the role meant for the local government after 1990.

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**Keywords:** Keywords: local government, enterprise, social needs, little homeland

## **Introduction**

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Dissolution of the local government in Poland took place on 20th March 1950. On that day the Polish Sejm adopted a resolution on territorial units of uniform public authority. Basing on the resolution the system of national councils was constructed, following the Soviet model. National councils did not have attributes allowing to recognize them as local government units. They were deprived of legal personality, own property or budget. Therefore, the role of institution providing for social needs at local level was taken over by enterprises. Such situation deformed life of local community. The concept of local homeland was excluded from use. Transformation of political and economic systems that began in Poland in 1989, and related to it reconstruction of local government, (on the basis of Act of 8th March 1990), enabled restoration of the local government after nearly fifty years of nonexistence. From the moment of reconstruction, the local government took over the responsibility for fulfilling social needs. At the same time enterprises, undergoing the process of restructuring and ownership transformations, as part of the reduction of so-called nonproductive assets, gave to the local governments, often for free, parts of assets that were connected with social activities of plants, for instance: apartments belonging to the enterprise and technical and municipal buildings (water and waste water facilities, water treatment plants and local roads).

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### **State enterprise as the institution providing for social needs**

During the times of the People's Republic of Poland, within 1950-1989, people of Poland were deprived of the right to manage local matters on their own behalf and responsibility. The governing elites, totally dependent on the Soviet Union, by virtue of the Resolution on territorial units of uniform public authority of 20th March 1950, dissolved the local government.

In the place of the units of local government, known in Poland from the interwar period, the said Resolution introduced the strange solution of uniform administration, being the combination of the executive and legislative powers in one national organization (Witkowski, 2007, p. 427). National councils operating in districts, on the basis of the Constitution of the People's Republic of Poland of 22nd July 1952 were the territorial units of public authority and basic local authorities for the working people of towns and villages. Hierarchically constructed system of the national councils turned out to be a creation totally unable to act independently. Regulations concerning the national councils contained contradiction, as they were to represent the interests of local community and the national interest at the same time (Witkowski, 2007, p. 432). Their role in the life of local communities was downgraded by the fact that the national councils could not carry out own policy of local development, did not have legal personality, did not manage their own property, but could only manage national property. Besides, they did not have own budget and their expenses were incurred from the state budget (Regulski, 2000, p.22).

System of territorial units of uniform public authority did not at all promote the active citizenship. Jacek Kuroń noticed: "Public authority in our country is handled through depriving the society from initiative, information and decision. Each self-governing social initiative violates state monopoly and the basis of public authority" (Kuroń, 1980, p.17). Such foundations, prepared by the governing elites of the People's Republic of Poland, resulted in breaking the bonds connecting local community with the local homeland. Local homeland was no longer attractive to the average inhabitant. At that time there was no preservation of local values, no information on local history or local civilization heritage. Authorities of the People's Republic of Poland were aptly convinced that it was easier to control community within an enterprise. That was the community of particularly set goals. The local community involved in the actions to the benefit of the place of residence, gathered in social organizations difficult to control, was considered dangerous and so its development was prevented. Due to such conditions, the place of local governments and social communities was taken over by the state enterprise. The process of making workers dependent on enterprises was facilitated by migrations of people to cities resulting in breakdown of so far existing social structures. The migrating workers felt lost in new

environments. The enterprise, though, offered help and provided for their needs. Such was the method of building the awareness of group interests of working people from the enterprise. (Kozioł, 2004, p.154).

The state enterprise worker had the task placed ahead of him- to achieve certain objectives, mainly by industrial, manufacture work. In return for a good job, the factory took over, replacing the nonexistent local government, the duty to provide for social needs (often basic) of the workers. Such was the method of constructing the experimental social community in the People's Republic of Poland, against the old tradition of local government in Europe. In the center of this community there was a state enterprise which, apart from industrial goals, realized tasks of social character, providing for workers' needs.

Authorities of the People's Republic of Poland were fully convinced that any social problems could be solved throughout permanent industrialization. On such basis the government and related ministries competed each other with ideas on constructing new factories. The policy of implementation of central investments in separate places in the state, without coordinating it with local needs and development plans created a strange situation, considering spatial planning in cities. (Secomski, 1974, p.10). Due to aforementioned investment preferences in the space of cities some unneeded objects arouse, disturbing the architecture and being useless for current operation of the city (Kozioł, 2004, p. 151). None of the policy makers took into consideration the voice of local architects, urban planners or monument conservators. Problems related to the implementation of central industrial investment policy without consideration for the voices of local communities were observed for instance in Włocławek. Development of the Rope and Wire Factory Drumet in Włocławek was hampered due to the lack of factory water intake for industrial purposes. Construction of such water intake was impossible as it would have resulted in drying of town water supplies. Solution was however found- within the 24-hour time frame water was periodically limited for the inhabitants of the town. Different situation took place in Grudziądz. Production rhythm in Agricultural Machine Factory Agromet-Unia was regulated by the principles of the Road Traffic Code (Stępowski, 1979). The enterprise was located in the town center, and a busy road divided it into two parts. There was always a heavy traffic on the road, as from one part of the plant to another one production-related goods were transported.

Then, it was not accidental that one of the first professional groups to raise the problem of reconstruction of the local government at the district level of the People's Republic of Poland were the urban planners and city architects. Professor Jerzy Regulski explained the problem in the following way: "Spatial planning is purposeful only when there is entity that may

benefit from these plans" (Regulski, 2006, p.7). As the national councils were deprived of the possibility to create the local space, the phenomenon of "deindustrialization of suburbs" occurred. According to economists, central planning of investments" resulted in depopulation and freezing of economic functions in smaller towns, which, in turn, was followed by damage and dying out of the infrastructure therein" (Bittnerowa, 1967, p.22). We must agree with professor Regulski who pointed out that the reason for such state of the matter was lack of authentic host, such as local government that would have effectively managed the resources. In the situation of stagnation and decline of development in small towns, authorities dealing with central planning obligated the enterprises managed by them to set up branches in the problematic areas. Undoubtedly, these branches had only social functions. Using that tool the state-owned enterprise performed social task of stimulating professional activity of inhabitants in the provinces. Such investments were to replace the individual entrepreneurship, existing in Western Europe .

The first need of a worker to be provided for by the enterprise was accommodation. The enterprises usually built so-called complexes of factory flats that sometimes formed the whole districts nearby the workplace. For instance, within 1961-1965 the Cement Mill Kujawy in Barcin allocated 13.5 million zlotys for so-called "accompanying investments" that is for construction of flats. Additional 3.7 million was spent on construction of service and commercial buildings for inhabitants of the districts, and 16 million on the development of infrastructure, (such as sewage and water system and roads). Rope and Wire Factory Drumet II in Włocławek built 100 flats in 1972, then in 1973- 200 flats and 100 more in 1974. The new districts were equipped with the necessary technical infrastructure. In the second half of the 1950s the United Cycling Plant Romet in Bydgoszcz declared that each year they had spent approximately 14% of investment expenses on housing and development of supporting technical infrastructure. Sodium Plant established in the 1950s in Janikowo was an example of the fact that a factory was able to construct even the whole town. Most of the housing resources built there were owned by the Sodium Plant, similarly to the roads and water and sewage system. Moreover, the plants constructed the culture club, cinema, and commercial and service facilities (Kamosiński, 2007).

The enterprise, taking decision to provide for the social needs often became the body to set up and manage the enterprise-affiliated schools. In 1967 in the People's Republic of Poland about 800 enterprise-affiliated schools operated. They educated over 180 thousand of workers. In the 1970s the increase in number of such schools was observed. If a factory did not own its enterprise-affiliated school it had to take "patronage" over the one existing in the neighborhood. Thus the education system depended on the

enterprises that decided on the education process. In their schools the enterprises prepared qualified workers who were to bind their whole professional life with one plant. (Kamosiński, 2009, p. 26).

Many enterprises, however, found it difficult to solve the problem of everyday commuting. Public transport in towns and suburbs, owned by the state, did not manage to provide proper communication services for workers travelling to plants. Buses, trains and other means of transport were unpunctual. Because of that, the enterprises created their own communication networks or provided transport for their workers. The national transport monopolist was not ready to coordinate proper and effective transport services at local level.

In order to fully provide for social needs of workers, the state enterprise offered access to free health care. In the 1970s medical care was available to practically all workers of so-called key enterprises. At the 7th Meeting of the Polish United Workers' Party it was declared that within 1970-1975 there were built 239 enterprise-affiliated clinics that provided medical services for factory workers (7th meeting, 1976, p. 20). Looking from statistical perspective we should point out that in the second half of the 1970 around the city of Łódź 33% of cinemas, 78% of nurseries, 33% of kindergartens, 60% of enterprise-affiliated clinics and 69% of culture clubs were owned by the industrial plants. The enterprise care for workers included also organization of free time. The plants possessed their own holiday centers in most attractive tourist destinations, for instance: the Rail Rolling Stock Repair Workshops in Bydgoszcz had their own leisure center in Szklarska Poręba, the Chemical Plant Zachem in Bydgoszcz- a holiday center in Sopot, the State Agricultural Farm in Strzelin near Wrocław possessed a holiday house in Nowęcín near Łeba by the sea.

As it was noted by Jan Regulski, there was lack of local government that, as a certain area host, would have been responsible for monitoring the condition of natural environment. As a result, the central policy of designing and performing industrial investments pushed the matter of environmental protection aside. The territorial units of uniform public authority were passive in that matter. So, the results of random studies of the natural environment were alarming. For instance in Bydgoszcz in 1971 it was discovered that industrial plants had dumped industrial wastewater into the Brda and Vistula rivers. Solid waste were piled. Polluted grounds were not recultivated. Inhabitants of industrial districts had to bear the toxic fumes coming out of plants' chimneys and deal with excessive noise (Kamosiński, 2007, p. 335).

In the project of reforms program prepared by professor Regulski and professor Kulesza in the 1980s it was stated: "one must decidedly say that in the territorial system the basic managing unit should be the town/commune

and not the enterprise": and further: "local governments should have far-reaching impact on the operation of national enterprises as without them there would be no possibility to control the development of towns and communes understood as the socio-economic systems" (Regulski, 2009, p. 89).

### **Enterprises "abandoning" the role meant for the institution carrying out social tasks after 1989**

After fifty years of nonexistence the local government underwent the reconstruction owing to adoption of the Act on local governments on 8th March 1990 and the democratic elections of local governments authorities on 27th May 1990. Thus, new institutions of public life were created. The commune or district local government, acting on its own behalf and responsibility, was to carry out public tasks. In order to effectively perform its duties, the commune/district obtained the right to possess and manage own property, so-called municipal property. That was ruled by the provisions of 10th May 1990 introducing the Act on local government and its authorities. The main role of the Act was including the district into the process of ownership transformations. Firstly, so-called municipalization of property was introduced. It meant that the state enterprises that had provided municipal services before 1990, became the property owned by the commune. Such decision was justified by the fact that they were the nationwide (state) property, managed before 1990 by the national councils and the territorial units of uniform public authority. The communes obtained the right to apply to the government for ownership of areas belonging to the enterprises that possessed wide undeveloped areas, not used for industrial purpose. According to the data from the Provincial Office in Bydgoszcz, at the end of 1992 the advance stage of ownership transformation and reconstruction of municipal property in communes/districts reached 70%. It was assumed that the process would end in 1993.

As the legal environment changed, and new institutions of public life emerged, the state-owned enterprises lost their dominant role within economic, culture and social matters they had played in districts/communes until 1989. After that year they became just one of many varied elements of local governments' operation. The moment the local government in Poland was reinstated, a complicated process began of withdrawing the state enterprises from the role of national provider of public services. The main complication arose due to expenses on such operation. State-owned enterprises that had gathered certain real property resources, referred to as nonproductive or useless, after 1989 tried to get rid of that property. Ironically, as the state enterprises were eager to do that as soon as possible, they lowered value of property remaining at their disposal by way of giving

parts of own property for free. So, certain dependency arose that was not understood by some observers of economic life of those times- lowering the value of enterprise's property its market value increased its competitiveness. The useless property covered enterprise-owned flats, technical infrastructure, including water and sewage system, local roads, water intakes, nurseries, kindergartens, sports facilities, culture clubs or clinics. That problem was solved by virtue of the Act of 12th October on principles for transfer of company housing property by state companies. The districts took over the said useless objects for free. Thus the local governments' resources grew and could be used for providing for the needs of local communities.

However, there was a large group of state enterprises that had given the unproductive property to the communes for free before the aforementioned Act was effective on 12th October 1994. Because of that, validity of transactions was confirmed by provisions of the Act of 8th March 1990 on local government. As examples here can serve the management of the Printed Circuit Boards Plant Toral in Toruń or the management of the Cement Mill Kujawy. Value of property given for free was estimated there at 21,551,636,100 PLN. The nonproductive property given to Włocławek commune by the Nitric Compounds Factory in Włocławek in 1994 amounted to 97,655,327,253 PLN. The donation included blocks of flats and the adjoining infrastructure (water and sewage system, boiler plants, local roads and pressure boosters). The Pulp and Paper Mill in Swiecie gave the commune Swiecie six housing units containing 236 flats and water treatment plant for free. A large nonproductive property was owned by the Sodium Plant in Janikowo. On 29th November 1993 the management of that plant decided to give the Janikowo commune two important public buildings for free: Sports and Recreation Center and Culture Club. The Cellular Concrete Plant Prefabet from Solec Kujawski, by virtue of agreement concluded with the mayor of Solec on 1st August 1991, gave residential buildings and technical infrastructure to the benefit of the town. Value of the donation was estimated at 2,686,598,000 PLN. A practical solution included into the said agreement was a provision saying that "the Cellular Concrete Plant Prefabet in Solec Kujawski shall give the amount of 180 mln PLN to the benefit of town and commune Solec Kujawski for maintenance of the buildings until 31st December 1991" (Kamosiński, 2015, p. 249).

Importance of asset restructuring carried out by enterprises in order to improve their performance in the conditions of free market is well reflected in the words of president of the new enterprise- the Grain and Mill Plant in Kruszwica, established on 1st March 1996, basing on the assets of former state enterprise: "Within 1991–1996, considering the principles of carrying out system transformations and implemented economic programs, assets restructuring was conducted basing on 'slimming down' the amount of



unwanted property by way of passing Workers' Hotel and Przedbojewice warehouse for free to the benefit of Town and District Office in Kruszwica, and passing A and B warehouses in Sukowy to the benefit of District Office in Inowrocław" (Kamosiński, 2015).

Local government, restored in 1990, for many enterprises of those times was an institution that helped to go through the times of worsened market situation, related to markets reorganization and changes in ownership structure. Supporting the process of enterprises financial restructuring local authorities took up their shares. Thus, the debt of factories towards communes, following from unpaid local tax on use of property, was reduced. For instance, on 31st December 1995 2.95% of shares of the Nitric Compounds Factory in Włocławek was owned by the town Włocławek. The plant owed to the town 40 billion PLN due to unpaid tax on the use of property within 1992-1993, (with accrued interest- 56 billion PLN). The town officers used to state that "that amount was significant for the revenue side of the town budget" (Kamosiński, 2015, p. 256). This example illustrates a problem that many communes had to face. It was related to the difficulties with obtaining tax liabilities and local fees from the enterprises plunged into restructuring crisis. Lack of assumed budgetary revenue limited the commune capacity to undertake investments and fulfill the task of providing for social needs of the local community. In 2002 the local government of the city of Toruń took a decision to allow their debtor- the Marine Machines and Devices Plant Towimor in Toruń, to repay the due amount in installments.

Provision for needs of local communities covered also the tasks related to protection of environment and nature. Fulfilling those tasks by the commune was very difficult in the 1990s. Very often a conflict of interest arouse- the commune wanted to maintain as many workplaces as possible to minimize the negative effects of unemployment, but, of course, it was also important that the inhabitants would live in a clean natural environment. Decisions taken within that matter in Toruń prove the determination of city authorities to achieve objectives by long-lasting local development perspective and not by achieving temporary benefits. On that basis, the Inorganic Chemistry Plant Polchem in Toruń, main manufacturer of Sulfuric acid in the state, was considered unwanted. Degradation of natural environment that was a result of production-related pollution was hazardous to the city dwellers and to priceless city monuments. Because of that, in 2000 the city authorities approved of the decision of the Provincial Inspector for Environmental Protection on shutting down the plant. Local authorities argued that the best decision for Toruń would have been to immediately shut down the plant. So, a new value appeared- city authorities protected the right of inhabitants to life in clean environment and on their behalf they asked for

its protection: "Acting on behalf of the city inhabitants, we cannot remain indifferent to hazard that Polchem poses. We have no reliable information letting us believe that the management of Polchem will take efficient steps to eliminate harmful emission of Sulfur dioxide" (Rakowicz, 2001). And the plant was shut down.

### **Summary**

Summing up what was said above on the role of enterprises in 1950-1989 with reference to providing for social needs, and on difficult process of withdrawing from this role, we must pay attention to the observation made by a certain group of scientists. J. Regulski, P. Bury, A. Jewtuchowicz and T. Markowski stated in 1980 that "finding a solution to the political, social and economic crisis is impossible without general reform of territorial authorities, without reinstatement of real self-government necessary to stimulate activity of society and to launch the great reserves of social initiative" (Regulski, 2000, p. 33). After 1989, when the local government in Poland was restored, certain directions of local development were determined. They will be fulfilled, provided that all internal factors of local development have been used, including local entrepreneurship and inhabitants' industriousness. Local government should strive to provide local communities with proper conditions of personal development.

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