Figure 5.8

Growth in Incorporated Private Companies

Year		Total	Manufacturing	Construction	Trade	Other
1989	.31.XII	11,693	2,769	2,640	1,759	4,525
1990	.31.III	16,589	4,082	3,455	2,809	6,243
	30.VI	21,542	5,160	4,195	4,380	7,807
	30.IX	26,275	5,914	4,779	6,636	8,946
	31.XII	29,650	6,416	5,171	8,326	9,737
1991	.31.III	34,642	7,168	6,053	10,448	10,973
% Increase						
Dec.-Dec.		153.6	131.7	95.9	373.3	38.0
Mar.-Mar.		108.8	75.6	75.2	271.9	22.6

Source: GUS.

At present, the private sector in Poland is still dominated by private proprietorships that have only 1-2 employees and make up more than 97% of all private-sector enterprises. This is not surprising given that most of these ventures are only a year or two old. As Figure 5.7 shows, legally registered corporations average about 20 employees. Among these, private companies with more than 100 employees constitute less than 0.1% of the total. Interestingly, the most significant sub-group among these larger private companies are the so-called "Polonia" firms that were created under special legislation in the 1980s to facilitate investment by Polish emigres. Averaging about 107 employees per firm, these companies have been in business a bit longer and have therefore grown to a more imposing size. Overall, registered corporations have been increasing in Poland at rates in excess of 100% (see Figure 5.8) though the initial proliferation in the number of new companies seems to be tapering off somewhat. As in the case of private proprietorships, the commercial sector has seen the most explosive growth.

Despite impressive early performance, the Polish private sector faces serious challenges. Above all, there is a profound shortage of investment capital available to private companies as a result of the dramatic deflationary policies of government. Indeed, credit is tighter for private companies than for state-owned enterprises. Polish banks are more willing to lend to the latter because they expect that the government will ultimately cover any losses. As a result, at the end of 1990, the private-sector share of bank credit was about 40% below the private-sector contribution to overall GNP.

Another constraint on the growth of the private sector is weak consumer demand. Inflation followed by recession have combined to weaken purchasing power, especially in the state-owned sector where wage rises have been strictly controlled. Even so, this has not prevented the emergence of completely new types of businesses such as video rentals, xerox copying, and foreign language instruction.

The fundamental challenge faced by the Polish private sector is to accumulate sufficient capital to invest in larger-scale production. To meet this challenge it is following the same historical path as did western economies: it is beginning with mercantile activities involving the transportation and distribution of goods made by others. Later, some companies will find it more profitable to move into the physical transformation of goods and the manufacture of new products.

[1] For example, the figure of 40% is cited by *The Economist*, September 21, 1991.